FORM 8-K

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FILER

PETROLEUM HEAT & POWER CO INC
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Business Address
2187 ATLANTIC ST
STAMFORD CT 06902
2033255400

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) December 23, 1993

PETROLEUM HEAT AND POWER CO., INC.

(Exact name of registrant as specified in its charter)

Minnesota	2-88526
(State or other jurisdiction of incorporation)	(Commission File No.)

Clearwater House 2187 Atlantic Street Stamford, Connecticut	06902
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (203) 325-5400

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Item 1. Change in Control of Registrant.

None

Item 2. Acquisition Or Disposition of Assets.

On December 23, 1993, Petroleum Heat and Power Co., Inc. (the "Company") invested $16 million in Star Gas Corporation ("Star Gas"), a Delaware corporation engaged in the retail distribution of propane. Star Gas is the tenth largest retail distributor of propane in the United States with operations in the Midwest, Southeast and Northeast, selling approximately 100 million gallons of retail propane annually.

The Company's investment was part of an overall restructuring of the debt and equity of Star Gas, whereby approximately $27 million of new cash equity was invested into Star Gas by the Company, Star Gas Holdings, Inc. ("Holdings") and First Reserve Secured Energy Assets Fund, L.P., American Gas & Oil Investors, AmGo II, AmGo III and FRC Star Gas, Inc. (the "Other Investors") pursuant to a Purchase Agreement dated as of December 21, 1993. The Company's investment of $16 million, $2 million of which was invested through Holdings, is in the form of Series A 8% Cumulative Convertible Preferred Stock of Star Gas, which stock is convertible into approximately 29.5% of Star Gas' equity as of the closing (which percentage is expected to increase to approximately 36.7% without any further investment by the Company, after completion of the reorganization of Star Gas over the next two years). The Company's $16 million investment was funded with working capital of the Company.

Star Gas has granted to the Company an option to purchase an additional 10% of Star Gas' equity for cash. Further, the Other Investors and The Prudential Insurance Company of America ("Prudential"), an additional investor in Star Gas, have granted to the Company the right to purchase, for either cash or the Company's common stock, at the Company's discretion, Star Gas' remaining equity held by them, which option is exercisable for the period beginning on the date on which Star Gas' audited financial statements for the fiscal year ending September 30, 1994 are first delivered to the Company and ending December 31, 1998. In addition, the Other Investors and Prudential each have an option to require the Company to purchase all of the Star Gas equity held by them, which option is exercisable beginning January 1, 1999 (or upon a change of control of the Company).

The Company has entered into a Shareholders' Agreement with the Other Investors and Prudential, which provides that the Company is entitled to nominate for election up to three persons to serve as a director of Star Gas, Holdings is entitled to nominate up to two persons, and the Other Investors (as a group) and Prudential together are entitled to nominate for election up to a total of three persons. Further, the parties to the Shareholders' Agreement have agreed to fill any vacancy on the Board of Directors of Star Gas by the election of a person designated by the shareholders of the category of shareholders entitled to fill such vacancy.

The Company will manage Star Gas' business under a Management Services Agreement which provides for an annual fee of $500,000 and an annual bonus payable in Star Gas common stock equal to 5% of the increase in Star Gas' net income before interest, taxes and annual depreciation and amortization ("EBITDA"), over the year-end September 30, 1993. Star Gas also shall reimburse the Company for its expenses and the cost of certain Company personnel.

Item 3. Bankruptcy Or Receivership.

None

Item 4. Changes in Registrant's Certifying Accountant.

None

Item 5. Other Events.

None

Item 6. Resignation of Registrant's Directors.

None

Item 7. Financial Statements and Exhibits.

(a)-(b) It is impracticable for the Company at this time to file the audited financial statements of Star Gas, as well as the pro forma financial information required relative to the Star

Gas business. Such financial statements shall be provided to the Securities and Exchange Commission as soon as they become available, in any event no later than sixty days from the date hereof.

(c) The following documents are filed herewith as exhibits:

(1) Purchase Agreement, dated as of December 21, 1993, among Star Gas Holdings, Inc., First Reserve Secured Energy Assets Fund, L.P. American Gas & Oil Investors, AmGo II, AmGo III, FRC Star Gas, Inc., Star Gas and the Company.

(2) Option from Star Gas to the Company, dated as of December 21, 1993.

(3) Shareholder Put/Call Agreement, dated as of December 21, 1993, among the Company, the Other Investors and Prudential.

(4) Shareholders' Agreement, dated as of December 21, 1993, among the Company, the Other Investors and Prudential.

(5) Management Services Agreement, dated as of December 21, 1993, between the Company and Star Gas.

Item 8. Changes in Fiscal Year.

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PETROLEUM HEAT AND POWER CO., INC.

/s/ Irik P. Sevin

Name: Irik P. Sevin
Title: President, Chairman of the Board and Chief Financial and Accounting Officer and Director

Date: January 4, 1994

EXHIBITS

Exhibit No.	Exhibit	Page
1.	Purchase Agreement, dated as of December 21, 1993, among Star Gas Holdings, Inc., First Reserve Secured Energy Assets Fund, L.P. American Gas & Oil Investors, AmGo II, AmGo III, FRC Star Gas, Inc., Star Gas and the Company.	
2.	Option from Star Gas to the Company, dated as of December 21, 1993.	
3.	Shareholder Put/Call Agreement, dated as of December 21, 1993, among the Company, the Other Investors and Prudential.	
4.	Shareholders' Agreement, dated as of December 21, 1993, among the Company, the Other Investors and Prudential.	
5.	Management Services Agreement, dated as of December 21, 1993, between the Company and Star Gas.	

Exhibit 1

PURCHASE AGREEMENT

AGREEMENT entered into this 21st day of December, 1993 among PETROLEUM HEAT AND POWER CO., INC., a Minnesota corporation ("Petro"), STAR GAS HOLDINGS, INC. ("Holdings"), a Delaware corporation, FIRST RESERVE SECURED ENERGY ASSETS FUND, L.P. ("SEA"), AMERICAN GAS & OIL INVESTORS, AmGO II, AmGO III, FRC STAR GAS, INC. and STAR GAS CORPORATION, a Delaware corporation (the "Company" or "Star Gas").

ARTICLE I

1.1. Purchase and Sale of Preferred Stock. Subject to the terms and conditions hereof and on the basis of the representation and warranties hereinafter set forth, at the Closing, the Company shall issue and sell to each of the Investors, and each of the Investors agrees to purchase, shares of Preferred Stock, in the aggregate principal amount, and of the

series, opposite the name of each Investor in Schedule 1 at a price of $100 per share.

ARTICLE II

2.1. Definitions. For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

"Affiliate" and "Associate" have the meanings prescribed by Rule 12b-2 of the regulations promulgated pursuant to the Securities Exchange Act of 1934, as amended.

"Balance Sheet" means the consolidated balance sheet of the Company referred to in Section 3.6(ii) of this Agreement.

"Closing" means the closing referred to in Section 11.1 of this Agreement.

"Closing Date" means the date on which the Closing occurs.

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

"Company Subsidiary" means any corporation (a) of which the Company directly or indirectly owns or controls at the time outstanding shares of stock which have in ordinary circumstances (not dependent upon the happening of a contingency) voting power to elect a majority of the board of directors of said corporation, or (b) of which shares of stock of the character described

in the foregoing clause (a) shall at the time be owned or controlled directly or indirectly by the Company and one or more Company Subsidiaries as defined in the foregoing clause (a) or directly or indirectly by one or more such Company Subsidiaries.

"Disclosure Schedule" means the document delivered by the Company to the Investors simultaneously with the execution hereof containing the information required to be included therein pursuant to this Agreement.

"Existing Shareholders" means American Gas & Oil Investors, SEA, FRC Star Gas, Inc., AmGO II and AmGO III.

"FTC" means the United States Federal Trade Commission.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act.

"Investor" means each of, and "Investors" means collectively all of, Petro, Holdings, American Gas & Oil Investors, SEA, AmGO II and AmGO III.

"Preferred Stock" means the Series A, Series B, Series C, Series D and Series E 8% Cumulative Convertible Preferred Stock of the Company and the Series A and Series B 12.625% Cumulative Redeemable Preferred Stock of the Company as described in the Certificate of Designations, Preferences and Rights of the 8% Cumulative Convertible Preferred Stock and the 12.625% Cumulative Redeemable Preferred Stock of Star Gas Corporation annexed as Schedule 2.1 ("Certificate of Designation").

"Prudential" means The Prudential Insurance Company of America, a New Jersey mutual insurance corporation.

Certain terms used principally in Section 3.31 of this Agreement are defined in that section. The plural of any defined term shall have a meaning correlative to such defined term.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to Investors as follows:

3.1. Corporate Organization; Etc. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has full corporate power and authority to carry on its business as it is now being conducted and to own the properties and assets it now owns; is duly qualified or licensed to do business as a foreign corporation in good standing in the jurisdictions listed in Section 3.1 of the Disclosure Schedule, which are all the jurisdictions in which ownership of property or the conduct of its business requires such qualification except jurisdictions in which the Company's failure to qualify to do business will not have a material adverse effect on the business, prospects, operations, properties, assets or condition (financial or otherwise) of the Company and the Company Subsidiaries taken as a whole or, if the

Company is not so qualified in any such jurisdiction, and is not required to qualify based upon ownership of property or the conduct of its business but is required to qualify on a different basis, it can become so qualified in such jurisdiction without any material adverse effect (including assessment of state taxes for prior years) upon its business and properties. The copies of the Certificate of Incorporation and By-Laws of the Company heretofore delivered to Investors are complete and correct copies of such instruments as presently in effect.

3.2. Capitalization of the Company. Prior to the effective date of this Agreement and the filing of a revised Amended and Restated Certificate of Incorporation for the

Company, the authorized capital stock of the Company consists of 20,000 shares of Common Stock, $1 par value per share, of which 251.31 shares are issued and outstanding and 15.12 shares are held in the treasury of the Company, and 302,500 shares of preferred stock, 2,500 shares of which have a par value of $.01 per share and 300,000 of which have no par value per share, of which 48,000 shares have been designated Series A Preferred Stock, of which 40,309.5 shares are issued and outstanding and 1,420 shares have been designated as 8% cumulative convertible preferred stock all of which are issued and outstanding. All issued and outstanding shares of capital stock of the Company are validly issued, fully paid and nonassessable. All of the shares of 8% Cumulative Convertible Preferred Stock to be issued under

this Agreement have been duly authorized and when issued to the Investors in accordance with the terms of this Agreement, will be duly and validly issued, fully paid and non-assessable. Except as contemplated by this Agreement and except for the Company's 8% Cumulative Convertible Preferred Stock to be issued to Prudential in connection with a capital restructuring, there are no outstanding (a) securities convertible into or exchangeable for the Company capital stock; (b) options, warrants or other rights to purchase or subscribe for capital stock of the Company or securities convertible into or exchangeable for capital stock of the Company; or (c) contracts, commitments, agreements, understandings or arrangements of any kind to which the Company and any Company Subsidiary is a party or by which the Company or any

Company Subsidiary is bound relating to the issuance of any capital stock of the Company, any such convertible or exchangeable securities or any such options, warrants or rights.

3.3. Subsidiaries and Affiliates. Section 3.3(a) of the Disclosure Schedule sets forth the name, jurisdiction of incorporation and capitalization of each Company Subsidiary and the jurisdictions in which each Company Subsidiary is qualified to do business. Except as disclosed in Section 3.3(b) of the Disclosure Schedule, the Company does not own, directly or indirectly, any capital stock or other equity securities of any corporation or have any direct or indirect equity or ownership interest in

any business not listed in Section 3.3(a) of the Disclosure Schedule. Except as and to the extent set forth in Section 3.3(a) of the Disclosure Schedule, all the outstanding capital stock of each Company Subsidiary is owned directly or indirectly by the Company free and clear of all liens, options or encumbrances of any kind and all material claims or charges of any kind, and is validly issued, fully paid and nonassessable, and there are no outstanding options, rights or agreements of any kind relating to the issuance, sale or transfer of any capital stock or other equity securities of any such Company Subsidiary to any person except the Company. Each Company Subsidiary (i) is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation; (ii) has full corporate power and authority to carry on its business as it is now being conducted and to own the properties and assets it now

owns; and (iii) is duly qualified or licensed to do business as a foreign corporation in good standing in each jurisdiction listed immediately below the name of such Company Subsidiary in Section 3.3(c) of the Disclosure Schedule which is every jurisdiction in which ownership of property or the conduct of its business requires such qualification except jurisdictions in which such Company Subsidiary's failure to qualify will not have a material adverse effect on the business, prospects, operations, properties, assets, or condition (financial or otherwise) of the Company and the Company Subsidiaries taken as a whole, or, if a

Company Subsidiary is not so qualified in any such jurisdiction, and is not required to qualify based upon ownership of property or the conduct of its business, but is required to qualify on a different basis, it can become so qualified in such jurisdiction without any material adverse effect (including assessment of state taxes for prior years) upon its business and properties. The Company has heretofore delivered to Investors complete and correct copies of the certificate of incorporation and by-laws of each Company Subsidiary, as presently in effect.

3.4. Authorization, Etc. The Company has full corporate power and authority to enter into this Agreement and to carry out the transactions contemplated hereby. The Board of Directors and stockholders of the Company have taken all action required by law, the Company's Certificate of Incorporation, its By-Laws or otherwise to be taken by them to authorize the execution and delivery of this Agreement and the consummation of

the transactions contemplated hereby, and this Agreement is a valid and binding agreement of the Company enforceable in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights, and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

3.5. No Violation. Neither the execution and delivery
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of this Agreement nor the consummation of the transactions contemplated hereby will violate any provision of the Certificate of Incorporation or By-Laws of the Company or any Company Subsidiary, or, except as specified in Section 3.5 of the Disclosure Schedule, violate, or be in conflict with, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in the termination of, or accelerate the performance required by, or cause the acceleration of the maturity of any debt or obligation pursuant to, or result in the creation or imposition of any security interest, lien or other encumbrance upon any property or assets of the Company or any Company Subsidiary under, any agreement or commitment to which the Company or any Company Subsidiary is a party or by which the Company or any Company Subsidiary is bound, or to which the property of the Company or any Company Subsidiary is subject, or violate any statute or law or any judg-

ment, decree, order, regulation or rule of any court or governmental authority, which violations, conflicts, defaults, terminations, accelerations, security interests, encumbrances, liens and violations would individually or in the aggregate materially and adversely affect the business of the Company and the Company Subsidiaries taken as a whole.

3.6. Financial Statements. The Company has heretofore
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delivered to Investors true, complete and accurate copies of the following: (i) a consolidated balance sheet of the Company and the Company Subsidiaries as at September 30 in each of the years 1987 through 1992; and consolidated statements of operations, stockholders' equity and cash flows for each of the years then ended, all certified by Ernst & Young, independent certified public accountants, or by another nationally recognized firm of independent certified public accountants, whose reports thereon are included therein; and (ii) an unaudited consolidated balance sheet of the Company and the Company Subsidiaries as at September 30, 1993, and unaudited consolidated statements of operations, stockholders' equity and cash flows for the year then ended. Such consolidated balance sheets and, where applicable, the notes thereto fairly present in all material respects the consolidated assets, liabilities and financial condition of the Company and the Company Subsidiaries as at the respective dates thereof, and such consolidated statements of income, stockholders' equity and cash flows and the notes thereto fairly present in all material respects the consolidated results of operations of the Company

and the Company Subsidiaries for the periods therein referred to; all in accordance with generally accepted accounting principles consistently applied throughout the periods involved.

3.7. No Undisclosed Liabilities; Etc. Except as disclosed in Section 3.7 of the Disclosure Schedule, neither the

Company nor any Company Subsidiary has any material liabilities or obligations of any nature (absolute, accrued, contingent or otherwise) which are required to be disclosed in its financial statements and the notes thereto in accordance with generally accepted accounting principles which were not fully reflected or reserved against in the Balance Sheet or disclosed in the notes thereto, except for such liabilities and obligations incurred in the ordinary course of business and consistent with past practice since the date thereof. An undisclosed liability or obligation will not be considered material if it was unknown to the Company or Company Subsidiaries on the date hereof and both (i) it is less than $100,000 (provided that all such undisclosed liabilities do not exceed $300,000 in the aggregate) and (ii) does not have a material adverse effect on the business, prospects, operations, properties, assets or condition (financial or otherwise) of the Company and the Company Subsidiaries taken as a whole.

3.8. Accounts Receivable. All accounts receivable of the Company and each Company Subsidiary, whether reflected in the Balance Sheet or arising after September 30, 1993, represent sales actually made in the ordinary course of business, and the

reserves shown on the Balance Sheet or established thereafter were calculated in a manner consistent with past practice.

3.9. Inventory. The quantities of all inventory of the

Company and each Company Subsidiary are reasonable in the present circumstances of their respective businesses.

3.10. Absence of Certain Changes. Except as and to the extent set forth in Section 3.10 of the Disclosure Schedule and costs associated with the execution of this Agreement and the consummation of the transactions contemplated hereby, since the date of the Balance Sheet, neither the Company nor any Company Subsidiary has:

(a) Suffered any material adverse change in its working capital, financial condition, assets, reserves, business, operations or prospects, except such adverse changes as would not have a material adverse effect on the Company and the Company Subsidiaries taken as a whole and except for changes related to warm weather and seasonality which have affected the industry as a whole or, for the period between the date hereof and the Closing, any matters which affect the industry as a whole;

(b) Incurred any obligations (absolute, accrued, contingent or otherwise) except items incurred in the ordinary course of business and consistent with past practice;

(c) Paid, discharged or satisfied any claim, liabilities or obligations (absolute, accrued, contingent or otherwise) other than the payment, discharge or satisfaction in the ordinary course of business and consistent with past practice

of liabilities and obligations reflected or reserved against in the Balance Sheet or incurred in the ordinary course of business

and consistent with past practice since the date of the Balance Sheet;

(d) Without the consent of Petro, written down the value of any inventory (including write-downs by reason of shrinkage or mark-down) or written off as uncollectible any notes or accounts receivable, except for immaterial write-downs and write-offs in the ordinary course of business and consistent with past practice;

(e) Canceled any debts or waived any claims or rights of substantial value;

(f) Sold, transferred, or otherwise disposed of any of its properties or assets (real, personal or mixed, tangible or intangible), except in the ordinary course of business and consistent with past practice;

(g) Granted any general increase in the compensation of officers or employees (including any such increase pursuant to any bonus, pension, profit sharing or other plan or commitment) and no such increase is customary on a periodic basis or required by agreement or understanding;

(h) Made any single capital expenditure or commitment in excess of $100,000 for additions to property, plant, equipment or intangible capital assets or made aggregate capital expenditures and commitments in excess of $500,000 (on a consolidated basis) for additions to property, plant, equipment

or intangible capital assets and which is not consistent with

past practices;

(i) Declared, paid or set aside for payment any dividend or other distribution in respect of its capital stock, except in either case by a Company Subsidiary to another Company Subsidiary or to the Company or redeemed, purchased or otherwise acquired, directly or indirectly, any shares of capital stock or other securities of the Company;

(j) Made any material change in any method of accounting or accounting practice;

(k) Paid, loaned or advanced any amount to, or sold, transferred or leased any properties or assets (real, personal or mixed, tangible or intangible) to, or entered into any agreement or arrangement with, any of its officers or directors or any affiliate or associate of any of its officers or directors except for directors' fees; or

(l) Agreed, whether in writing or otherwise, to take any action described in this Section.

3.11. Title to Properties; Encumbrances. Subject to matters set forth on Schedule 3.11(a), each of the Company and the Company Subsidiaries has good, valid and marketable title to all the properties and assets reflected in the Balance Sheet (except (i) for its wholly owned subsidiary Federal Petroleum Company which the Company has sold and (ii) such assets and property as have been sold since the date of the Balance Sheet in the ordinary course of business and consistent with past

practice), and all the properties and assets purchased by the Company and Company Subsidiaries since the date of the Balance Sheet, which subsequently acquired properties and assets (other than inventory), all of which have been acquired in the ordinary course of business. Except as disclosed in Section 3.11(b) of the Disclosure Schedule, all properties and assets reflected in the Balance Sheet or acquired thereafter are free and clear of all title defects or objections, liens, claims, charges, security interests or other encumbrances of any nature whatsoever including, without limitation leases, chattel mortgages, conditional sales contracts, collateral security arrangements and other title or interest retention arrangements, and are not, in the case of real property, subject to any rights of way, building use restrictions, exceptions, variances, reservations or limitations of any nature whatsoever except, with respect to all such properties and assets, (a) liens shown on the Balance Sheet as securing specified liabilities or obligations and liens incurred in connection with the purchase of property and/or assets, if such purchase was effected after the date of the Balance Sheet, with respect to which no default exists; (b) minor imperfections of title, if any, none of which impair the use of the property subject thereto, or impair the operations of the Company or any Company Subsidiary since the date of the Balance Sheet; and (c) liens for current taxes not yet due. The rights, properties and other assets presently owned, leased or licensed by the Company and the Company Subsidiaries and described elsewhere in this

Agreement include all rights, properties and other assets necessary to permit the Company and the Company Subsidiaries to conduct their businesses in all material respects in the same manner as their businesses are being conducted prior to the date hereof.

3.12. Plant and Equipment. Except as disclosed in Section 3.12 of the Disclosure Schedule, to the Company's knowledge, none of such plants, structures or equipment are in need of maintenance or repairs except for ordinary, routine maintenance and repairs which are not material in nature or cost and except for capital improvements consistent with past experience.

3.13. Patents, Trademarks, Trade Names, Etc. Neither the Company nor any Company Subsidiary owns, or is licensed to use any patents, copyrights, technology, know-how or processes. Except as disclosed in Section 3.13 of the Disclosure Schedule, the Company and each Company Subsidiary owns or has the unrestricted right to use all trademarks and trade names used in or necessary for the conduct of its business as presently conducted without payment of any kind. Section 3.13 of the Disclosure Schedule contains an accurate and complete description of all trademarks and trade names used or proposed to be used by the Company or any Company Subsidiary and all pending applications therefor. Except as set forth in Section 3.13 of the Disclosure Schedule, the Company and each Company Subsidiary has the sole and exclusive right to use the trademarks and trade

names referred to in the Disclosure Schedule, and the consummation of the transactions contemplated hereby will not alter or impair any such rights; no claims have been asserted by any person to the use of any such trademarks or trade names and the Company does not know of any valid basis for any such claim; and the use of such trademarks and trade names by the Company or any Company Subsidiary does not infringe on the rights of any person.

3.14. Leases. Section 3.14 of the Disclosure Schedule contains an accurate and complete description of all leases or forms of leases pursuant to which the Company or any Company Subsidiary leases real or personal property and accurate copies of such leases and forms of leases have been delivered, or have been made available, to Investors. Except as set forth in Section 3.14 of the Disclosure Schedule (i) all such leases are valid, binding and enforceable in accordance with their terms, and are in full force and effect subject to limitations imposed by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the enforcement of creditors' rights generally, (ii) there are no existing defaults by the Company or any Company Subsidiary thereunder or to the knowledge of the Company by any other party, and (iii) no known event of default has occurred which (whether with or without notice, lapse of time or the happening or occurrence of any other event) would constitute a default thereunder except in the case of clauses (i), (ii) and (iii) where such invalidity, defaults or events of default

would not, individually or in the aggregate, have a material adverse effect on the business, prospects, operations, properties, assets or condition (financial or otherwise) of the Company and the Company Subsidiaries taken as a whole. Executed counterpart copies of all consents referred to in the preceding sentence have been delivered to Investors.

3.15. Intentionally Deleted.

3.16. Taxes. Each of the Company and the Company Subsidiaries has duly filed all material tax reports and returns required to be filed by it and has duly paid (or has adequate reserves for) all material taxes and other charges due or claimed to be due from it by federal, state, local or foreign taxing authorities (including, without limitation, those due in respect of the properties, income, franchises, licenses, sales or payrolls of any of them); the reserves for taxes reflected in the Balance Sheet are adequate; and there are no material tax liens upon any property or assets of the Company or any Company Subsidiary except liens for current taxes not yet due. The federal income tax returns of the Company and each Company Subsidiary have been examined by the Internal Revenue Service for those periods set forth in Section 3.16(a) of the Disclosure Schedule; and, except to the extent shown therein, all deficiencies asserted as a result of such examinations have been paid or finally settled and no issue has been raised by the Internal Revenue Service in any such examination which, by application of the same or similar principles, reasonably could be expected to

result in a proposed deficiency for any other period not so examined. Except to the extent set forth in Section 3.16(b) of the Disclosure Schedule, there are no outstanding agreements or waivers extending the statutory period of limitation applicable to any federal income tax return for any period. Copies of all federal income tax returns for the Company and the Company Subsidiaries in respect of all years not barred by the statute of limitations have heretofore been delivered by the Company to Investors and all such returns are listed in Section 3.16(b) of the Disclosure Schedule. Neither the Company nor any Company Subsidiary has, with regard to any assets or property held, acquired or to be acquired by any of them, filed a consent to the application of Section 341(f)(2) of the Code.

3.17. Contracts and Commitments. Except as set forth in Section 3.17 of the Disclosure Schedule:

(a) Neither the Company nor any Company Subsidiary has any agreements, contracts, commitments or restrictions which are material to the business, operations or prospects of the Company and the Company Subsidiaries taken as a whole or which require the making of any charitable contribution;

(b) No purchase contract or commitment of the Company or any Company Subsidiary continues for a period of more than 12 months or is in excess of the normal, ordinary and usual requirements of business or contains commercially unreasonable terms;

(c) There are no outstanding sales contracts, commitments or proposals of the Company or any Company Subsidiary which continue beyond July 31, 1994;

(d) There are no propane purchase agreements of the Company;

(e) Neither the Company nor any Company Subsidiary has any outstanding contracts with officers, employees, agents, consultants, advisors, salesmen, sales representatives, distributors or dealers that are not cancelable by it on notice of not longer than 30 days and without liability, penalty or premium or any agreement or arrangement providing for the payment of any bonus or commission based on sales or earnings;

(f) Neither the Company nor any Company Subsidiary has any employment agreement, or any other agreement that contains any severance or termination pay liabilities or obligations;

(g) Neither the Company nor any Company Subsidiary has any collective bargaining or union contracts or agreements;

(h) Neither the Company nor any Company Subsidiary has any employee to whom it is paying compensation at the annual rate of more than $100,000 for services rendered;

(i) Neither the Company nor any Company

Subsidiary is restricted by agreement from carrying on its business as presently conducted anywhere in the world;

(j) Neither the Company nor any Company Subsidiary has any debt obligation for borrowed money, including guarantees of or agreements to acquire any such debt obligation of others;

(k) Neither the Company nor any Company Subsidiary has any outstanding loan for borrowed money to any person other than to the Company or a wholly-owned subsidiary of the Company; and

(l) Neither the Company nor any Company Subsidiary has any power of attorney outstanding or any obligations or liabilities (whether absolute, accrued or contingent), as guarantor, surety, co-signer, endorser, co-maker, or indemnitor in respect of the obligation of any person, corporation, partnership, joint venture, association, organization or other entity.

3.18. Suppliers. Section 3.18 of the Disclosure Schedule sets forth the ten largest suppliers of the Company and the Company Subsidiaries (on a consolidated basis) of propane in terms of purchases during the twelve months ended September 30, 1993, showing the approximate total purchases by the Company and the Company Subsidiaries (on a consolidated basis) from each such supplier during such nine month period and the items purchased.

Except to the extent set forth in Section 3.18 of the Disclosure Schedule, no such supplier has advised the Company or any Company Subsidiary of its intention to refuse to do business with the Company, and the Company does not presently intend to terminate

or modify any such relationship. Except for the suppliers named in Sections 3.18 of the Disclosure Schedule, neither the Company nor any Company Subsidiary (a) had any supplier from which it purchased more than 5% of the goods or services which it purchased during the twelve months ended September 30, 1993 or (b) has any supplier the loss of which would materially and adversely affect the business of the Company and the Company Subsidiaries taken as a whole.

3.19. Customers. Section 3.19 of the Disclosure Schedule sets forth each retail customer of the Company which accounted for more than $200,000 and each wholesale customer which accounted for more than $500,000, of the sales of the Company and the Company Subsidiaries on a consolidated basis during the twelve months ended September 30, 1993 and the items purchased. Except to the extent set forth in Section 3.19 of the Disclosure Schedule, no customer set forth in Section 3.19 of the Disclosure Schedule has advised the Company of its intention to terminate or materially modify its normal business relationship with the Company or any Company Subsidiary and neither the Company nor any Company Subsidiary presently intends to terminate or so modify any such relationship.

3.20. Operating Data. The area operating data, schedule of writedowns and the listing of vehicles, tanks at customers, tanks in the yard and bulk storage tanks set forth in Section 3.20 of the Disclosure Schedule are substantially accurate in all material respects.

3.21. Agreements in Full Force and Effect. All contracts, agreements, plans, policies and licenses referred to in the Disclosure Schedule are valid and in full force and effect subject to limitations imposed by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the enforcement of creditors' rights generally, and true copies thereof have been heretofore made available to Investors except, in each case, where the invalidity of one or more of such documents would not individually or in the aggregate materially and adversely affect the business of the Company and the Company Subsidiaries taken as a whole. Except as set forth in Section 3.21 of the Disclosure Schedule, neither the Company nor any Company Subsidiary is in material default under or in material violation of, or knows of any valid basis for any claim of material default under or material violation of, any contract, commitment or restriction to which it is a party or by which it is bound, except for such violations or defaults which would not, individually or in the aggregate, have a material adverse effect on the business, prospects, operations, properties, assets or

condition (financial or otherwise) of the Company and the Company Subsidiaries taken as a whole.

3.22. Insurance. Section 3.22(a) of the Disclosure Schedule contains a fair summary of all material policies of fire, liability, workmen's compensation and other forms of insurance owned or held by the Company and each Company Subsidiary. All such policies are in full force and effect, all

premiums with respect thereto covering all periods up to and including the Closing Date have been paid when due, and no notice of cancellation or termination has been received with respect to any such policy. Such policies are sufficient for compliance with all requirements of law and of all agreements to which the Company or any Company Subsidiary is a party; are valid, outstanding and enforceable policies subject to limitations imposed by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the enforcement of creditors' rights generally; provide adequate insurance coverage for the assets and operations of the Company and each Company Subsidiary in accordance with prevailing industry standards; will remain in full force and effect through the respective dates set forth in Section 3.22(a) of the Disclosure Schedule; and will not in any way be affected by, or terminate or lapse by reason of, the transactions contemplated by this Agreement. Section 3.22(b) of the Disclosure Schedule identifies all risks which the Company

has designated as being self insured. Neither the Company nor any Company Subsidiary has been refused any insurance with respect to its assets or operations, nor has its coverage been limited, by any insurance carrier to which it has applied for any such insurance or with which it has carried insurance during the last five years.

3.23. Labor Matters. Except to the extent set forth in Section 3.23 of the Disclosure Schedule, to the knowledge of the Company (a) the Company and all Company

Subsidiaries are in material compliance with all applicable laws respecting employment and employment practices, terms and conditions of employment and wages and hours, and are not engaged in any unfair labor practice; (b) there is no unfair labor practice complaint against the Company or any Company Subsidiary pending before the National Labor Relations Board; (c) there is no labor strike, dispute, slowdown or stoppage actually pending or threatened against or affecting the Company or any Company Subsidiary; (d) no representation question exists respecting the employees of the Company or any Company Subsidiary; (e) no grievance nor any arbitration proceeding arising out of or under collective bargaining agreements other than in the ordinary course of business and consistent with past practice is pending and no claim therefor exists; (f) no collective bargaining agreement which is binding on the Company or any Company Subsidiary restricts any of them from relocating or closing any

of their operations; and (g) neither the Company nor any Company Subsidiary has experienced any labor strike, dispute, slow down or stoppage.

3.24. Fringe Benefit Plans. Except as set forth in Section 3.24 of the Disclosure Schedule, neither the Company nor any Company Subsidiary has any bonus, deferred compensation, pension, profit-sharing, retirement, stock purchase, stock option or any other fringe benefit plan, arrangement or practice, whether formal or informal. Section 3.24 of the Disclosure Schedule sets forth the annual expense for each bonus, deferred

compensation, pension, profit-sharing or retirement plan or arrangement, and each other fringe benefit plan, of the Company and each Company Subsidiary, whether formal or informal and the Balance Sheet reflects in the aggregate an accrual of all amounts accrued but unpaid under the aforesaid plans and arrangements as of its date. Neither the Company nor any Company Subsidiary has any commitment, whether formal or informal and whether legally binding or not, to create any such additional plan or arrangement. True copies of the plan documents for each employee benefit plan identified in Section 3.24 of the Disclosure Schedule and a related summary plan description have been delivered or made available to the Investors.

3.25. Litigation. Except as set forth in Section 3.25 of the Disclosure Schedule and other than routine claims

against the Company covered by insurance or routine claims by the Company against customers for nonpayment, there is no action, suit, inquiry, proceeding or investigation by or before any court or governmental or any regulatory or administrative agency or commission (other than regulatory matters affecting the industry generally in which the Company or any Company Subsidiary has not been identified as a target or in connection with which the Company or any Company Subsidiary has not filed any documents) to the knowledge of the Company or any Company Subsidiary pending or threatened against or involving the Company or any Company Subsidiary for which the Company or any Company Subsidiary may be liable, or which questions or challenges the validity of this

Agreement or any action taken or to be taken by the Company or any Company Subsidiary pursuant to this Agreement or in connection with the transactions contemplated hereby; nor is there and the Company or any Company Subsidiary does not know of any valid basis for any such action, proceeding or investigation, except where any such action, proceeding, or investigation would not have a material adverse effect on the business, prospects, operations, properties, assets or condition (financial or otherwise) of the Company and the Company Subsidiaries taken as a whole. Neither the Company nor any Company Subsidiary is subject to any judgment, order or decree entered in any lawsuit or proceeding which may have a material adverse effect on its business practices or on its ability to acquire any property or

conduct its business in any area.

3.26. No Condemnation or Expropriation. Neither the whole nor any portion of the leaseholds or any other assets of the Company or any Company Subsidiary is subject to any governmental decree or order to be sold or is being condemned, expropriated or otherwise taken by any public authority with or without payment of compensation therefor, nor, to the Company's knowledge, has any such condemnation, expropriation or taking been proposed by any public authority having jurisdiction over the assets of the Company or such Company Subsidiary.

3.27. Consents and Approvals of Governmental Authorities. Aside from compliance with the HSR Act which has already been accomplished, no consent, approval or authorization

of, or declaration, filing or registration with, any governmental or regulatory authority is required in connection with the Company's execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby.

3.28. Consents. Except as set forth in Section 3.5 of the Disclosure Schedule, no consent of any person is necessary to the consummation by the Company of the transactions contemplated hereby, including, without limitation, consents from parties to loans, contracts, leases or other agreements and consents from governmental agencies, whether federal, state or

local, except where failure to obtain such consent would not have a material adverse effect on the business, operations or prospects of the Company and the Company Subsidiaries, taken as a whole.

3.29. Compliance with Law. Except with respect to matters covered by Section 3.30 or as disclosed in Section 3.29 of the Disclosure Schedule, to the knowledge of the Company, the operations of the Company and the Company Subsidiaries have been conducted in compliance with all applicable laws, regulations and other requirements of all national governmental authorities, and of all states, municipalities and other political subdivisions and agencies thereof, having jurisdiction over the Company and the Company Subsidiaries, including, without limitation, all such laws, regulations and requirements relating to antitrust, consumer protection, currency exchange, equal opportunity, health, occupational safety, pension and securities matters, except where

instances of noncompliance would not have, either individually or in the aggregate, a material adverse effect on the business, prospects, operations, properties, assets or condition (financial or otherwise) of the Company and the Company Subsidiaries taken as a whole. Except with respect to matters covered by Section 3.30 or as set forth in Section 3.12 of the Disclosure Schedule, since December 31, 1991 neither the Company nor any Company Subsidiary has received (a) notification that it is in violation

of any applicable building, zoning, labor, health or other law, ordinance or regulation in respect of its plants or structures or their operations or (b) any written report from an employee or independent consultant relating to the condition, or compliance with laws, of its plants, structures or equipment or the operations there conducted.

3.30. Environmental Protection. Except as set forth in Section 3.30 of the Disclosure Schedule, the Company and the Company Subsidiaries have obtained all permits, licenses and other authorizations which are required under federal, state and local laws relating to the environment, including laws relating to emissions, discharges, releases or threatened releases of pollutants, contaminants, or hazardous or toxic materials or wastes into ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants or hazardous or toxic materials or wastes, except where failure to obtain such permit, licenses or

authorizations would not, either individually or in the aggregate, have a material adverse effect on the business, prospects, operations, properties, assets or condition (financial or otherwise) of the Company and the Company Subsidiaries taken as a whole. Except as set forth in Section 3.30 of the Disclosure Schedule, the Company and the Company Subsidiaries are in full compliance in all material respects with all terms and

conditions of the required permits, licenses and authorizations, and are also in full compliance in all material respects with all other applicable limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in those laws or contained in any regulation, code, plan, order, decree, judgment, notice or demand letter issued, entered, promulgated or approved thereunder, except where noncompliance would not, individually or in the aggregate, have a material adverse effect on the business, prospects, operations, properties, assets or condition (financial or otherwise) of the Company and the Company Subsidiaries taken as a whole. Except as set forth in Section 3.30 of the Disclosure Schedule, the Company is not aware of, nor has the Company nor any Company Subsidiary received notice of, any past or present events, conditions, circumstances, activities, practices, incidents, actions or plans ("Circumstances") which the Company reasonably believes may interfere with or prevent continued compliance, or which may give rise to any common law or legal liability, or otherwise form the basis of any claim,

action, suit, proceeding, hearing or investigation, which may require remediation or which may expose the Company to any material fine, penalty or damages based on or related to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling, or the emission, discharge, release or threatened release into the environment, of any

pollutant, contaminant, or hazardous or toxic material or waste, except where any Circumstances, either individually or in the aggregate, would not have a material adverse effect on the business, prospects, operations, properties, assets or condition (financial or otherwise) of the Company and the Company Subsidiaries taken as a whole.

3.31. Compliance with ERISA.

(a) Prohibited Transactions. Neither the Company nor any Company Subsidiary has engaged in a transaction in connection with which the Company or any Company Subsidiary could be subject to either a material civil penalty assessed pursuant to Section 502(i) of ERISA or a material tax imposed by Section 4975 of the Code.

(b) Defined Benefit Plans. Except as set forth in Section 3.31(b) of the Disclosure Schedule, neither the Company nor any Company Subsidiary presently maintains, nor to the knowledge of the Company has ever maintained, a defined benefit pension plan.

(c) Material Liabilities. Except as and to the extent set forth in Section 3.31(b) of the Disclosure Schedule,

no reportable event as defined in Section 4043 of ERISA with respect to an employee benefit plan covered by Title IV of ERISA has occurred which would materially and adversely affect the

business, prospects, operations, properties or the condition, financial or otherwise, of the Company or any Company Subsidiaries. The representations in this section are made to the best knowledge of the Company, although it has made no independent inquiries insofar as they relate to any Multiemployer Plan.

(d) Compliance with Applicable Laws. To the knowledge of the Company, each Plan other than the Multiemployer Plans is in material compliance with applicable federal laws, including but not limited to ERISA. With respect to Multiemployer Plans to which the Company or any Company Subsidiary makes contributions, the Company has no knowledge of any aspect of such Multiemployer Plans which is not in material compliance with applicable federal laws.

(e) Definitions to Be Used in Conjunction with ERISA Representations, Warranties and Covenants. Whenever any of the terms set forth below is used in this Agreement, it shall have the following meaning: (i) "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time; (ii) "Plan" shall mean an employee pension benefit plan (within the meaning of Section 3 of ERISA) which is or has been established or maintained, or to which contributions are or have been made, by the Company or any Company Subsidiary; and (iii)

"Multiemployer Plan" shall mean an employee pension plan meeting the definition of that term contained in Section 3(37) of ERISA, to which contributions are or have been made by the Company or any Company Subsidiary.

3.32. Intentionally Deleted.

3.33. (a) Personnel. Section 3.33(a) of the Disclosure Schedule sets forth a true and complete list of:

(i) the names and current salaries of all directors and elected or appointed officers and executive employees of each of the Company and the Company Subsidiaries;

(ii) the wage rates for non-salaried and non-executive salaried employees of each of the Company and the Company Subsidiaries by classification, and all labor union contracts; and

(iii) all group insurance programs in effect for employees of each of the Company and the Company Subsidiaries. Neither the Company nor any Company Subsidiary is in material default with respect to any of its obligations referred to in the preceding sentence.

(b) Except as set forth in Section 3.33(b) of the Disclosure Schedule, to the knowledge of the Company, no former employee or owner of any business entity acquired by the Company or Company Subsidiary is presently competing with the Company in the same or a similar business in which such employee worked or which was acquired from such owner, as the case may be, except where such competition would not have a material adverse effect

on the business of the Company or any Company Subsidiary in any operating region. The operating regions are as set forth on Schedule 3.33(b).

3.34. Insider Interests. Except as set forth in Section 3.34 of the Disclosure Schedule, to the knowledge of the Company, no officer or director or shareholder of the Company or any Company Subsidiary has any material interest in any property, real or personal, tangible or intangible, including without limitation, trademarks or trade names, used in or pertaining to the business of the Company or any Company Subsidiary or any supplier or customer of the Company or any Company Subsidiary.

3.35. Intentionally Deleted.

3.36. Disclosure. No representation or warranty by the Company in this Agreement (including, financial statements and the Disclosure Schedule), contains or will contain any untrue statement of material fact or omits or will omit to state any material fact necessary, in light of the circumstances under which it was made, in order to make the statements herein or therein not misleading.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF INVESTORS

Each of the Investors represents and warrants to the Company severally and not jointly as follows:

4.1. Corporate Organization; Etc. Such Investor, if a corporation, is duly organized, validly existing and in good standing under the laws of the State of its incorporation.

4.2. Authorization; Etc. Such Investor has full corporate power and authority or in the case of an Investor which is a partnership full authority under law, to enter into this Agreement and to carry out the transactions contemplated hereby. The Boards of Directors of such corporate Investor has taken all action required by law, its Certificate of Incorporation and By-Laws and the general partner of each partnership Investor has taken all action required by such partnership Investor's Articles of Limited Partnership or otherwise to authorize the execution and delivery of this Agreement and the transactions contemplated hereby, and this Agreement is a valid and binding agreement of such Investor enforceable in accordance with its terms except that (i) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

4.3. No Violation. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will violate any provision of the respective Certificate of Incorporation or By-Laws of such corporate Investor, or the Articles of Limited Partnership of any partnership Investor, or violate, or be in conflict with, or constitute a default under, or cause the acceleration of the maturity of any debt or obligation pursuant to, any agreement or commitment to which such Investor is a party or by which such Investor is bound, or violate any statute or law or any judgment, decree, order, regulation or rule of any court or governmental authority or require the consent of any governmental authority other than under the HSR Act, which violations, conflicts, defaults, accelerations and violations would individually or in the aggregate materially and adversely affect the business of the Company and the Company Subsidiaries taken as a whole.

4.4. Financial Resources. Such Investor has the financial resources available to consummate the purchase of the Preferred Stock required to be purchased by it as set forth on Schedule 1. The Preferred Stock is being purchased by such Investor for investment only and not with a view to any public distribution thereof. Such Investor shall not transfer shares of Preferred Stock or any shares of Common Stock received on conversion thereof in violation of the Securities Act of 1933, as amended.

4.5. Petro's SEC Reports. Petro represents and warrants (and the other Investors do not) that the financial statements and description of the business of Petro as set forth in its Form 10-K for the year ending December 31, 1992 and the financial information set forth in its Form 10-Q for the quarter ended June 30, 1993, as filed with the Securities and Exchange Commission, are true and accurate in all material respects, with no material omissions.

4.6. Litigation. There is no (i) material claim, action, suit or proceeding pending or to the knowledge of such Investor threatened before any Federal, State, municipal or other court, governmental body or arbitration tribunal affecting such Investor's ability to consummate the transactions contemplated by this Agreement and (ii) existing order, decree or judgment of any court enjoining or restraining such Investor or its officers or requiring any of them to take any action of any kind which would materially and adversely affect such Investor's ability to perform its obligations under this Agreement.

ARTICLE V

CONDUCT OF THE COMPANY'S BUSINESS PENDING THE CLOSING

Pending the Closing, and except as otherwise expressly

provided herein or consented to or approved by Investors in writing:

5.1. Regular Course of Business. Each of the Company and the Company Subsidiaries will carry on its respective business diligently and substantially in the same manner as heretofore conducted, and neither the Company nor any Company Subsidiary shall institute any new methods of purchase, sale, lease, management, accounting or operation or engage in any transaction or activity, enter into any agreement or make any commitment, except in the ordinary course of business and consistent with past practice.

5.2. Amendments. No change or amendment shall be made in the Certificate of Incorporation or By-Laws of the Company or any Company Subsidiary, except that the Company will cause to be filed the Amended and Restated Articles of Incorporation annexed as Schedule 2.1.

5.3. Capital Changes; Dividends; Redemptions. Except as to the exchange of the Company's Series A Preferred Stock for common stock and the issuance of Preferred Stock for the Edge Notes and Edge Preferred Stock as contemplated in Section 8.9, neither the Company nor any Company Subsidiary will issue or sell any shares of its capital stock or other securities, acquire

directly or indirectly, by redemption or otherwise, any such capital stock, reclassify or split-up any such capital stock, declare or pay any dividends thereon in cash, securities or other property or make any other distribution with respect thereto, or grant or enter into any options, warrants, calls or commitments of any kind with respect thereto.

5.4. Subsidiaries. Neither the Company nor any Company Subsidiary will organize any new subsidiary, acquire any capital stock or other equity securities of any corporation or acquire any equity or ownership interest in any business.

5.5. Organization. Except for the sale of the Company's Highway and Federal subsidiaries, or as permitted pursuant to Section 5.6, each of the Company and the Company Subsidiaries shall use its best efforts to preserve its corporate existence and business organization intact, to keep available to the Company its officers and key employees, and to preserve for the Company its relationships with licensors, suppliers, distributors, customers and others having business relations with it.

5.6. Certain Changes. Neither the Company nor any Company Subsidiary will:

(a) Borrow or agree to borrow any funds or incur, or assume or become subject to, whether directly or by way of guarantee or otherwise, any obligation or liability (absolute or

contingent), except obligations and liabilities incurred in the ordinary course of business and consistent with past practice;

(b) Pay, discharge or satisfy any claim, liability or obligation (absolute, accrued, contingent or otherwise), other than the payment, discharge or satisfaction in the ordinary course of business and consistent with past practice of liabilities or obligations reflected or reserved against in the Balance

Sheet or incurred in the ordinary course of business and consistent with past practice since the date of the Balance Sheet;

(c) Except with respect to prepayments to The Prudential Insurance Company of America, prepay any obligation having a fixed maturity of more than 90 days from the date such obligation was issued or incurred;

(d) Except for sale of the Company's Highway and Federal divisions and pursuant to the terms of existing lending arrangements, permit or allow any of its property or assets (real, personal or mixed, tangible or intangible), to be subjected to any mortgage, pledge, lien or encumbrance;

(e) Write down the value of any inventory or write off as uncollectible any notes or accounts receivable, except for immaterial write-downs and write-offs in the ordinary course of business and consistent with past practice;

(f) Cancel any debts or waive any claims or rights of substantial value or sell, transfer, or otherwise

dispose of any of its properties or assets, except in the ordinary course of business and consistent with past practice; provided, however, that the Company may, with the prior written consent of the Investors which shall not be unreasonably withheld, sell any asset not required in the ordinary conduct of its business for its fair market value.

(g) Dispose of or permit to lapse any rights to the use of any trademark or trade name;

(h) Grant any general increase in the compensation of officers or employees (including any such increase pursuant to any bonus, pension, profit sharing or other plan or commitment);

(i) Make any single capital expenditure or commitment in excess of $100,000 for additions to property, plant or equipment or make aggregate capital expenditures and commitments in excess of $500,000 (on a consolidated basis) for additions to property, plant or equipment and not consistent with past practices;

(j) Pay, loan or advance any material amount to, or sell transfer or lease any material properties or assets to, or enter into any material agreement or arrangement with, any of its officers or directors or any Affiliate or Associate of any of its officers or directors, except for directors' fees and compensation to officers at rates not materially exceeding the rates of

compensation paid during the fiscal year ended September 30, 1992;

(k) Grant or extend any power of attorney or act as guarantor, surety, co-signer, endorser, co-maker, indemnitor or otherwise in respect of the obligation of any person, corporation, partnership, joint venture, association, organization or other entity, except guarantys by the Company for the benefit of a Company Subsidiary or by a Company Subsidiary for the benefit of the Company or another Company Subsidiary; or

(l) Agree, whether in writing or otherwise, to do any of the foregoing.

5.7. Contracts. No contract or commitment will be entered into, and no purchase of gases, petroleum products, parts inventories, or supplies and no sale of assets will be made, by or on behalf of the Company or any Company Subsidiary, except (i) contracts or commitments for the purchase of, and purchases of, gases, petroleum products, parts inventories or supplies, made in the ordinary course of business and consistent with past practice, (ii) contracts or commitments for the sale of, and sales of, inventories (including gases and petroleum products) in the ordinary course of business and consistent with past practice, and (iii) other contracts, commitments, purchases or sales in the ordinary course of business and consistent with past

practice.

5.8. Insurance; Property. The Company and each Company Subsidiary shall maintain all existing insurance policies and its property shall be used, operated, maintained and repaired in accordance with normal industry standards.

5.9. No Default. Neither the Company nor any Company Subsidiary shall do any act or omit to do any act, or permit any act or omission to act, which will cause a breach of any material contract or commitment of the Company or any Company Subsidiary or which would cause the breach of any warranty made hereunder.

5.10. Compliance With Laws. The Company and each Company Subsidiary shall comply in all material respects with all

laws applicable to it and its properties, operations, business and employees.

5.11. Tax Returns. Each of the Company and the Company Subsidiaries shall prepare and file all material federal, state, local and foreign income tax returns and amendments thereto required to be filed by it. The Company will ensure that Investors shall have a reasonable opportunity to review each such return and amendment prior to the filing thereof.

ARTICLE VI

COVENANTS OF THE COMPANY

The Company hereby covenants and agrees with Investors:

6.1. Full Access. The Company shall, and shall cause each Company Subsidiary to, afford to Investors, their counsel, accountants and other representatives full access to the plants, offices, warehouses, properties, books and records of the Company and each Company Subsidiary in order that Investors may have full opportunity to make such investigations as they shall desire to make of the affairs of the Company and the Company Subsidiaries; and the Company will cause its officers and accountants to furnish such additional financial and operating data and other information as Investors shall from time to time request; provided, however, that any such investigation shall be conducted in such a manner as not to interfere unreasonably with the operation of the businesses of the Company and the Company Subsidiaries. The Company agrees that any inquiry or investigation made by

Investors pursuant to this Agreement shall not in any way affect or lessen the representations and warranties made by it in this Agreement or the survival of such representations and warranties of the Closing to the extent provided herein. In any action or proceeding based upon the breach of any representation or warranty, the Company hereby waives the defense that the Investors knew or should have known the true facts or circumstances; provided, however, that if the Company proves in any proceeding that Investors were aware of any fact prior to the

Closing which could have permitted the Company to mitigate its damages (other than by electing not to close), or if revealed to the Company could have permitted the Company to mitigate Investors' damages, then Investors' damages shall be deemed reduced to the extent that the Company could have affected such mitigation, but net of the cost of the mitigation. Notwithstanding the foregoing, if between the execution of this Agreement and the Closing (i) Investors actually receive written notice from the Company of any matter which the Company identifies as a breach or misrepresentation on the part of the Company and (ii) such breach or representation was not, in fact, known to the Company at the time of the execution of this Agreement, then Investors shall have the option of (i) proceeding with the Closing, in which event Investors shall have no claim against the Company based upon such breach or misrepresentation or (ii) terminating this Agreement, in which event, neither the

Company nor the Investors shall have any further liability to the other except as provided in Section 13.2.

6.2. Consents. The Company shall, and shall cause each Company Subsidiary to, use its best efforts to obtain at the earliest practicable date and prior to the Closing all consents necessary to the consummation of the transactions contemplated hereby and will provide to Investors copies of each such consent promptly after it is obtained.

6.3. Supplements to Disclosure Schedule. From time to time prior to the Closing, the Company will promptly supplement or amend the Disclosure Schedule with respect to any matter hereafter arising which, if existing or occurring at the date of this Agreement, would have been required to be set forth or described in the Disclosure Schedule. No supplement or amendment of the Disclosure Schedule made pursuant to this section shall be deemed to cure any breach of any representation of or warranty made in this Agreement unless Investors specifically agree thereto in writing.

6.4. Covenant to Satisfy Conditions. Each of the Company and the Company Subsidiaries will use its best efforts to insure that the conditions set forth in Article VIII hereof are satisfied, insofar as such matters are within the control of any of them.

6.5. Certificates. At the Closing the Company will furnish Investors with such certificates of its officers and

others to evidence compliance with the covenants set forth in this Article VI as may be reasonably requested by Investors.

ARTICLE VI-A

COVENANTS OF THE INVESTORS

Each of the Investors severally, but not jointly, covenants and agrees with the Company:

6A.1 Covenant to Satisfying Conditions. Such Investor will use its best effort to insure that the conditions set forth in Article VII are satisfied insofar as such matters are within the control of such Investor.

ARTICLE VII

CONDITIONS TO THE COMPANY'S OBLIGATIONS

Each and every obligation of the Company under this Agreement to be performed on or before the Closing shall be subject to the satisfaction, on or before the Closing, of each of the following conditions, unless waived in writing by the Company:

7.1. Representations and Warranties True. Subject to the right of the Investors to cure a breach or default as set forth in Article XIII, the representations and warranties of each of the Investors contained herein shall be in all material respects true and accurate as of the date when made and at and as of the Closing Date as though such representations and warranties

were made at and as of such date, except for changes expressly permitted or contemplated by the terms of this Agreement.

7.2. Performance. The Investors shall have performed and complied with all agreements, obligations and conditions required by this Agreement to be performed or complied with by them on or prior to the Closing.

7.3. Deliveries. Company shall have received all of the deliveries required to be made by the Investors pursuant to Article X.

7.4. No Injunction. On the Closing Date there shall be no effective injunction, writ, preliminary restraining order or any order of any nature issued by a court of competent jurisdiction directing that the transactions provided for herein or any of them not be consummated as so provided or imposing any conditions on the consummation of the transaction contemplated hereby which the Company deems unacceptable in its sole discretion.

7.5. Consents Obtained. All consents referred to in Section 3.5 shall have been obtained.

7.6. Put/Call Agreement. The Investors and Prudential shall have entered into the Shareholder Put/Call Agreement, a copy of which is annexed hereto as Exhibit 8.6.1 and Star Gas and Prudential shall have entered into the Star Gas Put/Call Agreement, a copy of which is annexed hereto as Exhibit 8.6.2.

7.7. Shareholders' Agreement. The Investors and Prudential shall have entered into the Shareholders Agreement annexed as Exhibit 8.7.

ARTICLE VIII

CONDITIONS TO OBLIGATIONS OF INVESTORS

Each and every obligation of Investors under this Agreement to be performed on or before the Closing shall be subject to the satisfaction, on or before the Closing, of each of the following conditions, unless waived in writing by the Investors:

8.1. Representations and Warranties True. Subject to the right of the Company to cure a breach or default as set forth in Article XIII, the representations and warranties contained in Article III hereof, the Disclosure Schedule and in all certificates to Investors or their representatives pursuant hereto shall be in all material respects true, complete and accurate as of the date when made and at and as of the Closing Date as though such representations and warranties were made at and as of such date, except for changes expressly permitted or contemplated by the terms of this Agreement.

8.2. Performance. The Company and each Company Subsidiary shall have performed and complied in all material respects with all agreements, obligations and conditions required by this Agreement to be performed or complied with by them on or prior to the Closing.

8.3. No Government Proceeding or Litigation. No suit, action, investigation, inquiry or other proceeding by any governmental body or other person or legal or administrative proceeding

shall have been instituted or threatened which questions the validity or legality of the transactions contemplated hereby.

8.4. No Injunction. On the Closing Date there shall be no effective injunction, writ, preliminary restraining order or any order of any nature issued by a court of competent jurisdiction directing that the transactions provided for herein or any of them not be consummated as so provided or imposing any conditions on the consummation of the transaction contemplated hereby which the Investors deems unacceptable in their sole discretion.

8.5. Consents Obtained. All consents referred to in Section 3.5 shall have been obtained.

8.6. Put/Call Agreement. The Investors and Prudential shall have entered into the Shareholder Put/Call Agreement, a copy of which is annexed hereto as Exhibit 8.6.1 and Prudential shall have entered into the Star Gas Put/Call Agreement, a copy of which is annexed hereto as Exhibit 8.6.2.

8.7. Shareholders' Agreement. The Investors and Prudential shall have entered into the Shareholders Agreement annexed as Exhibit 8.7.

8.8. Deliveries. Investors shall have received all of the deliveries required to be made by the Company pursuant to Article IX.

8.9. Recapitalization. Simultaneously with the Closing, the exchange of stock shall occur under the Exchange Agreement dated as of the date hereof among the Company, SEA,

American Gas & Oil Investors, AmGO II, AmGO III and FRC Star Gas, Inc.

8.10. Debt Restructuring. At the Closing, Prudential shall exchange (a) $25,000,000 of the Company's 12.625% Senior Subordinated Participating Notes due 2001 for $25,000,000 of 8% Cumulative Convertible Preferred Stock and (b) $7,500,000 of the Company's 12.625% Senior Subordinated Participating Notes due 2001 for $7,500,000 of 12.625% Cumulative Redeemable Preferred Stock, and Prudential, PruSupply, Inc. and The First National Bank of Boston shall have agreed to a restructuring on terms satisfactory to the Company.

ARTICLE IX

DELIVERIES OF COMPANY

At the Closing the Company shall deliver or cause to be delivered to the Investors the following:

9.1. Certificate dated a current date from the appropriate authorities in the State of Delaware attesting to the existence and good standing of the Company.

9.2. Opinion of the Company's Counsel. The Company shall have delivered to Investors an opinion of Wilmer, Cutler and Pickering, counsel to the Company, dated as of the Closing

Date, in form and substance satisfactory to Investors, to the effect that:

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation.

(b) The Company is duly qualified as a foreign corporation and in good standing in each jurisdiction in which the properties owned or leased by it or the nature of the business conducted by it makes such qualification necessary except where the Company's failure to qualify to do business will not have a material adverse effect on the business, prospects, operations, properties, assets or condition (financial or otherwise) of the Company and the Company Subsidiaries taken as a whole.

(c) The Company has the corporate power and authority to carry on its business as it is now being conducted and to own the properties and assets it now owns, and the Company has the full corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby.

(d) Except as disclosed in or as contemplated by this Agreement, to the actual knowledge of such counsel, there are no outstanding options, warrants or other rights to purchase or acquire any capital stock of the Company.

(e) To the actual knowledge of such counsel,

except as specifically disclosed by the Company in this Agreement or in the Disclosure Schedule hereto, neither the Company nor any Company Subsidiary is engaged in or threatened with any legal action or other proceeding or has incurred or been charged with

or is under investigation with respect to any violation of any federal, state or local law or administrative regulation which if adversely determined might, in such counsel's opinion, materially adversely affect or impair the business or condition, financial or otherwise, of the Company.

9.3. Certified copies of the resolutions of the Board of Directors and the shareholders of the Company approving the execution of this Agreement and the transactions contemplated herein.

9.4. Such certificates of its officers to evidence compliance with the conditions set forth in Article VIII as may reasonably be requested by the Investors.

9.5. The Management Services Agreement in the form of Exhibit 9.5.

9.6. The Petro Option Agreement in the form of Exhibit 9.6.

9.7. Certificates representing the Preferred Stock in accordance with Schedule 1.

9.8. Resignations of the directors and officers of the Company and the Company Subsidiaries.

9.9. A schedule of the names and locations of all

banks, trust companies, savings and loan associations and other financial institutions at which the Company and each Company Subsidiary maintains safe deposit boxes or accounts of any nature and the names of all persons authorized to draw thereon, make withdrawals therefrom or have access thereto and copies of all

records, including all signature or authorization cards, pertaining to such bank accounts.

9.10. The Existing Shareholders Option Agreements (the "FRC Option") in the form of Exhibit 9.10.

ARTICLE X

DELIVERIES OF THE INVESTORS AT THE CLOSING

At the Closing, the Investors shall deliver or cause to be delivered to the Company the following:

10.1. Certificates. Each of the Investors shall have furnished the Company with such certificates of their officers to evidence compliance with the conditions set forth in Article VII as may be reasonably requested by the Company.

10.2. Certified Resolutions. C e r t i f i e d resolutions of the Board of Directors of each of the corporate Investors and action of the partners of each partnership Investor authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated

herein.

10.3. Payment for Preferred Stock. Wire transfers of immediately available funds in the aggregate amount of $26,975,000.

10.4. Other Agreements. Signed counterparts of the Option Agreement and the Management Services Agreement.

10.5. Opinion of Petro Counsel. Petro shall have delivered to the Company an opinion of Phillips, Nizer,

Benjamin, Krim & Ballon, counsel to Petro, dated as of the Closing Date, in form and substance satisfactory to the Company, to the effect that:

(a) Petro is a corporation duly organized, validly existing and in good standing under the laws of the State of Minnesota;

(b) Petro has the corporate power and authority to carry on its business as it is now being conducted and to own the properties and assets it now owns, and has the full corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby;

(c) All corporate action by Petro required in order to authorize the transactions contemplated hereby has been duly and validly taken; and this Agreement has been duly executed and delivered by Petro and is the valid and binding obligation of Petro enforceable in accordance with its terms except that (i)

such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights and, (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought;

(d) Neither the execution and delivery of this Agreement by Petro nor the consummation of the transactions contemplated hereby will violate the Certificate of Incorporation or By-Laws of Petro or, to the knowledge of such counsel, will

violate, conflict with, or constitute a default under, or cause the acceleration of maturity of any debt or obligation pursuant to, or result in the creation or imposition of any security interest, lien or other encumbrance upon any property or assets of Petro or any Company Subsidiary under, any contract, commitment, agreement, trust, understanding, arrangement or restriction of any kind to which Petro is a party or by which Petro is bound or violate any statute or law, or any judgment, decree, order, regulation or rule of any court or governmental authority;

(e) Except for compliance with the HSR Act, no consent of any governmental body nor, to the knowledge of such counsel, of any other person, is required for the consummation by Petro of the transactions contemplated hereby.

ARTICLE XI

THE CLOSING

11.1. The closing ("Closing") shall take place at the offices of Phillips, Nizer, Benjamin, Krim & Ballon, 31 West 52nd Street, New York, NY, simultaneously with the execution of this Agreement (the "Closing Date").

ARTICLE XI-A

POST CLOSING ADJUSTMENT

If the Company redeems shares of its Series D 8% Cumulative Convertible Preferred Stock issued on the Closing Date in accordance with its terms as in effect on such date at any

time following the Closing, then upon each such redemption the Existing Shareholders agree to return as a contribution to the capital of the Company, a number of shares of Common Stock of the Company determined by multiplying 48,567 by a fraction the numerator of which is the face value of the Series D 8% Cumulative Convertible Preferred Stock so redeemed and the denominator of which is $10 million.

ARTICLE XII

SURVIVAL OF REPRESENTATIONS AND WARRANTIES

12.1. Investigations; Survival of Warranties. The

representations and warranties of the Company contained herein or in any certificates or other documents delivered prior to or at the Closing shall not be deemed waived or otherwise affected by any investigation made by any party hereto and shall survive the Closing; provided however, that the representations and warranties set forth in sections 3.6, 3.8, 3.9, 3.10, 3.11, 3.12, 3.13, 3.14, 3.17, 3.18, 3.19, 3.20, 3.21, 3.22, 3.23, 3.24, 3.25, 3.26, 3.29, 3.33, 3.34 and 3.36 shall expire on the first anniversary of the Closing, the representations and warranties set forth in section 3.7 shall expire 18 months following the Closing, the representations and warranties set forth in section 3.30 shall expire on the third anniversary of the Closing, and the representations and warranties set forth in sections 3.16 and 3.31 shall expire upon the expiration of the relevant statute of limitations.

ARTICLE XIII

IMPLEMENTATION OF MONEY DAMAGES

13.1. Implementation of Money Judgment. Subject to Sections 13.2 and 13.3, if any Investor receives a money judgment based upon a breach or default of the Company pursuant to the Agreement, other than any breach or default of Section 3.2, the first sentence of Section 3.4 or the second sentence of Section 3.4 (other than issues of enforceability not caused by a breach of the foregoing sections), the Existing Shareholders shall at

their option either:

(a) pay the full amount of the money judgment to the Company in cash, or

(b) deliver prorata, to the shareholders of Star Gas, other than the Existing Shareholders, shares of Star Gas equal in value to the amount of such money damages. The value of the Star Gas stock ("Stock Value") shall be determined by applying the average of the Put Price and Call Price formulas set forth in the Shareholder Put/Call Agreement at the end of the quarter next preceding the delivery of the shares; provided, however, that (i) if the Put Option or Call Option under the Shareholder Put/Call Agreement has been exercised with respect to the shares of Common Stock owned by the Existing Shareholders, then the Stock Value shall be the Put Option Price or the Call Option Price with respect to such exercise and (ii) until the release of the September 30, 1994 audited financial statements of

the Company, the per share value of the shares of Star Gas shall be no less than $10.30 per share. For purposes of allocating the shares, each Shareholder shall be deemed to own the maximum number of shares then issuable to such Shareholder pursuant to options and convertible preferred stock owned by such Shareholder.

13.2. (a) No claim for breach of representation or warranty ("Claim") may be asserted by the Investors against the Company unless and until the aggregate of all such Claims exceeds

$175,000.

(b) Whenever the Company shall receive notice of any Claim by any Investor for breach of any representation, warranty or covenant contained in this Agreement or in any certificate delivered by or on behalf of the Company to such Investor or otherwise arising out of the transactions contemplated by this Agreement, the Company shall as soon as reasonably possible, and in any event within 15 days of receipt of such notice, notify the Existing Shareholders of such Claim and all of the relevant facts within its knowledge which relate thereto; provided, however, that the failure of the Company to give timely notice hereunder shall not relieve Existing Shareholders of their obligations under Section 13.1 unless, and only to the extent that, lack of notice caused the amount to be paid hereunder to be greater than it would have been had the Company given timely notice hereunder. The Existing Shareholders shall have the right, but not the obligation, to assume the

defense of any such Claim. The Existing Shareholders shall notify the Company within thirty days of receipt of such notice of their intention to assume such defense. If the Existing Shareholders assume such defense, the Company shall be entitled to participate at its own expense, but without diminishing the exclusive control of the Existing Shareholders. If the Existing Shareholders fail to assume the defense of any such claim or demand as soon as reasonably possible, then the Company shall

have the right to undertake the defense of any such claim or demand utilizing counsel selected by it. The Company shall not settle any such action or agree to make any payment to any Investor without the consent of the Existing Shareholders.

13.3. Notwithstanding the foregoing, in no event will the aggregate liability of the Existing Shareholders (including any liability in respect of Paragraph 1 of the letter agreement, dated December 21, 1993, among the Company, The Prudential Insurance Company of America and PruSupply, Inc.) exceed the aggregate value of (i) 250,000 shares of Star Gas common stock minus (ii) the number of shares of Star Gas common stock returned to the Company pursuant to Article XI-A. For purposes of this Section 13.3, each share of Star Gas common stock delivered to shareholders pursuant to Section 13.1(b) shall be deemed to have a value of one share of Star Gas common stock and any cash amounts paid to the Company pursuant to Section 13.1(a) shall be deemed to have a value of that number of shares of Star Gas common stock equal to the amount of such cash payment

divided by the Stock Value (as defined in Section 13.1(b)) at the time of such payment.

ARTICLE XIV

MISCELLANEOUS PROVISIONS

14.1. Amendment and Modification. Subject to ap-

plicable law, this Agreement may be amended, modified and supplemented by written agreement of the respective Boards of Directors or other governing board of the Company and Investors or by their respective officers authorized by such Boards of Directors at any time prior to the Closing with respect to any of the terms contained herein.

14.2. Waiver of Compliance. Any failure of the Company, on the one hand, or Investors, on the other, to comply with any obligation, covenant, agreement or condition herein may be expressly waived in writing by the President or a Vice President or other duly authorized agent of each of the Investors or the Company, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

14.3. Notices. All notices, requests, demands and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given if delivered

by hand or mailed, certified or registered mail with postage prepaid:

(a) If to the Company, to:

Star Gas Corp.
500 Birchfield Drive
Mt. Laurel, NJ 08054

(with a copy to:)

Wilmer, Cutler & Pickering
2445 M St., N.W.
Washington, D.C. 20037
Attn: Richard Cass, Esq.

or to such other person or address as the Company shall furnish to Investors in writing.

(b) If to Investors, to:

Star Gas Holdings, Inc.
c/o Hanseatic Corporation
450 Park Avenue
New York, NY 10022
Attn: Paul Biddelman

Petroleum Heat and Power Co., Inc.
2187 Atlantic Street - 5th Fl.
Stamford, CT 06902
Attn: George Leibowitz

First Reserve Corporation
475 Steamboat Road
Greenwich, Connecticut 06830
Attn: William E. Macaulay

(with a copy to:)

The Prudential Insurance Company of America
c/o Prudential Financial Restructuring Group
Four Gateway Center, 9th Fl.
100 Mulberry Street
Newark, NJ 07102-4069
Attn: Managing Director
Fax: 201-802-2662

Willkie Farr & Gallagher

One Citicorp Center
153 East 53rd Street
New York, NY 10022-4669
Attn: Duncan Stewart, Esq.

Fax: 212-821-8111

Phillips, Nizer, Benjamin, Krim & Ballon
31 West 52nd Street
New York, NY 10019
Attn: Alan Shapiro, Esq.

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, NY 10017
Attn: Richard Capelouto, Esq.

or to such other person or address as Investors shall furnish to the Company in writing.

14.4. Assignment. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto without the prior written consent of the other parties.

14.5. Publicity. Neither the Company nor Investors shall make or issue, or cause to be made or issued, any announcement or written statement concerning this Agreement or the transactions contemplated hereby for dissemination to the general public without the prior consent of the other party. This provision shall not apply, however, to any announcement or written statement required to be made by law or the regulations of any federal or state governmental agency or any stock exchange, except that the party required to make such announcement shall,

whenever practicable, consult with the other party concerning the timing and content of such announcement before such announcement is made.

14.6. Governing Law. This Agreement and the legal relations among the parties hereto shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to its conflicts of law doctrine.

14.7. Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

14.8. Headings. The headings of the Sections and Articles of this Agreement are inserted for convenience only and shall not constitute a part hereof or affect in any way the meaning or interpretation of this Agreement.

14.9. Entire Agreement. This Agreement, including the Exhibits hereto, the Disclosure Schedule and the other documents and certificates delivered pursuant to the terms hereof, set forth the entire agreement and understanding of the parties hereto in respect of the subject matter contained herein, and supersede all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto.

14.10. Third Parties. Except as specifically set forth or referred to herein, nothing herein expressed or implied

is intended or shall be construed to confer upon or give to any person or corporation other than the parties hereto and their successors or assigns, any rights or remedies under or by reason of this Agreement.

14.11. After the Closing, the Company shall from time to time, at the request of the Investors and without further cost or expense to Investors, execute and deliver such other instruments of conveyance and transfer and take such other actions as Investors may reasonably request, in order to more effectively consummate the transactions contemplated hereby.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and their respective corporate seals

to be affixed hereto, all as of the day and year first above written.

PETROLEUM HEAT AND POWER CO., INC.

By: /s/ George Leibowitz
George Leibowitz
Senior Vice President

ACCEPTED AND AGREED:

STAR GAS CORPORATION

By: /s/ Robert M. Cherry
Robert M. Cherry
Senior Vice President

The undersigned shareholders of Star Gas Corporation agree to the execution of the foregoing agreement and that they will not take any action inconsistent with the obligations of Star Gas Corporation

AMERICAN GAS & OIL INVESTORS

By: First Reserve Corporation, as managing partner,

By: /s/ William Macaulay
William Macaulay
Managing Director

AmGO III

By: First Reserve Capital Corporation, as managing general partner,

By: /s/ William Macaulay
William Macaulay
Managing Director

AmGO II

By: First Reserve Capital Corporation, as managing general partner,

By: /s/ William Macaulay
William Macaulay
Managing Director

FIRST RESERVE SECURED ENERGY ASSETS FUND, L.P.

By: First Reserve Corporation, as managing general partner

FRC STAR GAS, INC.

By: /s/ William Macaulay
William Macaulay

Managing Director

STAR GAS HOLDINGS, INC.

By: /s/ Paul Biddelman
Paul Biddelman

By: /s/ William Macaulay
William Macaulay
Managing Partner

SCHEDULES

Schedule 1 - Purchase of preferred stock
Schedule 2 - Amended and Restated Articles of Incorporation
Schedule 3 - Series A Preferred Stock exchange ratios

EXHIBITS

8.6.1	Shareholder Put/Call Agreement
8.6.2	Star Gas Put/Call Agreement
8.7	Shareholders Agreement
9.5	Management Services Agreement
9.6	Petro Option Agreement
9.10	Existing Shareholder Option Agreement

DISCLOSURE SCHEDULE

3.01	Corporate organization, etc.
3.03	(a) Subsidiaries and affiliates
	(b) Equity investments
	(c) Foreign qualification of subsidiaries
3.05	Violation of agreements, etc.
3.07	Undisclosed Liabilities
3.10	Certain changes
3.11	(a) Title to property - exceptions
	(b) Liens, etc.
3.12	Plant and equipment
3.13	Patents, trademarks, etc.
3.14	Leases
3.16	(a) Examination of Federal income tax returns
	(b) Federal income tax returns
3.17	Contracts and commitments
3.18	Suppliers
3.19	Customers
3.20	Operating data
3.22	(a) Insurance in effect
	(b) Self-insured risks
3.23	Labor matters
3.24	Fringe benefit plans

3.25	Litigation
3.29	Compliance with law
3.30	Environmental protection
3.31	(b) Reportable events, etc.
3.33	(a) Personnel
	(b) Competition
3.34	Insider Interests

Schedule 1

<TABLE>

<S>	<C>
Petroleum Heat and Power Co., Inc. -	140,000 Shares of Series A 8% Cumulative Convertible Preferred Stock ($14 million)
Star Gas Holdings, Inc. -	20,000 Shares of Series A 8% Cumulative Convertible Preferred Stock ($2 million)
	90,000 Shares of Series C 8% Cumulative Convertible Preferred Stock ($9 million)
American Gas & Oil Investors -	7,811 Shares of Series A 8% Cumulative Convertible Preferred Stock ($781,100)
	1,500 Shares of Series E 8% Cumulative Convertible Preferred Stock ($15,000)
AmGO II -	8,223 Shares of Series A 8% Cumulative Convertible Preferred Stock ($822,300)
	692 Shares of Series E 8% Cumulative Convertible Preferred Stock ($69,200)
AmGO III -	849 Shares of Series A 8% Cumulative Convertible Preferred Stock ($84,900)
	152 Shares of Series E 8% Cumulative Convertible Preferred Stock ($15,200)
First Reserve Secured Energy Assets Fund, L.P. -	2,867 Shares of Series A 8% Cumulative Convertible Preferred Stock ($286,700)

	406 Shares of Series E 8% Cumulative Convertible Preferred Stock ($40,600)
FRC Star Gas, Inc. -	2,250 Shares of Series E 8% Cumulative Convertible Preferred Stock ($225,000)
The Prudential Insurance Company - of America (not party to Purchase Agreement)	150,000 shares of Series B 8% Cumulative Convertible Preferred Stock ($9 million)
	100,000 shares of Series D 8% Cumulative Convertible Preferred Stock ($10 million)
	60,000 shares of Series B 12.625% Cumulative Redeemable Preferred Stock
	15,000 shares of Series A 12.625% Cumulative Redeemable Preferred Stock

</TABLE>

Exhibit 2

Neither this Option, nor the shares of Common Stock issuable upon its exercise, have been registered under the Securities Act of 1933, as amended. This Option has been, and the shares of Common Stock issuable upon its exercise will be, acquired for investment. This Option may not be sold, transferred, pledged, hypothecated or otherwise disposed of except in accordance with the terms hereof and except pursuant to an effective registration statement under the Securities Act of 1933, as amended, or an opinion of counsel, in form and substance satisfactory to the Company, to the effect that registration is not then required under such Act.

Option

To Purchase 500,000 shares of Class A Common Stock of

STAR GAS CORPORATION

December 21, 1993

THIS IS TO CERTIFY THAT Petroleum Heat and Power Co., Inc. is entitled to purchase from Star Gas Corporation, a Delaware corporation, (the "Company") at any time after December 21, 1993, until 5:00 P.M., New York time, on December 20, 1998 (the "Expiration Date"), Five Hundred Thousand (500,000) shares (subject to adjustment as provided in Article Four hereof) of Class A Common Stock, par value $.10 per share, of the Company, at the Purchase Price (defined below) subject to exercise of the other appurtent rights, powers and privileges, all on the terms and conditions hereinafter provided.

1. Certain Definitions

For all purposes of this Option, unless the context otherwise requires:

Act

The term "Act" means the Securities Act of 1933, as amended,

or any similar Federal statute, and the rules and regulations of the Securities and Exchange Commission thereunder, all as the same shall be in effect at the time.

Affiliate

The term "Affiliate", as it applies to the Optionholder, means an individual, corporation, partnership or other entity which controls, is controlled by, or is under common control with, the Optionholder.

Shares of Common Stock

The term "shares of Common Stock" means the Company's shares of Class A Common Stock, par value $.10 per share, and any capital stock into which such shares of Common Stock may thereafter have been changed, and for purposes of Article Four shall also include capital stock of the Company or any class of the Company's securities thereafter authorized which ranks, or is entitled to a participation, as to assets or dividends, substantially on a parity with the shares of Common Stock.

Company

The term "Company" means Star Gas Corporation, a Delaware corporation.

Expiration Date

The term "Expiration Date" means 5:00 P.M., New York time, on December 20, 1998.

Number of Option Shares

The term "number of Option Shares" has the meaning assigned to it in Article Four hereof.

Optionholder

The term "Optionholder" means Petroleum Heat and Power Co., Inc.

Options

The term "Options" means this Option and all Options issued in substitution, combination or subdivision thereof. All Options shall at all times be identical as to terms and conditions and expiration date, except as to the number of shares of Common Stock for which they may be exercised and except as otherwise required by this Option or as otherwise agreed to by the Company and the Optionholder.

Option Shares

The term "Option Shares" means the shares of Common Stock issuable upon the exercise of the Options.

Purchase Price

The term "Purchase Price" means $9.9031 per share as adjusted pursuant to Article Four hereof.

2. Exercise of Option

2.1 Manner of Exercise

Until the Expiration Date, the Optionholder may exercise this Option in whole at any time or in part from time to time for the purchase of the number of shares of Common Stock which such Optionholder is then entitled to purchase hereunder, at the Purchase Price per Common Share determined in accordance with the provisions hereof.

In order to exercise this Option, in whole or in part, the Optionholder shall deliver on the exercise date to the Company at its principal office or such other office or agency designated by it for such purpose, (a) written notice of the Optionholder's election to exercise this Option, which notice shall specify the number of shares of Common Stock to be purchased, (b) cash or a certified or bank check payable to the order of the Company in an amount equal to the Purchase Price of the number of shares of Common Stock being purchased and (c) this Option.

Upon receipt of the materials delivered by the Optionholder under this section, the Company shall, as promptly as practicable, execute and deliver, or cause to be executed and delivered, to the Optionholder a certificate or certificates representing the aggregate number of shares of Common Stock specified in such notice. The certificate or certificates so delivered shall be in such denomination or denominations as may be specified in such notice and shall be registered in the name of the Optionholder or, subject to Article Three, such other name as shall be designated (together with an address) in such notice.

Such certificate or certificates shall be deemed to have been issued and the Optionholder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares of Common Stock as of the date such notice and payment is received by the Company as aforesaid if this Option has been exercised in compliance with the above provisions. If this Option shall have been exercised only in part, the Company shall, at the time of delivery of such certificate or certificates, deliver to the Optionholder a new Option evidencing the rights of the holder to purchase the

remaining shares of Common Stock called for by this Option, which new Option shall in all other respects, except as provided in Article Three, be identical with this Option, or, at the request of the Optionholder, appropriate notation may be made on this Option and the same returned to such holder. The Company shall pay all expenses, taxes and other charges payable in connection with the preparation, issuance and delivery of share certificates under this section, except that, in the case such share certificates shall be registered in a name or names other than the name of the Optionholder, funds sufficient to pay all share transfer taxes which shall be payable upon issuance of such share certificate or certificates shall be paid by the Optionholder at the time the notice of exercise hereinabove mentioned is delivered to the Company.

2.2 Option Shares Fully Paid

All Option Shares shall be, when issued, duly authorized, validly issued, fully paid and non-assessable.

2.3 Fractional Shares

The Company shall not be required upon the exercise of this Option to issue a certificate representing any fraction of a share of Common Stock, but, at the option of the Company, in lieu of issuing such a fractional share, may pay for such fraction of a share at the Purchase Price in effect on the date of such exercise of this Option.

3. Transferability; Compliance With Securities Act

3.1 Restrictive Legend

Unless otherwise not required by this Article Three, each certificate for Option Shares initially issued upon the exercise of this Option, and each certificate for shares of Common Stock issued to a subsequent transferee of any such certificate, shall be stamped or otherwise imprinted with a legend in substantially the following form:

> The shares of Common Stock represented by this certificate have not been registered under the Securities Act of 1933, as amended, and may not be sold, transferred, pledged, hypothecated or otherwise disposed of except in accordance with the terms hereof

and except pursuant to an effective registration statement under such Act and any applicable state securities laws, or an opinion of counsel, in form and substance satisfactory to the Company, to the effect that such registration is not then required.

3.2 Restriction On Transferability

The Options shall not be transferable. The Option Shares shall be freely transferable except to the extent limited by law or by any agreement among shareholders of the Company.

4. Adjustments To Purchase Price And Number of Option Shares

The Purchase Price and the number of Option Shares purchasable hereunder (such number, as in effect from time to time, being hereinafter called the "number of Option Shares"), as specified in this Option, shall be subject to adjustment from time to time as follows:

4.1 Dividends and Reclassifications. In case the Company shall (i) declare a dividend, or make a distribution, on its outstanding shares of Common Stock in shares of its Common Stock, (ii) subdivide or reclassify its outstanding Common Stock into a greater number of shares or (iii) combine or reclassify its outstanding Common Stock into a smaller number of shares, the number of Option Shares in effect at the time of the record date for such dividend or distribution or subdivision or combination, or the effective date thereof if no record date is fixed therefor, shall be proportionately adjusted so that the holder of any Option surrendered for exercise immediately after the time of such record date or such effective date (if no record date is fixed) shall be entitled to receive the number of Option Shares which such holder would have owned or been entitled to receive

had the Option been exercised immediately prior to such time. Adjustment in the Purchase Price shall be made successively whenever any event specified above shall occur.

4.2 Liquidating Dividends. In the event that the Company shall make any distribution of its assets upon or with respect to its Common Stock, as a liquidating or partial liquidating dividend, or other than as a dividend payable out of earnings or any surplus legally available for dividends under the laws of the state of incorporation of the Company, the Optionholder shall, upon the exercise of the Option after the record date for such distribution or, in the absence of a record date, after the date of such distribution, receive, in addition to the Option Shares, the amount of such assets (or, at the option of the Company, a sum equal to the value thereof at the time of distribution as determined by the Board of Directors in its sole discretion) which would have been distributed to the Optionholder if it had exercised the Option immediately prior to the record date for such distribution, or in the absence of a record date, immediately prior to the date of such distribution.

4.3 Adjustment of Purchase Price. Upon each adjustment of the number of Option Shares pursuant to this Article, the Purchase Price shall be adjusted to equal the amount obtained by

multiplying the Purchase Price in effect immediately prior to such adjustment by a fraction, the numerator of which equals the number of Option Shares in effect prior to such adjustment and the denominator of which equals the number of Option Shares in effect after such adjustment.

4.4 Miscellaneous Matters.

4.4.1 No adjustment of the Purchase Price shall be made if the amount of such adjustment shall be less than one percent of the then Purchase Price, but in such case any

adjustment that would otherwise be required then to be made shall be carried forward and shall be made at the time of and together with the next subsequent adjustment which, together with the next subsequent adjustment which, together with any adjustment so carried forward, shall amount to not less than one percent of the then Purchase Price.

4.4.2 The certificate of any independent firm of public accountants of recognized standing selected by the Board of Directors shall be conclusive of the correctness of any computation made under this Article.

4.4.3 Whenever any adjustment is required in the then Purchase Price, the Company shall forthwith (i) prepare a statement describing in reasonable detail the adjustment and the method of calculation used and (ii) cause a copy of such statement to be mailed to the Optionholder.

4.4.4 The Company shall at all times reserve and keep available out of its authorized shares of Common Stock the full number of Option Shares into which all Options from time to time outstanding are exercisable. If at any time the number of authorized and unissued shares of Common Stock shall not be sufficient to effect the exercise this Option at the Purchase Price then in effect, the Company shall take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized Common Stock to such number of shares as shall be sufficient for such purpose.

4.4.5 In case of any reclassification of or change in the outstanding shares of Common Stock (other than a change in par value, or a change from no par to par value or from par value to no par value) or in the case of any consolidation of the Company with, or merger of the Company into, another corporation (other than a consolidation in which the Company is the continuing corporation and which does not result in any reclassification of or change in the outstanding shares of Common Stock), or in case of any sale or conveyance to another corporation of all or substantially all the assets of the Company, the Optionholder shall have the right to exercise such Option into the kind and amount of shares and other securities and property receivable upon such reclassification, change, consolidation, merger, sale or conveyance by a holder of the

number of shares of Common Stock into which the Option could have been exercised immediately prior to such reclassification, change, consolidation, merger, sale or conveyance. After such reclassification, change, consolidation, merger, sale or conveyance, adjustments of the Purchase Price shall be as nearly equivalent as may be practicable to the adjustments of the Purchase Price provided for herein.

The Company and any successor shall not effect any such consolidation, merger, sale or conveyance of property as an entirety with or to another corporation unless and until such other corporation shall agree to deliver to the Optionholder, upon the exercise of the Option, such shares, securities and property which, in accordance with the foregoing provisions, such Optionholder shall have the right to receive. Successive reclassifications, changes, consolidations, mergers, sales or conveyances and adjustments of Purchase Price shall be similarly treated.

Immediately before any such consolidation, merger, sale or conveyance of property as an entirety with or to another corporation the Company shall pay to the Optionholder an amount of cash equal to the number of Option Shares multiplied by the difference between (a) the cash or fair value of any property or securities to be received by a holder of a share of Common Stock pursuant to any such consolidation, merger, sale or conveyance of property and (b) the Purchase Price.

5. Notice Of Certain Events.

In case at any time on or after the date hereof:

(a) there shall be any capital reorganization or reclassification of the shares of Common Stock (other than a subdivision or combination of its outstanding shares of Common Stock and other than a change in the par value or the shares of Common Stock, or a change from par value to no par value or from no par value to par value), or any consolidation or merger to which the Company is a party and for which approval of any shareholders of the Company is required, or any sale or transfer of all or substantially all the assets of the Company; or

(b) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Company;

then the Company shall cause to be delivered to each Optionholder, as promptly as possible but in any event at least 10 days prior to the applicable date hereinafter specified, a notice stating the date on which such reorganization, reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected that holders of shares of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property

deliverable upon such reorganization, reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected that holders of shares of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding up.

6. Limitation of Liability

No provision hereof, in the absence of affirmative action by the Optionholder to purchase shares of Common Stock, and no mere enumeration herein of the rights and privileges of the Optionholder, shall give rise to any liability of such Optionholder for the Purchase Price or as a shareholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

7. Miscellaneous Provisions

7.1 Notices and Demands on Company and Optionholder. Any notice or demand which by any provision of this Option is required or permitted to be given or served may be given or served by being deposited postage prepaid, registered or certified mail, return receipt requested, in a post office letter box addressed (until another address of the Company is given by the Company to the Optionholder) as follows: if to the Company,

then to Star Gas Corporation, 500 Birchfield Drive, Mt. Laurel, New Jersey 08054; if to the Optionholder, then to Petroleum Heat and Power Co., Inc., Davenport Street, Stamford, Connecticut 06094, Attn: George Leibowitz, Senior Vice President. All notices shall be deemed to have been given upon delivery or mailing thereof.

7.2 Amendments And Waivers. Any term of this Option may be changed, waived, discharged or terminated only be a written consent of the Company and the Optionholder.

7.3 Laws Of Delaware To Govern. This Option shall be deemed to be a contract made under the laws of the State of Delaware and for all purposes shall be governed by and construed in accordance with the internal laws of such State.

7.4 Effect Of Headings. The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

IN WITNESS WHEREOF, the Company has caused this Option to be signed in its name by a duly authorized officer and attested by its Secretary or Assistant Secretary.

Dated: December 21, 1993

STAR GAS CORPORATION

/s/ Robert M. Cherry

Name: Robert M. Cherry
Title: Senior Vice President

ATTEST:

/s/ Melinda K. Estadt

Name: Melinda K. Estadt
Title: Secretary

Exhibit 3

SHAREHOLDER PUT/CALL AGREEMENT

AGREEMENT entered into as of this 21st day of December, 1993 among Petroleum Heat and Power Co., Inc., a Minnesota corporation ("Petro"), American Gas & Oil Investors, a New York partnership, AmGO II, a New York partnership, AmGO III, a New York partnership, First Reserve Secured Energy Assets Fund, L.P., a Delaware partnership, FRC Star Gas, Inc., and The Prudential Insurance Company of America, a New Jersey corporation ("Prudential").

WHEREAS, American Gas & Oil Investors, First Reserve Secured Energy Assets Fund, L.P., FRC Star Gas, Inc., AmGO II and

AmGO III (collectively, the "FRC Shareholders") own the outstanding shares of common stock, par value $1.00 per share of Star Gas Corporation, a Delaware corporation ("Star Gas") which, together with such shares of Common Stock as the Investor Shareholders may hereafter own, are referred to collectively as "Common Stock"; the FRC Shareholders together with Prudential are referred to herein as the "Investor Shareholders";

WHEREAS, the Investor Shareholders also own shares of 8% Cumulative Convertible Preferred Stock of Star Gas, which together with all shares of such preferred stock as the Investor Shareholders may hereafter own, are referred to collectively as "8% Cumulative Convertible Preferred Stock".

WHEREAS, Star Gas has entered into an agreement to sell to Petro, and Petro has agreed to buy, certain of Star Gas's 8% Cumulative Convertible Preferred Stock and has further agreed to provide an option to Petro to purchase shares of Common Stock;

and

WHEREAS, as a further inducement to Petro and the FRC Shareholders to enter into such agreements, the FRC Shareholders wish to grant Petro a call option to buy all the shares of Common Stock owned by the FRC Shareholders as well as the 8% Cumulative Convertible Preferred Stock and shares of Common Stock issued to them upon the conversion of the 8% Cumulative Convertible Preferred Stock of Star Gas and the exercise of certain options and Petro wishes to grant to the FRC Shareholders a put option to require Petro to purchase all the shares of Common Stock that they own; and

WHEREAS, Prudential is also willing to grant to Petro a call option to purchase all shares of its 8% Cumulative Convertible Preferred Stock and shares of Common Stock issued upon the conversion of the 8% Cumulative Convertible Preferred Stock of Star Gas, subject, however, to the prior rights of Star Gas and Prudential under the Star Gas Put/Call Agreement of even date and Petro wishes to grant to Prudential a put option to require Petro to purchase all the shares of Common Stock and 8% Cumulative Convertible Preferred Stock owned by Prudential; and

WHEREAS, the parties intend that this Agreement shall be binding upon and inure to the benefit of any person who may acquire 8% Cumulative Convertible Preferred Stock and Common Stock from them, so that (a) the term "FRC Shareholders" shall include FRC and any transferee of an existing FRC Shareholder, (b) the term "Prudential Shareholders" shall include Prudential and any transferee of Prudential and (c) the term "Investor Shareholders" shall include all FRC Shareholders and Prudential Shareholders as defined in this paragraph; provided, however, that this Agreement shall not be binding upon or inure to the benefit of any person who may acquire any such shares in a public offering or in ordinary brokerage transactions pursuant to Rule 144 under the Securities Act of 1933, as amended ("Rule 144") following a public offering of the Common Stock.

NOW, THEREFORE, in consideration of the mutual covenants herein contained, it is hereby agreed as follows:

1. The Options.

1.1 Call Option. For the period beginning on the date on

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which Star Gas' audited financial statements for the fiscal year ending September 30, 1994 are first delivered to Petro and the Investor Shareholders and ending December 31, 1998, subject to Section 1.2 hereof, Petro shall have the option ("Call Option") to acquire all, but not less than all, of the 8% Cumulative

Convertible Preferred Stock and Common Stock from time to time owned by the Investor Shareholders including without limitation the shares of Common Stock issuable upon the conversion of the 8% Cumulative Convertible Preferred Stock of Star Gas and shares issued upon the exercise of the Shareholder Option Agreement to the extent the Shareholder Option Agreement has been exercised prior to its Expiration Date (as defined therein), in each case for an aggregate purchase price ("Call Option Price") computed as follows:

(a) first, by calculating the product of (i) Star Gas' EBITDA for the 12 months ended with its most recent fiscal

quarter completed prior to the notice of exercise of the Call Option and (ii) the greater of 7 or the Petro EBITDA Multiple;

(b) next, by taking such product in (a) above and (i) subtracting from it the amount of Long-Term Obligations of Star Gas as of the last day of such 12 month period, and (ii) adding to it the amount of net working capital of Star Gas (i.e. current assets less current liabilities) as of the last day of such 12 month period in excess of $4,000,000 and (iii) adding to it the proceeds that would be received by Star Gas upon the exercise of all options, warrants and similar rights to purchase securities outstanding on the last day of such 12 month period to the extent the shares issuable upon exercise are included in Fully Diluted Shares;

(c) next, by taking the result of (b) above and dividing such result by the number of Fully Diluted Shares;

(d) next, by taking the per share amount calculated in (c) above and multiplying it by the number of shares of Common Stock of the Investor Shareholders being purchased pursuant to such Call Option and the number of shares of Common Stock then issuable upon the conversion of the 8% Cumulative Convertible Preferred Stock of the Investor Shareholders to be purchased pursuant to the Call Option.

1.2 The Call Option of Petro to acquire shares owned by Prudential is subject to the Star Gas Put/Call Agreement of even date pursuant to which Star Gas has a call on the Series D 8% Cumulative Preferred Stock of Star Gas owned by Prudential and shares of Star Gas Common Stock issued upon conversion thereof and Prudential has the right to require Star Gas, under certain circumstances to purchase said shares.

1.3 Put Option. For the period beginning January 1, 1999 or, if earlier, from the date of a Change of Control with respect to Petro, through and including December 31, 1999, each of the Investor Shareholders, individually, will have an option ("Put Option") to require Petro to purchase all but not less than all of their shares of Common Stock and 8% Cumulative Convertible

Preferred Stock for an aggregate purchase price ("Put Option Price") computed as follows:

(a) first by calculating the product of (i) Star Gas' EBITDA for the 12 months ended with its most recent fiscal quarter completed prior to the notice of exercise of the Put Option and (ii) the greater of (A) 5 or (B) .85 of Petro EBITDA Multiple;

(b) next, by taking such product in (a) above and (i) subtracting from it the amount of Long-Term Obligations of Star Gas as of the last day of such 12 month period, and (ii) adding to it the amount of net working capital of Star Gas (i.e. current assets less current liabilities) as of the last day of such 12 month period in excess of $4,000,000 and (iii) adding to it the proceeds that would be received by Star Gas upon the exercise of all options, warrants and similar rights to purchase securities outstanding on the last day of such 12 month period to the extent the shares issuable upon exercise are included in Fully Diluted Shares;

(c) next, by taking the result in (b) above and dividing such result by the number of Fully Diluted Shares;

(d) next, by taking the per share amount in (c) above and multiplying such amount by the number of shares of Common

Stock of the Investor Shareholders being purchased pursuant to such Put Option and the number of shares of Common Stock then issuable upon the conversion of the 8% Cumulative Convertible Preferred Stock of the Investor Shareholders to be purchased pursuant to the Put Option.

1.4 Definitions.

"Change of Control" means the occurrence of any event which results in the number of directors of Petro's Board of Directors who are designated by the Sevin Group (in an individual or fiduciary capacity) in accordance with a Shareholders Agreement

dated as of July 28, 1992 among Petro and certain shareholders, constituting less than a majority of the Board. "Sevin Group" shall mean collectively, the Estate of Malvin P. Sevin, Audrey L. Sevin, Irik P. Sevin, Thomas J. Edelman, Phillip Ean Cohen and Margot Gordon.

"EBITDA" for a company means consolidated income before interest, depreciation and amortization and income taxes excluding gains or losses from the sale of assets other than in the ordinary course of business, non-recurring gains or losses, extraordinary items and the costs of any restructuring, calculated in accordance with generally accepted accounting principles consistently applied, all as reported in that company's financial statements; provided that consolidated income of any other person (other than a corporation of which a majority of the capital stock having voting power under ordinary

circumstances to elect a majority of the board of directors is owned by the company or a subsidiary of such company) will be

included only to the extent of dividends and distributions received by the company. EBITDA shall include (without duplication) EBITDA (defined as the same manner as in this Agreement) of each business (on a pro forma basis) which has been acquired during the 12 months ended with the most recently completed fiscal quarter of Star Gas or Petro, as the case may be, using the pro forma adjustments comparable to those customarily made by Petro in SEC reporting of its acquisitions of businesses pursuant to the periodic reporting requirements of the Securities Exchange Act of 1934.

"Fully Diluted Shares" means with respect to Star Gas, as of the date of determination, the number of shares of Common Stock actually issued and outstanding, plus the number of shares issuable upon the conversion of the 8% Cumulative Convertible Preferred Stock, plus the number of shares of Common Stock issuable pursuant to that certain option dated as of December 21, 1993 granted by Star Gas to Petro, plus the number of shares of Common Stock issuable pursuant to all other options, warrants and similar rights to purchase Common Stock, and plus the number of shares of Common Stock issuable upon the conversion of any other class of convertible securities of the Corporation; provided, however, that only those options, warrants and similar rights to purchase shares of Common Stock, that have an exercise price that

is less than (i) the Call Price (determined without including the shares issuable upon exercise of such options, warrants or similar rights), when "Fully Diluted Shares" is being used to determine the Call Price, or (ii) the Put Price (determined without including the shares issuable upon exercise of such options, warrants or similar rights), when "Fully Diluted Shares" is being used to determine the Put Price, shall be deemed to be included in this definition.

"Long-Term Obligations" of an entity means the face value of indebtedness for money borrowed (excluding any discounts, including original issue discount, or premiums) of such entity that pays cash interest or interest in the form of instruments representing similar indebtedness plus the amortization payments of all other debt discounted at an annual rate of 11% plus the amounts of capitalized lease obligations and minus the current portion of any such indebtedness and obligations; provided, however, that the amount of any debt security convertible into shares of common stock shall be excluded from Long-Term

Obligations to the extent that such security is deemed converted for purposes of Fully Diluted Shares.

"Petro's EBITDA Multiple" means the amount determined by dividing (i) the sum of the amount of Long Term Obligations of Petro other than securities convertible into common stock and the face value of any preferred stock of Petro outstanding on the

date EBITDA is determined other than securities convertible into common stock and the product of (a) the number of issued and outstanding shares of all classes Petro's common stock on a fully diluted basis, assuming the conversion of all convertible securities, on the date EBITDA is determined and (b) the average of the last reported sales price for each respective class of stock (with the sales prices for the Class C Common Stock deemed to be the same as the sales prices for the Class A Common Stock) for the 10 trading days preceding the date on which the Put Option or Call Option is exercised as reported by the NASDAQ National Market System, or if a class of stock is not included in

the NASDAQ National Market System, then on the stock exchange or listing service on which such class is included, or, if no such sales prices exist, then the fair value of such class of stock as determined by an investment banking firm of nationally recognized standing selected by Petro by (ii) Petro's EBITDA (defined in the same manner as in this Agreement) for the 12 months ended with its most recently completed fiscal quarter completed prior to the exercise of the Put Option or the Call Option.

"Shareholder Option Agreement" means the Shareholder Option Agreements of even date between Star Gas and each of the FRC Shareholders.

1.5 Minimum Prudential Call Option Price. Notwithstanding the foregoing, if Petro exercises the Call Option to purchase the

shares of Common Stock and 8% Cumulative Convertible Preferred Stock owned by Prudential, the Call Option Price for such shares

shall be no less than $14.1350 per share of Common Stock or share of Common Stock which would be receivable upon conversion of the 8% Cumulative Convertible Preferred Stock (in each case, as adjusted for stock splits, stock dividends and the like) plus such additional amount as will result in a yield to Prudential on the shares so purchased of 12.625% per annum compounded semi-annually from December 1, 1993 ("Floor Option Price"). The Floor Option Price shall include, and Prudential shall transfer to Petro for no additional consideration, all shares of 8% Cumulative Convertible Preferred Stock issued as a dividend on the shares of 8% Cumulative Convertible Preferred Stock owned by Prudential to be repurchased pursuant to the Call Option.

1.6 Petro's Special Call Option on the Holdings of the Prudential Shareholders. If at any time prior to the fifth anniversary of the execution of this Agreement, any Prudential Shareholder shall vote any Star Gas equity securities owned by it against any bona fide merger proposal or against the liquidation or dissolution of Star Gas, then Petro may exercise the Call Option to purchase the securities of all Prudential Shareholders subject thereto on the terms set forth above except that (a) the one year waiting period in Section 1.1 shall not apply (b) the EBITDA multiple of 7 in Section 1.1(a)(ii) shall be reduced to 6 and (c) notwithstanding Article 2, the entire Call Option Price would be payable by wire transfer of immediately available funds.

1.7 Option Agreement. Immediately upon the exercise of the Call Option, Petro shall grant to the FRC Shareholders an option to purchase, on terms and conditions identical to those set forth in those certain Option Agreements, dated as of December 21, 1993, from Star Gas Corporation to various FRC Shareholders (the "Option Agreement"), a total number of shares of Petro Class A Common Stock equal to the number of shares of Star Gas Common Stock which could then be purchased under the unexercised portion of the Option Agreement, multiplied by a fraction, the numerator of which is the Call Price and the denominator of which is the per share value of the Petro Class A Common Stock determined pursuant to Clause 1.4(b) and the Purchase Price of such option shall be equal to the current Purchase Price under the Option Agreement divided by the same fraction.

1.8 Minimum FRC Call Option Price. Anything in this Agreement to the contrary notwithstanding, if Petro exercises the Call Option to purchase the shares of Series A 8% Cumulative

Convertible Preferred Stock owned by the FRC Shareholders on the date hereof (or shares of Common Stock received on the conversion thereof), the Call Option Price per share of Common Stock shall be no less than $10.8368 per share (in each case, as adjusted for stock splits, stock dividends and the like).

2. Exercise of Option

2.1 Manner of Exercise

Until the expiration date of the Call Option or the Put Option, the holder thereof may exercise such option in accordance with the provisions hereof.

(a) In order to exercise the Call Option, Petro shall deliver on the exercise date to the Investor Shareholders, at

their respective principal offices or such other office or agency designated by each of them for such purpose, written notice of Petro's election to exercise such option and at Petro's election it shall (i) make a wire transfer in immediately available funds equal to the Call Option Price to accounts designated by the Investor Shareholders or (ii) deliver a certificate or certificate for the number of shares of Petro's Class A Common Stock ("Class A Common Stock") having a value determined in accordance with Section 2.2 equal to the Call Option Price; provided, however, that in the case of Prudential, at least twenty percent (20%) of the Call Option Price shall be paid by wire transfer in immediately available funds. The certificate or certificates representing Class A Common Stock so delivered shall be in such denomination or denominations as may be specified by the applicable Investor Shareholder and shall be registered in the name of such holder.

Upon receipt of the materials delivered by Petro upon the exercise of a Call Option under this section, each Investor

Shareholder shall, against payment, execute and deliver, or cause to be executed and delivered, to Petro a certificate or certificates representing the aggregate number of shares of Common Stock or 8% Cumulative Convertible Preferred Stock owned by such Investor Shareholder together with executed stock transfer powers to Petro or to any person designated by Petro.

The certificate or certificates representing Common Stock or 8% Cumulative Convertible Preferred Stock and Class A Common Stock shall be deemed to have been issued and the holder thereof or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares of Common Stock or 8% Cumulative Convertible Preferred Stock or Class A Common Stock, as the case may be, as of the date such notice is received by the Investor Shareholders as aforesaid if such option has been exercised in compliance with the above provisions. Petro shall pay all expenses, taxes and other charges payable in connection with the preparation, issuance and delivery of share certificates under this section.

(b) In order to exercise the Put Option, an Investor Shareholder shall deliver to Petro, at its principal office or such other office or agency designated by it for such purpose, written notice of such holder's election to exercise such option and

within three days thereafter such Investor Shareholder shall deliver to Petro a certificate or certificates representing the

number of shares of Common Stock or 8% Cumulative Convertible Preferred Stock owned by such Investor Shareholder together with executed stock transfer powers to Petro or to any person designated by Petro.

Simultaneously with receipt of the materials delivered by the Investor Shareholders following the exercise of a Put Option, Petro shall, at its election, either (i) wire transfer the amount of the purchase price in immediately available funds to an account designated by the Investor Shareholder or (ii) execute and deliver, or cause to be executed and delivered, to each such Investor Shareholder the shares of Petro Class A Common Stock valued pursuant to Section 2.2 in payment of the Put Option Price. The certificate or certificates so delivered shall be in such denomination or denominations as may be specified in such notice and shall be registered in the name of such holder.

Such certificate or certificates shall be deemed to have been issued and such holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares of Class A Common Stock, 8% Cumulative Convertible Preferred Stock or Common Stock, as the case may be, as of the date such notice is received by Petro as aforesaid if such option has been exercised in compliance with the above provisions. Petro shall pay all expenses, taxes and other

charges payable in connection with the preparation, issuance and delivery of share certificates under this section.

2.2 Value of the Class A Common Stock. The value of Petro's Class A Common Stock shall be deemed to be the average of the last reported sales price for Petro's Class A Common Stock for the 10 trading days preceding the date on which the option is

exercised as reported by the NASDAQ National Market System, or if the Class A Common Stock is not included in the NASDAQ National Market System, then on the stock exchange or listing service on which the Class A Common Stock is included. In the event that Petro's Class A Common Stock is not listed on any national public securities exchange (including NASDAQ) in the United States at the date of the exercise of the Call Option or the Put Option, as the case may be, then the Call Option Price or the Put Option Price shall be determined without regard to Petro's EBITDA multiple, and shall be paid by wire transfer of immediately available funds.

2.3 Option Shares Fully Paid

All shares of Class A Common Stock issued upon the exercise of an option shall be, when issued, duly authorized, validly issued, fully paid and non-assessable.

2.4 Fractional Shares

Petro shall not be required upon the exercise of an option to issue a certificate representing any fraction of a share of Class A Common Stock, but, at the option of Petro, in lieu of issuing such fractional share, may pay for such fraction of a share in cash at the purchase price in effect on the date of such exercise of such option.

2.5 Limits on Resale of Common Stock.

In no event shall Petro offer for sale, sell or otherwise transfer, directly or indirectly, any shares of Common Stock that it owns, without the prior written consent of all of the Investor Shareholders, during the twelve-month period commencing on the exercise date of such Call Option; provided, however, that this paragraph shall not prohibit Petro from selling substantially all of its assets, merging or consolidating with or into another entity or selling all its outstanding stock to another entity or person.

Petro agrees that it shall cause Star Gas not to make a public offering of its Common Stock registered under the Securities Act of 1933, without the prior written consent of all of the Investor Shareholders, during the twelve-month period

commencing on the exercise date of such Call Option; provided, however, that such consent shall not be necessary if the number of shares of Common Stock so offered are no more than an

aggregate of twenty percent (20%) of the number of Fully Diluted Shares.

3. Registration Rights.

3.1. Piggy-Back Registration Rights.

3.1.1 If Petro proposes to file, on its behalf and/or on behalf of any of its securities holders, a Registration Statement under the Securities Act of 1993, as amended (the "Securities Act") other than in connection with a dividend reinvestment, employee stock purchase, option or similar plan or in connection with a merger, consolidation or reorganization, Petro shall give written notice to each Investor Shareholder which acquired Petro Class A Common Stock at its address set

forth herein at least 30 days before the filing with the Securities and Exchange Commission ("SEC") of such Registration Statement. Each Investor Shareholder who desires to include any of its shares of Class A Common Stock in such Registration Statement shall give written notice to Petro within 20 days after the date of mailing of such offer, and shall deliver to Petro a letter from counsel selected by such Investor Shareholder to the effect that registration under the Securities Act is required. Petro shall thereupon include in such filing the shares of Class A Common Stock designated by such Investor Shareholder and, subject to its right to withdraw such filing, shall use its best efforts to effect registration under the Securities Act of such Shares.

3.1.2 The right of the Investor Shareholders to have shares included in any Registration Statement in accordance with the provisions of this Section 3.1 shall be subject to the following conditions:

3.1.2.1 Petro shall have the right to require that Investor Shareholders participating in such Registration Statement agree to refrain from offering or selling (other than in a private sale) any shares of Common Stock that they own which are not included in any such Registration Statement in accordance with this Section 3.1 for any time period (not to exceed 120 days) specified in writing by any managing underwriter oftheofferingto whichsuchRegistrationStatement relates;

3.1.2.2 If any managing underwriter of the offering to which the Registration Statement relates informs Petro in writing that the total number of shares of Common Stock requested by the Investor Shareholders to be included in the Registration Statement is sufficiently large to affect the success of such offering adversely, then Petro will include only the number of shares, if any, in the Registration Statement that such managing underwriter shall advise Petro will not so affect the offering, and reductions in the number of shares of Common Stock owned by the

Investor Shareholders will be made proportionate to their respective percentages of ownership of shares to be included in the Registration Statement;

3.1.2.3 Petro shall furnish Investor Shareholders who have shares included in a Registration Statement pursuant to this Section 3.1 with such number of copies of the prospectus relating to the Offering (the "Prospectus") (including any preliminary prospectus or supplemental or amended prospectus) as such Investor Shareholder may reasonably request in order to facilitate the sale and distribution of its shares; and

3.1.3 Notwithstanding the foregoing, Petro in its sole discretion may determine not to file the registration statement or proceed with the offering as to which the notice specified herein is given without any liability to Investor Shareholders.

3.1.4 Each Investor Shareholder shall have the right to register shares of Common Stock under this Section 3.1

on an unlimited number of occasions.

3.2. Independent Registration Rights.

3.2.1 If either the FRC Shareholders or Prudential Shareholders holding in either case a majority of the shares of Petro Class A Common Stock held by the specific shareholder group (determined by reference to the Shareholders' Agreement dated as of December 21, 1993 relating to Star Gas), proposes to offer for sale, sell or transfer their respective shares of Petro Class A Common Stock which may require registration under the Securities Act such shareholder shall give Petro written notice of their desire to sell such shares, specifying the number of shares proposed to be sold and the plan for distribution of such shares. Petro will thereafter:

3.2.1.1 Prepare and file with all deliberate speed a Registration Statement with the SEC on the appropriate form and use its best efforts to cause such Registration Statement to become effective in order that such shareholders may sell their shares in accordance with the proposed plan of distribution;

3.2.1.2 Prepare and file with the SEC such amendments and supplements to such Registration Statement and Prospectus used in connection therewith as may be necessary to keep such Registration Statement effective for up to 120 days and to comply with the provisions of the Securities Act with respect to the offer of the shares

covered by such Registration Statement during the period required for distribution of such shares, which period shall not be in excess of three months from the effective date of such Registration Statement;

3.2.1.3 Furnish to such shareholders, if such shares have been included in the Registration Statement pursuant to this Section 3.2, such number of copies of the Prospectus (including any preliminary prospectus or supplemental or amended prospectus) as such shareholders may reasonably request in order to facilitate the sale and distribution of the shares;

3.2.1.4 Use reasonable efforts to register or qualify such shares covered by such Registration Statement under such other securities or blue sky laws of such jurisdictions as the shareholders shall reasonably request, and do any and all other acts and things which may be reasonably necessary or advisable to enable such shareholders to consummate the disposition in such jurisdictions of the shares owned by such shareholders, except that Petro shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction where, but for the requirements of this clause 3.2.1.4, it would not be obligated to be so qualified, to subject itself to taxation in any such

jurisdiction, or to consent to general service of process in any such jurisdiction;

3.2.1.5 Use reasonable efforts to cause such shares covered by such Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable the shareholders to consummate the dispositions of such shares of Common Stock;

3.2.1.6 Notify promptly the shareholders selling any such shares covered by such Registration Statement, at any time when a Prospectus relating thereto is required to be delivered under the Securities Act, of Petro's becoming aware that the Prospectus included in such Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and, at the request of any such selling shareholder, prepare and furnish to such selling

shareholder a reasonable number of copies of an amended or supplemental Prospectus as may be necessary so that, as thereafter delivered to the purchasers of such shares, such Prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to

be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing;

3.2.1.7 Otherwise use reasonable efforts to comply with all applicable rules and regulations of the SEC, and make available to its security holders, as soon as reasonably practicable (but not more than eighteen months) after the effective date of the Registration Statement, an earnings statement which shall satisfy the provisions of Section 11(a) of the Securities Act and the rules and regulations promulgated thereunder;

3.2.1.8 Use reasonable efforts to list or admit for trading such shares of Common Stock on the National Association of Securities Dealers, Inc. National Market System ("NASDAQ NMS") or any securities exchange on which the Common Stock is then listed, if such shares are not already so listed and if such listing is then permitted under the rules of the NASDAQ NMS or such exchange, and to provide a transfer agent and registrar for such shares covered by such Registration Statement not later than the effective date of such Registration Statement;

3.2.1.9 Enter into an underwriting agreement with a managing underwriter or underwriters containing

representations, warranties, indemnities and agreements then customarily included by an issuer in underwriting agreements with respect to secondary distributions;

3.2.1.10 Use reasonable efforts to obtain a "cold comfort" letter or letters from the Petro independent public accountants in customary form and covering matters of the type customarily covered by "cold comfort" letters as the shareholders selling such shares shall reasonably request;

3.2.1.11 Make available for inspection by the shareholders selling such shares covered by such Registration Statement, by any underwriter participating in any disposition to be effected pursuant to such Registration Statement and by any attorney, accountant or other agent retained by any such shareholders or any such underwriter, all pertinent financial and other records, pertinent corporate documents and properties of Petro, and cause all of Petro's officers, directors and employees to supply all information reasonably requested by any such selling shareholders, underwriter, attorney, accountant or agent in connection with such Registration Statement; and

3.2.1.12 Obtain for delivery to the underwriters or agent and to selling shareholders an opinion or opinions from counsel for Petro in customary form and in form and

scope reasonably satisfactory to such underwriter or agent and their counsel.

3.2.2 The right of the Investor Shareholders to have shares registered pursuant to the provisions of this Section 3.2 shall be subject to the following conditions:

3.2.2.1 If a request for registration is made within 60 days prior to the conclusion of Petro's then current fiscal year, Petro shall have the right to delay the filing of the Registration Statement for such period of time until Petro receives its audited financial statements for such fiscal year;

3.2.2.2 If any managing underwriter of the offering to which the Registration Statement relates informs Petro that total number of shares of Common Stock requested by the Investor Shareholders to be included in the Registration Statement is sufficiently large to affect the success of such offering adversely, then Petro will include only the number of shares, if any, in the Registration Statement that such managing underwriter shall advise Petro will not so affect the offering and reductions in the number of shares of Common Stock owned by the Investor Shareholders

will be made proportionate to their respective percentages of ownership; provided, however, that the shareholders

requesting such registration shall not be required to reduce the number of shares of Common Stock that such shareholders have requested to be included in the registration statement without such shareholders' written consent;

3.2.2.3 Each of the Prudential Shareholders and the FRC Shareholders shall each be entitled to request no more than two (a total of four) Registration Statements; provided, however, that a request will be disregarded in determining a shareholder's rights under this paragraph if a Registration Statement based upon such request does not actually become effective; and

3.2.2.4 Petro shall not be required to file a Registration Statement on behalf of Investor Shareholders under this Section within six months after the effective date of a Registration Statement in which the Investor Shareholders are offered an opportunity to include shares

pursuant to Section 3.1 hereof.

3.3 Expenses. Petro will bear all the expenses in connection with any Registration Statement under Section 3.1 or Section 3.2 hereof (including the reasonable fees and expenses of counsel to any Investor Shareholders), other than transfer taxes payable on the sale of such shares and fees and commissions of brokers, dealers and underwriters.

3.4 "No Action" Letter; Opinion of Counsel. No Investor Shareholder shall have registration rights under this Article with respect to any sales proposed by them of shares as to which sales (i) a "no action" letter is received from the SEC or its staff confirming the availability of an exemption from the requirements of the Securities Act or (ii) an unqualified opinion of counsel to Petro is rendered to the effect that registration of such shares for such sales is not required; provided, further however, that in both cases (i) and (ii) above, the volume

limitations of Rule 144(e) under the Securities Act shall not limit the amount of shares of Common Stock that the Investor Shareholders are entitled to offer and sell without registration under the Securities Act.

3.5 Recall of Prospectuses, etc. With respect to a Registration Statement or amendment thereto filed pursuant to this Article, if, at any time, Petro notifies the selling Investor Shareholders that an amendment or supplement to such Registration Statement or amendment or the prospectus included therein is necessary or appropriate, the selling Investor Shareholders will forthwith cease selling and distributing shares thereunder and will forthwith redeliver to Petro all copies of such Registration Statement and prospectuses then in their possession or under their control. Petro will use its best efforts to cause any such amendment or supplement to become effective as soon as practicable and will furnish the selling

Investor Shareholders with a reasonable number of copies of such amended or supplemented Prospectus (and the period during which Petro is required to use its best efforts to maintain such Registration Statement in effect pursuant to this Agreement will be increased by the period from the date on which the selling Investor Shareholders ceased selling and distributing shares thereunder to the date on which such amendment or supplement becomes effective).

3.6 Cooperation of Investor Shareholders. Petro shall be entitled to require that each selling Investor Shareholder cooperate with Petro in connection with a registration of shares of Class A Common Stock pursuant to this Article and furnish (i) such information regarding such selling Investor Shareholders and the distribution as may be reasonably required by Petro or as required by law in connection therewith and (ii) such representations, undertakings and agreements regarding such selling Investor Shareholders and the distribution or any other representation required by law in connection therewith.

3.7 Indemnification.

3.7.1 In the event of any registration of any securities under the Securities Act pursuant to this Article, Petro will indemnify and hold harmless each selling Investor

Shareholder, each affiliate of such Investor Shareholder and their respective directors and officers and general and limited

partners, any underwriter and each other person, if any, who controls such selling Investor Shareholder or underwriter within the meaning of the Securities Act, against any losses, claims, damages, expenses or liabilities, joint or several, to which each such selling Investor Shareholder or underwriter or controlling person may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages, expenses or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in such registration statement or preliminary prospectus (if used prior to the effective date of such registration statement) or final or summary prospectus contained therein (if used during the period the Petro is required to keep the registration statement effective), or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be

stated therein or necessary to make the statements made therein not misleading, and will reimburse each such selling Investor Shareholder, underwriter and controlling person for any legal or any other expenses reasonably incurred as incurred by him in connection with investigating or defending any such action or claim, excluding any amounts paid in settlement of any litigation, commenced or threatened, if such settlement is effected without the prior written consent of Petro; provided, however, that Petro will not be liable to a particular selling Investor Shareholder or underwriter in any such case to the

extent that any such loss, claim, damage, liability or expense arises out of or is based upon an untrue statement or omission or alleged omission made in said registration statement, said preliminary prospectus or said final or summary prospectus or any amendment or supplement thereto, in reliance upon and in conformity with written information furnished to Petro by that selling Investor Shareholder or its controlling affiliates or

representative, or by that underwriter, as the case may be, specifically for use in the preparation thereof; and provided further that the indemnity agreement contained in this Section 3.7 with respect to any preliminary prospectus shall not inure to the benefit of any selling Investor Shareholder or underwriter or to any person controlling the same in respect of any loss, claim, damage, liability or action asserted by someone who purchased shares from such person if a copy of the final prospectus (as the same may be amended or supplemented) in connection with such registration statement was not sent or given to such person with or prior to written confirmation of the sale and if the untrue statement or omission or alleged untrue statement or omission of a material fact contained in such preliminary prospectus was corrected in the final prospectus.

3.7.2 In the event of any registration of securities under the Securities Act pursuant to this Article, each selling Investor Shareholder shall indemnify and hold harmless Petro, each of its directors and officers, any underwriter and

each other person, if any, who controls Petro or underwriter within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which Petro or any such director, officer, underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of, or are based upon, any untrue statement or alleged untrue statement of any material fact contained in such registration statement or preliminary prospectus or final or summary prospectus contained therein, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements made therein not misleading, and will reimburse Petro, each such director, officer, underwriter and controlling person for any legal or other expenses reasonably incurred as incurred by them in connection with investigating or defending any such action or claim, excluding any amounts paid in settlement of any litigation, commenced or threatened, if such settlement is effected without the prior written consent of the Investor Shareholder or his representative, but in all such cases only if, and to the extent that, any such loss, claim, damage, liability or expense arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission therein made in

reliance upon and in conformity with written information furnished to Petro by the selling Investor Shareholder or its

controlling affiliates or representative specifically for use in the preparation thereof.

3.7.3 Action Commenced. Promptly after receipt by a party entitled to indemnification under Section 3.7.1 or 3.7.2 hereof of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under either of such Sections, notify the indemnifying party in writing of the commencement thereof; provided, however, that the indemnifying party is relieved of its obligations hereunder by the failure to give such notice only to the extent the indemnifying party is adversely affected by such failure. In case any such action is brought against the indemnified party and it shall so notify the indemnifying party of the commencement thereof, the indemnifying

party shall be entitled to participate in, and, to the extent that it so chooses, to assume the defense thereof with counsel reasonably satisfactory to such indemnified party; provided that the indemnifying party will not agree to the entry of any judgment or to any settlement without the prior consent of the indemnified party (which consent shall not be unreasonably withheld) unless such settlement requires no more than a monetary payment for which the indemnifying party agrees to indemnify the indemnified party and includes a full, unconditional and complete release of the indemnified party; provided, however, that the indemnified party shall be entitled to take control of the

defense of any claim as to which, in the reasonable judgment of the indemnifying party's counsel, representation of both the indemnifying party and the indemnified party would be inappropriate under the applicable standards of professional conduct due to actual or potential differing interests between them (except that if the selling Investor Shareholders are the indemnifying party, such defense may be assumed only in a manner

chosen by the holders of a majority in interest of the shares of Class A Common Stock included in the registration statement which is the subject of such action), and, after notice from the indemnifying party that it so chooses, such indemnifying party shall not be liable for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof; provided, however, that if the indemnifying party fails to take reasonable steps necessary to diligently defend such claim within 20 days after receiving notice from the indemnified party that the indemnified party believes the indemnifying party has failed to take such steps, the indemnified party may assume its own defense and the indemnifying party shall be liable for any expenses therefor. The indemnity agreements in this Section shall be in addition to any liabilities which the indemnifying parties may have pursuant to law. In the event that an indemnifying party assumes the defense of an action under this Section, then such indemnifying party shall, subject to the provisions of this Section, indemnify and hold harmless the

indemnified party from any and all losses, claims, damages or liabilities by reason of such settlement or judgment.

3.7.4 Contribution. If the indemnity provided for in the foregoing paragraphs of this Section is unavailable or insufficient for any reason to hold harmless an indemnified party in respect of any losses, claims, damages or liabilities referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party, agrees to contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect (i) the relative benefits received by the indemnifying party on the one hand and the indemnified party on the other hand from the sale of securities under such Registration Statement, (ii) the relative fault of the indemnifying party on the one hand and the indemnified party on the other hand in connection with the statements, actions or omissions which resulted in such losses, claims, damages or liabilities and (iii) any other relevant equitable considerations. The relative fault of the indemnifying party on the one hand and of the indemnified party on the other hand (i) in the case of an untrue or alleged untrue statement of a material fact or an omission or alleged omission to state a material fact, shall be determined by reference to, among other

things, whether such statement or omission relates to information supplied by the indemnifying party or by the indemnified party, respectively, and the parties' relative intent, knowledge, access

to information and opportunity to correct or prevent such statement or omission and (ii) in the case of any other action or omission, shall be determined by reference to, among other things, whether such action or omission was taken or omitted to be taken by the indemnifying party or the indemnified party, respectively, and the parties' relative intent, knowledge, access to information and opportunity to prevent such action or omission. The parties agree that it would not be just and equitable if contribution pursuant to this Section were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding sentences. The amount paid or payable by the indemnified party as a result of the losses, claims, damages or liabilities referred to in such sentences shall be deemed to include, subject

to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating, preparing to defend or defending any such action or claim.

3.7.5 Non-Exclusivity. The obligations of the parties under this Section shall be in addition to any liability which any party may otherwise have to any other party.

4. Rule 144.

For so long as Petro continues to be subject to the requirements of Section 12 of the Exchange Act, Petro covenants that it will file the reports required to be filed by it under

the Securities Act and the Exchange Act and the rules and regulations adopted by the SEC thereunder (or, if the Company is not required to file such reports, it will, upon the request of the holders of a majority of the shares of the Prudential Shareholders or FRC Shareholders, make publicly available such

information), and it will take such further action as the holders of a majority of the shares of the Prudential Shareholders or FRC Shareholders may reasonably request, all to the extent required from time to time to enable them to sell shares without registration under the Securities Act within the limitation of the exemptions provided by (i) Rule 144 under the Securities Act, as such Rule may be amended from time to time ("Rule 144"), or (ii) any similar rule or regulation hereafter adopted by the SEC. Upon the request of a shareholder, Petro will deliver to such shareholders a written statement as to whether it has complied with such requirements. Notwithstanding anything contained in this Section, Petro may deregister under Section 12 of the Exchange Act if it then is permitted to do so pursuant to the Exchange Act and the rules and regulations thereunder.

5. Miscellaneous.

5.1 Amendment and Modification. Subject to applicable law, this Agreement may be amended, modified and supplemented by written agreement of the parties hereto.

5.2 Waiver of Compliance. Any failure of Petro, on the one hand, or Investor Shareholders, on the other, to comply with any

obligation, covenant, agreement or condition herein may be expressly waived in writing by a managing director, vice president (of any designation) or a duly authorized officer of each of the Investor Shareholders or Petro, respectively, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

5.3 Notices. All notices, requests, demands and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given if delivered by hand or mailed, certified or registered mail with postage prepaid:

(a) If to Petro, to:

Petroleum Heat and Power Co., Inc.
2187 Atlantic Street
Stamford, CT 06902
Attn: George Leibowitz
Senior Vice President

(with a copy to:)

Phillips, Nizer, Benjamin, Krim & Ballon
31 West 52nd Street
New York, NY 10019
Attn: Alan Shapiro, Esq.

(b) If to the FRC Shareholders, to:

First Reserve Corporation
475 Steamboat Road
Greenwich, Connecticut 06830
Attn: William E. Macaulay

(c) If to Prudential, to:

The Prudential Insurance Company of America
c/o Prudential Financial Restructuring Group
4 Gateway Center - 9th Fl.
100 Mulberry Street
Newark, NJ 07102-4069
Attn: Managing Director
Fax: 201-802-2662

with a copy to:

Willkie Farr & Gallagher
One Citicorp Center
153 East 53rd Street
New York, NY 10022-4669
Attn: Duncan Stewart, Esq.
Fax: 212-821-8111

or to such other person or address as shareholders shall furnish to the Company in writing.

5.4 Assignment. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto without the prior written consent of the other parties, except that each Investor Shareholder shall be deemed to automatically assign its rights, interests and obligations hereunder and shall be released from its obligations hereunder (and no consent will be required) with respect to any securities that are sold, transferred, assigned or otherwise disposed of by such Investor Shareholder in accordance with the terms of the Star Gas Shareholders' Agreement of even date herewith if such

transferee agrees to be bound by the terms hereof or if such transferee is Petro, provided that the terms of this Agreement shall not be binding upon or inure to the benefit of any person

who may acquire any such shares in a public offering or in ordinary brokerage transactions pursuant to Rule 144 following an initial public offering of the Common Stock and the Investor Shareholder will be released from all obligations hereunder in respect of any shares so transferred.

5.5 Governing Law. This Agreement and the legal relations among the parties hereto shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to its conflicts of law doctrine.

5.6 Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

5.7 Headings. The headings of the Sections and Articles of this Agreement are inserted for convenience only and shall not constitute a part hereof or affect in any way the meaning or interpretation of this Agreement.

5.8 Entire Agreement. This Agreement sets forth the entire agreement and understanding of the parties hereto in respect of the subject matter contained herein, and supersede all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto.

5.9 Third Parties. Except as specifically set forth or referred to herein, nothing herein expressed or implied is intended or shall be construed to confer upon or give to any person or corporation other than the parties hereto and their successors or

assigns, any rights or remedies under or by reason of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and their respective corporate seals to be affixed hereto, all as of the day and year first above written.

PETROLEUM HEAT AND POWER CO., INC.

By: /s/ George Leibowitz

George Leibowitz
Senior Vice President

ACCEPTED AND AGREED:

AMERICAN GAS & OIL INVESTORS

By: First Reserve Corporation,
as managing general partner,

By: /s/ William Macaulay

William Macaulay
Managing Director

AmGO III

By: First Reserve Corporation
as managing general partner,

By: /s/ William Macaulay

William Macaulay
Managing Director

AmGO II

By: First Reserve Corporation,
as managing general partner,

By: /s/ William Macaulay

William Macaulay
Managing Director

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: /s/ Jeff Diamond

Jeff Diamond
Vice President

FIRST RESERVE SECURED ENERGY ASSETS FUND, L.P.

By: First Reserve Corporation,
as managing general partner

By: /s/ William Macaulay

William Macaulay
Managing Director

FRC STAR GAS, INC.

By: /s/ William Macaulay

William Macaualay
Managing Director

Exhibit 4

SHAREHOLDERS' AGREEMENT

AGREEMENT made and entered into as of this 21st day of December, 1993 by and among PETROLEUM HEAT AND POWER CO., INC. ("Petro"), STAR GAS HOLDINGS, INC. ("Holdings"), AMERICAN GAS & OIL INVESTORS, AmGO II, AmGO III, FIRST RESERVE SECURED ENERGY ASSETS FUND, L.P., FRC STAR GAS, INC. and THE PRUDENTIAL INSURANCE COMPANY OF AMERICA ("Prudential") (who are sometimes hereinafter referred to individually as a "Shareholder" and collectively as the "Shareholders") and STAR GAS CORPORATION ("Star Gas" or the "Corporation"), a Delaware corporation having its principal place of business at 500 Birchfield Drive, Mt. Laurel, New Jersey 08054.

W I T N E S S E T H :

1. Recitals. This Agreement is entered into with reference to the following:

1.1 The Shareholders constitute the holders of all of the outstanding shares of equity securities of Star Gas.

1.2 The term "Shares" as used herein means all shares of equity securities of Star Gas now or hereafter owned by the Shareholders. Except as provided herein, the term "Shares" shall not include any equity securities held by a person who is not a party to or bound by the terms and conditions of this Agreement. When calculating the number or percentage of Shares owned by a Shareholder, all Shares of convertible preferred stock

shall be deemed to be converted to Shares of Common Stock at the then conversion ratio and such Shareholder shall be deemed to own all Shares of Common Stock issuable upon the conversion of preferred stock of the Corporation. Aside from the signatories of this Agreement, except as provided herein, no person shall have the right to sign this Agreement and no person shall be entitled to the benefits of this Agreement. Capitalized terms used but not defined in this Agreement shall have the same meaning as in the Purchase Agreement of even date among the parties hereto (other than Prudential) ("Purchase Agreement").

1.3 The Shareholders desire to impose certain restrictions on the sale, transfer or other disposition of the Shares and to make arrangements for the voting of the Shares.

1.4 The Shareholders have agreed that for the purpose of designating candidates for election of directors the

Shareholders shall be divided into four categories of shareholders, as follows:

<TABLE>
<CAPTION>

Name	Category
<S>	<C>
Petroleum Heat and Power Co., Inc.	Petro Shareholder
Star Gas Holdings, Inc.	Holdings Shareholder
American Gas & Oil Investors	First Reserve Shareholders
AmGO II	First Reserve Shareholders
AmGO III	First Reserve Shareholders
First Reserve Secured Energy Assets Fund, L.P.	First Reserve Shareholders
FRC Star Gas, Inc.	First Reserve Shareholders
Prudential	Prudential Shareholder

</TABLE>

The Petro Shareholder, the Holdings Shareholder, the First Reserve Shareholders and the Prudential Shareholder are sometimes referred to herein as the "Petro Shareholder", the "Holdings Shareholder", the "First Reserve Shareholders" and the "Prudential Shareholder", respectively, and collectively as, the "Shareholders".

2. Elections to the Board of Directors.

2.1 Star Gas shall be governed by a Board of Directors consisting of no less than 6 and no more than 8 persons. Each category of Shareholder shall have the right to nominate directors as follows: The Petro Shareholder shall have

the right to nominate for election up to but no more than 3 directors, the Holdings Shareholder shall have the right to nominate for election up to but no more than 2 directors, the First Reserve Shareholders shall have the right to nominate for election up to but no more than 1 director so long as the First Reserve Shareholders collectively hold at least 5% of the outstanding Shares and the Prudential Shareholder shall have the right to nominate for election no more than 2 directors so long as the Prudential Shareholder holds at least 15% of the outstanding Shares and the right to nominate for election 1 director so long as the Prudential Shareholder holds at least 5% and less than 15% of the outstanding Shares. The outstanding Shares for purposes of calculating the percentage of any category of Shareholders shall exclude Shares resulting from additional

issuances of equity securities after the date hereof other than (i) pursuant to the conversion of Convertible Preferred Stock outstanding on the date hereof and (ii) Shares issued in accordance with Section 4 hereof to the extent that such category of Shareholders have exercised their preemptive rights.

2.2 (a) The current Board of Directors shall consist of the following persons:

Petro Shareholder Directors	First Reserve Shareholders Director	Prudential Shareholder Directors

3 persons 1 person 2 persons

Holdings Shareholder
Directors
---

2 persons

(b) The Shareholders agree to vote their Shares at any meeting of the Shareholders of Star Gas called for such purpose (or to deliver their written consents in lieu of such a meeting) as follows:

(i) To fill any vacancy on the Board of Directors by the election of a person designated by the Shareholders of the category of Shareholders entitled to fill such vacancy.

(ii) To remove from office any director elected as a representative of the Petro Shareholder, the Holdings Shareholder, the First Reserve Shareholders or the Prudential Shareholder at the request of the Shareholders of the category of Shareholders which initially designated the director.

The Petro Shareholder, the Holdings Shareholder, the First Reserve Shareholders or Prudential Shareholder may make their request for the election or removal of a director representing the Shareholders of their respective category by delivering to the other

Shareholders one or more written instruments signed by the holders of the Shares representing a majority of the voting power of the Shares held by the category of Shareholders making the request.

The right to designate nominees for directors and to have them elected under this Article shall inure to the benefit of transferees of Shares pursuant to Articles 5 and 6; provided, however, that such benefits shall not inure to a person which purchases Shares from Prudential pursuant to Section 5.2 prior to the date of a Change of Control with respect to Petro.

2.3 For as long as the First Reserve Shareholders are entitled to designate a director to the Board of Directors, each First Reserve Shareholder that is a First Reserve Shareholder on the date hereof (a "Current FRC Shareholder") shall be entitled to designate a non-voting observer to attend meetings of the Board of Directors, provided that the aggregate number of observers and the First Reserve Shareholder director shall not exceed the number of Current FRC Shareholders. The Corporation shall provide each such observer with the same notice of meetings of the Board of Directors as that provided to

directors. Each such observer shall be provided reasonable access to the books, records and properties of the Corporation and shall be provided with a reasonable opportunity to discuss the business and affairs of the Corporation with the officers of the Corporation, provided that the First Reserve Shareholders shall cause all information relating to the Corporation that is provided to such observers to be held in confidence.

3. Certain Action Requiring Super Majority Shareholder Vote.

3.1 The Shareholders shall vote their Shares to include in the Certificate of Incorporation of Star Gas provisions that whenever Star Gas shall take any of the actions specified below, such action may be taken only by the affirmative vote of the holders of eighty percent (80%) (this percentage shall be adjusted after the issuance of any Shares after the date hereof or upon the sale by Prudential of any Shares as provided in Section 3.2) of the Shares (for this purpose, Shares includes the Series B and Series D 8% Cumulative Convertible Preferred Stock); provided, however, that (i) so long as Prudential shall own 10% or more of such Shares no such action shall be taken without the affirmative vote of Prudential; (ii) so long as First Reserve Shareholders own any Common Stock no change will be made to the Certificate of Designation of Star Gas establishing the relative rights and preferences of the 8% Cumulative Convertible Preferred Stock and the 12.625% Cumulative Redeemable Preferred Stock without the affirmative vote of the First Reserve

Shareholders holding a majority of the Common Stock owned by such category; and (iii) the affirmative vote of a majority of the holders of Shares of each Shareholder category shall be required to approve any merger or other business combination in which the value of the consideration (as determined pursuant to Section 5.7) to be received by any class or series of stock is not equal to that received by all others:

(a) Any material change in the Certificate of Incorporation or any Certificate of Designations establishing the relative rights and preferences of any class of preferred stock.

(b) The merger or consolidation of the Corporation with any other Corporation if such other Corporation is engaged in any business other than the sale and distribution of propane and other activities which are incidental to such business, except the merger of any subsidiary into another subsidiary or the Corporation.

(c) The liquidation or dissolution of the Corporation.

(d) Engaging in any business other than the

(i) sale and distribution of propane and other activities which are incidental to

that business and (ii) the engagement by Star Gas' Highway division in its present business activities.

(e) Granting to any employee of Star Gas any option, warrant or right to purchase any shares of capital stock of Star Gas.

(f) Except pursuant to the Star Gas Put/Call Agreement of even date between the Corporation and Prudential, repurchasing from any Shareholder any shares of capital stock of Star Gas except as contemplated by the express terms of such capital stock.

(g) Modifying, amending, repealing or adopting any By-Law of Star Gas that would materially alter the rights of any category of Shareholders.

(h) Any reorganization or recapitalization of the Corporation or the reclassification of the Corporation's

capital stock.

(i) Amending, modifying or renewing the Management Services Agreement.

(j) The sale by the Corporation of any securities to a Shareholder or any affiliate of a Shareholder other than

for cash or other than pursuant to the Petro Option, the FRC Option and the Management Services Agreement.

3.2 If solely as a result of the sale or issuance of additional equity securities of the Corporation, Prudential shall own shares representing less than twenty percent (20%) of the voting power of all shares entitled to vote on the matters listed above, then the eighty percent (80%) voting requirement shall be changed to equal that percentage that is one percentage greater than 100% minus the actual percentage voting power of Prudential; provided, however, (i) the percentage voting requirement shall never exceed ninety percent (90%) and (ii) upon transfer of Shares by Prudential pursuant to Article 5.2, the voting percentage shall be reduced to sixty-six and 2/3 percent (66 2/3%) if at the time of such transfer or any time thereafter

the FRC Shareholders hold less than 20% of the voting power of all Shares entitled to vote on such matters. Notwithstanding the foregoing, Sections 3.1 and 3.2 shall terminate at such time that (a) Prudential holds less than 10% of the voting power of all Shares entitled to vote on such matters and (b) the FRC Shareholders hold less than 20% of the voting power of all Shares entitled to vote on such matters.

It is understood that any sale of the assets or stock of Petroleum Heat and Power Co., Inc. ("Petro") or a merger or consolidation to which Petro is a party, other than a sale to, or

a merger or consolidation with, Star Gas, is not covered by this Section.

3.3 The By-Laws of the Corporation shall provide that a special meeting of Shareholders shall be called by the Secretary at the request of the holders of a majority of the Shares held by any category of Shareholders or as otherwise required by law.

3.4 Approval of Certain Matters. The affirmative vote of a majority of the disinterested members of the Corporation's Board of Directors, including, so long as there are

any Prudential Shareholder directors, at least one Prudential Shareholder director and one First Reserve Shareholder director, shall be required for each of the following:

(a) (i) Entering into or modifying any agreement, arrangement or contract (other than an agreement or contract for the issuance or sale of equity securities governed by Article 4 hereof) between Star Gas and any Shareholder or any entity or person controlling, controlled by or under common control with, any Shareholder, or (ii) issuing or selling any securities to any Shareholder or any entity or person controlling, controlled by or under common control with, any Shareholder (other than any issuance or sale of equity securities

governed by Article 4 hereof or any issuance of equity securities upon the conversion or exchange of other securities in accordance with their terms).

(b) Approving the reimbursement of Petro for services rendered pursuant to Paragraph 4(d)

of that certain Management Services Agreement dated the date hereof between Petro and Star Gas.

(c) The exercise by the Corporation of First Refusal Rights pursuant to this Agreement.

For purposes of this agreement, a "disinterested director" is a director of the Corporation that does not have any direct or indirect interest in the relevant matter and who was appointed by a shareholder group no member of which, nor any affiliate of any such member, has any direct or indirect interest in the relevant matter except, in any such case, as a stockholder of Star Gas, provided that the Holdings Shareholder Directors and the Petro Shareholder Directors shall be deemed to be independent of each other and disinterested as to matters only affecting the other, unless Holdings owns securities representing 5% or more (i) of the voting power of Petro's voting securities or (ii) in value of Petro's outstanding equity securities. For purposes of paragraph (a) above, each member of the Sevin Group shall be deemed to control Petro.

Notwithstanding the foregoing, at such time as

there are no Prudential Shareholder directors serving the affirmative vote of the First Reserve Shareholders director shall be required to take any action with respect to the matters set forth in subsections (a), (b) or (c) of this Section 3.4.

3.5 The restrictions contained in this Article 3 that are applicable to Star Gas shall also apply to each Company Subsidiary (as defined in the certain Purchase Agreement) now existing or hereafter created and any restricted activity shall not be taken without the required Star Gas director approval.

3.6 In the event the Corporation sells all or substantially all of its assets, then at the election of Prudential, all of the Shareholders shall vote their Shares so as to cause the dissolution and liquidation of the Corporation.

3.7 The provisions of this Article 3 shall terminate immediately upon the completion of the initial public offering of the Common Stock of the Corporation.

3.8 All propane distribution business opportunities that are referred to Petro shall be deemed business opportunities of the Corporation and not of Petro. Petro may not avail itself of any such opportunity without the unanimous vote of the disinterested directors of the Corporation.

4. Sale of Equity Securities.

4.1 If the Board of Directors shall determine that it is in the best interest of the Corporation to sell equity securities for cash, then the Corporation may sell such equity

securities provided, however, that prior to such sale the Corporation shall provide to the Shareholders for a period of 30 days and on a pro rata basis in proportion to the number of Shares owned by each Shareholder the right to purchase such equity securities on the same terms and conditions as the Corporation proposes to sell them. Each Shareholder may elect to purchase all or any part of its pro rata portion of such securities and may transfer its pre-emptive rights to one or more persons controlling, controlled by or under common control with such Shareholder. In determining the number of Shares of Common Stock owned by a Shareholder for purposes of this Section, each Shareholder shall be deemed to own the number of shares of Common Stock actually owned by it plus the number of shares of Common Stock issuable to it upon the conversion of the 8% Cumulative Convertible Preferred Stock of the Company owned by such Shareholder. Any Shareholder may condition its election to purchase such equity securities on any one or more Shareholders also electing to purchase such equity securities. Subject to the preceding sentence, to the extent that all or any portion of such equity securities are not purchased and paid for by the Shareholders within such 30 day period, the Corporation may sell such unpurchased securities on substantially the same terms and conditions for a period of 120 days following the expiration of such 30 day period. To the extent that such equity securities are not sold during such period of 120 days, this section shall

apply to any future sale. The provisions of this Section 4.1

shall terminate immediately upon the completion of the initial public offering of Common Stock of the Corporation.

4.2 The Shareholders agree to cause the Corporation to change its capital structure immediately prior to any initial offering of equity securities of the Corporation to the public. The new capital structure shall require that each Shareholder contribute ten percent (10%) of the Shares that it holds at such time to the Corporation in return for an equal number of shares of Class C Common Stock having the terms contained in the Amended and Restated Certificate of Incorporation of Star Gas in effect on the date hereof. In such event, the provisions of this Agreement that relate to the Shares will terminate with respect to the Shares and will instead apply to the shares of such Class C Common Stock. Notwithstanding the foregoing, holders of Class B Common Stock (non-voting) may elect in writing not to exchange their Shares for Class C Common Stock. Such election shall be irrevocable.

5. No Shares of the Corporation shall be sold, transferred, hypothecated, negotiated, pledged, assigned, encumbered

or otherwise disposed of by any Shareholder, except as herein provided in accordance with the following procedures and the procedures set forth in Article 6:

5.1 Any Shareholder may transfer all or any portion of his Shares to any other Shareholder in its category of

Shareholders, and Holdings may transfer its shares to Petro, free of the First Offer Right and First Refusal Right referred to below. Following any Change of Control with respect to Petro, Prudential and each of the FRC Shareholders may transfer its Shares free of any restrictions imposed by this Agreement. A Shareholder may transfer Shares to any other person or entity controlling, controlled by or under common control with it, free of the First Refusal Right, and Prudential may transfer Shares to any portfolio or fund managed or advised by Prudential or any of its affiliates without restriction. In addition, the First Reserve Shareholders may pledge their Shares to Brooklyn Union Gas or a wholly owned subsidiary thereof or transfer the pledged Shares subject to Section 5.4 hereof.

5.2 In addition to any rights it may have under Section 5.3 below, Prudential may sell Shares to a Qualified Purchaser provided it has granted a right to purchase such Shares

("First Offer Right") first to the Corporation and then to Petro and Holdings as follows:

(a) Prudential shall give notice to the Corporation and to Petro and Holdings stating its intention of offer for sale a number of Shares, the number of Shares intended to be so offered, the price at which such Shares will be offered and any other terms of the Offer.

(b) Petro and Holdings shall have the First Offer Right for a period of 30 days to purchase all, but not less than all, of the Shares described in the notice and on a pro rata

basis (or on such other proportions as they may agree upon) on the same terms and conditions and at the same price.

(c) If the First Offer Right is not exercised in its entirety as provided above, then no Shares shall be purchased pursuant to this Section 5.2 and Prudential, subject to the conditions set forth in Article 6, may sell such Shares to a Qualified Purchaser (and to no other purchaser) in accordance with the terms and at a price not less than the price specified in the notice during the period of 120 days following the expiration of the First Offer Right.

(d) If such Shares are not sold as provided herein within such period of 120 days, this Article 5 shall apply

to any future offer.

5.3 No Shareholder (other than sales by Prudential pursuant to Section 5.2) ("Offeror Shareholder") may sell any Shares until it has granted a right to purchase its shares ("First Refusal Right") first to the Corporation and then to the other Shareholders, including Prudential, as follows:

(a) If an Offeror Shareholder receives from a third party or third parties (other than an underwriter in connection with any public offering of Shares) a bonafide offer or offers ("First Refusal Offer") to purchase or otherwise acquire all or a portion of its Shares, it shall provide written notice ("First Refusal Notice") to the Corporation and the other Shareholders of the terms of the First Refusal Offer which shall identify the purchaser(s), the number of Shares subject to the

First Refusal Offer, the price and all other terms and conditions. If the First Refusal Offer consists in part or in whole of consideration other than cash, the Offeror Shareholder shall provide such information as may be reasonably necessary to analyze the non-cash component of the consideration, together with the Offeror Shareholder's estimate of the fair value of such non-cash component.

(b) Subject to subsection 5.3(d), for a period of 15 days from the receipt of such notice, the Corporation shall have the First Refusal Right to purchase all or any portion of the Shares described in the First Refusal Notice on the same terms and conditions and at the same price specified in the First Refusal Notice.

(c) Subject to subsection 5.3(d), if the First Refusal Right is not exercised in its entirety by the Corporation, then the other Shareholders shall have the First Refusal Right for an additional period of 15 days to purchase the remaining Shares described in the First Refusal Notice on a pro rata basis (or in such other proportions as they may agree upon) on the same terms and conditions and at the same price as described in the First Refusal Notice.

(d) If the First Refusal Right is not exercised in its entirety as to all of the Shares as described above, then no Shares shall be purchased pursuant to this Section 5.3 and the Offeror Shareholder may sell such Shares in accordance with the First Refusal Offer during the period of 120

days following the expiration of the First Refusal Right and to the extent such Shares are not sold as provided herein within such period of 120 days, this Article 5 shall apply to any future

offer.

5.4 Any transferee of shares, pursuant to Article 5 or 6 hereof, shall execute this Agreement. Any such transferee shall become a member of the same category of Shareholders as its transferor.

5.5 Any Shareholder entitled to take action during a time period specified in
this Article 5 may waive the duration of such period and agree to a time period of a shorter
duration.

5.6 Immediately upon completion of the initial public offering of Common Stock of the Corporation, the provisions of this Article 5 shall apply only to the Corporation's Class C Common Stock and shall terminate with respect to all other classes of Common Stock.

5.7 For purposes of Article 5 and Article 6, the terms of any sale of Shares of one class or series of securities (the "First Securities") shall be deemed to be the same as those for another class or series of securities (the "Second Securities") if (i) (A) the consideration received in such sale for each Share of the First Securities divided by the number of Shares of common stock of the Corporation which each Share of the First Security could be converted into based on the relevant

conversion ratio for such security in effect immediately preceding such sale equals (B) the consideration received in such sale for each Share of the Second Securities divided by one (if the Second Security is common stock of the Corporation) or (in all other cases) the number of Shares of common stock for the Corporation which each Share of the Second Security could be converted into based on the exchange ratio for such security in effect immediately preceding such sale and (ii) all other terms of the sale of the First Securities and the Second Securities are the same.

5.8 Any party that acquires Shares of any First Reserve Shareholder or the Prudential Shareholder shall agree in writing to assume such party's obligations in respect of such shares under the Shareholders Put/Call Agreement of even date herewith in the event that such assumption is required by the terms of the Shareholder Put/Call Agreement.

5.9 For purposes of this Agreement, the following definitions shall apply:

"Qualified Purchaser" means:

(i) existing shareholders of the Corporation;

(ii) insurance companies with assets of not less than $1,000,000,000;

(iii) commercial banks and investments banks with

assets of not less than $1,000,000,000; and

(iv) investment managers (including mutual funds and pension funds) with assets under management of not less than $1,000,000,000.

"Change of Control" means the occurrence of any event which results in the number of directors of Petro's Board of Directors who are designated by the Sevin Group (in an individual or fiduciary capacity) in accordance with a shareholders agreement dated as of July 28, 1992 among Petro and certain shareholders constituting less than a majority of the Board. "Sevin Group" shall mean, collectively, the Estate of Malvin P. Sevin, Audrey L. Sevin, Irik P. Sevin, Thomas J. Edelman, Margot Gordon and Phillip Ean Cohen.

6. Tag Along Rights. (a)(i) If any Shareholder entitled to sell Shares pursuant to Section 5.2 or 5.3 (the "Tag-along Offering Holders") receives from a third party or third parties (other than from an underwriter in connection with any public offering of Shares) a bona fide offer or offers to purchase or otherwise acquire, in one transaction or any series

of similar transactions not subject to Section 5.1 (a "Tag-along Transfer Offer"), a number of Shares representing at least 5% of the then outstanding Shares (the "Tag-along Transfer Stock"), such Tag-along Offering Holders shall then cause the Tag-along

Transfer Offer to be reduced to writing and shall provide written notice (the "Tag-along Transfer Notice") of such Tag-along Transfer Offer to the Corporation and the Corporation shall provide written notice of such Tag-along Transfer Notice to each of the other Shareholders (the "Tag-along Transfer Offerees") in the manner set forth in this Section. The Tag-along Transfer Notice shall contain a true and correct copy of the Tag-along Transfer Offer. In addition, the Tag-along Transfer Notice shall identify the third party, the Tag-along Transfer Stock, the price contained in the Tag-along Transfer Offer, the estimated expenses associated with the sale, all the other terms and conditions of the Tag-along Transfer Offer and, in the case of a Tag-along Transfer Offer in which the consideration payable for Shares consists in part or in whole of consideration other than cash, such information as may be reasonably necessary to analyze the non-cash component of the consideration, together with the Tag-along Offering Holders' reasonable estimate of the fair value

of such non-cash component.

The Tag-along Transfer Offerees shall have the right and option, exercisable as set forth below, to accept the Tag-along Transfer Offer for up to such number of Shares as is determined in accordance with the provisions of this Section 6(a). The terms of any sale of Shares by a Tag-along Transfer Offeree pursuant to the exercise of its option under this Section shall be the same terms as those for the sale of such Shares by

the Tag-along Offering Holders; provided that any indemnity given by the sellers to the purchasers in connection with such sale shall be apportioned among all the sellers according to the consideration to be received by each seller. Each Tag-along Transfer Offeree that desires to exercise such option shall provide the Tag-along Offering Holder with written irrevocable notice (specifying the number of shares of the Tag-along Transfer Stock as to which such Tag-along Transfer Offeree is accepting the offer) within 15 days after the date the Tag-along Transfer Notice is received ("Tag-along Notice Period"), and shall simultaneously provide a copy of such notice to the Corporation and the other Tag-along Transfer Offerees. Such written notice

may not be withdrawn or modified at any time. At the expiration of the Tag-along Notice Period each accepting Tag-along Transfer Offeree shall, simultaneously with such expiration, deliver to the Corporation (or such other person as may be agreed between the Tag-along Offering Holder and the accepting Tag-along Transfer Offeree) to be held by such person for sale or return upon the terms of this Section 6, the certificate or certificates representing the Shares to be sold or otherwise disposed of pursuant to such Tag-along Transfer Offer by such Tag-along Transfer Offeree, duly endorsed, together with a limited power-of-attorney authorizing the Tag-along Offering Holder to sell or otherwise dispose of such Shares pursuant to the terms of the Tag-along Transfer Offer.

(ii) Each Tag-along Transfer Offeree shall have the right to sell, pursuant to the Tag-along Transfer Offer, an amount of Shares equal to the amount specified in such person's notice, or if less an amount of Shares equal to the product of (A) the total number of Shares of Tag-along Transfer Stock (including the shares of any Tag-along Transfer Offeree) to be sold pursuant to such Tag-along Transfer Offer, times (B) a fraction, the numerator of which shall be the total number of

Shares held by such Tag-along Transfer Offeree, and the denominator of which shall be the total number of Shares held by all Tag-along Transfer Offerees that are accepting such Offer and the Tag-along Offering Holders. For purposes of this paragraph, Shares held by any Shareholder shall include (without duplication) Shares held by any affiliate of such shareholder, and Shares then issuable upon exercise of all warrants or options then held by such persons. The aggregate of such Shares for which Tag-along Transfer Offerees have elected to sell pursuant to this Section 6 shall be referred to as the "Tag-along Transfer Offeree Shares."

(iii) Promptly after the consummation of the sale or other disposition of the Shares of the Tag-along Offering Holder and the Tag-along Transfer Offerees to the third party pursuant to the Tag-along Transfer Offer and in any event no later than one business day after such consummation, the Tag-along Offering Holder shall notify the Tag-along Transfer Offerees thereof,

shall remit to each of the Tag-along Transfer Offerees the total sales price of the Shares of such Tag-along Transfer Offeree sold or otherwise disposed of pursuant thereto (after deduction of

such Tag-along Transfer Offeree's proportionate share of the out-of-pocket expenses associated with such sale based on the number of Shares sold by the Tag-along Offering Holder and each Tag-along Transfer Offeree), and shall furnish such other evidence of the expenses associated with and the completion and time of completion of such sale or other disposition and the terms thereof as may be reasonably requested by the Tag-along Transfer Offerees.

(iv) If at the termination of the Tag-along Notice Period any Tag-along Transfer Offeree shall not have accepted the offer contained in the Tag-along Transfer Notice with respect to any Tag-along Transfer Offer, such Tag-along Transfer Offeree will be deemed to have waived any of and all of its rights under this Section 6 with respect to the sale or other disposition of its Tag-along Transfer Offeree Shares pursuant to such Tag-along Transfer Offer. The Tag-along Offering Holders shall have 120 days in which to sell the Tag-along Transfer Stock and Tag-along Transfer Offeree Shares not otherwise excluded pursuant to the previous sentence, to the third party, at a price not higher than that contained in the Tag-along Transfer Notice and on terms not more favorable to the Tag-along Offering Holder than were contained in the Tag-along Transfer Notice. Promptly after any

sale pursuant to this Section 6, the Tag-along Offering Holder shall notify the Corporation of the consummation thereof and shall furnish such evidence of the completion thereof (including time of completion) of such sale and of the terms of the terms thereof as the Corporation may request. If, at the end of such 60 day period (or such longer period, as aforesaid), the Tag-along Offering Holder has not completed the sale of all the Tag-along Transfer Stock and Tag-along Transfer Offeree Shares, the Tag-along Offering Holder shall return to such Tag-along Transfer Offerees all certificates representing the Shares which such Tag-along Transfer Offerees delivered for sale or other disposition pursuant to this Section 6(a), and all the restrictions on sale or other disposition contained in this Agreement with respect to Shares owned by the Tag-along Offering Holder shall again be in effect.

(v) Notwithstanding anything contained in this Section 6, there shall be no liability on the part of the Tag-along Offering Holder to any Tag-along Transfer Offeree if the sale of Shares to a third party is not consummated for whatever reason. Whether to effect a sale of Shares pursuant to this Section 6 by the Tag-along Offering Holder is in the sole and absolute discretion of such Tag-along Offering Holder.

(b) The failure by any Tag-along Transfer Offeree to exercise its First Offer Right or First Refusal Right pursuant to

Article 5 shall not affect the rights of such person to exercise its Tag-along rights pursuant to Article 6, including its right to exercise its Tag-along Rights in connection with the sale of Tag-along Transfer Stock.

(c) The Tag-along Offering Holders shall cause any third party purchasing Shares hereunder to assume the obligations of the relevant Tag-along Transfer Offerees under the Shareholder Put/Call Agreement of even date herewith in respect of the relevant Shares.

(d) The provisions of this Article 6 shall terminate immediately upon completion of the initial public offering of Common Stock of the Corporation.

7. Financial Statements. During the term of this Agreement, the Corporation covenants and agrees that it shall furnish to each Shareholder (i) within ninety (90) days after the end of each fiscal year of the Corporation a consolidated balance sheet of the Corporation and its subsidiaries as at the end of such fiscal year and consolidated statements of income (loss), stockholders' equity and cash flows of the Corporation and its subsidiaries for such fiscal year audited by the Corporation's regularly employed, nationally-recognized firm of independent public accountants in accordance with generally accepted account-

ing principles applied on the basis consistently maintained throughout the period involved, (ii) within forty-five (45) days after the close of each fiscal quarter the financial statements

referred to in clause "(i)" which shall be prepared by the Corporation and need not be covered by the report of any independent public accountants. With each quarterly and annual financial report, the Corporation shall deliver a list of shareholders including their respective equity security holdings. The Corporation shall deliver to each Shareholder a description of any action taken by written consent of directors or shareholders in lieu of a meeting promptly after such action is taken. The Corporation shall also deliver to each Shareholder a true and complete copy of each report, including but not limited to audit reports, review reports, special reports, reports on internal controls and management reports, submitted by a firm of certified public accountants to the Corporation or its board of directors promptly after the Corporation or board receives such report. Upon the request of any Shareholder, the Corporation shall promptly deliver to such Shareholder the information specified in paragraph (d)(4) of Rule 144A under the Securities Act of 1933. Additionally, during normal business hours, the Corporation shall permit each Shareholder reasonable access to

the books and records of the Corporation and shall make available to representatives of each Shareholder, employees of the Corporation to explain such books and records and financial statements. The provisions of this Section shall terminate immediately upon a class of equity securities of the Corporation becoming subject to the periodic reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934.

8. The parties agree that it is impossible to determine the monetary damages which will accrue to a Shareholder by reason of a failure of any other Shareholder to perform any of the obligations under this Agreement requiring the performance of an act other than the payment of money only. Therefore, if any party hereto shall institute any action or proceeding in equity to enforce the provisions hereof, any person (including the Corporation) against whom such equitable action or proceeding is brought hereby waives the claim or defense therein that such party or such legal representative has an adequate remedy at law, and such person shall not urge in such equitable action or proceeding the claim or defense that such remedy at law exists.

9. In the event that any of the covenants, terms or conditions of this Agreement are held illegal and in the further

event that director and/or shareholder action, including, but not by way of limitation, the execution of any documents or instruments, such as an amendment of the Certificate of Incorporation of the Corporation, will make such covenants, terms or conditions legal and enforceable, each of the parties hereto hereby agrees that he shall take such action as may reasonably be required to make any such covenant, term or condition valid and enforceable. In the event that any of the parties hereto refuses to take such action, the remaining Shareholders who are parties hereto are hereby jointly and severally appointed as the attorney-in-fact for the other Shareholders for the purpose of taking any action

that is authorized by the terms of this paragraph, including, but not limited to:

(a) The voting of the other Shareholder's shares.

(b) The removal of the Shareholder or his appointee(s) in breach of this paragraph as a director.

(c) The nomination and election of a new director for the purpose of initiating and completing such action as may be required to make any illegal or unenforceable covenant, term or condition of this Agreement valid and enforceable.

(d) The signing of any document or certificate, including, but not limited to an amendment to the Certificate of Incorporation of the Corporation, which will make said invalid and/or unenforceable covenant, term or condition valid and enforceable.

10. The Shareholders agree that the following legends shall be placed upon each certificate representing all or a portion of their Shares:

> "Transfer, hypothecation, negotiation, pledge, sale, encumbrance, assignment or other disposition of this share certificate and the shareholdings represented hereby are restricted by and are subject to all of the terms, conditions and provisions of a certain agreement entered into between certain of the shareholders and the Corporation as of December 21, 1993, as amended, a copy of which is on file with the Secretary at the principal office of the Corporation."

11. Any controversy arising out of or in any way relating to this Agreement including any modification or amend-

ment thereof, shall be resolved by arbitration in the City of New York, pursuant to the rules then obtaining of the American Arbitration Association. The parties agree that the arbitrators sitting in any such controversy shall have no power or jurisdiction to alter or modify any express provision of this Agreement,

or to make any award which by its terms effects such alteration or modification. The parties hereto hereby consent to (a) the application of the Federal Arbitration Statutes (b) the jurisdiction of the Supreme Court of the State of New York and of the United States District Court for the Southern District of New York for all purposes in connection with said arbitration and (c) that any notice, process or notice of motion or other application to either of said Courts or Judges thereof or of any notice in connection therewith any arbitration hereunder, may be served in or out of the State or Southern District of New York by certified or registered mail return receipt requested or by personal service, provided a reasonable time for appearance is allowed, or in such other manner as may be permitted under the Rules of the American Arbitration Association or of either of said Courts. Judgment upon the award rendered may be entered by any court having jurisdiction. Any provisional remedy which, but for this Agreement to arbitrate disputes, would be available at law shall be available to the parties hereto pending arbitration.

12. (a) This Agreement will terminate upon the occurrence of any of the following events:

(i) adjudication of the Corporation as

bankrupt or insolvent;

(ii) appointment of a receiver or trustee for all or substantially all of the assets of the Corporation;

(iii) the making by the Corporation of an assignment for the benefit of its creditors or the admission in writing by the Corporation of its inability to pay its debts generally as they become due; or

(iv) the dissolution of the Corporation.

None of the events referred to above shall effect any obligations theretofore incurred by the Corporation or any Shareholder pursuant to this Agreement.

(b) This Agreement may be modified or rescinded only with the written consent of the Corporation and all of the Shareholders.

13. This Agreement contains the entire agreement of the parties concerning the subject matter hereof, and supersedes any and all prior agreements and amendments among the parties hereto concerning the subject matter hereof, which prior agreements are hereby canceled. The Shareholders Agreement, dated January 30, 1987, and as subsequently amended, between the Corporation and the First Reserve Shareholders has been terminated and canceled pursuant to a separate agreement. This Agreement shall terminate ten years from the date hereof and shall be automatically renewed for successive ten-year periods thereafter unless the parties hereto agree otherwise in writing.

14. If any provision of this Agreement is held invalid, such invalidity shall not affect the other provisions hereof which can be given effect without the invalid provision, and to this end the provisions of this Agreement are intended to be and shall be deemed severable.

15. Any and all notices, requests, demands or other communications hereunder shall be in writing and shall be deemed given if delivered personally or sent by certified or registered mail, postage prepaid, to each of the parties at the addresses set forth at the end of this Agreement or to such addresses as may from time to time be designated by any of them in writing by notice similarly given to all parties in accordance with this paragraph. Copies of all such notices, requests, demands or other communications shall be sent to:

(a) If to the Petro Shareholder or to the Corporation, to:

Petroleum Heat and Power Co., Inc.
Clearwater House
2187 Atlantic Street
Stamford, Connecticut 06902
Attn: George Leibowitz
Senior Vice President

with a copy to:

Phillips, Nizer, Benjamin, Krim & Ballon
31 West 52nd Street
New York, NY 10019
Attn: Alan Shapiro, Esq.

(b) If to the Holdings Shareholder, to:

Hanseatic Corporation

Attn: Paul Biddelman

(c) If to the First Reserve Shareholders, to:

First Reserve Corporation
475 Steamboat Road
Greenwich, CT 06830
Attn: William E. Macaulay

(d) If to the Prudential Shareholder, to:

The Prudential Insurance Company of America
c/o Prudential Financial Restructuring Group
Four Gateway Center - 9th Fl.
100 Mulberry Street
Newark, New Jersey 07102-4069
Attn: Managing Director
Fax: (201) 802-2662

with a copy to:

Willkie Farr & Gallagher
One Citicorp Center
153 East 53rd Street
New York, New York 10022-4669
Attn: Duncan Stewart, Esq.
Fax: (212) 821-8111

(e) If to Star Gas, to:

Star Gas Corporation
500 Birchfield Drive
Mt. Laurel, NJ 08054
Attn: William Powers

with a copy to:

Wilmer, Cutler & Pickering
2445 M Street, N.W.
Washington, D.C. 20037
Attn: Richard Cass, Esq.

Notices under this Agreement shall be deemed delivered on the date delivered personally to the recipient or on the date post-marked by the United States Post Office, as the case may be.

16. Waiver by any party of any breach of this Agreement or failure to exercise any right hereunder shall not be deemed to be a waiver of any other breach or right. The failure of any party to take action by reason of any such breach or to exercise any such right shall not deprive such party of the right to take action at any time while such breach or condition giving rise to such right continues.

17. As used in this Agreement, the masculine pronouns shall refer to male or female persons or corporate entities where such construction is required to give meaning to a provision contained herein.

18. This Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of the parties hereto, provided, however, that the provisions of this paragraph shall not alter the provisions contained in this

Agreement restricting transfer of the shareholdings in the Corporation.

19. This Agreement shall be governed and construed in accordance with the laws of the State of Delaware.

IN WITNESS WHEREOF, the parties have hereunto set their hands and the corporate seal the day and year first above written.

PETROLEUM HEAT AND POWER CO., INC.

By: /s/ George Leibowitz
George Leibowitz
Senior Vice President

STAR GAS CORPORATION

By: /s/ Robert M. Cherry
Robert M. Cherry
Senior Vice President

AMERICAN GAS & OIL INVESTORS

By: First Reserve Corporation,
as Managing General Partner,

AmGO II

First Reserve Corporation,
as Managing General Partner,

By: /s/ William Macaulay
William Macaulay
Managing Director

By: /s/ William Macaulay
William Macaulay
Managing Director

AmGO III

By: First Reserve Corporation,
as Managing General Partner,

By: /s/ William Macaulay
William Macaulay
Managing Director

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: /s/ Jeff Diamond
Jeff Diamond
Vice President

FIRST RESERVE SECURED ENERGY ASSETS FUND, L.P.

By: First Reserve Corporation,
as Managing General Partner,

By: /s/ William Macaulay
William Macaulay
Managing Director

STAR GAS HOLDINGS, INC.

By: /s/ Paul Biddelman
Name: Paul Biddelman

FRC STAR GAS, INC.

By: /s/ William Macaulay
William Macaulay
Managing Director

Exhibit 5

MANAGEMENT SERVICES AGREEMENT

MANAGEMENT SERVICES AGREEMENT made as of this 21st day of December, 1993 by and between STAR GAS CORPORATION, a Delaware corporation with offices at 500 Birchfield Dr., Mt. Laurel, NJ 08054 (the "Company") and PETROLEUM HEAT AND POWER CO., INC., a Minnesota corporation with offices at 2187 Atlantic Street, Stamford, CT 06902 ("Petro").

W I T N E S S E T H :

WHEREAS, the Company is engaged in the business of propane distribution; and

WHEREAS, the Company desires to retain Petro to provide executive, financial, and managerial oversight services to it on the terms herein set forth, and Petro has capability enabling it to provide such services and is agreeable to providing the same on such terms:

NOW, THEREFORE, in consideration of the mutual covenants herein contained, it is hereby agreed as follows:

1. Term and Duties.

For the ten-year period commencing on the date hereof unless sooner terminated pursuant to the provisions of paragraph 7 hereof (the "Term"), Petro shall provide executive, financial, and managerial oversight services to the Company and the Company's subsidiaries from time to time. It is understood that all persons who will provide services to the Company will be employees of Petro and will also have such other duties with

Petro, and that, therefore, none of said persons will devote full business time to the business of the Company, but that they will devote thereto only such time as may be necessary from time to

time properly to perform their duties.

2. Degree of Care.

Petro shall use its best efforts to perform its services, and to cause its personnel to perform their services, hereunder in a professional manner and with due care, but shall have no liability to the Company for any act or omission except for wilful default or gross negligence.

3. Fee.

In full consideration and compensation for the services to be furnished by Petro to the Company and its subsidiaries during the Term, the Company will pay to Petro and Petro will accept (i) a basic fee of $500,000 per year, payable in cash in equal monthly installments of $41,666.67, plus (ii) an annual bonus fee equal to five percent (5%) of the increase, if any, in the EBITDA (as defined below) of the Company for each fiscal year of the Company ending during the Term beginning with the fiscal year ending September 30, 1994 over the EBITDA of the Company for the twelve-month period ended September 30, 1993, payable no later than 30 days after the issuance of the audited annual financial statements of the Company with respect to a fiscal year, in the case of the bonus fee, in shares of common stock of the Company at a per share price equal to (a)(i) the product of the EBITDA of the Company for the immediately

preceding fiscal year multiplied by 5.5, (ii) minus the amount of Long-Term Obligations of the Company as defined in the Shareholder Put/Call Agreement dated as of December 21, 1993 (the "Put/Call Agreement") (iii) plus the amount of net working capital of the Company as of the last day of the preceding fiscal year in excess of $4,000,000 and (iv) plus the amount of proceeds that would be received by the Company from the exercise of all options, warrants and other rights to purchase securities of the Company outstanding on the last day of the preceding fiscal year to the extent such shares are included in Fully Diluted Shares (as defined below) of the Company divided by (b) the number of Fully Diluted Shares of the Company.

The term "Fully Diluted Shares" means with respect to the Company, as of the date of determination, the number of shares of Common Stock of the Company actually issued and outstanding, plus the number of shares issuable upon the conversion of the 8% Cumulative Convertible Preferred Stock, plus the number of shares of Common Stock issuable pursuant to that certain option dated as of December 21, 1993 granted by the

Company to Petro, plus the number of shares of Common Stock issuable pursuant to all other options, warrants and similar rights to purchase Common Stock, and plus the number of shares of Common Stock issuable upon the conversion of any other class of convertible securities of the Corporation; provided, however, that only those options, warrants and similar rights to purchase shares of Common Stock, that have an exercise price that is less than either (i) the average of the then current Put Option Price

and the then current Call Option Price as set forth in the Shareholder Put/Call Agreement dated as of December 21, 1993 (the "Put/Call Agreement") (provided, however, that for purposes of this calculation, Section 1.3(a)(ii)(B) of the Put/Call Agreement shall not apply) or (ii) if the Common Stock is publicly traded, the average of the last reported sales price for the shares of Common Stock for the 10 trading days preceding the date on which the option, warrant or similar right is exercised as reported by the NASDAQ National Market System, or if a class of stock is not included in the NASDAQ National Market System, then on the stock

exchange or listing service on which such class is included (provided, however, that if no such sales prices exist, then the formula set forth in (i) above applies) shall be deemed to be included in this definition.

The term "EBITDA" means consolidated income before interest, depreciation and amortization and income taxes excluding gains or losses from the sale of assets other than in the ordinary course of business, non-recurring gains and losses, extraordinary items and the costs of restructuring, all calculated in accordance with generally accepted accounting principles as reported in the Company's audited year-end financial statements; provided that consolidated income of any other person (other than a corporation of which a majority of the capital stock having voting power under ordinary circumstances to elect a majority of the board of directors is owned by the Company or a subsidiary) will be included only to the extent of dividends and distributions received by the Company. EBITDA

shall include (without duplication) EBITDA (defined in the same manner as in this Agreement) of each business (on a pro forma

basis) which has been acquired during the applicable fiscal year of Star Gas using the pro forma adjustments comparable to those customarily made by Petro in reporting of its acquisitions of businesses on filings with the United States Securities & Exchange Commission pursuant to the periodic reporting requirements of the Securities Exchange Act of 1934.

The shares issuable in payment of the bonus fee shall be issued when the amount of the bonus fee, if any, is calculated.

The Company shall also grant to Petro an option to purchase shares of the common stock of the Company in accordance with, and on the terms and conditions set forth in, the Option Agreement annexed hereto as Exhibit A.

4. Expenses.

(a) During the Term, the personnel of Petro assigned to perform duties hereunder will engage in such travel as may be reasonably required in connection with the performance of those duties. The Company will pay (or reimburse) all such reasonable expenses upon submission of proper documentation.

(b) The Company will pay for, or reimburse Petro for, all equipment and supplies bought by Petro and specifically dedicated to the purposes of this Agreement (e.g. computer supplies). Petro shall not be entitled to reimbursement of incidental expense (e.g. use of Petro's offices) for purposes hereof.

(c) Petro will pay all salaries, wages, bonuses, Blue Cross and other insurance expenses, pension fund payments, payroll taxes and withholding and the like applicable to its employees furnishing services hereunder, without right of reimbursement by the Company, except to the extent specified in Section 4(d) hereof.

(d) The Company shall reimburse Petro for the actual cost of services provided to the Company by Petro (other than services provided by Irik P. Sevin, C. Justin McCarthy, George Leibowitz and George Russell or their respective successors in the offices of Chairman of the Board, Chief Executive Officer, President, Senior Vice President - Operations, Senior Vice President - Finance and Corporate Development and Senior Vice President - Marketing) based on Petro's total compensation cost (the components of total compensation cost are set forth in Exhibit B annexed hereto) for persons providing such services and the amount of time such employee actually spends on matters directly related to the Company and its operations. The

reimbursement fee shall be based on reasonable rates taking into account such employee's annual compensation from Petro; provided, however, that in no event shall the amount of such reimbursement be greater than the amount the Company would be required to pay to an independent third party. Petro shall maintain time records and shall provide the Company with a monthly statement for such reimbursement fee, which the Company shall promptly pay. After the financial statements become available for the quarter ended March 31 and the year ended September 30, Petro shall submit to

the Company's Board of Directors the monthly statements for reimbursement and the supporting records for the immediately preceding six months, which the disinterested directors shall review as to reasonableness. Annually, the disinterested directors, with the assistance of the Company's independent public accountants, shall review the reasonableness of such monthly statements. If a majority of the disinterested directors determines to terminate the reimbursement of Petro for certain services, Petro and such directors shall agree on a procedure for the orderly termination of the provision of such services and a

reimbursement of Petro that is appropriate in the circumstances.

(e) The Company will indemnify to the full extent permitted by law the personnel of Petro who perform services hereunder against any claims which may be made against them by reason thereof.

5. Confidentiality; Propane Operations.

(a) All business opportunities which are referred to Petro during the Term in the propane distribution business shall be deemed business opportunities of the Company and not of Petro. Petro may not avail itself of any such opportunity without the unanimous vote of the disinterested director of the Company.

(b) The Company acknowledges that Petro is engaged in the #2 fuel oil business, and also is engaged in propane operations in two locations in Massachusetts, one location in Connecticut and one location in Rhode Island (the "Propane Operations") and that all persons who perform services

for the Company pursuant to this Agreement will be full time

employees of Petro and that their primary loyalty is to Petro. The mere fact of Petro's business activities as described above and the use of such employees to perform services for Petro shall in no way give rise to any liability of Petro or such employees under this Agreement. Business opportunities which are referred to Petro during the Term in any business other than the distribution of propane shall be deemed to be business opportunities of Petro and not of the Company.

(c) In the event that Petro receives a bona fide written offer (the "Offer") which it desires to accept for the purchase of some or all of its Propane Operations (the "Disposition Propane Assets"), other than a sale of Petro or all or substantially all of its assets, Petro shall give written notice to the Board of Directors of the terms of such Offer. Within 30 days after the receipt of such notice, a majority of the disinterested directors shall notify Petro in writing of whether the Company will purchase such Propane Operations on the terms of such Offer. If the Company does not agree to purchase the Disposition Propane Assets on the terms of such Offer, or having so agreed fails to consummate such purchase within 90 days after receipt of such notice, Petro may sell the Disposition Propane Assets in accordance with the terms and conditions of the Offer after which this paragraph shall apply only to any future offer to purchase other assets of the Propane Operations as well as any Disposition Propane Assets not sold pursuant to the Offer.

6. Relationship Between Parties.

The parties are not partners or joint venturers, and neither shall have any power or right to incur any liability on behalf of the other party; provided, however, that any of the personnel of Petro elected an officer of the Company, shall have power to obligate the Company as appropriate for his office. Each party shall discharge its own debt and obligations without recourse against the other.

7. Defaults.

The following shall constitute events of default:

(a) The failure of the Company to pay Petro any sums due it hereunder within ten (10) days of written demand therefor by Petro.

(b) The failure of either party to perform, keep or fulfill in any material respect any of the other covenants, undertakings, obligations or conditions set forth in this

Agreement or the failure of Petro to perform the services required under this Agreement with the degree of care set forth in Paragraph 2 hereof, and the continuance of such default for a period of thirty (30) days after notice of said failure.

Upon the occurrence of any of the events of default, the non-defaulting party may give to the defaulting party notice of intention to terminate this Agreement and upon the expiration of a period of sixty (60) days from the date of such notice specifying the cause therefor and if the defaulting party shall fail to cure such defaults before the 60 day period should expire, this Agreement shall terminate.

The rights granted hereunder shall not be in substitution for, but shall be in addition to, any rights and remedies available to the non-defaulting party hereunder by reason of applicable provisions of law.

8. Waiver.

The failure of either party to insist upon a strict performance of any of the terms or provisions of this

Agreement or to exercise any option, right or remedy herein contained, shall not be construed as a waiver or as a relinquishment for the future of such term, provision, option, right or remedy, but the same shall continue and remain in full force and effect. No waiver by either party of any term or provision hereof shall be deemed to have been made unless expressed in writing and signed by such party. In the event of consent by either party to an assignment of this Agreement, no further assignment shall be made without the express consent in writing of such party, unless such assignment may otherwise be made without such consent pursuant to the terms of this Agreement. In the event that any portion of this Agreement shall be declared invalid by order, decree or judgment of a court, this Agreement shall be construed as if such portion had not been inserted herein except when such construction would operate as an undue hardship to Petro or the Company or constitute a substantial deviation from the general intent and purpose of said parties as reflected in this Agreement.

9. Assignment.

Neither party shall assign or transfer or permit the assignment or transfer of this Agreement, or it rights or obligations hereunder without the prior written consent of the other; provided, however, that the sale of substantially all the assets of Petro to, or the merger of Petro into, a single entity or a group of entities under common control, shall not constitute an assignment or transfer for purposes of this section.

10. Miscellaneous.

(a) Right to Make Agreement. The Company and Petro each warrant that neither the execution of this Agreement nor the consummation of the transactions contemplated hereby shall violate any provision of law or judgment, writ, injunction, order or decree of any court or governmental authority having jurisdiction over the Company or Petro; result in or constitute a breach under any indenture, contract, other commitment or restriction to which either is a party or by which either is bound; or require any consent, vote or approval which has not been taken, or at the time of the transaction involved shall not have been given or taken. Each party covenants that it has and will continue to have throughout the term of this Agreement and any extensions thereof, the full right to enter into this Agreement and perform its obligations hereunder.

(b) Applicable Law. This Agreement shall be

construed under and shall be governed by the laws of the State of Delaware.

(c) Notices. Notices, statements and other communications to be given under the terms of this Agreement

shall be in writing and delivered by hand against receipt or sent by certified or registered mail, return receipt requested:

To the Company:	Star Gas Corporation 500 Birchfield Drive Mt. Laurel, NJ 08054
With Copy to:	Wilmer, Cutler & Pickering 2445 M Street, N.W. Washington, D.C. 20037 Attn: Richard Cass, Esq.
To Petro:	Petroleum Heat and Power Co., Inc. 2187 Atlantic Street Stamford, CT 06902 Attn: Irik P. Sevin
With Copy to:	Phillips, Nizer, Benjamin, Krim & Ballon 31 West 52nd Street New York, NY 10019 Attn: Alan Shapiro, Esq.
With Copy to:	The Prudential Insurance Company of America

c/o Prudential Financial
Restructuring Group
Four Gateway Center-9th Fl.
100 Mulberry Street
Newark, NJ 07102-4069
Attn: Managing Director
Fax: 201-802-2662

With Copy to: Willkie Farr & Gallagher
One Citicorp Center
153 East 53rd Street
New York, NY 10022-4669
Attn: Duncan Stewart, Esq.
Fax: 212-821-8111

With Copy to: First Reserve Corporation
475 Steamboat Road
Greenwich, CT 06830
Attn: William E. Macaulay

(d) Entire Agreement. This Agreement, together with other writings signed by the parties expressly stated to be supplementing hereto and together with any instruments to be executed and delivered pursuant to this Agreement, constitutes the entire agreement between the parties and supersedes all prior understandings and writings.

IN WITNESS WHEREOF, the parties hereto have caused this

Agreement to be executed by their duly authorized officers on the year and day first above written.

PETROLEUM HEAT AND POWER CO., INC.

By: /s/ George Leibowitz

George Leibowitz
Senior Vice President

STAR GAS CORPORATION

By: /s/ Robert M. Cherry

Name: Robert M. Cherry
Title: Senior Vice President

EXHIBIT A

Neither this Option, nor the shares of Common Stock issuable upon its exercise, have been registered under the Securities Act of 1933, as amended. This Option has been, and the shares of Common Stock issuable upon its exercise will be, acquired for investment. This Option may not be sold, transferred, pledged, hypothecated or otherwise disposed of except in accordance with the terms hereof and except pursuant to an effective registration statement under the Securities Act of 1933, as amended, or an opinion of counsel, in form and substance satisfactory to the Company, to the effect that registration is not then required under such Act.

Option

To Purchase 500,000 shares of Class A Common Stock of

STAR GAS CORPORATION

December 21, 1993

THIS IS TO CERTIFY THAT Petroleum Heat and Power Co., Inc. is entitled to purchase from Star Gas Corporation, a Delaware corporation, (the "Company") at any time after December 21, 1993, until 5:00 P.M., New York time, on December 20, 1998 (the "Expiration Date"), Five Hundred Thousand (500,000) shares (subject to adjustment as provided in Article Four hereof) of Class A Common Stock, par value $.10 per share, of the Company, at the Purchase Price (defined below) subject to exercise of the other appurtent rights, powers and privileges, all on the terms and conditions hereinafter provided.

1. Certain Definitions

For all purposes of this Option, unless the context otherwise requires:

Act

The term "Act" means the Securities Act of 1933, as amended, or any similar Federal statute, and the rules and regulations of the Securities and Exchange Commission thereunder, all as the same shall be in effect at the time.

Affiliate

The term "Affiliate", as it applies to the Optionholder, means an individual, corporation, partnership or other entity which controls, is controlled by, or is under common control with, the Optionholder.

Shares of Common Stock

The term "shares of Common Stock" means the Company's shares of Class A Common Stock, par value $.10 per share, and any capital stock into which such shares of Common Stock may thereafter have been changed, and for purposes of Article Four shall also include capital stock of the Company or any class of the Company's securities thereafter authorized which ranks, or is entitled to a participation, as to assets or dividends, substantially on a parity with the shares of Common Stock.

Company

The term "Company" means Star Gas Corporation, a Delaware corporation.

Expiration Date

The term "Expiration Date" means 5:00 P.M., New York time, on December 20, 1998.

Number of Option Shares

The term "number of Option Shares" has the meaning assigned to it in Article Four hereof.

Optionholder

The term "Optionholder" means Petroleum Heat and Power Co., Inc.

Options

The term "Options" means this Option and all Options issued in substitution, combination or subdivision thereof. All Options shall at all times be identical as to terms and conditions and expiration date, except as to the number of shares of Common Stock for which they may be exercised and except as otherwise required by this Option or as otherwise agreed to by the Company and the Optionholder.

Option Shares

The term "Option Shares" means the shares of Common Stock issuable upon the exercise of the Options.

Purchase Price

The term "Purchase Price" means $9.9031 per share as

adjusted pursuant to Article Four hereof.

2. Exercise of Option

2.1 Manner of Exercise

Until the Expiration Date, the Optionholder may exercise this Option in whole at any time or in part from time to time for the purchase of the number of shares of Common Stock which such Optionholder is then entitled to purchase hereunder, at the Purchase Price per Common Share determined in accordance with the provisions hereof.

In order to exercise this Option, in whole or in part, the Optionholder shall deliver on the exercise date to the Company at its principal office or such other office or agency designated by it for such purpose, (a) written notice of the Optionholder's election to exercise this Option, which notice shall specify the number of shares of Common Stock to be purchased, (b) cash or a certified or bank check payable to the order of the Company in an amount equal to the Purchase Price of the number of shares of Common Stock being purchased and (c) this Option.

Upon receipt of the materials delivered by the Optionholder under this section, the Company shall, as promptly as practicable, execute and deliver, or cause to be executed and delivered, to the Optionholder a certificate or certificates representing the aggregate number of shares of Common Stock specified in such notice. The certificate or certificates so delivered shall be in such denomination or denominations as may be specified in such notice and shall be registered in the name of the Optionholder or, subject to Article Three, such other name as shall be designated (together with an address) in such notice.

Such certificate or certificates shall be deemed to have been issued and the Optionholder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares of Common Stock as of the date such notice and payment is received by the Company as aforesaid if this Option has been exercised in compliance with the above provisions. If this Option shall have been exercised only in part, the Company shall, at the time of delivery of such certificate or certificates, deliver to the Optionholder a new Option evidencing the rights of the holder to purchase the

remaining shares of Common Stock called for by this Option, which new Option shall in all other respects, except as provided in Article Three, be identical with this Option, or, at the request of the Optionholder, appropriate notation may be made on this Option and the same returned to such holder. The Company shall pay all expenses, taxes and other charges payable in connection with the preparation, issuance and delivery of share certificates under this section, except that, in the case such share certificates shall be registered in a name or names other than the name of the Optionholder, funds sufficient to pay all share transfer taxes which shall be payable upon issuance of such share certificate or certificates shall be paid by the Optionholder at the time the notice of exercise hereinabove mentioned is delivered to the Company.

2.2 Option Shares Fully Paid

All Option Shares shall be, when issued, duly authorized, validly issued, fully paid and non-assessable.

2.3 Fractional Shares

The Company shall not be required upon the exercise of this Option to issue a certificate representing any fraction of a share of Common Stock, but, at the option of the Company, in lieu of issuing such a fractional share, may pay for such fraction of a share at the Purchase Price in effect on the date of such exercise of this Option.

3. Transferability; Compliance With Securities Act

3.1 Restrictive Legend

Unless otherwise not required by this Article Three, each certificate for Option Shares initially issued upon the exercise of this Option, and each certificate for shares of Common Stock issued to a subsequent transferee of any such certificate, shall be stamped or otherwise imprinted with a legend in substantially the following form:

> The shares of Common Stock represented by this certificate have not been registered under the Securities Act of 1933, as amended, and may not be

sold, transferred, pledged, hypothecated or otherwise disposed of except in accordance with the terms hereof and except pursuant to an effective registration statement under such Act and any applicable state securities laws, or an opinion of counsel, in form and substance satisfactory to the Company, to the effect that such registration is not then required.

3.2 Restriction On Transferability

The Options shall not be transferable. The Option Shares shall be freely transferable except to the extent limited by law or by any agreement among shareholders of the Company.

4. Adjustments To Purchase Price And Number of Option Shares

The Purchase Price and the number of Option Shares purchasable hereunder (such number, as in effect from time to time, being hereinafter called the "number of Option Shares"), as specified in this Option, shall be subject to adjustment from time to time as follows:

4.1 Dividends and Reclassifications. In case the Company shall (i) declare a dividend, or make a distribution, on its outstanding shares of Common Stock in shares of its Common Stock, (ii) subdivide or reclassify its outstanding Common Stock into a greater number of shares or (iii) combine or reclassify its outstanding Common Stock into a smaller number of shares, the number of Option Shares in effect at the time of the record date for such dividend or distribution or subdivision or combination, or the effective date thereof if no record date is fixed therefor, shall be proportionately adjusted so that the holder of any Option surrendered for exercise immediately after the time of such record date or such effective date (if no record date is fixed) shall be entitled to receive the number of Option Shares which such holder would have owned or been entitled to receive had the Option been exercised immediately prior to such time. Adjustment in the Purchase Price shall be made successively whenever any event specified above shall occur.

4.2 Liquidating Dividends. In the event that the Company shall make any distribution of its assets upon or with respect to its Common Stock, as a liquidating or partial liquidating dividend, or other than as a dividend payable out of earnings or any surplus legally available for dividends under the laws of the state of incorporation of the Company, the Optionholder shall, upon the exercise of the Option after the record date for such distribution or, in the absence of a record date, after the date of such distribution, receive, in addition to the Option Shares, the amount of such assets (or, at the option of the Company, a sum equal to the value thereof at the time of distribution as determined by the Board of Directors in its sole discretion) which would have been distributed to the Optionholder if it had exercised the Option immediately prior to the record date for such distribution, or in the absence of a record date, immediately prior to the date of such distribution.

4.3 Adjustment of Purchase Price. Upon each adjustment of the number of Option Shares pursuant to this Article, the Purchase Price shall be adjusted to equal the amount obtained by

multiplying the Purchase Price in effect immediately prior to such adjustment by a fraction, the numerator of which equals the number of Option Shares in effect prior to such adjustment and the denominator of which equals the number of Option Shares in effect after such adjustment.

4.4 Miscellaneous Matters.

4.4.1 No adjustment of the Purchase Price shall be made if the amount of such adjustment shall be less than one percent of the then Purchase Price, but in such case any adjustment that would otherwise be required then to be made shall be carried forward and shall be made at the time of and together with the next subsequent adjustment which, together with the next subsequent adjustment which, together with any adjustment so carried forward, shall amount to not less than one percent of the then Purchase Price.

4.4.2 The certificate of any independent firm of public accountants of recognized standing selected by the Board of Directors shall be conclusive of the correctness of any computation made under this Article.

4.4.3 Whenever any adjustment is required in the then Purchase Price, the Company shall forthwith (i) prepare a statement describing in reasonable detail the adjustment and the method of calculation used and (ii) cause a copy of such statement to be mailed to the Optionholder.

4.4.4 The Company shall at all times reserve and keep available out of its authorized shares of Common Stock the full number of Option Shares into which all Options from time to time outstanding are exercisable. If at any time the number of authorized and unissued shares of Common Stock shall not be sufficient to effect the exercise this Option at the Purchase Price then in effect, the Company shall take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized Common Stock to such number of shares as shall be sufficient for such purpose.

4.4.5 In case of any reclassification of or change in the outstanding shares of Common Stock (other than a change in par value, or a change from no par to par value or from par value to no par value) or in the case of any consolidation of the Company with, or merger of the Company into, another corporation (other than a consolidation in which the Company is the continuing corporation and which does not result in any reclassification of or change in the outstanding shares of Common Stock), or in case of any sale or conveyance to another corporation of all or substantially all the assets of the Company, the Optionholder shall have the right to exercise such Option into the kind and amount of shares and other securities and property receivable upon such reclassification, change, consolidation, merger, sale or conveyance by a holder of the

number of shares of Common Stock into which the Option could have been exercised immediately prior to such

reclassification, change, consolidation, merger, sale or conveyance. After such reclassification, change, consolidation, merger, sale or conveyance, adjustments of the Purchase Price shall be as nearly equivalent as may be practicable to the adjustments of the Purchase Price provided for herein.

The Company and any successor shall not effect any such consolidation, merger, sale or conveyance of property as an entirety with or to another corporation unless and until such other corporation shall agree to deliver to the Optionholder, upon the exercise of the Option, such shares, securities and property which, in accordance with the foregoing provisions, such Optionholder shall have the right to receive. Successive reclassifications, changes, consolidations, mergers, sales or conveyances and adjustments of Purchase Price shall be similarly treated.

Immediately before any such consolidation, merger, sale or conveyance of property as an entirety with or to another corporation the Company shall pay to the Optionholder an amount of cash equal to the number of Option Shares multiplied by the difference between (a) the cash or fair value of any property or securities to be received by a holder of a share of Common Stock pursuant to any such consolidation, merger, sale or conveyance of property and (b) the Purchase Price.

5. Notice Of Certain Events.

In case at any time on or after the date hereof:

(a) there shall be any capital reorganization or reclassification of the shares of Common Stock (other than a subdivision or combination of its outstanding shares of Common Stock and other than a change in the par value or the shares of Common Stock, or a change from par value to no par value or from no par value to par value), or any consolidation or merger to which the Company is a party and for which approval of any shareholders of the Company is required, or any sale or transfer of all or substantially all the assets of the Company; or

(b) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Company;

then the Company shall cause to be delivered to each Optionholder, as promptly as possible but in any event at least 10 days prior to the applicable date hereinafter specified, a notice stating the date on which such reorganization, reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding up is expected

to become effective, and the date as of which it is expected that holders of shares of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property

deliverable upon such reorganization, reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected that holders of shares of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding up.

6. Limitation of Liability

No provision hereof, in the absence of affirmative action by the Optionholder to purchase shares of Common Stock, and no mere enumeration herein of the rights and privileges of the Optionholder, shall give rise to any liability of such Optionholder for the Purchase Price or as a shareholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

7. Miscellaneous Provisions

7.1 Notices and Demands on Company and Optionholder. Any notice or demand which by any provision of this Option is required or permitted to be given or served may be given or served by being deposited postage prepaid, registered or certified mail, return receipt requested, in a post office letter box addressed (until another address of the Company is given by the Company to the Optionholder) as follows: if to the Company, then to Star Gas Corporation, 500 Birchfield Drive, Mt. Laurel, New Jersey 08054; if to the Optionholder, then to Petroleum Heat and Power Co., Inc., Davenport Street, Stamford, Connecticut 06094, Attn: George Leibowitz, Senior Vice President. All notices shall be deemed to have been given upon delivery or mailing thereof.

7.2 Amendments And Waivers. Any term of this Option may be changed, waived, discharged or terminated only be a written consent of the Company and the Optionholder.

7.3 Laws Of Delaware To Govern. This Option shall be deemed to be a contract made under the laws of the State of Delaware and for all purposes shall be governed by and construed in accordance with the internal laws of such State.

7.4 Effect Of Headings. The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

IN WITNESS WHEREOF, the Company has caused this Option to be signed in its name by a duly authorized officer and attested by its Secretary or Assistant Secretary.

Dated: December 21, 1993

STAR GAS CORPORATION

_____

Name:
Title:

ATTEST:

_____

Name:
Title:

EXHIBIT B - TOTAL COMPENSATION COST

The amount of compensation shown in the employee's Form W-2 plus the following:

employer's share of FICA tax
federal unemployment tax
state unemployment tax
state disability tax
employee group insurance benefits
retirement benefits
expenses of a similar nature