

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2004

OR

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

For the transition period from _____ to _____

Commission File Number: 33-98490
Commission File Number: 333-103873

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

(Exact name of registrants as specified in its charters)

Delaware
Delaware
(State or other jurisdiction of
incorporation or organization)

06-1437793
75-3094991
(I.R.S. Employer
Identification No.)

2187 Atlantic Street, Stamford, Connecticut 06902
(Address of principal executive office)

(203) 328-7310
(Registrants' telephone number, including area code)

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

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

Indicate by check mark whether the registrants are accelerated filers (as defined in Rule 12b-2 of the Act). Yes No

At April 23, 2004, the registrants had units and shares of each issuer's classes of common stock outstanding as follows:

Star Gas Partners, L.P.	Common Units	32,165,528
Star Gas Partners, L.P.	Senior Subordinated Units	3,242,696
Star Gas Partners, L.P.	Junior Subordinated Units	345,364
Star Gas Partners, L.P.	General Partner Units	325,729
Star Gas Finance Company	Common Shares	100

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

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

(in thousands)	Sept. 30, 2003	March 31, 2004
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,044	\$ 25,677
Receivables, net of allowance of \$7,542 and \$9,344, respectively	100,511	218,743
Inventories	38,561	55,911
Prepaid expenses and other current assets	51,470	46,200
Net current assets of discontinued operations	10,523	—
	<hr/>	<hr/>
Total current assets	211,109	346,531
Property and equipment, net	261,867	254,082
Long-term portion of accounts receivables	7,145	7,114
Goodwill	272,740	273,350
Intangibles, net	201,468	187,255
Deferred charges and other assets, net	14,414	17,982
Net long-term assets of discontinued operations	6,867	—
	<hr/>	<hr/>
Total Assets	\$975,610	\$1,086,314
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities		
Accounts payable	\$ 27,140	\$ 32,440
Working capital facility borrowings	12,000	85,100
Current maturities of long-term debt	22,847	22,586
Accrued expenses	82,356	81,764
Unearned service contract revenue	32,036	33,427
Customer credit balances	74,716	26,772
Net current liabilities of discontinued operations	7,569	—
	<hr/>	<hr/>
Total current liabilities	258,664	282,089
Long-term debt	499,341	488,496
Other long-term liabilities	27,829	27,442
Partners' capital (deficit)		
Common unitholders	210,636	298,486
Subordinated unitholders	(57)	6,006
General partner	(3,082)	(2,523)
Accumulated other comprehensive loss	(17,721)	(13,682)
	<hr/>	<hr/>
Total Partners' capital	189,776	288,287
	<hr/>	<hr/>
Total Liabilities and Partners' Capital	\$975,610	\$1,086,314
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See accompanying notes to condensed consolidated financial statements.

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

(in thousands, except per unit data)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2004	2003	2004
Sales:				
Product	\$ 583,587	\$ 572,921	\$ 904,650	\$ 928,942
Installations, service and appliances	45,117	52,468	95,385	114,464
Total sales	628,704	625,389	1,000,035	1,043,406
Cost and expenses:				
Cost of product	371,635	353,056	561,101	572,627
Cost of installations, service and appliances	52,181	57,109	106,201	117,815
Delivery and branch expenses	86,644	96,662	161,158	180,655
Depreciation and amortization expenses	12,788	14,597	25,512	29,022
General and administrative expenses	11,748	10,592	21,905	18,695
Operating income	93,708	93,373	124,158	124,592
Interest expense	(11,393)	(12,729)	(20,343)	(24,381)
Interest income	856	801	1,517	1,634
Amortization of debt issuance costs	(554)	(774)	(991)	(2,043)
Loss on redemption of debt	(181)	—	(181)	—
Income from continuing operations before income taxes	82,436	80,671	104,160	99,802
Income tax expense	1,460	744	2,135	1,150
Income from continuing operations	80,976	79,927	102,025	98,652
Income from discontinued operations before gain on sale of TG&E segment and cumulative effect of change in accounting principle, net of income taxes	2,187	496	1,078	1,083
Gain on sale of TG&E segment, net of income taxes	—	230	—	230
Cumulative effect of change in accounting principle for adoption of SFAS No. 142 for discontinued operations	—	—	(3,901)	—
Net income	\$ 83,163	\$ 80,653	\$ 99,202	\$ 99,965
General Partner's interest in net income	\$ 832	\$ 739	\$ 992	\$ 933
Limited Partners' interest in net income	\$ 82,331	\$ 79,914	\$ 98,210	\$ 99,032
Net income per Limited Partner unit:				
Basic	\$ 2.54	\$ 2.27	\$ 3.03	\$ 2.86
Diluted	\$ 2.53	\$ 2.27	\$ 3.02	\$ 2.86
Basic weighted average number of Limited Partner units outstanding	32,453	35,158	32,452	34,655
Diluted number of Limited Partner units	32,561	35,158	32,560	34,655

See accompanying notes to condensed consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2004	2003	2004
Net income	\$83,163	\$80,653	\$99,202	\$ 99,965
Other comprehensive income:				
Net unrealized gain (loss) on derivative instruments	(6,468)	(5,445)	(5,988)	4,039
Comprehensive income	<u>\$76,695</u>	<u>\$75,208</u>	<u>\$93,214</u>	<u>\$ 104,004</u>

Reconciliation of Accumulated Other Comprehensive Income (Loss)

(in thousands)	Pension Plan Obligations	Derivative Instruments	Total
	<u> </u>	<u> </u>	<u> </u>
Balance as of September 30, 2002	\$ (15,745)	\$ 4,918	\$(10,827)
Reclassification to earnings	—	(7,685)	(7,685)
Gain on derivative instruments	—	1,697	1,697
Other comprehensive loss	<u>—</u>	<u>(5,988)</u>	<u>(5,988)</u>
Balance as of March 31, 2003	<u>\$ (15,745)</u>	<u>\$ (1,070)</u>	<u>\$(16,815)</u>
Balance as of September 30, 2003	\$ (17,214)	\$ (507)	\$(17,721)
Reclassification to earnings	—	(8,165)	(8,165)
Gain on derivative instruments	—	12,204	12,204
Other comprehensive income	<u>—</u>	<u>4,039</u>	<u>4,039</u>
Balance as of March 31, 2004	<u>\$ (17,214)</u>	<u>\$ 3,532</u>	<u>\$(13,682)</u>

See accompanying notes to condensed consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL

	Number of Units				Common	Junior Sub.	General Partner	Accum. Other Comprehensive Income (Loss)	Total Partners' Capital
	Common	Sr. Sub.	Jr. Sub.	General Partner					
<i>(in thousands, except per unit amounts)</i>									
Balance as of September 30, 2003	30,671	3,142	345	326	\$210,636	\$(1,628)	\$(3,082)	\$ (17,721)	\$189,776
Issuance of units	1,495	101			34,996				34,996
Net income					88,936	984	933		99,965
Other comprehensive income, net								4,039	4,039
Unit compensation expense					48				84
Distributions (\$1.15 per unit)					(36,130)	(398)	(374)		(40,573)
Balance as of March 31, 2004	32,166	3,243	345	326	\$298,486	(1,042)	\$(2,523)	\$ (13,682)	\$288,287

See accompanying notes to condensed consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended March 31,	
	2003	2004
<i>(in thousands)</i>		
Cash flows provided by (used in) operating activities:		
Net income	\$ 99,202	\$ 99,965
Deduct: Income from discontinued operations	(1,078)	(1,083)
Gain on sale of discontinued operations	—	(230)
Add: Cumulative effect of change in accounting principle for adoption of SFAS No. 142 for discontinued operations	3,901	—
	<u>102,025</u>	<u>98,652</u>
Income from continuing operations	102,025	98,652
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	25,512	29,022
Amortization of debt issuance cost	991	2,043
Unit compensation expense	1,023	84
Loss on redemption of debt	181	—
Provision for losses on accounts receivable	2,452	3,703
Loss (gain) on sales of fixed assets, net	54	(149)
Changes in operating assets and liabilities:		
Increase in receivables	(164,507)	(120,239)
Increase in inventories	(12,716)	(17,270)
Decrease (increase) in other assets	(5,802)	5,021
Increase in accounts payable	16,146	5,502
Decrease in other current and long-term liabilities	(47,469)	(48,948)
	<u>(82,110)</u>	<u>(42,579)</u>
Net cash used in continuing operating activities	(82,110)	(42,579)
Cash flows provided by (used in) investing activities:		
Capital expenditures	(7,894)	(3,900)
Proceeds from sales of fixed assets	338	1,000
Cash proceeds from disposition of TG&E segment	—	12,795
Acquisitions	(1,837)	(4,232)
	<u>(9,393)</u>	<u>5,663</u>
Net cash provided by (used in) investing activities	(9,393)	5,663
Cash flows provided by (used in) financing activities:		
Working capital facility borrowings	179,000	130,500
Working capital facility repayments	(66,400)	(57,400)
Acquisition facility repayments	(32,600)	(44,200)
Proceeds from the issuance of debt	196,932	38,646
Repayment of debt	(137,226)	(5,345)
Distributions	(34,892)	(40,573)
Proceeds from the issuance of common units, net	—	34,996
Increase in deferred charges	(7,713)	(5,565)
	<u>97,101</u>	<u>51,059</u>
Net cash provided by financing activities	97,101	51,059
Net cash provided by discontinued operations	2,373	1,490
Net increase in cash	7,971	15,633
Cash and cash equivalents at beginning of period	61,007	10,044
	<u>\$ 68,978</u>	<u>\$ 25,677</u>
Cash and cash equivalents at end of period	\$ 68,978	\$ 25,677

See accompanying notes to condensed consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1) Partnership Organization

Star Gas Partners, L.P. (“Star Gas” or the “Partnership”) is a diversified home energy distributor and services provider, specializing in heating oil and propane. Star Gas is a master limited partnership, which at March 31, 2004 had outstanding 32.2 million common units (NYSE: “SGU” representing an 89.1% limited partner interest) and 3.2 million senior subordinated units (NYSE: “SGH” representing a 9.0% limited partner interest). Additional Partnership interests include 0.3 million junior subordinated units (representing a 1.0% limited partner interest) and 0.3 million general partner units (representing a 0.9% general partner interest).

The Partnership is organized as follows:

- Star Gas Propane, L.P. (“Star Gas Propane”) is the Partnership’s operating subsidiary and, together with its direct and indirect subsidiaries, accounts for substantially all of the Partnership’s assets, sales and earnings. Both the Partnership and Star Gas Propane are Delaware limited partnerships that were formed in October 1995 in connection with the Partnership’s initial public offering. The Partnership is the sole limited partner of Star Gas Propane with a 99% limited partnership interest.
- The general partner of both the Partnership and Star Gas Propane is Star Gas LLC, a Delaware limited liability company. The Board of Directors of Star Gas LLC is appointed by its members. For information concerning the members of Star Gas LLC and its Board of Directors see “Item 10, Directors and Executive Officers of the Registrant” in the Partnership’s annual report on Form 10-K for fiscal year ended September 30, 2003. Star Gas LLC owns an approximate 1% general partner interest in the Partnership and also owns an approximate 1% general partner interest in Star Gas Propane.
- The Partnership’s propane operations (the “propane segment”) are conducted through Star Gas Propane and its direct and indirect subsidiaries. Star Gas Propane primarily markets and distributes propane gas and related products to approximately 340,000 customers in the Midwest, Northeast, Florida and Georgia.
- The Partnership’s heating oil operations (the “heating oil segment”) are conducted through Petro Holdings, Inc. (“Petro”) and its direct and indirect subsidiaries. Petro is a Minnesota corporation that is an indirect wholly-owned subsidiary of Star Gas Propane. Petro is a retail distributor of home heating oil and serves approximately 534,000 customers in the Northeast and Mid-Atlantic.
- Star Gas Finance Company is a direct wholly-owned subsidiary of the Partnership. Star Gas Finance Company serves as the co-issuer, jointly and severally with the Partnership, of the Partnership’s \$235 million 10¼% Senior Notes which are due in 2013. The Partnership is dependent on distributions from its subsidiaries to service the Partnership’s debt obligations. The distributions from the Partnership’s subsidiaries are not guaranteed and are subject to certain loan restrictions. Star Gas Finance Company has nominal assets and conducts no business operations.

2) Summary of Significant Accounting Policies

Basis of Presentation

The Condensed Consolidated Financial Statements include the accounts of Star Gas Partners, L.P., and its subsidiaries. All material intercompany items and transactions have been eliminated in consolidation.

The financial information included herein is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for the fair statement of financial condition and results for the interim periods. The results of operations for the three and six month periods ended March 31, 2003 and March 31, 2004 are not necessarily indicative of the results to be expected for the full year. These statements have been prepared on a basis substantially consistent with the accounting principles applied in the Partnership's Annual Report on Form 10-K for the year ended September 30, 2003.

These interim financial statements of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and Rule 10-01 of Regulation S-X of the U.S. Securities and Exchange Commission and should be read in conjunction with the Partnership's Annual Report on Form 10-K for the year ended September 30, 2003.

The Partnership's natural gas and electricity operations segment was sold on March 31, 2004. These operations were conducted through Total Gas & Electric, Inc. ("TG&E"), a Florida corporation. As a result of the sale of the TG&E segment, the Partnership has restated its prior year results to include the results of the TG&E segment and the gain on the disposition as a component of discontinued operations in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".

Inventories

Inventories are stated at the lower of cost or market and are computed on a first-in, first-out basis. At the dates indicated, the components of inventory were as follows (in thousands):

	Sept. 30, 2003	March. 31, 2004
Propane gas	\$ 8,288	\$ 5,971
Propane appliances and equipment	5,153	5,116
Heating oil and other fuels	12,268	31,816
Fuel oil parts and equipment	12,852	13,008
	<u>\$38,561</u>	<u>\$ 55,911</u>

Property, plant and equipment, consists of the following (in thousands):

	Sept. 30, 2003	March. 31, 2004
Property, plant and equipment	\$374,212	\$379,240
Less: accumulated depreciation	112,345	125,158
Property and equipment, net	<u>\$261,867</u>	<u>\$254,082</u>

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Derivatives and Hedging

The Partnership uses derivative financial instruments to manage its exposure to market risk related to changes in the current and future market price of home heating oil and propane. The Partnership believes it is prudent to minimize the variability and price risk associated with the purchase of home heating oil and propane. Accordingly, it is the Partnership's objective to hedge the cash flow variability associated with forecasted purchases of its inventory held for resale through the use of derivative instruments when appropriate. To a lesser extent, the Partnership also hedges the fair value of inventory on hand or firm commitments to purchase inventory. To meet these objectives, it is the Partnership's policy to enter into various types of derivative instruments to (i) manage the variability of cash flows resulting from the price risk associated with forecasted purchases of home heating oil and propane; and (ii) hedge the downside price risk of firm purchase commitments and in some cases physical inventory on hand.

Derivatives that are not designated as hedges must be adjusted to fair value through earnings. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk are recorded in earnings. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in accumulated other comprehensive income, until earnings are affected by the variability in cash flows of the designated hedged item. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

2) Summary of Significant Accounting Policies—(continued)

All derivative instruments are recognized on the balance sheet at their fair value. On the date the derivative contract is entered into, the Partnership designates the derivative as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). The Partnership formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Partnership also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Partnership discontinues hedge accounting prospectively. When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective hedge, the Partnership continues to carry the derivative on the balance sheet at its fair value, and recognizes changes in the fair value of the derivative through current-period earnings.

For the three and six months ended March 31, 2004, the change in accumulated other comprehensive income (loss) is principally attributable to the increase in fair value of existing cash flow hedges offset in part by the reclassification to earnings of accumulated gains on cash flow hedges that settled during the period.

Goodwill and Other Intangible Assets

SFAS No. 142, "Goodwill and Other Intangible Assets" requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

The Partnership adopted the applicable provisions of SFAS No. 142 on October 1, 2002, and recorded a non-cash charge of \$3.9 million to reduce the carrying value of its then TG&E segment's goodwill in its first quarter of fiscal 2003. This charge was reflected as a cumulative effect of change in accounting principle in the Partnership's condensed consolidated statement of operations for the six month period ended March 31, 2003. The Partnership performs its annual impairment review during its fourth fiscal quarter.

3) Long-term Debt

In January 2004, Star Gas and its wholly owned subsidiary, Star Gas Finance Company, jointly issued \$35.0 million of 10 ¼% Senior Notes, due 2013 in a private placement. These notes were issued at a premium to par for total net proceeds of \$38.1 million. In February 2004, Star Gas issued 1.495 million common units (including a 15% over-allotment option) for total net proceeds of \$35.0 million. The net proceeds of these two offerings resulted in net cash received of \$73.1 million. As of March 31, 2004, the net proceeds from the offerings were used to repay a portion of outstanding indebtedness (\$13.0 million of the propane segment's revolving acquisition facility, \$33.0 million of the heating oil segment's revolving acquisition facility, \$5.1 million of the propane segment's 8.04% First Mortgage Notes that were due on March 15, 2004, \$1.5 million of the heating oil segment's working capital facility and \$0.2 million of propane's working capital facility) and approximately \$7.2 million were used for general partnership purposes. The Partnership has also designated \$13.1 million of the net proceeds to repay existing long-term debt as it becomes due in fiscal 2004.

In September 2003, the heating oil segment entered into an interest rate swap agreement designed to hedge \$55.0 million in underlying fixed rate senior note obligations, in order to reduce overall interest expense. The swap agreements would have expired August 1, 2006, and required the counterparties to pay an amount based on the stated fixed interest rate (annual rate 8.05%) pursuant to the senior notes for an aggregate \$2.2 million due every six months on August 1 and February 1. In exchange, the heating oil segment was required to make semi-annual floating interest rate payments on the first of August and February based on an annual interest rate equal to the 6 month LIBOR interest rate plus 5.52% applied to the same notional amount of \$55.0 million. The swap agreements were recognized as fair value hedges. Amounts to be paid or received under the interest rate swap agreements were accrued and recognized over the life of the agreements as an adjustment to interest expense. On March 11, 2004, Petro and the counterparty signed mutual termination agreements relating to its interest rate swap transactions. Petro terminated these obligations and liabilities in advance of its scheduled termination date, August 1, 2006, and received \$0.5 million. This amount was reflected as a basis adjustment to the fair values of the related debt and is being amortized using the effective yield over the remaining lives of the swap agreements as a reduction of interest expense.

4) Discontinued Operations

The TG&E segment ("TG&E") was the partnership's energy reseller that marketed natural gas and electricity to residential households in deregulated energy markets in New York, New Jersey, Florida and Maryland and served approximately 65,000 residential customers. TG&E's operations were conducted through Total Gas & Electric, Inc. ("TG&E"), a Florida corporation, that was an indirect wholly-owned subsidiary of Petro. On March 31, 2004, the partnership sold the stock and business of TG&E in an all-cash transaction to a private party. The Partnership received proceeds of approximately \$12.8 million from the sale of TG&E. This amount is subject to adjustments, primarily for post closing increases in bad debts and for gross customer losses over an agreed amount. The amount of net working capital paid at closing by the buyer is also subject to verification. These adjustments have been estimated and are included in the \$12.8 million of proceeds and the \$0.2 million gain calculation. The sale of TG&E was effective March 31, 2004.

Income from discontinued operations for the three and six month periods ended March 31, 2003 and March 31, 2004 are as follows (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2004	2003	2004
Sales	\$40,116	\$36,568	\$53,765	\$52,413
Cost of sales	35,445	33,112	47,306	46,867
Depreciation and amortization	97	138	221	258
General and administrative expenses	2,286	2,747	4,978	4,055
Operating income	2,288	571	1,260	1,233
Net interest expense	101	75	182	150
Income from discontinued operations before gain on sale of TG&E segment and cumulative effect of change in accounting principle, net of income taxes	2,187	496	1,078	1,083
Gain on sale of TG&E segment, net of taxes	—	230	—	230
Cumulative effect of change in accounting principle for adoption of SFAS No. 142	—	—	(3,901)	—
Income from discontinued operations	\$ 2,187	\$ 726	\$ (2,823)	\$ 1,313

5) Segment Reporting

The Partnership has two reportable operating segments: retail distribution of heating oil and retail distribution of propane gas. The administrative expenses for the public master limited partnership, Star Gas Partners, have not been allocated to the segments. Management has chosen to organize the enterprise under these two segments in order to leverage the expertise it has in each industry, allow each segment to continue to strengthen its core competencies and provide a clear means for evaluation of operating results.

The heating oil segment is primarily engaged in the retail distribution of home heating oil, related equipment services and equipment sales to residential and commercial customers. It operates primarily in the Northeast and Mid-Atlantic states. Home heating oil is principally used by the Partnership's residential and commercial customers to heat their homes and buildings, and as a result, weather conditions have a significant impact on the demand for home heating oil.

The propane segment is primarily engaged in the retail distribution of propane and related supplies and equipment to residential, commercial, industrial, agricultural and motor fuel customers, in the Midwest, Northeast, Florida and Georgia. Propane is used primarily for space heating, water heating and cooking by the Partnership's residential and commercial customers and as a result, weather conditions also have a significant impact on the demand for propane.

The public master limited partnership includes the office of the Chief Executive Officer and has the responsibility for maintaining investor relations and investor reporting for the Partnership.

5) Segment Reporting-- (continued)

The following are the condensed statements of operations and balance sheets for each segment as of and for the periods indicated. There were no inter-segment sales.

Three Months Ended March 31,

(in thousands)	2003				2004			
	Heating Oil	Propane	Partners & Others	Consol.	Heating Oil	Propane	Partners & Others	Consol.
Statements of Operations								
Sales	\$ 511,069	\$ 117,635	\$ —	\$ 628,704	\$ 481,768	\$ 143,621	\$ —	\$ 625,389
Cost of sales	359,468	64,348	—	423,816	327,826	82,339	—	410,165
Delivery and branch expenses	66,506	20,138	—	86,644	72,010	24,652	—	96,662
Depreciation & amortization expenses	8,604	4,184	—	12,788	9,522	5,075	—	14,597
General and administrative expenses	5,039	2,695	4,014	11,748	4,232	2,548	3,812	10,592
Operating income (loss)	71,452	26,270	(4,014)	93,708	68,178	29,007	(3,812)	93,373
Net interest expense	5,671	2,878	1,988	10,537	7,465	2,570	1,893	11,928
Amortization of debt issuance costs	429	49	76	554	553	42	179	774
Loss (gain) redemption of debt	(212)	393	—	181	—	—	—	—
Income (loss) from continuing operations before taxes	65,564	22,950	(6,078)	82,436	60,160	26,395	(5,884)	80,671
Income tax expense	1,385	75	—	1,460	669	75	—	744
Income (loss) from continuing operations	64,179	22,875	(6,078)	80,976	59,491	26,320	(5,884)	79,927
Income from discontinued operations before gain on sale of TG&E segment, net of income taxes	—	—	2,187	2,187	—	—	496	496
Gain on sale of TG&E segment, net of income taxes	—	—	—	—	—	—	230	230
Net income (loss)	\$ 64,179	\$ 22,875	\$ (3,891)	\$ 83,163	\$ 59,491	\$ 26,320	\$ (5,158)	\$ 80,653
Capital expenditures	\$ 2,278	\$ 1,119	\$ —	\$ 3,397	\$ 831	\$ 491	\$ —	\$ 1,322

Six Months Ended March 31,

(in thousands)	2003				2004			
	Heating Oil	Propane	Partners & Others	Consol.	Heating Oil	Propane	Partners & Others	Consol.
Statements of Operations								
Sales	\$ 806,055	\$ 193,980	\$ —	\$ 1,000,035	\$ 797,838	\$ 245,568	\$ —	\$ 1,043,406
Cost of sales	566,386	100,916	—	667,302	553,719	136,723	—	690,442
Delivery and branch expenses	122,080	39,078	—	161,158	132,688	47,967	—	180,655
Depreciation & amortization expenses	17,171	8,341	—	25,512	19,039	9,983	—	29,022
General and administrative expenses	9,420	4,915	7,570	21,905	7,805	4,950	5,940	18,695
Operating income (loss)	90,998	40,730	(7,570)	124,158	84,587	45,945	(5,940)	124,592
Net interest expense	10,665	6,177	1,984	18,826	13,641	4,994	4,112	22,747
Amortization of debt issuance costs	814	101	76	991	1,615	83	345	2,043
Loss (gain) redemption of debt	(212)	393	—	181	—	—	—	—
Income (loss) from continuing operations before taxes	79,731	34,059	(9,630)	104,160	69,331	40,868	(10,397)	99,802
Income tax expense	1,985	150	—	2,135	1,000	150	—	1,150
Income (loss) from continuing operations	77,746	33,909	(9,630)	102,025	68,331	40,718	(10,397)	98,652
Income from discontinued operations before gain on sale of TG&E segment and cumulative effect of change in accounting principle, net of income taxes	—	—	1,078	1,078	—	—	1,083	1,083
Gain on sale of TG&E segment, net of income taxes	—	—	—	—	—	—	230	230
Cumulative effect of change in accounting principle	—	—	(3,901)	(3,901)	—	—	—	—
Net income (loss)	\$ 77,746	\$ 33,909	\$ (12,453)	\$ 99,202	\$ 68,331	\$ 40,718	\$ (9,084)	\$ 99,965
Capital expenditures	\$ 4,935	\$ 2,959	\$ —	\$ 7,894	\$ 1,684	\$ 2,216	\$ —	\$ 3,900

5) Segment Reporting – (continued)

	September 30, 2003				March 31, 2004			
	Heating Oil	Propane	Partners & Others (1)	Consol.	Heating Oil	Propane	Partners & Others (1)	Consol.
(in thousands)								
Balance Sheets								
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 4,244	\$ 5,788	\$ 12	\$ 10,044	\$ 15,477	\$ 10,123	\$ 77	\$ 25,677
Receivables, net	84,814	15,697	—	100,511	183,905	34,838	—	218,743
Inventories	24,146	14,415	—	38,561	43,402	12,509	—	55,911
Prepaid expenses and other current assets	48,168	3,736	(434)	51,470	42,418	4,397	(615)	46,200
Net current assets of discontinued operations	10,523	—	—	10,523	—	—	—	—
Total current assets	171,895	39,636	(422)	211,109	285,202	61,867	(538)	346,531
Property and equipment, net	75,715	186,152	—	261,867	69,206	184,876	—	254,082
Long-term portion of accounts receivable	6,108	1,037	—	7,145	6,125	989	—	7,114
Investment in subsidiaries	—	103,604	(103,604)	—	—	151,095	(151,095)	—
Goodwill	232,602	40,138	—	272,740	233,074	40,276	—	273,350
Intangibles, net	123,415	78,053	—	201,468	113,433	73,822	—	187,255
Deferred charges & other assets, net	5,403	2,738	6,273	14,414	8,143	3,143	6,696	17,982
Net long-term assets of discontinued operations	6,867	—	—	6,867	—	—	—	—
Total Assets	\$622,005	\$451,358	\$ (97,753)	\$975,610	\$715,183	\$516,068	\$(144,937)	\$1,086,314
LIABILITIES AND PARTNERS' CAPITAL								
Current Liabilities:								
Accounts payable	\$ 19,428	\$ 7,712	\$ —	\$ 27,140	\$ 23,240	\$ 9,200	\$ —	\$ 32,440
Working capital facility borrowings	6,000	6,000	—	12,000	78,000	7,100	—	85,100
Current maturities of long-term debt	12,597	10,250	—	22,847	12,336	10,250	—	22,586
Accrued expenses and other current liabilities	60,582	9,222	12,552	82,356	57,488	9,901	14,375	81,764
Due to affiliates	(2,385)	(7,600)	9,985	—	(1,436)	14,178	(12,742)	—
Unearned service contract revenue	31,023	1,013	—	32,036	32,539	888	—	33,427
Customer credit balances	49,258	25,458	—	74,716	18,764	8,008	—	26,772
Net current liabilities of discontinued operations	7,569	—	—	7,569	—	—	—	—
Total current liabilities	184,072	52,055	22,537	258,664	220,931	59,525	1,633	282,089
Long-term debt	191,380	110,850	197,111	499,341	158,128	94,525	235,843	488,496
Due to affiliate	116,417	—	(116,417)	—	158,684	—	(158,684)	—
Other long-term liabilities	26,532	1,297	—	27,829	26,345	1,097	—	27,442
Partners' Capital:								
Equity Capital	103,604	287,156	(200,984)	189,776	151,095	360,921	(223,729)	288,287
Total Liabilities and Partners' Capital	\$622,005	\$451,358	\$ (97,753)	\$975,610	\$715,183	\$516,068	\$(144,937)	\$1,086,314

(1) The Partner and Other amounts include the balance sheet of the Public Master Limited Partnership, Star Gas Finance Company, as well as the necessary consolidation entries to eliminate the investment in Petro Holdings and Star Gas Propane.

6) Goodwill and Other Intangible Assets

On October 1, 2002, Star Gas adopted SFAS No. 142, which required the Partnership to discontinue amortizing goodwill. SFAS No. 142 also requires that goodwill be reviewed for impairment upon adoption of SFAS No. 142 and annually thereafter. The Partnership will perform its annual impairment review during the fourth fiscal quarter of each year, which commenced in the fiscal fourth quarter of 2003.

Under SFAS No. 142, goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. If goodwill of a reporting unit is determined to be impaired, the amount of impairment is measured based on the excess of the net book value of the goodwill over the implied fair value of the goodwill. The Partnership's reporting units are consistent with the operating segments identified in Note 5 – Segment Reporting.

Upon adoption of SFAS No. 142 in the first fiscal quarter of 2003, the Partnership recorded a non-cash charge of approximately \$3.9 million to reduce the carrying value of its goodwill for its then TG&E segment. This charge is reflected as a cumulative effect of change in accounting principle in the Partnership's condensed consolidated statement of operations for the six month period ended March 31, 2003. In calculating the impairment charge, the fair value of the reporting units was estimated using a discounted cash flow methodology.

A summary of the Partnership's goodwill at September 30, 2003 and March 31, 2004, by business segment is as follows (in thousands):

	Heating Oil	Propane	Total
Balance as of September 30, 2003	\$232,602	\$40,138	\$272,740
Fiscal 2004 acquisitions	472	138	610
Balance as of March 31, 2004	\$233,074	\$40,276	\$273,350

Intangible assets subject to amortization consist of the following (in thousands):

	September 30, 2003			March 31, 2004		
	Gross Carrying Amount	Accum. Amortization	Net	Gross Carrying Amount	Accum. Amortization	Net
Customer lists	\$289,323	\$ 92,877	\$196,446	\$290,133	\$ 106,868	\$183,265
Covenants not to compete	12,959	7,937	5,022	12,959	8,969	3,990
	\$302,282	\$ 100,814	\$201,468	\$303,092	\$ 115,837	\$187,255

Amortization expense for intangible assets was \$13.1 million for the six months ended March 31, 2003 compared to \$15.0 million for the six months ended March 31, 2004. Total estimated annual amortization expense related to intangible assets subject to amortization, for the year ended September 30, 2004 and the four succeeding fiscal years ended September 30, is as follows (in thousands):

2004	\$30,143
2005	\$29,864
2006	\$28,779
2007	\$28,128
2008	\$26,188

7) Employee Pension Plan

(in thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2004	2003	2004
Components of Net Periodic Benefit Cost				
Service cost	\$ —	\$ —	\$ —	\$ —
Interest cost	952	898	1,905	1,796
Expected return on plan assets	(885)	(1,042)	(1,772)	(2,085)
Net amortization	322	372	644	743
Effect of settlement	1	5	3	5
Net periodic benefit cost	\$ 390	\$ 233	\$ 780	\$ 459

As of March 31, 2004, the heating oil segment made contributions of \$0.1 million to its pension plans. The heating oil segment presently expects to contribute an additional \$0.5 million to its plans in each of the next two fiscal quarters to fund its pension obligations for fiscal 2004.

8) Acquisitions

During the six month period ended March 31, 2003, the Partnership acquired two retail propane dealers. The aggregate consideration for these acquisitions accounted for by the purchase method of accounting was approximately \$1.8 million. For the remainder of fiscal 2003, the Partnership acquired an additional three retail heating oil dealers and five propane dealers.

During the six month period ended March 31, 2004, the Partnership acquired two retail propane dealers and one retail heating oil dealer. The aggregate consideration for the acquisitions accounted for by the purchase method of accounting was approximately \$4.2 million.

The following table indicates the allocation of the aggregate purchase price paid for these acquisitions and the respective periods of amortization assigned for the six month periods ended March 31, 2003 and March 31, 2004:

(in thousands)	2003	2004	Useful Lives
Land	\$1,325	\$ 180	—
Buildings	—	126	30 years
Furniture and equipment	—	22	10 years
Fleet	—	319	1 – 30 years
Tanks and equipment	425	2,095	5 – 30 years
Customer lists	—	810	7 – 15 years
Restrictive covenants	107	—	5 years
Goodwill	—	610	—
Working capital	(20)	70	—
Total	\$1,837	\$4,232	

The acquisitions were accounted for under the purchase method of accounting. Purchase prices have been allocated to the acquired assets and liabilities based on their respective fair market values on the dates of acquisition. The purchase prices in excess of the fair values of net assets acquired are classified as goodwill in the Condensed Consolidated Balance Sheets. The weighted average useful lives assigned to customer lists acquired in fiscal 2004 is 7 years.

Sales and net income have been included in the Condensed Consolidated Statements of Operations from the respective dates of acquisition. The following unaudited pro forma information presents the results of operations of the Partnership, including the thirteen acquisitions completed since October 1, 2002, as if the acquisitions had taken place on October 1, 2002. This pro forma information is presented for informational purposes; it is not indicative of future operating performance (in thousands, except per unit data).

	Six Months Ended March 31,	
	2003	2004
Sales	\$ 1,169,913	\$ 1,045,852
Net income	\$ 110,793	\$ 100,246
General Partner's interest in net income	1,034	936
Limited Partners' interest in net income	\$ 109,759	\$ 99,310
Basic net income per limited partner unit	\$ 3.38	\$ 2.87
Diluted net income per limited partner unit	\$ 3.37	\$ 2.87

9) Supplemental Disclosure of Cash Flow Information

(in thousands)	Six Months Ended March 31,	
	2003	2004
Cash paid during the period for:		
Income taxes	\$ 705	\$ 689
Interest	\$20,030	\$22,498
Non-cash financing activities:		
Decrease in long-term debt for interest rate swaps	\$ (1,219)	\$ (293)
Increase in long-term debt for amortization of debt discount and debt premium, net	\$ 27	\$ 86
Decrease in other assets	\$ 1,192	\$ 207

10) Earnings Per Limited Partner Unit

(in thousands, except per unit data)	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2004	2003	2004
Income from continuing operations per Limited Partner unit:				
Basic	\$ 2.47	\$ 2.25	\$ 3.11	\$ 2.82
Diluted	\$ 2.46	\$ 2.25	\$ 3.10	\$ 2.82
Income from discontinued operations before gain on sale of TG&E segment and cumulative effect of change in accounting principle, net of income taxes per Limited Partner unit:				
Basic	\$ 0.07	\$ 0.01	\$ 0.03	\$ 0.03
Diluted	\$ 0.07	\$ 0.01	\$ 0.03	\$ 0.03
Gain on sale of TG&E segment, net of income taxes per Limited Partner unit:				
Basic	\$ —	\$ 0.01	\$ —	\$ 0.01
Diluted	\$ —	\$ 0.01	\$ —	\$ 0.01
Cumulative effect of change in accounting principle for adoption of SFAS No. 142 for discontinued operations per Limited Partner unit:				
Basic	\$ —	\$ —	\$ (0.12)	\$ —
Diluted	\$ —	\$ —	\$ (0.12)	\$ —
Net income per Limited Partner unit:				
Basic	\$ 2.54	\$ 2.27	\$ 3.03	\$ 2.86
Diluted	\$ 2.53	\$ 2.27	\$ 3.02	\$ 2.86
Basic Earnings Per Unit:				
Net income	\$83,163	\$80,653	\$99,202	\$99,965
Less: General Partner's interest in net income	832	739	992	933
Limited Partners' interest in net income	\$82,331	\$79,914	\$98,210	\$99,032
Common Units	28,970	31,591	28,970	31,128
Senior Subordinated Units	3,138	3,222	3,137	3,181
Junior Subordinated Units	345	345	345	345
Weighted average number of Limited Partner units outstanding	32,453	35,158	32,452	34,655
Basic earnings per unit	\$ 2.54	\$ 2.27	\$ 3.03	\$ 2.86
Diluted Earnings Per Unit:				
Effect of diluted securities	\$ —	\$ —	\$ —	\$ —
Limited Partners' interest in net income	\$82,331	\$79,914	\$98,210	\$99,032
Weighted average number of Limited Partner units outstanding	32,453	35,158	32,452	34,655
Senior subordinated units anticipated to be issued under employee incentive plan	108	—	108	—
Diluted number of Limited Partner units	32,561	35,158	32,560	34,655
Diluted earnings per unit	\$ 2.53	\$ 2.27	\$ 3.02	\$ 2.86

11) Subsequent Events

Cash Distributions – On April 29, 2004, the Partnership announced that it would pay a cash distribution of \$0.575 per Common Unit and \$0.575 per Senior Subordinated Unit, Junior Subordinated Unit and General Partner Interest for the quarter ended March 31, 2004. The distribution will be paid on May 14, 2004, to unitholders of record on May 10, 2004.

Item 2.

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Statement Regarding Forward-Looking Disclosure

This Report includes forward-looking statements which represent the Partnership's expectations or beliefs concerning future events that involve risks and uncertainties, including those associated with the effect of weather conditions on the Partnership's financial performance, the price and supply of home heating oil and propane and the ability of the Partnership to obtain new accounts and retain existing accounts and the realization of savings from the business process redesign project. All statements other than statements of historical facts included in this Report including, without limitation, the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere herein, are forward-looking statements. Although the Partnership believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the Partnership's expectations ("Cautionary Statements") are disclosed in this Report, including without limitation and in conjunction with the forward-looking statements included in this Report. All subsequent written and oral forward-looking statements attributable to the Partnership or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements.

Overview

In analyzing the financial results of the Partnership, the following matters should be considered.

The primary use for heating oil and propane is for space heating in residential and commercial applications. As a result, weather conditions have a significant impact on financial performance and should be considered when analyzing changes in financial performance. The Partnership has purchased weather insurance to partially mitigate the risk of weather conditions. In addition, gross margins can vary according to customer mix. For example, sales to residential customers generate higher profit margins than sales to other customer groups, such as agricultural customers. Accordingly, a change in customer mix can affect gross margins without necessarily impacting total sales. The customer mix was not a significant factor in either the current quarter to quarter comparison or for the current six months to six months comparison.

The Partnership completed the sale of its TG&E operations in March 2004. Accordingly, the following discussion reflects the historical results for the TG&E segment as discontinued operations.

The heating oil and propane industries are seasonal in nature with peak activity occurring during the winter months. Accordingly, results of operations for the periods presented are not indicative of the results to be expected for a full year.

The following is a discussion of the historical condition and results of operations of Star Gas Partners, L.P. and its subsidiaries, and should be read in conjunction with the historical Financial and Operating Data and Notes thereto included elsewhere in this quarterly report on Form 10-Q.

**THREE MONTHS ENDED MARCH 31, 2004
COMPARED TO THREE MONTHS ENDED MARCH 31, 2003**

Volume

For the three months ended March 31, 2004, retail volume of home heating oil and propane increased 3.1 million gallons, or 0.9%, to 352.5 million gallons, as compared to 349.4 million gallons for the three months ended March 31, 2003. This increase was due to a 13.8 million gallon increase in the propane segment largely offset by a 10.7 million gallon decrease in the heating oil segment. The increase in volume reflects the impact of an additional 40.4 million gallons provided by acquisitions partially offset by the impact of warmer temperatures and net customer losses, largely in the home heating oil segment's lower margin commercial business. The Partnership estimates that it has approximately 3% fewer customers, after adjusting for acquisitions, at March 31, 2004 than it had at March 31, 2003. The Partnership also believes that a shift in the delivery pattern at the heating oil segment, designed to increase efficiency reduced volume for the current quarter by an estimated 7.5 million gallons. Typical delivery patterns would have resulted in these gallons being delivered in the three months ended March 31, 2004. Temperatures in the Partnership's areas of operations for the three months ended March 31, 2004 were an average of 2.4% warmer than in the prior year's comparable quarter and approximately 6.0% colder than normal as reported by the National Oceanic Atmosphere Administration ("NOAA").

The above activity is summarized as follows:

	(in millions)
Volume – three months ended March 31, 2003	349.4
Impact of warmer temperatures	(5.1)
Impact of acquisitions	40.4
Lower commercial volume	(11.0)
Delivery scheduling	(7.5)
Net customer losses and other	(13.7)
Volume – three months ended March 31, 2004	352.5

Sales

For the three months ended March 31, 2004, sales decreased \$3.3 million, or 0.5%, to \$625.4 million, as compared to \$628.7 million for the three months ended March 31, 2003. This decrease was due to \$29.3 million lower home heating oil sales largely offset by \$26.0 million higher propane segment sales. Sales remained relatively flat as the per gallon selling prices for the current quarter were slightly down from the prior year per gallon selling prices. Sales of rationally related products, including heating and air conditioning equipment installation and service and water softeners increased \$4.3 million in the heating oil segment and by \$3.1 million in the propane segment from the prior year's comparable period due to acquisitions, increased installation activity and from increases in rates charged to customers for service contracts and increases in billable service.

Cost of Product

For the three months ended March 31, 2004, cost of product decreased \$18.6 million, or 5.0%, to \$353.1 million, as compared to \$371.6 million for the three months ended March 31, 2003. This decrease was due to \$35.2 million of lower cost of product at the home heating oil segment partially offset by \$16.6 million higher cost of product at the propane segment. Cost of product decreased due to slightly lower supply cost which was offset to a much lesser extent by the additional cost of product related to the increase in volume. While selling prices and supply cost both decreased on a per gallon basis, the decrease in selling prices was less than the decrease in supply cost, which results in higher per gallon margins of approximately 1.5 cents.

Cost of Installations, Service and Appliances

For the three months ended March 31, 2004, cost of installations, service and appliances increased \$4.9 million, or 9.4%, to \$57.1 million, as compared to \$52.2 million for the three months ended March 31, 2003. This increase was due to an additional \$3.5 million in the heating oil segment and by \$1.4 million in the propane segment from the prior year's comparable period largely due to the increase in sales of these products.

Delivery and Branch Expenses

For the three months ended March 31, 2004, delivery and branch expenses increased \$10.0 million, or 11.6%, to \$96.7 million, as compared to \$86.6 million for the three months ended March 31, 2003. This increase was due to an additional \$5.5 million of delivery and branch expenses at the heating oil segment and a \$4.5 million increase in delivery and branch expenses for the propane segment. The increase in delivery and branch expenses was largely due to additional operating cost associated with

acquisitions, increased customer service expense of \$0.9 million at the heating oil segment resulting largely from the start-up of the new outsourced call center and for the impact of operating expense and wage increases. Delivery and branch expenses increased approximately \$2.4 million from the comparable prior year quarter due to the impact of operating expense and wage increases and by \$8.9 million for acquisitions. This \$8.9 million is largely for the establishment of base operations in new markets as well as for the variable cost of delivering the additional gallons provided by acquisitions. Delivery and branch expenses also increased due to a sales reorganization undertaken in the heating oil segment which resulted in the elimination of 43 sales positions. Reorganization costs, consisting principally of severance costs, totaled \$0.9 million. This reorganization represents an expansion of the segment's centralized sales center as the segment moves away from a one to one selling model. These increases in delivery and branch expenses were partially reduced by cost reductions relating to lower volume delivered due to warmer temperatures and net customer losses experienced in fiscal 2004.

The heating oil segment's business process redesign project was substantially completed during fiscal 2003. As part of this redesign, a transition to outsourcing in the area of customer call center management has been undertaken as both a customer satisfaction and a cost reduction strategy. The Partnership believes outsourcing customer inquiries will improve customer responsiveness and eliminate redundancy by leveraging the technology and expertise available from third party service organizations. In addition, an outsourcing partner has greater flexibility to manage extreme seasonal volume. Start up challenges associated with the transition to a third party customer call center impacted the customer base in the first six months of fiscal 2004 and have required unanticipated training and support which will be ongoing through fiscal 2004. This will reduce the savings otherwise anticipated to be realized from the business redesign project in fiscal 2004.

Depreciation and Amortization Expenses

For the three months ended March 31, 2004, depreciation and amortization expenses increased \$1.8 million, or 14.1%, to \$14.6 million, as compared to \$12.8 million for the three months ended March 31, 2003. This increase was primarily due to a larger depreciable base of assets as a result of the impact of acquisitions and for increased depreciation resulting from the technology investment made by the heating oil segment as part of its business process redesign project.

General and Administrative Expenses

For the three months ended March 31, 2004, general and administrative expenses decreased \$1.2 million, or 9.8%, to \$10.6 million, as compared to \$11.7 million for the three months ended March 31, 2003. The heating oil segment's business process redesign project was substantially completed during fiscal 2003 and the Partnership did not incur any expense for this project for the quarter ended March 31, 2004. General and administrative expenses for the three months ended March 31, 2003 included \$1.3 million of expense for this project. While the heating oil segment's business design project was substantially completed in fiscal 2003, continued efforts toward organizational improvement continue. Additional organizational and management changes are being actively studied.

Interest Expense

For the three months ended March 31, 2004, interest expense increased \$1.3 million, or 11.7%, to \$12.7 million, as compared to \$11.4 million for the three months ended March 31, 2003. This increase was largely due to a higher average balance of long-term debt outstanding during the three months ended March 31, 2004 compared to the three month period ended March 31, 2003 and for additional interest related to the higher interest rate on the Partnership's \$235.0 million debt offerings largely completed in fiscal 2003 versus the debt repaid with the proceeds from these offerings. This increase in long-term debt outstanding was largely for the funding of acquisitions.

Amortization of Debt Issuance Costs

For the three months ended March 31, 2004, amortization of debt issuance costs increased \$0.2 million, or 39.7%, to \$0.8 million, as compared to \$0.6 million for the three months ended March 31, 2003. This increase was largely due to the amortization of debt issuance costs for the Partnership's \$235.0 million debt offerings and for the amortization of bank fees incurred in connection with the heating oil segment's bank credit facility.

Loss on Redemption of Debt

For the three months ended March 31, 2003, the Partnership recorded a \$0.2 million expense largely consisting of the unamortized deferred debt issuance cost associated with long-term debt repaid partially offset by the gain on extinguishments applicable to the portion of the related debt that was repaid.

Income Tax Expense

For the three months ended March 31, 2004, income tax expense decreased \$0.7 million to \$0.7 million, as compared to \$1.5 million for the three months ended March 31, 2003. This decrease was due to lower expected state income taxes for fiscal 2004.

Income from Continuing Operations

For the three months ended March 31, 2004, income from continuing operations decreased \$1.0 million or 1.3%, to \$79.9 million, as compared to \$81.0 million for the three months ended March 31, 2003. This decrease was due to a \$4.7 million decrease in income from continuing operations at the heating oil segment largely offset by \$3.4 million higher income from continuing operations at the propane segment and a slightly less loss of \$0.2 million at the Partnership level. The decrease in income from continuing operations was primarily due to the impact of warmer temperatures and net customer losses largely offset by the impact of acquisitions, increased revenues from installations, service and appliances sales and from increased per gallon margins.

Income From Discontinued Operations

For the three months ended March 31, 2004, income from discontinued operations decreased \$1.7 million, or 77.3%, to \$0.5 million, as compared to \$2.2 million for the three months ended March 31, 2003. This decrease was largely due to lower natural gas margins and higher direct marketing expenses to obtain new customers. This income relates to the operating results from the TG&E business that was sold on March 31, 2004.

Gain on Sale of TG&E Segment

For the three months ended March 31, 2004, the Partnership recorded a \$0.2 million gain on the sale of TG&E. The Partnership received net proceeds after expenses of \$12.8 million from this sale.

Net Income

For the three months ended March 31, 2004, net income decreased \$2.5 million, or 3.0%, to \$80.7 million, as compared to \$83.2 million for the three months ended March 31, 2003. The decrease was due to a \$4.7 million decrease in the net income at the heating oil segment and a \$1.2 million increase in the net loss at the Partnership level partially offset by a \$3.4 million increase in net income at the propane segment. The decrease in net income was primarily due to the lower income from continuing operations further decreased by higher interest expense and lower income from discontinued operations.

SIX MONTHS ENDED MARCH 31, 2004 COMPARED TO SIX MONTHS ENDED MARCH 31, 2003

Volume

For the six months ended March 31, 2004, retail volume of home heating oil and propane increased 11.3 million gallons, or 2.0%, to 582.6 million gallons, as compared to 571.3 million gallons for the six months ended March 31, 2003. This increase was due to a 22.1 million gallon increase in the propane segment partially offset by a 10.8 million gallon decrease in the heating oil segment. The increase in volume reflects the impact of an additional 67.0 million gallons provided by acquisitions partially offset by the impact of warmer temperatures and net customer losses, largely in the home heating oil segment's lower margin commercial business. The Partnership estimates that it has approximately 3% fewer customers, after adjusting for acquisitions, at March 31, 2004 than it had at March 31, 2003. Temperatures in the Partnership's areas of operations for the six months ended March 31, 2004 were an average of 5.2% warmer than in the prior year's comparable six months and approximately 2.0% colder than normal as reported by the National Oceanic Atmosphere Administration ("NOAA").

The above activity is summarized as follows:

	<u>(in millions)</u>
Volume – six months ended March 31, 2003	571.3
Impact of warmer temperatures	(27.1)
Impact of acquisitions	67.0
Lower commercial volume	(15.7)
Delivery scheduling	2.6
Net customer losses and other	(15.5)
	<hr/>
Volume – six months ended March 31, 2004	582.6

Sales

For the six months ended March 31, 2004, sales increased \$43.4 million, or 4.3%, to \$1,043.4 million, as compared to \$1,000.0 million for the six months ended March 31, 2003. This increase was due to \$51.6 million higher propane segment sales partially offset by \$8.2 million lower home heating oil sales. Sales increased largely as a result of higher selling prices and from the additional volume sold. Selling prices increased versus the prior year's comparable period in response to higher supply costs. Sales of rationally related products, including heating and air conditioning equipment installation and service and water softeners increased \$12.0 million in the heating oil segment and by \$7.1 million in the propane segment from the prior year's comparable period due to acquisitions, increased installation activity and from increases in rates charged to customers for service contracts and increases in billable service.

Cost of Product

For the six months ended March 31, 2004, cost of product increased \$11.5 million, or 2.1%, to \$572.6 million, as compared to \$561.1 million for the six months ended March 31, 2003. This increase was due to \$32.5 million of higher cost of product at the propane segment partially offset by \$21.0 million lower cost of product at the heating oil segment. Cost of product increased largely due to higher supply cost and from the cost of product related to the increased volume. While selling prices and supply cost both increased on a per gallon basis, the increase in selling prices was greater than the increase in supply cost, which results in higher per gallon margins of approximately 1.0 cents.

Cost of Installations, Service and Appliances

For the six months ended March 31, 2004, cost of installations, service and appliances increased \$11.6 million, or 10.9%, to \$117.8 million, as compared to \$106.2 million for the six months ended March 31, 2003. This increase was due to an additional \$8.3 million in the heating oil segment and by \$3.3 million in the propane segment from the prior year's comparable period largely due to the increase in sales of these products.

Delivery and Branch Expenses

For the six months ended March 31, 2004, delivery and branch expenses increased \$19.5 million, or 12.1%, to \$180.7 million, as compared to \$161.2 million for the six months ended March 31, 2003. This increase was due to an additional \$10.6 million of delivery and branch expenses at the heating oil segment and a \$8.9 million increase in delivery and branch expenses for the propane segment. The increase in delivery and branch expenses was largely due to additional operating cost associated with acquisitions, increased customer service expense of \$2.1 million at the heating oil segment resulting largely from the start-up of the new outsourced call center and for the impact of operating expense and wage increases. Delivery and branch expenses increased approximately \$4.5 million from the comparable prior year six months due to the impact of operating expense and wage increases and by \$16.6 million for acquisitions. This \$16.6 million is largely for the establishment of base operations in new markets as well as for the variable cost of delivering the additional gallons provided by acquisitions. These increases in delivery and branch expenses were partially reduced by cost reductions relating to lower volume delivered due to warmer temperature and net customer losses experienced in fiscal 2004.

The heating oil segment's business process redesign project was substantially completed during fiscal 2003. As part of this redesign, a transition to outsourcing in the area of customer call center management has been undertaken as both a customer satisfaction and a cost reduction strategy. The Partnership believes outsourcing customer inquiries will improve customer responsiveness and eliminate redundancy by leveraging the technology and expertise available from third party service organizations. In addition, an outsourcing partner has greater flexibility to manage extreme seasonal volume. Start up challenges associated with the transition to a third party customer call center impacted the customer base in the first six months of fiscal 2004 and have required unanticipated training and support which will be ongoing through fiscal 2004. This will reduce the savings otherwise anticipated to be realized from the business redesign project in fiscal 2004.

Depreciation and Amortization Expenses

For the six months ended March 31, 2004, depreciation and amortization expenses increased \$3.5 million, or 13.8%, to \$29.0 million, as compared to \$25.5 million for the six months ended March 31, 2003. This increase was primarily due to a larger depreciable base of assets as a result of the impact of acquisitions and for increased depreciation resulting from the technology investment made by the heating oil segment as part of its business process redesign project.

General and Administrative Expenses

For the six months ended March 31, 2004, general and administrative expenses decreased \$3.2 million, or 14.7%, to \$18.7 million, as compared to \$21.9 million for the six months ended March 31, 2003. The heating oil segment's business process redesign project was substantially completed during fiscal 2003 and the Partnership did not incur any expense for this project for the six months ended March 31, 2004. General and administrative expenses for the six months ended March 31, 2003 included \$2.4 million of expense for this project. General and administrative expenses also decreased due to a \$0.9 million decrease in the accrual for compensation earned for unit appreciation rights and restricted stock awards previously granted. The accrual was lower as the Partnership recorded a lower accrual for units to be issued under the Director and Employee Unit Incentive Plan as the Partnership doesn't currently expect to achieve the specified objectives for this plan in fiscal 2004.

Interest Expense

For the six months ended March 31, 2004, interest expense increased \$4.0 million, or 19.8%, to \$24.4 million, as compared to \$20.3 million for the six months ended March 31, 2003. This increase was largely due to a higher average balance of long-term debt outstanding during the six months ended March 31, 2004 compared to the six month period ended March 31, 2003 and for additional interest related to the higher interest rate on the Partnership's \$235.0 million debt offerings largely completed in fiscal 2003 versus the debt repaid with the proceeds from these offerings. This increase in long-term debt outstanding was largely for the funding of acquisitions.

Amortization of Debt Issuance Costs

For the six months ended March 31, 2004, amortization of debt issuance costs increased \$1.1 million, or 106.2%, to \$2.0 million, as compared to \$1.0 million for the six months ended March 31, 2003. This increase was largely due to the amortization of debt issuance costs for the Partnership's \$235.0 million debt offerings and for the amortization of bank fees incurred in connection with the heating oil segment's bank credit facility.

Income Tax Expense

For the six months ended March 31, 2004, income tax expense decreased \$1.0 million, or 46.1%, to \$1.2 million, as compared to \$2.1 million for the six months ended March 31, 2003. This decrease was due to lower expected state income taxes for fiscal 2004.

Income From Continuing Operations

For the six months ended March 31, 2004, income from continuing operations decreased \$3.4 million, or 3.3%, to \$98.7 million, as compared to \$102.0 million for the six months ended March 31, 2003. This decrease was due to a \$9.4 million decrease in income from continuing operations at the heating oil segment and a \$0.8 million larger loss at the Partnership level partially offset by \$6.8 million higher income from continuing operations at the propane segment. The decrease in income from continuing operations was primarily due to the impact of warmer temperatures and net customer losses partially offset by the impact of acquisitions, increased revenues from installations, service and appliance sales and from increased per gallon margins.

Income From Discontinued Operations

For the six months ended March 31, 2004, income from discontinued operations remained flat at \$1.1 million for both periods. This income relates to the operating results from the TG&E business that was sold on March 31, 2004.

Gain On Sale of TG&E Segment

For the six months ended March 31, 2004, the Partnership recorded a \$0.2 million gain on the sale of TG&E. The Partnership receives net proceeds after expenses of \$12.8 million from this sale.

Cumulative Effect of Change in Accounting Principle

For the six months ended March 31, 2003, the Partnership recorded a \$3.9 million decrease in net income arising from the adoption of Statement No. 142 to reflect the impairment of its goodwill for TG&E.

Net Income

For the six months ended March 31, 2004, net income increased \$0.8 million, or 0.8%, to \$100.0 million, as compared to \$99.2 million for the six months ended March 31, 2003. The increase was due to a \$6.8 million increase in net income at the propane segment and a \$3.4 million lower net loss at the partnership level largely offset by a \$9.4 million decrease in the net income at the heating oil segment. The increase in net income was primarily due to the impact in fiscal 2003 of the \$3.9 million decrease in net income at the TG&E segment for the adoption of SFAS No. 142 partially offset by the decrease in income from continuing operations and for increased interest expense.

Liquidity and Capital Resources

The ability of Star Gas to satisfy its obligations will depend on its future performance, which will be subject to prevailing economic, financial, business, and weather conditions, and other factors, most of which are beyond its control. Future capital requirements of Star Gas are expected to be provided by cash flows from operating activities and cash on hand at March 31, 2004. To the extent future capital requirements exceed cash flows from operating activities:

- a) working capital will be financed by the Partnership's working capital lines of credit and repaid from subsequent seasonal reductions in inventory and accounts receivable;
- b) growth capital expenditures, mainly for customer tanks, will be financed in fiscal 2004 by the use of the Partnership's credit facilities; and
- c) acquisition capital expenditures will be financed by the revolving acquisition lines of credit, long-term debt, the issuance of additional Common Units or a combination thereof.

Cash Flows

Operating Activities. The net cash used in operations of \$42.6 million for the first six months of fiscal 2004 consisted of income from continuing operations of \$98.7 million, noncash charges of \$34.7 million, primarily made up of depreciation and amortization of \$31.1 million, which were offset by an increase in operating assets and liabilities of \$175.9 million. The increase in operating assets and liabilities of \$175.9 million was less than the \$214.3 million for the six months ended March 31, 2003 largely due to a lower increase in accounts receivables. Despite sales increasing from \$1,000.0 million in the first six months of fiscal 2003 to \$1,043.4 million for the first six months of fiscal 2004, the increase in accounts receivable was \$44.3 million less than the increase in the first six months in fiscal 2003 as collections increased from \$833.1 million in the first six months of fiscal 2003 to \$919.5 million for the first six months of fiscal 2004. This increase in collections was partially offset by cash payments for cost of product and cost of installations, service and appliances which increased from \$663.9 million in the first six months of fiscal 2003 to \$702.2 million in the first six months of fiscal 2004.

Investing Activities. Star Gas completed three acquisitions during the six months ended March 31, 2004, investing \$4.2 million. This expenditure for acquisitions is reflected in the cash provided by investing activities of \$5.7 million along with \$3.9 million invested for capital expenditures and the \$12.8 million of proceeds received from the sale of TG&E. The \$3.9 million for capital expenditures is comprised of \$2.1 million of capital additions needed to sustain operations at current levels and \$1.8 million for capital expenditures incurred in connection with the heating oil segment's business process redesign program and for customer tanks and other capital expenditures to support growth of operations. The capital expenditures made for the business process redesign program were largely for the purchase of technology to increase the efficiency and quality of services provided to its customers. Investing activities also includes proceeds from the sale of fixed assets of \$1.0 million.

Financing Activities. During the six months ended March 31, 2004, increased bank working capital borrowings of \$73.1 million, \$38.6 million of proceeds from the issuance of senior notes and \$35.0 million of net proceeds from the issuance of equity provided cash of \$146.7 million. Cash distributions paid to Unitholders of \$40.6 million, acquisition facility and debt repayments of \$49.5 million and other financing activities, which were largely for fees incurred in connection with the renewal of the home heating oil segment's bank credit facilities and from issuance of the senior notes of \$5.6 million reduced the net cash provided by financing activities to \$51.1 million.

As a result of the above activity and the \$1.5 million of cash provided by discontinued operations, cash increased by \$15.6 million to \$25.7 million as of March 31, 2004.

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

For the six months ended March 31, 2004, EBITDA increased \$4.1 million, or 2.8% to \$153.6 million as compared to \$149.5 million for the six months ended March 31, 2003. This increase was due to a \$7.2 million increase in the propane segment EBITDA and a \$1.6 million increase in the EBITDA at the Partnership level partially offset by a \$4.8 million reduction in EBITDA at the heating oil segment. The increase in EBITDA was largely due to the results of acquisitions, increased revenues from installations, service and appliance sales and from increased per gallon margins partially offset by the impact of warmer weather and net customer losses.

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

	Six Months Ended March 31,	
	2003	2004
Income from continuing operations	\$ 102,025	\$ 98,652
Plus:		
Income tax expense	2,135	1,150
Amortization of debt issuance costs	991	2,043
Interest expense, net	18,826	22,747
Depreciation and amortization	25,512	29,022
EBITDA	149,489	153,614
Add/(subtract)		
Loss on redemption of debt	181	—
Income tax expense	(2,135)	(1,150)
Interest expense, net	(18,826)	(22,747)
Unit compensation expense	1,023	84
Provision for losses on accounts receivable	2,452	3,703
Loss (gain) on sales of fixed assets, net	54	(149)
Change in operating assets and liabilities	(214,348)	(175,934)
Net cash used in operating activities	\$ (82,110)	\$ (42,579)

Financing and Sources of Liquidity

The Partnership's heating oil segment has a bank credit facility, which includes a working capital facility, providing for up to \$150.0 million of borrowings to be used for working capital purposes, an acquisition facility, providing for up to \$50.0 million of borrowings to be used for acquisitions and for certain capital improvements and a \$35.0 million letter of credit facility primarily for insurance purposes. The working capital facility and letter of credit facility will expire on June 30, 2006. The acquisition facility will convert to a term loan for any outstanding borrowings on June 30, 2006, which balance will be payable in eight equal quarterly principal payments. At March 31, 2004, \$78.0 million of working capital borrowings were outstanding.

The Partnership's propane segment has a bank credit facility, which consists of a \$25.0 million acquisition facility, a \$25.0 million growth capital facility that can be used to fund maintenance and growth capital expenditures and a \$24.0 million working capital facility. The working capital facility expires on September 30, 2006. Borrowings under the acquisition and growth capital facilities will revolve until September 30, 2006, after which time any outstanding loans thereunder, will amortize in quarterly principal payments with a final payment due on September 30, 2008. At March 31, 2004, \$1.4 million of acquisition facility borrowings, \$2.0 million of Growth Capital Facility borrowings and \$7.1 million of working capital borrowings were outstanding.

The Partnership's bank credit facilities and debt agreements contain several financial tests and covenants restricting the various segments and Partnership's ability to pay distributions, incur debt and engage in certain other business transactions. In general these tests are based upon achieving certain debt to cash flow ratios and cash flow to interest expense ratios. In addition, amounts borrowed under the working capital facility are subject to a requirement to maintain a zero balance for at least forty-five consecutive days. Failure to comply with the various restrictive and affirmative covenants of the Partnership's various bank and note facility agreements could negatively impact the Partnership's ability to incur additional debt and/or pay distributions and could cause certain debt to become currently payable.

As of March 31, 2004, the Partnership was in compliance with all debt covenants.

On January 22, 2004, the Partnership and its wholly owned subsidiary, Star Gas Finance Company, jointly issued \$35.0 million face value senior notes due on February 15, 2013. These notes accrue interest at an annual rate of 10.25% and require semi-annual interest payments on February 15 and August 15 of each year commencing on February 15, 2004. These notes are redeemable at the option of the Partnership, in whole or in part, from time to time by payment of a premium as defined. These notes were priced at 110.5% for total gross proceeds of \$38.6 million. The Partnership also incurred \$0.5 million of fees and expenses in connection with the issuance of these notes resulting in net proceeds of \$38.1 million. The net proceeds from the offering were largely used to repay indebtedness.

In February 2004, the Partnership received net proceeds after expenses of \$35.0 million from a publicly underwritten equity offering for the sale of 1,495,000 common units. The net proceeds from this underwriting were largely used to repay indebtedness.

The Partnership had \$511.1 million of debt outstanding as of March 31, 2004 (amount does not include working capital borrowings of \$85.1 million), with significant maturities occurring over the next five years. The following summarizes the Partnership's long-term debt maturities during the twelve months ended March 31,

2005	\$22.6 million
2006	\$33.9 million
2007	\$70.7 million
2008	\$40.4 million
2009	\$17.3 million
Thereafter	\$326.2 million

The Partnership's heating oil segment's bank credit facilities allow for the use of the credit facilities to repay up to \$22.5 million of existing senior debt and the Partnership's propane segment's bank credit facilities allow for the refinancing of up to \$25.0 million of existing senior debt. The refinancing capabilities are subject to capacity and other restrictions. Funding for debt maturities other than for what could be refinanced with bank facilities will otherwise largely be dependent upon new debt or equity issuances.

In general, the Partnership distributes to its partners on a quarterly basis, all of its Available Cash in the manner described below. Available Cash is defined for any of the Partnership's fiscal quarters, as all cash on hand at the end of that quarter, less the amount of cash reserves that are necessary or appropriate in the reasonable discretion of the general partner to (i) provide for the proper conduct of the business; (ii) comply with applicable law, any of its debt instruments or other agreements; or (iii) provide funds for distributions to the common unitholders and the senior subordinated unitholders during the next four quarters, in some circumstances.

The Partnership utilizes weather insurance in order to assist the Partnership in maintaining the stability of its cash flows. The Partnership purchased a base of \$12.5 million of weather insurance coverage for each year from 2004 – 2007. The amount of insurance proceeds that can be realized under these policies is calculated by multiplying the degree day deviation from an agreed upon cumulative degree day strike price by \$35,000. The calculation period for the weather insurance coverage is from November first to the end of February and is measured based upon a weighting of certain New England and Mid-Atlantic weather stations. Due to the close to normal weather conditions experienced for the current policy period, the Partnership did not receive any benefit from the weather insurance for the six months ended March 31, 2004.

For the remainder of fiscal 2004, the Partnership anticipates paying interest of approximately \$20.8 million and anticipates growth and maintenance capital additions of approximately \$4.5 million. In addition, the Partnership plans to pay distributions on its units to the extent there is sufficient available cash in accordance with the partnership agreement. The Partnership plans to fund acquisitions made through a combination of debt and equity. Based on its current cash position, bank credit availability and anticipated net cash to be generated from operating activities, the Partnership expects to be able to meet all of its obligations for fiscal 2004.

Item 3.

Quantitative and Qualitative Disclosures About Market Risk

The Partnership is exposed to interest rate risk primarily through its Bank Credit Facilities due to the fact that they are subject to variable interest rates. The Partnership utilizes these borrowings to meet its working capital needs and also to fund the short-term needs of its acquisition program.

At March 31, 2004, the Partnership had outstanding borrowings totaling \$596.2 million, of which approximately \$88.5 million is subject to variable interest rates under its Bank Credit Facilities. In the event that interest rates associated with these facilities were to increase 100 basis points, the impact on future cash flows would be a decrease of approximately \$0.9 million annually.

The Partnership also selectively uses derivative financial instruments to manage its exposure to market risk related to changes in the current and future market price of home heating oil and propane. The Partnership does not hold derivatives for trading purposes. The value of market sensitive derivative instruments is subject to change as a result of movements in market prices. Consistent with the nature of hedging activity, associated unrealized gains and losses would be offset by corresponding decreases or increases in the purchase price the Partnership would pay for the product being hedged. Sensitivity analysis is a technique used to evaluate the impact of hypothetical market value changes. Based on a hypothetical ten percent increase in the cost of product at March 31, 2004, the potential gain on the Partnership's hedging activity would be to increase the fair value of these outstanding derivatives by \$1.8 million to a fair value of \$7.2 million; and conversely a hypothetical ten percent decrease in the cost of product would decrease the fair value of these outstanding derivatives by \$1.8 million to a fair value of \$3.6 million.

Item 4.

Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The General Partner's principal executive officer and its principal financial officer, evaluated the effectiveness of the Partnership's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, such principal executive officer and principal financial officer concluded that, the Partnership's disclosure controls and procedures as of the end of the period covered by this report have been designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by the Partnership in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The General Partner and the Partnership believe that a controls system, no matter how well designed and operated, can not provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Change in Internal Control over Financial Reporting.

No change in the Partnership's internal control over financial reporting occurred during the Partnership's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the Partnership's internal control over financial reporting.

PART II OTHER INFORMATION

Item 6.

Exhibits and Reports on Form 8-K

(a) Exhibits Included Within:

- 10.37 Agreement to sell the stock and business of Total Gas & Electric
- 31.1 Rule 13a-14(a) Certification.
- 31.2 Rule 13a-14(a) Certification.
- 32.1 Section 906 Certification.
- 32.2 Section 906 Certification.

(b) Reports on Form 8-K:

1/7/04 – On January 7, 2004, Star Gas Partners, L.P., a Delaware partnership (the “Partnership”), filed the balance sheets of Star Gas LLC, a Delaware limited liability company and the sole general partner of the Partnership.

1/29/04 – On January 29, 2004, Star Gas Partners, L.P., issued a press release describing its financial results for its first fiscal quarter ended December 31, 2003.

2/2/04 – This Form 8-K consists of a copy of the underwriting agreement dated as of February 2, 2004, for a firm commitment public offering of up to 1,300,000 common units (plus a 15% over-allotment option) of the registrant that were previously registered pursuant to a shelf registration statement on Form S-3 (SEC File No. 333-100976), together with an opinion of counsel relating thereto.

3/15/04 – This Form 8-K consists of a copy of the Star Gas Partners, L.P., press release, dated March 15, 2004, announcing that it had reached an agreement to sell the stock and business of Total Gas & Electric (“TG&E”) in an all-cash transaction to a private party.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on its behalf of the undersigned thereunto duly authorized:

Star Gas Partners, L.P.
(Registrant)
By: Star Gas LLC as General Partner

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Ami Trauber</u> Ami Trauber	Chief Financial Officer Star Gas LLC (Principal Financial Officer)	April 29, 2004

<u>/s/ James J. Bottiglieri</u> James J. Bottiglieri	Vice President Star Gas LLC	April 29, 2004
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Star Gas Finance Company
(Registrant)

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Ami Trauber</u> Ami Trauber	Chief Financial Officer (Principal Financial Officer)	April 29, 2004

<u>/s/ James J. Bottiglieri</u> James J. Bottiglieri	Vice President	April 29, 2004
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STOCK PURCHASE AGREEMENT

BY AND

AMONG

MXENERGY INC.

(BUYER)

AND

PETRO, INC.

(SELLER)

Dated March 12, 2004

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STOCK PURCHASE AGREEMENT

STOCK PURCHASE AGREEMENT dated as of March 12, 2004, among MXENERGY, INC., a Delaware corporation ("Buyer"), and PETRO, INC., a Delaware corporation ("Seller"). This Agreement sets forth the terms and conditions upon which the Buyer will purchase from Seller all of the issued and outstanding common stock of Total Gas & Electric Inc. (the "Company").

In consideration of the mutual agreements contained herein, intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE 1 DEFINITIONS

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

- (a) The terms "Affiliate" and "Associate" have the meanings prescribed by Rule 12b-2 of the regulations promulgated pursuant to the Exchange Act.
- (b) "Applicable Contract" – any Contract (a) under which the Company or any Company Subsidiary has or may acquire any rights, (b) under which the Company has or may become subject to any obligation or liability, or (c) by which the Company or any Company Subsidiary or any of its assets is or may become bound, including each amendment, supplement, and modification (whether oral or written) in respect of any of the foregoing.
- (c) "Applicable Utility" – means any electric utility or local gas distribution company which serves any Closing Date Customers for the Company.
- (d) "Audit" – any audit or assessment of Taxes, or other examination by any Governmental Authority or Proceeding relating to Taxes.
- (e) "Base Budget Customers" – means the Customers served by the Company and the Company Subsidiary on December 31, 2003 on their budget plan.
- (f) "Base Non-Budget Customers" means the Customers served by the Company and the Company Subsidiary on December 31, 2003 not on their budget plan.
- (g) "Budget Customers" means Customers served by the Company and the Company Subsidiary on their budget plan.
- (h) "Closing" or "Closing Date" shall mean March 31, 2004.
- (i) "Closing Date Customers" – means the aggregate number of Customers reflected on reports received by the Company from Applicable Utilities in the calendar month following the Closing Date indicating the number of Customers accepted for

servicing by the Applicable Utilities as of the dates of the reports. Closing Date Customers shall not include Customers added after December 31, 2003 projected to use, fewer than 75 MMBTUS annually assuming normal weather

(j) "Code" – the Internal Revenue Code of 1986, as amended, and any successor thereto.

(k) "Company" – as defined in the preamble.

(l) "Common Stock" – means the shares of Common Stock \$.001 par value of the Company.

(m) "Company Subsidiary" means the entity set forth in Section 3.1(b) of the Seller's Disclosure Letter.

(n) "Contemplated Transactions" – the transactions contemplated by this Agreement and each other agreement or instrument contemplated hereby or thereby.

(o) "Contract" – any agreement, contract, lease, obligation, license, sublicense, promise, or other undertaking (whether written or oral and whether express or implied).

(p) "Copyrights" – all registered and unregistered copyrights in both published works and unpublished works (including those in computer software and databases), and all registrations and applications to register the same, domestic and foreign, that are owned, licensed, used or held for use by the Company or any Company Subsidiary.

(q) "Credit Documents" – collectively, the Credit Agreement by and among Petroleum Heat and Power Co., Inc., the lenders party thereto and Wachovia Bank, National Association, as Administrative Agent, dated as of December 22, 2003, the Intercreditor and Trust Agreement by and among Petroleum Heat and Power Co., Inc., its Affiliates, the Secured Parties named therein and Wachovia Bank, National Association, as Trustee, the Pledge and Security Agreement by and among Petroleum Heat and Power Co., Inc., its Subsidiaries, and Wachovia Bank, National Association, as Trustee.

(r) "Customers" means as of any date of determination the aggregate of the natural gas customers reflected on nomination or pool reports received by the Company from Applicable Utilities typically in the calendar month following such date of determination indicating the number of customers accepted for services by the Applicable Utility as of the date of its report, but excluding (i) customers with billed invoices showing amounts due over 90 days and (ii) without duplication, cancelled or dropped accounts.

(s) "Damages" – any loss, liability, Tax obligation, cost of mitigation, claim, damage, expense, lost profits (including costs of investigation, defense and settlement and reasonable attorneys' fees) reduced by the amount of any insurance, indemnity or other recoveries or any tax benefit received in respect thereof. Damages shall not include any special or consequential damages or loss of profits.

(t) “Documents” – this Agreement and the other Contracts entered into by the Seller in connection with the Contemplated Transactions.

(u) “Encumbrance” – any charge, claim, defect, community property interest, condition, equitable interest, mortgage, lien, option, pledge, security interest, right of first refusal, or restriction of any kind, whether arising by law, by agreement or otherwise, including any restriction on use, voting, transfer, receipt of income, or exercise of any other attribute of ownership. Encumbrances shall not include any Permitted Encumbrances as defined in this Agreement.

(v) “ERISA” – the Employee Retirement Income Security Act of 1974 (the “Act”) or any successor law, and regulations and rules issued pursuant to the Act or any successor law.

(w) “ERISA Affiliate” – any other Person that, together with the Company or any Company Subsidiary, would be treated as a single employer under § 414 of the Code.

(x) “Final Purchase Price” has the meaning set forth in Section 2.4.

(y) “GAAP” – general accepted accounting principles as consistently applied by the Company in its financial statements.

(z) “Governmental Authorization” – any approval, consent, license, permit, waiver, or other authorization issued, granted, given, or otherwise made available by or under the authority of any Governmental Authority or pursuant to any Legal Requirement, including those of Applicable Utilities.

(aa) “Governmental Authority” – any (a) nation, state, county, city, town, village, district, or other jurisdiction of any nature; (b) federal, state, local, municipal, foreign, or other government; (c) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official, or entity and any court or other tribunal); (d) multi-national organization or body; or (e) federal, state, local, municipal or other body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature.

(bb) “Incremental Customer Calculation Date” means September 30, 2004.

(cc) “Incremental Customers” – means all Closing Date Customers who are not Base Budget Customers or Base Non-Budget Customers.

(dd) “Intellectual Property Assets” – all Marks and Copyrights.

(ee) “Knowledge” – an individual will be deemed to have “knowledge” of a particular fact or other matter if such individual is actually aware of such fact or other matter. A Person (other than an individual) will be deemed to have “knowledge” of a particular fact or other matter if any individual who is serving, or who has at any time served, as a director, officer, partner, executor, or trustee of such Person (or in any similar capacity) has, or at any time had, Knowledge of such fact or other matter.

(ff) "Legal Requirement" – any federal, state, local, municipal, foreign, international, multinational or other administrative order, utility tariff, constitution, law, ordinance, principle of common law, regulation, policy, statute or treaty.

(gg) "Marks" – the name "Total Gas & Electric" and all fictional business names, trade names, registered and unregistered trademarks, service marks, slogans, trade dress, logos, and all applications to register the same, domestic and foreign, that are owned, licensed, used or held for use by the Company and the Company Subsidiary.

(hh) "Material Adverse Effect" – any occurrence, circumstance or condition which individually or together with any one or more other occurrences, circumstances or conditions has had or is reasonably likely to result in a material adverse effect on the business, operations, properties, assets, or condition (financial or otherwise) of the Company and the Company Subsidiary taken as a whole.

(ii) "Material Contracts" – the Contracts identified or required to be identified in Section 3.10(a) of the Seller's Disclosure Letter.

(jj) "Net Working Capital" – the sum of (without duplication) cash plus cash equivalents, accounts receivable, (less allowance for doubtful accounts), inventories, prepaid expenses and other current assets less the sum of (without duplication) accounts payable, accrued expenses, other current liabilities, and customer credit balances. Net Working Capital will not include any amounts due to or due from an affiliate of Total Gas and Electric. Inventories will be valued at the lower of cost or net realizable value based on Platts Gas Daily for April 1, 2004 for applicable locations, except that inventory already delivered to the Customer but not yet billed shall be valued at cost. The allowance for doubtful accounts shall reflect recent changes in regulations affecting utilities or changes initiated by utilities as they may affect the collectability of accounts receivable.

(kk) "Non-Budget Customers" means all customers served by the Company and the Company Subsidiary not on their budget plan.

(ll) "Order" – any award, decision, injunction, judgment, order, ruling, subpoena, or verdict entered, issued, made, or rendered by any court, administrative agency, or other Governmental Authority or by any arbitrator. The term "Order" does not include any of the foregoing which (i) cover businesses in general or the business of energy providers in general and which are not directed to the Company in particular or (ii) are administrative or routine in nature and which are not adverse to the Company.

(mm) "2003 Balance Sheet" has the meaning set forth in Section 3.3 of this Agreement.

(nn) "Ordinary Course of Business" – an action taken by a Person will be deemed to have been taken in the "Ordinary Course of Business" only if:

(i) such action is consistent with the past practices of such Person and is taken in the ordinary course of the normal day-to-day operations of such Person; and

(ii) such action is not required to be authorized by (i) the board of directors of such Person (or by any Person or group of Persons exercising similar authority) and/or (ii) any class of equityholders of such person (or by any Person or group of Persons having similar rights or exercising similar authority).

(oo) "Organizational Documents" – each of the following as currently in effect, as applicable: (a) the charter, memorandum, articles or certificate of incorporation and the bylaws of a corporation; (b) the partnership agreement and any statement of partnership of a general partnership; (c) the limited partnership agreement and the certificate of limited partnership or formation of a limited partnership; (d) the certificate of formation or articles of organization and operating agreement of a limited liability company; (e) any similar document adopted or filed in connection with the creation, formation, or organization of a Person; and (f) any amendment to any of the foregoing.

(pp) "Permitted Encumbrances" – matters set forth in Section 3.7 of Seller's Disclosure Letter.

(qq) "Person" – any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union, or other entity or Governmental Authority.

(rr) "Plan" – each deferred compensation, bonus, incentive compensation, stock purchase, stock option and other equity compensation plan, program, Contract or arrangement; each severance or termination pay, medical, surgical, hospitalization, life or group insurance and other "welfare" plan, fund or program (within the meaning of section 3(1) of ERISA); each profit-sharing, stock bonus or other "pension" plan, fund or program (within the meaning of section 3(2) of ERISA); each multi-employer plan (within the meaning of Section 3(37) of ERISA); each employment, termination or severance Contract; and each other employee benefit plan, fund, program, Contract or arrangement, in each case, that is sponsored, maintained or contributed to or required to be contributed to by either of the Seller or by any ERISA Affiliate, or to which either of the Seller or an ERISA Affiliate is party or could have any obligations, whether primary or secondary, for the benefit of any employee, former employee, retiree, consultant, officer or director of either of the Seller or an ERISA Affiliate; and in each case whether such Plan is written or unwritten, formal or informal.

(ss) "Proceeding" – any action, arbitration, audit, hearing, investigation, litigation, or suit or utility proceeding (whether civil, criminal, administrative, investigative, or informal) commenced, brought, conducted, or heard by or before, or otherwise involving, any Governmental Authority or arbitrator, and any appeal of any such Proceeding.

(tt) "Purchase Price" has the meaning set forth in Section 2.1.

(uu) "Retention Calculation Date" means June 30, 2004.

(vv) "Retention Date Base Budget Customer" means a person who was a Base Budget Customer on the Closing Date and continues to be a Customer on September 30, 2004.

(ww) "Retention Date Non-Budget Customer" means a person who was a Base Non-Budget Customer on the Closing Date and continues to be a Customer on the Retention Calculation Date.

(xx) "Seller's Disclosure Letter" – the disclosure letter delivered by Seller to Buyer concurrently with the execution and delivery of this Agreement.

(yy) "Tax" – any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Section 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

(zz) "Tax Return" – any report, statement, schedule, notice, form, or other document or information filed with, delivered or submitted to, or required to be filed with, delivered or submitted to, any Governmental Authority or Person in connection with the determination, assessment, collection, or payment of any Tax or in connection with the administration, implementation, or enforcement of or compliance with any Legal Requirement relating to any Tax.

(aaa) "Threatened" – a claim, Proceeding, dispute, action, or other matter will be deemed to have been "Threatened" against a Person if any demand or statement has been made in writing or any notice has been given in writing.

(bbb) "Title IV Plan" – each Plan that is subject to Section 302 or Title IV of ERISA or Section 412 of the Code.

(ccc) "Transaction Expenses" – means all legal, accounting, brokerage, out-of-pocket and other expenses, of a similar or dissimilar nature, relating to the Contemplated Transactions.

(ddd) "Undisclosed Liabilities" means any liabilities of the Company and the Company Subsidiary arising from an act or omission which occurred prior to the Closing whether or not required to be disclosed on a balance sheet in accordance with GAAP, except those liabilities arising in the Ordinary Course of Business after December 31, 2003.

(eee) "Transfer Taxes" – all sales (including, without limitation, bulk sales), gross receipts, use, transfer, stamp, recording, ad valorem and other similar Taxes and fees.

ARTICLE 2
SALE AND TRANSFER OF THE COMMON STOCK; CLOSING

2.1 Purchase of Common Stock. Subject to the terms and conditions of this Agreement, at the Closing, the Buyer will purchase all of the outstanding shares of Common Stock from the Seller for \$7,000,000 plus an amount equal to the Estimated Net Working Capital ("Purchase Price"), subject to the post-closing adjustment described in Section 2.2 and the Special Adjustments as described in Section 2.3. As soon as practicable but in any event, no fewer than 10 days prior to the Closing, the Seller shall deliver to Buyer a certificate, dated as of the date of delivery, setting forth Seller's reasonable good faith estimate of the Company's working capital as of the Closing Date based solely upon such working capital as shown on the Company's February 29, 2004 balance sheet plus changes thereto based on estimated March 2004 operations ("Estimated Net Working Capital").

2.2 Adjustment to Purchase Price. The Purchase Price for the Common Stock shall be adjusted as follows:

(a) The Purchase Price for the Common Stock has been agreed upon the assumptions (i) that Net Working Capital of the Company and the Company Subsidiary on a consolidated basis as of the Closing Date will be equal to the Estimated Net Working Capital; (ii) that the Company and the Company Subsidiary will have no long term liabilities and no debt to or from Affiliates on the Closing Date.

(b) Buyer shall engage KPMG LLP (the "Accountants") to prepare a calculation of Net Working Capital as of the Closing Date (the "Closing Working Capital Calculation"), which calculation shall be prepared in accordance with auditing procedures under GAAP as applied by the Seller's auditors in the preparation of the Company's financial statements. The cost of the accountants shall be shared equally by Buyer and Seller. Seller and Buyer and their respective representatives shall be permitted to communicate with the Accountants' personnel and observe all aspects of their work with respect to the conduct of their engagement. The Purchase Price shall be adjusted ("Post Closing Adjustment") by increasing the Purchase Price by \$1 for each \$1 that Net Working Capital as reflected in the Closing Working Capital Calculation is greater than the Estimated Net Working Capital or decreasing the Purchase Price by \$1 for each \$1 the Net Working Capital as reflected in the Closing Working Capital Calculation is less than the Estimated Net Working Capital. The Post Closing Adjustment shall be paid promptly after it is determined.

The engagement letter with the Accountants shall provide that such firm shall deliver to Buyer and Seller (i) the Closing Working Capital Calculation, which shall state that it has been prepared as provided in this subsection (b) and (ii) a closing certificate ("Closing Certificate") showing the calculation of the adjustments to the Purchase Price ("Post Closing Adjustments") made in accordance with Section 2.2(b) above. A copy of the Closing Working Capital Calculation and the Closing Certificate (collectively, "Closing Documents") shall be delivered to both Buyer and Seller not later than June 30, 2004. Unless either Buyer or Seller within 10 days after receipt of the copy of the Closing Documents notifies the other party of any disagreement with the Post Closing Adjustments, the Closing Documents shall be final and shall be accepted by and be binding upon both Buyer and Seller. If either party so notifies

the other party of any such disagreement within such 10 day period and such disagreement cannot be amicably resolved within an additional period of 30 days, the disagreement as to the Post Closing Adjustments shall be submitted for final determination to a big four accounting firm (other than the Accountants) selected jointly by the Buyer and Seller ("Appeal Accountants"); or, if the parties are unable to agree to the Appeal Accountants, each shall select an accounting firm and the two accounting firms so selected shall designate the Appeal Accountants. Both parties shall be bound by the determination of the Appeal Accountants and the cost of such expenses associated with the Appeal Accountants shall be shared equally between Buyer and Seller. The Appeal Accountants shall render their final determination with respect to the resolution of such disputes which shall be binding on the parties and deliver copies thereof to Buyer and Seller.

2.3 Special Purchase Price Adjustments.

(a) The Purchase Price shall be adjusted promptly following receipt by the Company of all nomination and pool reports from all Applicable Utilities in the calendar month following the Incremental Customer Calculation Date indicating the aggregate number of Incremental Customers accepted for servicing as of the dates of such reports. The Buyer will pay to Seller the product of \$150 times the number of the Incremental Customers as so reflected. The Seller and Buyer shall deliver to the other copies of such nomination and pooling reports within one business day after being received. After such reports have been received from all Applicable Utilities, any payment due shall be made within 10 days. If either party notifies the other of a disagreement within 10 days following such payment, and such disagreement cannot be amicably resolved within an additional period of 15 days, the dispute shall be submitted to the American Arbitration Association in Stamford, Ct. and both parties will be bound by its determination. If Buyer fails to make payment when due or having made a payment fails to disagree with the amount claimed to be due within such 10 day period, then in the absence of fraud or bad faith, the amount claimed shall be deemed the amount due.

(b) (i) If on the Retention Calculation Date the number of Retention Date Non-Budget Customers is less than eighty-eight (88%) percent of the number of Base Non-Budget Customers, the Seller shall pay to the Buyer the product of \$150 multiplied by the difference between eighty-eight (88%) percent of the number of Base Non-Budget Customers less the number of Retention Date Base Non-Budget Customers; provided, however, that such payment shall not exceed \$800,000. For example, if the number of Retention Calculation Date Base Non-Budget Customers were 38,000 and the number of Base Non-Budget Customers were 50,000, then the Seller would pay to the Buyer the sum of \$800,000 computed as follows:

$$\begin{array}{rcl} 50,000 \times .88 & = & 44,000 \\ 44,000 - 38,000 & = & 6,000 \\ 6,000 \times \$150 & = & \$900,000 \\ \$800,000 \text{ maximum applies} & & \end{array}$$

(ii) If on September 30, 2004 the number of Base Budget Customers is less than eighty-five (85%) percent of the number of Base Budget Customers, the Seller shall pay to the Buyer the product of \$150 multiplied by the difference between eighty-five (85%) percent of the number of Base Budget Customers on September 30, 2004 less the number of Base Budget Customers.

(iii) The Buyer shall notify Seller in writing of the number of Retention Date Non-Budget Customers, which notice shall be accompanied by copies of reports from Applicable Utilities and Buyer's determination of the number of Retention Date Customers in sufficient detail so that Buyer's calculation ties into such reports from Applicable Utilities and a calculation of the amount, if any due from Seller to Buyer. If Seller notifies the Buyer of a disagreement within 10 days after receipt of such written notice and such disagreement cannot be amicably resolved within an additional period of 30 days, the dispute shall be submitted to the American Arbitration Association in Stamford, Connecticut and both parties shall be bound by their determination. Seller shall make payment of any amount shown to be due within 10 days after receipt of such written notice from Buyer. If Seller notifies Buyer of a disagreement within 10 days following such payment, and such disagreement cannot be amicably resolved within an additional period of 15 days, the dispute shall be submitted to the American Arbitration Association in Stamford, Ct. and both parties will be bound by its determination. If Seller fails to make payment when due or having made a payment fails to disagree with the amount claimed to be due within such 10 day period, then in the absence of fraud or bad faith, the amount claimed shall be deemed the amount due.

(c) If on December 31, 2004, the allowance for doubtful accounts on the amount of the billed accounts receivable owed by Non-Budget Customers who were Closing Date Customers (including cancelled and dropped Customers) arising from amounts billed from the Closing Date to September 30, 2004 is greater than 1.65% of the billed sales for the period to Non-Budget Customers ("Non-Budget Excess"), the Seller will pay to the Buyer an amount equal to the product of the Non-Budget Excess times 3; but, not more than \$400,000. If on December 31, 2004, the allowance for doubtful accounts on the amount of the billed accounts receivable owed by Budget Customers who were Closing Date Customers (including cancelled and dropped customers) arising from amounts billed from the Closing Date to September 30, 2004 is greater than 1.65% of the total amounts billed for the period to Budget Customers ("Budget Excess"), the Seller will pay to the Buyer the amount of the Budget Excess times 2. The Buyer shall provide the Seller with written notice of its calculation of the Non-Budget Excess and Budget Excess, if any, showing for each Retention Date Customer sales during the Retention Period by month and amounts outstanding as of the Retention Calculation Date. If Seller notifies the Buyer of a disagreement within 10 days after receipt of such written notice and such disagreement cannot be amicably resolved within an additional period of 30 days, the dispute shall be submitted to the American Arbitration Association in Stamford, Connecticut and both parties shall be bound by their determination. Seller shall make payment of any amount shown to be due within 10 days after receipt of such written notice from Buyer or if Buyer receives written notice of Seller's objections within such period of 10 days, then within 10 days after the amount due, if any, is finally determined. If Seller notifies Buyer of a disagreement within 10 days following such payment, and such disagreement cannot be amicably resolved within an additional period of 15 days, the dispute shall be submitted to the American Arbitration Association in Stamford, Ct. and both parties will be bound by its determination. If Seller fails to make payment when due or having made a payment fails to disagree with the amount claimed to be due within such 10 day period, then in the absence of fraud or bad faith, the amount claimed shall be deemed the amount due.

(d) From the Closing Date through the Retention Calculation Date, the Buyer will cause the Company to use its best efforts to retain its Customers consistent with past

practices. In addition, the Buyer will cause the Company's selling prices with respect to base Non-Budget Customers and Incremental Non-Budget Customers to be no higher than 15% over fully-loaded cost (including commodity, transportation and storage costs, bad debt, billing and utility charges), or, if higher, the prices offered by the Applicable Utility. The Buyer will cause the Company's billed budget amount after March 31, 2004 and on or before August 31, 2004 with respect to Base Budget Customers and Incremental Budget Customers to be no higher than 30% above the billed budgeted amount in effect on March 31, 2004 and will cause the Company's billed budget amount after August 31, 2004 with respect to Base Budget Customers and Incremental Budget Customers to be no higher than an amount equal to 45% above the billed budgeted amount in effect on or before March 31, 2004.

2.4 Closing Payment. The Closing shall take place at 10:00 a.m. on March 31, 2004 at the offices of the Seller at 2187 Atlantic Street, Stamford, CT 06902. At the Closing the Seller shall deliver to Buyer the Common Stock and the Buyer shall pay the Purchase Price less \$1,000,000 ("Deferred Payment") by wire transfer to Seller and the parties shall deliver to each other all other documents required to be delivered pursuant to this Agreement. The Deferred Payment shall be paid on the date the Special Purchase Price Adjustment is required to be paid under Section 2.3(c). Buyer shall have the right to offset from the amount of the Deferred Payment any amount owed to Buyer pursuant to the Special Purchase Price Adjustment.

2.5 Post Closing Payments. If the Special Purchase Price Adjustments as finally determined increase the Purchase Price, within 10 days following such determination the Buyer shall pay the amount of such increase to Seller. If the Special Purchase Price Adjustments decreases the Purchase Price within 10 days following such determination, Seller shall pay the amount of such decrease to the Buyer. The Purchase Price as adjusted by the Post Closing Adjustment and the Special Purchase Price Adjustments is referred to herein as the Final Purchase Price.

2.6 Characterization of Payments. All payments required to be made pursuant to Section 2.2 and 2.3 shall be deemed to be adjustments to the purchase price.

ARTICLE 3 REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents, covenants and warrants to Buyer, as follows:

3.1 Corporate Organization; Etc.

(a) Company. Section 3.1(a) of Seller's Disclosure Letter sets forth the name, jurisdiction of organization, the jurisdictions in which the Company is qualified to do business and the capitalization of the Company, including the number of each class of its authorized capital stock, the number of issued and outstanding shares of each class of its capital stock, the names of the holders thereof, and the number of shares held by each such holder. Except as and to the extent set forth in Section 3.1(a) of Seller's Disclosure Letter, all the outstanding equity securities of the Company are owned directly or indirectly by the Seller free and clear of any Encumbrance, other than transfer restrictions under securities laws, and are

validly issued, fully paid and nonassessable, and there are no outstanding options, rights or agreements, understandings or arrangements of any kind relating to the issuance, sale or transfer of any capital stock or other equity securities of the Company to any person. There are no voting trusts or other agreements with respect to the voting of the equity securities of the Company. The Company (i) is an entity duly organized, validly existing and in good standing under the laws of its state of organization; and (ii) has full power and authority to carry on its business as it is now being conducted and to own the properties and assets it now owns. The Company is duly qualified to do business and is in good standing as a foreign entity in each jurisdiction listed opposite the name of the Company in Section 3.1(a) of Seller's Disclosure Letter which are the only jurisdictions in which the properties owned or leased or the nature of the business conducted by it makes such qualification necessary, except where the failure to be so qualified would not have a Material Adverse Effect. The copies of the certificate of incorporation and by-laws or other organizational certificate and all amendments thereto of the Company heretofore delivered to Buyer are complete and correct copies of such instruments as presently in effect. The minute books (containing the records of meetings of the stockholders, the board of directors, and any committees of the board of directors), the stock certificate books, and the stock transfer record books of the Company are correct and complete and each has been provided to Buyer. The Company is not in default under or in violation of any provision of its charter or bylaws. At the Closing, the Company shall have no equity securities outstanding other than Common Stock.

(b) Company Subsidiary. Section 3.1(b) of Seller's Disclosure Letter sets forth the name, jurisdiction of organization, the jurisdictions in which each Company Subsidiary is qualified to do business and the capitalization of each Company Subsidiary, including the number of each class of its authorized capital stock, the number of issued and outstanding shares of each class of its capital stock, the names of the holders thereof, and the number of shares held by each such holder. Except as disclosed in Section 3.1(b) of Seller's Disclosure Letter, the Company does not own, directly or indirectly, any capital stock or other equity securities of any corporation, limited liability company, partnership or any other entity or have any direct or indirect equity or ownership interest in any business. Except as and to the extent set forth in Section 3.1(b) of Seller's Disclosure Letter, all the outstanding equity securities of each Company Subsidiary are owned directly or indirectly by the Company free and clear of any Encumbrance and are validly issued, fully paid and nonassessable, and there are no outstanding options, rights or agreements, understandings or arrangements 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. There are no voting trusts or other agreements with respect to the voting of the equity securities of any Company Subsidiary. Each Company Subsidiary (i) is an entity duly organized, validly existing and in good standing under the laws of its state of organization; and (ii) has full power and authority to carry on its business as it is now being conducted and to own the properties and assets it now owns. Each Company Subsidiary is duly qualified to do business and is in good standing as a foreign entity in each jurisdiction listed opposite the name of such Company Subsidiary in Section 3.1(b) of Seller's Disclosure Letter which are the only jurisdictions in which the properties owned or leased or the nature of the business conducted by it makes such qualification necessary, except where the failure to be so qualified would not have a Material Adverse Effect. The copies of the certificate of incorporation and by-laws or other organizational certificate and all amendments thereto of each Company Subsidiary heretofore delivered to Buyer are complete and correct copies of such instruments as presently in effect. The minute books (containing the records of meetings of the

stockholders, the board of directors, and any committees of the board of directors), the stock certificate books, and the stock transfer record books of each Company Subsidiary are correct and complete and each has been provided to Buyer. No Company Subsidiary is in default under or in violation of any provision of its charter or bylaws.

(c) The Common Stock to be delivered to the Buyer by the Company at the Closing will be duly and validly issued, fully paid and non-assessable and such delivery of the Common Stock will vest good title in Buyer free of any Encumbrance.

(d) The Common Stock constitutes all the equity securities issued by the Company and the Company Subsidiary and outstanding on the Closing Date. No preferred stock or any other equity interest, including any form of preferred stock, common stock with or without voting rights, warrants, options, rights offerings, or any other form of equity interest or right to equity interest in the Company or the Company Subsidiary, whether or not formerly issued or granted by the Company and whether or not vested, will be outstanding on the Closing Date, except that the Company will own all of the issued and outstanding common stock of the Company Subsidiary.

3.2 Authority; No Conflict.

(a) This Agreement constitutes the legal, valid, and binding obligation of the Seller, enforceable against Seller in accordance with its terms. Upon the execution and delivery by each of the Seller of the Documents to which it is a party, such Documents will constitute the legal, valid, and binding obligations of the Seller, enforceable in accordance with their respective terms, except as may be limited by bankruptcy, moratorium and insolvency laws and other laws affecting the rights of creditors generally and except as may be limited by the availability of equitable remedies. The Seller has the corporate right, power, authority, and capacity to execute and deliver this Agreement and the Documents to which it is a party and to perform its obligations under this Agreement and such Documents.

(b) Neither the execution and delivery of this Agreement or any of the Documents, nor the consummation or performance of any of the Contemplated Transactions will, directly or indirectly (with or without notice or lapse of time):

(i) contravene, conflict with, or result in a material violation of (A) any provision of the Organizational Documents of the Seller, or (B) any resolution adopted by the board of directors or the stockholders of the Seller;

(ii) contravene, conflict with, or result in a material violation of, or give any Person the right to challenge any of the Contemplated Transactions or to exercise any remedy or obtain any relief under, any Legal Requirement or any Order to which the Company or any Company Subsidiary, or any of the assets owned or used by them may be subject;

(iii) contravene, conflict with, or result in a material violation of any of the terms or requirements of, or give any Governmental Authority the right to revoke, withdraw, suspend, cancel, terminate, or modify, any Governmental Authorization that is held by the Company or any Company Subsidiary or that otherwise relates to the business of, or any of the assets owned or used by the Company or any Company Subsidiary;

(iv) except for the Taxes arising because of any of the elections made pursuant to Section 5.3, cause the Buyer, the Company or any Company Subsidiary to become subject to, or to become liable for the payment of, any Tax;

(v) cause any of the assets owned by the Company or any Company Subsidiary to be reassessed or revalued by any Governmental Authority;

(vi) except as set forth in Section 3.2(b)(vi) of the Seller's Disclosure Letter, contravene, conflict with, or result in a material violation or material breach of any provision of, or give any Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify, any Material Contract; or

(vii) result in the imposition or creation of any Encumbrance upon or with respect to any of the assets owned or used by the Company or any Company Subsidiary; except for Encumbrances created by the Transaction Documents.

(c) Except as set forth in Section 3.2(c) of the Seller's Disclosure Letter, the Seller will not be required to give any notice to, or obtain any Consent from, any Person in connection with the execution and delivery of this Agreement or any of the Documents or the consummation or performance of any of the Contemplated Transactions.

3.3 Financial Statements. The Company has heretofore delivered to Buyer and attached hereto as Section 3.3 of the Seller's Disclosure Letter consolidated balance sheets of Star Gas Partners, L.P. and its subsidiaries as at September 30, 2003 and the quarter ended December 31, 2003; and the related consolidated statements of operations and accumulated deficit and cash flows for each such period, together with the report of KPMG LLP, independent certified public accountants with respect to the year ended September 30, 2003. The segment information set forth in footnote 4 thereof with respect to the Total Gas & Electric segment and the information set forth on Exhibit 3.3 with respect to the Company and the Company Subsidiaries ("Company Information"), is true, complete and accurate and such segment information as to the Total Gas & Electric segment and such Company Information as to the Company and the Company Subsidiary fairly presents the consolidated assets, liabilities and financial condition of the propane segment and the Company and the Company Subsidiary as at the respective dates thereof, and such segment information and Company Information is true, complete and accurate and fairly present the results of operations of the Total Gas & Electric segment and the Company and the Company Subsidiary for the periods therein referred to, all in accordance with GAAP throughout the periods involved. The balance sheet of the Company and the Company Subsidiary as of December 31, 2003, as set forth on Exhibit 3.3 is referred to herein as the "2003 Balance Sheet."

3.4 No Undisclosed Liabilities, Etc. Except as set forth in Section 3.4 of the Seller's Disclosure Letter, as of December 31, 2003, the Company and the Company Subsidiary had no material liability or obligation of any nature (absolute, accrued, contingent or otherwise)

which is not fully reflected or reserved against in the 2003 Balance Sheet or disclosed in Seller's Disclosure Letter. The reserves reflected in the 2003 Balance Sheet are adequate, appropriate and reasonable. Since December 31, 2003 the Company and the Company Subsidiary have incurred no material liabilities except trade payables and accrued expenses in the Ordinary Course of Business or other material liabilities expressly permitted to be incurred pursuant to this Agreement.

3.5 Accounts Receivable. All accounts receivable of the Company and the Company Subsidiary, whether reflected in the 2003 Balance Sheet or otherwise, arose in the Ordinary Course of Business for goods or services delivered or rendered, and are not subject to defenses, counterclaims or set off.

3.6 Absence of Certain Changes. Except as and to the extent set forth in Section 3.6 of the Seller's Disclosure Letter, since December 31, 2003 neither the Company nor any Company Subsidiary has:

(a) Suffered any material adverse change in its working capital, financial condition, assets, liabilities (absolute, accrued, contingent or otherwise), reserves, business, operations or prospects;

(b) Incurred any liabilities or commitments or obligations relating to capital expenditures (absolute, accrued, contingent or otherwise) except non-material items incurred in the Ordinary Course of Business, none of which in the singular or aggregate exceeds \$25,000 (counting obligations or liabilities arising from one transaction or a series of similar transactions, and all periodic installments or payments under any lease or other agreement providing for periodic installments or payments, as a single obligation or liability), or increased, or experienced any change in any assumptions underlying or methods of calculating, any bad debt, contingency or other reserves;

(c) Entered into, extended, materially modified, terminated or renewed any Material Contract except in the Ordinary Course of Business;

(d) 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 2003 Balance Sheet or incurred in the Ordinary Course of Business since the date of the 2003 Balance Sheet;

(e) Failed to pay or satisfy its accounts payables, debts, obligations and other liabilities when due;

(f) Permitted or allowed any of its properties or assets (real, personal or mixed, tangible or intangible) to be subjected to any Encumbrance, except for liens for current taxes not yet due and liens that occur by operation of law (i.e., mechanics' liens and to the Knowledge of Seller, no such liens exist, except as disclosed in Seller's Disclosure Letter);

(g) Permitted to be done any act by which any of its insurance policies may be suspended, impaired or canceled;

(h) Written down or up 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;

(i) Canceled any debts or waived any claims or rights of substantial value in excess of \$100,000 in the aggregate;

(j) Entered into any contract, commitment, or understanding for the sale of, or sold, transferred, or otherwise disposed of, any of its properties or assets (real, personal or mixed, tangible or intangible), except inventory and obsolete equipment in the Ordinary Course of Business;

(k) Disposed of or permitted to lapse any rights to the use of any Intellectual Property Assets, or disposed of or disclosed (except as necessary in the conduct of its business) to any person other than representatives of Buyer any trade secret, formula, process or know-how not theretofore a matter of public knowledge;

(l) Granted or otherwise committed to make any increase in the compensation of officers, directors or employees (including any such increase pursuant to any bonus, pension, profit sharing, stock option or other plan or commitment) or make any bonus, severance, or termination or similar payments to, or establish, adopt or amend any employee retirement or benefit plan or program or entered into any collective bargaining agreement, service or termination agreement, which increase, payment plans, programs or agreements were to be effective after the Closing Date;

(m) Declared any dividends or made any other form of capital distribution affecting its equity, or paid or incurred directors' fees.

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

(o) 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 compensation to directors and officers at rates not exceeding the rates of compensation paid during the 12 month period ended December 31, 2003;

(p) Failed to comply in all material respects with all Legal Requirements applicable to the conduct of its business; or

(q) Agreed, whether in writing or otherwise, to take any action prohibited by this Section; except as permitted by the Transaction Documents or contemplated thereby.

3.7 Title to Properties; Encumbrances. Except as shown in Section 3.7(a) of the Seller's Disclosure Letter, the Company and the Company Subsidiary have good and valid title to, or in the case of assets held pursuant to a lease or a license, valid and subsisting leasehold

interests or licenses in, all properties and assets (real, personal and mixed, tangible and intangible), which are used in the business of the Company and the Company Subsidiary or which it purports to own including, without limitation, all the properties and assets reflected in the 2003 Balance Sheet (except for inventory and obsolete equipment sold since the date of the 2003 Balance Sheet in the Ordinary Course of Business and consistent with past practice), and all the properties and assets purchased by the Company and the Company Subsidiary since the date of the 2003 Balance Sheet. Except as set forth in Section 3.7(b) of the Seller's Disclosure Letter, all such properties and assets are free and clear of all Encumbrances except tax liens, and mechanics liens with respect to all such properties and assets and liens shown on the 2003 Balance Sheet as securing specified liabilities or obligations which would not individually or in the aggregate either (i) materially interfere with the use of any such property in the Ordinary Course of Business, or (ii) materially reduce the fair market value of any such property. The rights, properties and other assets presently owned, leased or licensed by the Company and the Company Subsidiary and described elsewhere in this Agreement, include all rights, properties and other assets necessary to permit the Company and the Company Subsidiary to conduct their business in all material respects in the same manner as they have conducted their business immediately prior to the Closing Date. All of the properties and assets of the Company and the Company Subsidiary are in conformity with all Legal Requirements, except where such nonconformity would not individually or in the aggregate have a Material Adverse Effect. For the purposes of this section, the term Material Adverse Effect means any event or series of events or circumstances which, individually or in the aggregate exceed \$100,000.

3.8 Equipment. Except as set forth in Section 3.8 of the Seller's Disclosure Letter, to the Knowledge of Seller, the equipment of the Company and the Company Subsidiary is structurally sound with no known defects and is in good operating condition and repair and is adequate for the uses to which it is being put; and none of such equipment is in need of maintenance or repairs except for ordinary, routine maintenance and repairs which are not material in nature or cost. Except as set forth in Section 3.8 of the Seller's Disclosure Letter, neither the Company nor the Company Subsidiary has received notification that it is in material violation of any Legal Requirements, including without limitation, applicable building, zoning, anti-pollution, health or other law, ordinance or regulation in respect of its plants or structures or their operations and to the Knowledge of Seller, no such violation exists.

3.9 Intellectual Property.

(a) Section 3.9(a) of the Seller's Disclosure Letter contains a complete and accurate list and summary description (including any royalties paid or received by the Seller) of all Applicable Contracts relating to the Intellectual Property Assets to which the Company or any Company Subsidiary is a party or by which the Company or any Company Subsidiary is bound, except for any license implied by the sale of a product and perpetual, paid-up licenses for commonly available software programs under which the Company or any Company Subsidiary is the licensee. There are no outstanding and, to the Knowledge of Seller, no Threatened disputes or disagreements with respect to any such agreement. Neither the Company nor any Company Subsidiary is, nor will it be as a result of the execution and delivery of this Agreement, in breach of any Contract relating to the Intellectual Property Assets.

(b) Except as set forth in Section 3.9(b) of the Seller's Disclosure Letter, the Intellectual Property Assets and are all those necessary for the operation of the business of the Company and the Company Subsidiary as they are currently conducted or as currently proposed to be conducted. The Company and the Company Subsidiary is the owner of, or have a valid right to use, all right, title, and interest in and to each of the Intellectual Property Assets, free and clear of all Encumbrances and have the right to use without payment to a third party all of the Intellectual Property Assets.

(c) Section 3.9(c) of the Seller's Disclosure Letter contains a complete and accurate list and summary of all Marks. All Marks that have been registered with the United States Patent and Trademark Office are currently in compliance with all Legal Requirements (including the timely post-registration filing of affidavits of use and incontestability and renewal applications), are valid and enforceable, and are not subject to any maintenance fees or taxes or actions falling due within ninety days after the Closing Date. No Mark has been or is now involved in any opposition, invalidation, or cancellation and, to the Knowledge of Seller, no such action is Threatened with respect to any of the Marks. To the Knowledge of Seller, there is no potentially interfering trademark or trademark application of any third party. Except as described in Section 3.9(c) of the Seller's Disclosure Letter, no Mark is infringed or, to the Knowledge of Seller, has been challenged or Threatened in any way. None of the Marks used by Seller infringes or is alleged to infringe any trade name, trademark, or service mark of any third party. All products and materials containing a Mark bear the proper federal registration notice where permitted by law.

(d) Section 3.9(d) of the Seller's Disclosure Letter contains a complete and accurate list and summary description of all Copyrights. All the Copyrights have been registered and are currently in compliance with Legal Requirements, are valid and enforceable, and are not subject to any maintenance fees or taxes or actions falling due within ninety days after the date of Closing. No Copyright is infringed or, to the Knowledge of Seller, has been challenged or Threatened in any way. None of the subject matter of any of the Copyrights infringes or is alleged to infringe any copyright of any third party or is a derivative work based on the work of a third party. All works encompassed by the Copyrights have been marked with the proper copyright notice.

3.10 Contracts; No Defaults.

(a) Except for oral supply commitments made in the Ordinary Course of Business, Section 3.10(a) of the Seller's Disclosure Letter contains a complete and accurate list, and the Seller has delivered to Buyer true and complete copies, of the following Applicable Contracts (each a "Material Contract"):

(i) each Applicable Contract that involves performance of services or delivery of goods or materials by the Company or any Company Subsidiary of an amount or value in excess of \$35,000;

(ii) each Applicable Contract that involves performance of services or delivery of goods or materials to the Company or any Company Subsidiary of an amount or value in excess of \$50,000;

(iii) each Applicable Contract that was not entered into in the Ordinary Course of Business and that involves expenditures or receipts of one or more of the Company and the Company Subsidiary in excess of \$50,000;

(iv) each lease, rental or occupancy agreement, license, installment and conditional sales agreement, and other Applicable Contract affecting the ownership of, leasing of, title to, use of, or any leasehold or other interest in, any real or personal property (except personal property leases and installment and conditional sales agreements having a value per item or aggregate payments of less than \$5,000);

(v) each licensing agreement or other Applicable Contract with respect to Intellectual Property Assets, including agreements with current or former employees, consultants, or contractors regarding the appropriation or the non-disclosure of any of the Intellectual Property Assets;

(vi) each collective bargaining agreement and other Applicable Contract to or with any labor union or other employee representative of a group of employees;

(vii) each joint venture, partnership, and other Applicable Contract (however named) involving a sharing of profits, losses, costs, or liabilities by Seller with any other Person;

(viii) each Applicable Contract containing covenants that in any way purport to restrict the business activity of the Company or any Company Subsidiary or limit the freedom of the Company or any Company Subsidiary to engage in any line of business or to compete with any Person;

(ix) each Applicable Contract providing for payments to or by any Person based on sales, purchases, or profits, other than direct payments for goods;

(x) each power of attorney that is currently effective and outstanding;

(xi) each Applicable Contract entered into that contains or provides for an express undertaking by the Company or any Company Subsidiary to be responsible for consequential damages;

(xii) each Applicable Contract for capital expenditures in excess of \$50,000;

(xiii) each employment Contract; and

(xiv) each written warranty, guaranty, and or other similar undertaking with respect to contractual performance extended by or extended by Seller or third parties on behalf of Company or any Company Subsidiary in the absence of which the business of the Company and the Company Subsidiary would suffer a Material Adverse Effect other than in the Ordinary Course of Business.

Section 3.10(a) of the Seller's Disclosure Letter sets forth reasonably complete details concerning such Contracts, including the parties to the Contracts, the amount of the remaining commitment of the Company or the Company Subsidiary under the Contracts, and the office where details relating to the Contracts are located.

(b) Except as set forth in Section 3.10(b) of the Seller's Disclosure Letter:

(i) The Company and the Company Subsidiary are, and, to the Knowledge of Seller, at all times since its formation have been, in compliance in all material respects with all applicable terms and requirements of each Material Contract;

(ii) to the Knowledge of Seller, each other Person that has or had any obligation or liability under any Material Contract under which the Company or any Company Subsidiary has or had any rights is, and, to the Knowledge of Seller, at all times since its formation has been, in material compliance with all applicable terms and requirements of such Material Contract;

(iii) no event has occurred or circumstance exists on the part of either of the Seller, or, to the Knowledge of Seller, on the part of any other party to a Material Contract, that (with or without notice or lapse of time) may contravene, conflict with, or result in a violation or breach of, or give the Company or any Company Subsidiary or any other Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify, any Material Contract; and

(iv) the Seller have not given to, or received from any other Person, any notice or other communication (whether oral or written) regarding any actual, alleged, possible, or potential violation or breach of, or default under, any Material Contract.

(c) There are no renegotiations of, attempts to renegotiate, or outstanding rights to renegotiate any material amounts paid or payable to the Company or any Company Subsidiary under current or completed Material Contracts with any Person and no such Person has made written demand for such renegotiation.

(d) The Material Contracts have been entered into in the Ordinary Course of Business and have been entered into without the commission of any act alone or in concert with any other Person, or any consideration having been paid or promised, that is or would be in violation of any Legal Requirement.

(e) For each of the Base Customers the Company has, and for each of the Closing Date Customers the Company will have as of the Closing Date, an energy supply agreement with and executed by such Customer, or, in lieu of such written agreement an audio recording of a verification of such agreement by a third party agent of the Company and evidence of a confirmation mailed to each customer.

3.11 Insurance. Section 3.11(a) of the Seller's Disclosure Letter contains an accurate and complete description of all policies and binders of fire, liability, workers' compensation, products liability and all other forms of insurance (showing as to each policy or binder the carrier, policy number, coverage limits, expiration dates, annual premiums, and a general description of the type of coverage) maintained by the Company and the Company Subsidiary, and other forms of insurance owned or held by the Company and the 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, 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, and will remain in full force and effect following the Closing. Section 3.11(b) of the Seller's Disclosure Letter identifies all risks which the Company and the Company Subsidiary have designated as being self-insured. To the Knowledge of Seller, neither the Company nor the 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 three years.

Section 3.11(c) of the Seller's Disclosure Letter sets forth all written recommendations or comments received from any insurance carrier regarding the manner in which the Company and the Company Subsidiary conduct their business or recommending changes relating thereto.

3.12 Labor Difficulties. Except to the extent set forth in Section 3.12 of the Seller's Disclosure Letter, (a) each of the Company and the Company Subsidiary is in compliance in all material respects with all Legal Requirements respecting employment and employment practices, terms and conditions of employment and wages and hours; (b) there is no unfair labor practice complaint against the Company or the Company Subsidiary pending or, to the Knowledge of Seller, Threatened, before the National Labor Relations Board; (c) there is no labor strike, dispute, showdown or stoppage actually pending or, to the Knowledge of Seller, Threatened against or affecting the Company or the Company Subsidiary; (d) to the Knowledge of Seller, no representation question exists respecting the employees of the Company or the Company Subsidiary; (e) no grievance which might have a Material Adverse Effect on the Company or the Company Subsidiary or the conduct of its business or any arbitration proceeding arising out of or under collective bargaining agreements is pending and to the Knowledge of Seller, no claim therefor exists; (f) there is no collective bargaining agreement binding on the Company or the Company Subsidiary; and (g) neither the Company nor the Company Subsidiary have experienced any work stoppage or other labor difficulty or attempts to organize employees by organized labor in the past five years.

3.13 Employee Benefits.

(a) Except as set forth in Section 3.13 of Seller's Disclosure Letter, neither the Company nor the Company Subsidiary (i) sponsors, maintains or contributes to, or has in the past sponsored, maintained or contributed to any Plan, or (ii) have promised or are otherwise committed or required to sponsor, maintain or contribute to any Plan.

(b) No Plan is subject to Section 412 of the Code or Section 302 of ERISA or Title IV of ERISA or is a defined benefit plan.

(c) With respect to each Plan, the Company has provided the Buyer with true, complete and correct copies of (i) each Plan, including all amendments thereto, (ii) the most recent summary plan description (if any) and all other documents pursuant to which the Plans are maintained, (iii) the two most recent annual reports (Form 5500 series) filed with the IRS (with attachments), and (iv) all IRS determination letters, rulings and opinions.

(d) With respect to each Plan which is subject to Title I of ERISA, neither the Company nor the Company Subsidiary nor to the Knowledge of Seller, of any of their Affiliates have failed to comply with any of the applicable reporting, disclosure or other requirements of ERISA and the Code. None of the Plans or any trusts relating thereto have engaged in any transaction in connection with which Seller or, to the Knowledge of Seller, any of their Affiliates or any "fiduciaries," as such term is defined in Section 3(21) of ERISA, of any Plans or related trusts is or could be subject to either a civil penalty or other liability under ERISA, including, but not limited to, Section 502(i), Section 406 or Section 409 thereof, or a tax imposed by Section 4975 of the Code, and no event has occurred and no condition exists with respect to the Plans that would subject Seller or, to the Knowledge of Seller, any such Affiliate to any other Tax or penalty under the Code or civil penalty or other liability under ERISA or other Legal Requirements.

(e) Each Plan which is intended to meet the requirements of Section 401(a) of the Code has been (i) adopted in conformity with all Legal Requirements, (ii) is evidenced by plan documents that comply with all Legal Requirements, and (iii) has been operated since its inception in accordance with all Legal Requirements, in all material respects. With respect to each such Plan, a favorable determination letter has been received from the IRS as to its qualification under Section 401(a) of the Code (including the amendments to the Code made by the Tax Reform Act of 1986).

(f) Neither the Company nor the Company Subsidiary nor any of their Affiliates, nor any of their directors, officers, employees or any other fiduciary, have any liability for failure to comply with ERISA or the Code for any action or failure to act in connection with the administration or investment of the Plans.

(g) All applicable contributions for all periods ending prior to the Closing Date (including periods from the first day of the then current plan year to the Closing Date) shall be made to the Plans prior to the Closing Date, determined by using the applicable actuarial and funding assumption, if any. No Plan has any unfunded liability. All employee benefits not currently vested will be vested by the Closing.

(h) Except as otherwise required by Section 4980B of the Code or Part 6 of Title I of ERISA, there are no benefits or insurance under the Plans for current or future retirees or other former employees. General notification to employees of their rights under Code Section 4980B in the case of each Plan that is a "group health plan" as defined in Code Section 5000(b)(1) has been given in accordance with all applicable provisions of ERISA and the Code.

(i) Neither the Company nor the Company Subsidiary has any commitment, whether formal or informal, and whether legally binding or not, to create any additional Plan, policy or arrangement, or to modify any existing Plan.

(j) There is no pending, or, to the Knowledge of Seller, Threatened, Proceeding before the IRS, the Department of Labor, the Pension Benefit Guaranty Corporation, or otherwise, against or involving any Plan (other than routine claims for benefits) and, to the Knowledge of Seller, there is no basis for, and Seller has no Knowledge of any facts that could give rise to any such condition or Proceeding.

(k) The consummation of the Contemplated Transactions will not, either alone or in combination with any other event expressly contemplated hereby or in the Documents, (i) entitle any current or former employee or officer of the Seller or, to the Knowledge of Seller, any ERISA Affiliate to severance pay, unemployment compensation or any other payment, except as expressly provided in this Agreement; (ii) accelerate the time of payment or increase the amount of compensation due any such employee or officer; (iii) result in any employment-related expenses or liabilities; or (iv) otherwise give rise to a benefit that is reasonably likely to be treated as a parachute payment under Section 280G of the Code.

3.14 Legal Proceedings; Orders.

(a) Except as set forth in Section 3.14(a) of the Seller's Disclosure Letter, there is no pending Proceeding:

(i) that is by or against the Company or the Company Subsidiary or, to the Knowledge of Seller, by or against any third party, that relates to or may adversely affect the business of the Company or the Company Subsidiary, or any of their assets; or

(ii) to the Knowledge of the Seller is against any employee or consultant working on behalf of the Company or any Company Subsidiary.

(iii) that challenges, or that may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Contemplated Transactions.

To the Knowledge of Seller, (1) no such Proceeding has been Threatened and (2) no event has occurred or circumstance exists that may give rise to or serve as a basis for the commencement of any such Proceeding. The Proceedings listed in Section 3.14(a) of the Seller's Disclosure Letter will not, individually or in the aggregate, have a Material Adverse Effect. For the purposes of this section, the term Material Adverse Effect means any event or series of events or circumstances which, individually or in the aggregate exceed \$100,000.

(b) Except as set forth in Section 3.14(b) of Seller's Disclosure Letter:

(i) there is no Order to which the Company or the Company Subsidiary is subject;

(ii) neither the Company nor the Company Subsidiary is subject to any Order that relates to their business or assets;

(iii) no officer, director, agent, or employee of the Company or the Company Subsidiary is subject to any Order that prohibits such officer, director, agent, or employee from engaging in or continuing any conduct, activity, or practice relating to the business of the Company or the Company Subsidiary;

(iv) the Company and the Company Subsidiary are, and at all times have been, in full compliance with all of the terms and requirements of each Order to which either of the Company or the Company Subsidiary or their respective assets is or has been subject;

(v) no event has occurred or circumstance exists that may constitute or result in (with or without notice or lapse of time) a violation of or failure to comply with any term or requirement of any Order to which the Company and the Company Subsidiary are subject; and

(vi) the Company and the Company Subsidiary have not received any notice or other communication (whether oral or written) from any other Person regarding any actual, alleged, possible, or potential violation of, or failure to comply with, any term or requirement of any Order to which they, or any of their assets, are or has been subject.

(c) Neither the Company, the Company Subsidiary or any agent or employee of the Company has engaged in any course of conduct that violates any provision of, or has engaged in any conduct that would in conjunction with similar conduct prior to the Closing result in the imposition of penalties, injunctive relief, or other sanctions on the Company under:

(i) that certain Assurance of Discontinuance Pursuant to Executive Law Section 63(15) entered into in March 2001 between and among Eliot Spitzer, Attorney General of the State of New York; Total Gas & Electric, Inc.; and Wilmer, Cutler & Pickering;

(ii) Settlement agreement with the Pennsylvania Public Utilities Commission Law Bureau Prosecutory Staff approved by the Commission on September 26, 2001 Docket.

(iii) Final Administrative consent order of the State of New Jersey Board of Public Utilities, Division of Consumer Affairs filed December 7, 2000 signed by Usher Fogel, Robinson & Cole, LLP, Spandora & Hilson, Todd Steadman and Elizabeth S. Flinger.

3.15 Legal Requirements: Governmental Authorizations.

(a) Except as set forth in Section 3.15(a) of the Seller's Disclosure Letter:

(i) To the Knowledge of Seller, the Company and the Company Subsidiary is in compliance in all respects with all Legal Requirements, except for such instances as would not, individually or in the aggregate, have a Material Adverse Effect;

(ii) no event has occurred or circumstance exists that (with or without notice or lapse of time) (A) may constitute or result in a material violation by the Company and the Company Subsidiary of, or a failure on the part of the Company and the Company Subsidiary to comply with, any Legal Requirement, or (B) may give rise to any obligation on the part of the Seller to undertake, or to bear all or any portion of the cost of, any remedial action of any nature, except for such instances as would not, individually or in the aggregate, have a Material Adverse Effect; and

(iii) neither the Company nor the Company Subsidiary has received notice or other communication (whether oral or written) from any Person that would singly or in the aggregate have a Material Adverse Effect regarding (A) any actual, alleged, possible, or potential material violation of, or failure to comply with, any Legal Requirement, or (B) any actual, alleged, possible, or potential obligation on the part of the Company and the Company Subsidiary to undertake, or to bear all or any portion of the cost of, any remedial action of any nature.

(iv) Neither the Company nor the Company Subsidiary has received notice or other communication (whether oral or written) regarding any actual, possible or potential complaint of any customer to any Government Body relating to the business of the Company and the Company Subsidiary or the manner in which such business is or has been conducted.

(b) Section 3.15(b) of the Seller's Disclosure Letter contains a complete and accurate list of each Governmental Authorization that is held by the Seller or that otherwise relates to the business of the Company and the Company Subsidiary, or to any of their assets. Each Governmental Authorization listed or required to be listed in Section 3.15(b) of the Seller's Disclosure Letter is valid and in full force and effect. Except as set forth in Section 3.15(b) of the Seller's Disclosure Letter, and except for such instances as would not, individually or in the aggregate, have a Material Adverse Effect:

(i) To the Knowledge of the Seller, each of the Company and the Company Subsidiary is in compliance in all material respects with all of the terms and requirements of each Governmental Authorization identified or required to be identified in Section 3.15(b) of the Seller's Disclosure Letter;

(ii) the Company and the Company Subsidiary have not received any notice or other communication (whether oral or written) from any Governmental Authority or any other Person regarding (A) any actual, alleged, possible,

or potential violation of or failure to comply with any term or requirement of any Governmental Authorization which violation or failure to comply could result in any of the actions by a Governmental Authority described in (B), or (B) any actual, proposed, possible, or potential revocation, withdrawal, suspension, cancellation, termination of, or modification to any Governmental Authorization; and

(iii) to the Knowledge of Seller, all applications required to have been filed for the renewal of the Governmental Authorizations listed or required to be listed in Section 3.15(b) of the Seller's Disclosure Letter have been duly filed on a timely basis with the appropriate Governmental Bodies, and all other filings required to have been made with respect to such Governmental Authorizations have been duly made on a timely basis with the appropriate Governmental Bodies.

For the purposes of this section, the term Material Adverse Effect means any event or series of events or circumstances which, individually or in the aggregate exceed \$100,000.

3.16 Consents. Section 3.16 of the Seller's Disclosure Letter sets forth and identifies, including the name of the party and the address, all consents, assignments, releases, waivers, and approvals required of any Person necessary to the consummation of the Contemplated Transactions by the Seller.

3.17 Personnel. Section 3.17 of the Seller's Disclosure Letter sets forth a true and complete list of:

(a) the names and current salaries of all directors and elected and appointed officers of the Company and the Company Subsidiary;

(b) the wage rates for non-salaried and salaried non-executive by classification, the date of the last increase in compensation and scheduled salary review dates together with the Company's current unemployment compensation rate;

(c) a list of all employees of the Company and the Company Subsidiary, including, with respect to each employee: name, address, position, date of birth, date of hire; whether such employee is union or non-union, current base rate, total 2003 compensation, time of service, geographical work location, and current basis for (and amount of) accrued vacation, sick leave or other paid time off;

(d) a list of all employees of the Company and the Company Subsidiary whose employment has terminated within the last two years, including, with respect to each employee, (i) name, (ii) date of birth, (iii) date of hire, (iv) date of termination, (v) reason for termination, (vi) any protected class to which such employee belongs; and (vii) the amount of severance paid to such employee, if any, along with whether an effective release was obtained by such employee in favor of the Company and Company Subsidiary;

(e) a list of all employees of the Company or Company Subsidiary who are currently out on disability leave, together with details regarding the length and nature of the disability, payments to which the employee is entitled and/or receiving under any disability policy or Plan; and the employee's expected date of return to work;

(f) a list of all outstanding cash advances or loans to current or former employees of the Company or the Company Subsidiary;

(g) a list of all employees who participate in any Plan and who are not fully vested in any benefit under any such Plan, together with the date(s) on which any such vesting is scheduled to occur; and

(h) a list of all contractors paid by the hour who worked more than 500 hours for the Company and the Company Subsidiary in 2003 and the amounts paid and payable to each.

3.18 Taxes. Except as set forth in Section 3.18 of the Seller's Disclosure Letter,

(a) Each of the Company and the Company Subsidiary (i) has timely filed (or there has been timely filed on its behalf) with the appropriate Governmental Authority or taxing authority all Tax Returns required to be filed by it, and all such Tax Returns are true, correct, and complete in all respects, and (ii) has fully and timely paid in full (or has been paid in full on its behalf) all Taxes due and payable or claimed or asserted by any Governmental Authority or taxing authority to be due from or with respect to it.

(b) Each of the Company and the Company Subsidiary has paid (or there has been payment on its behalf), or where payment is not yet due, has established (or has had established on its behalf) an adequate accrual in accordance with GAAP for the payment of, all Taxes for all periods ending through the date hereof. Each of the Company and the Company Subsidiary has established adequate reserves in accordance with GAAP for such Taxes for which payment is not yet due.

(c) There are no Encumbrances for Taxes upon the outstanding stock of or any property or assets of the Company or the Company Subsidiary, except for Encumbrances for Taxes not yet due and for which adequate reserves have been established in accordance with GAAP.

(d) No Federal, state, local or foreign Audits are pending with regard to any Taxes or Tax Returns of the Company or the Company Subsidiary and, to the Knowledge of Seller, no Audit is Threatened.

(e) No Governmental Authority has made any adjustments to the amount of Taxes owed by each of the Company and the Company Subsidiary which have not been resolved and fully paid..

(f) There are no outstanding requests, consents or waivers to extend the statutory period of limitations applicable to the assessment of any Taxes or deficiencies against the Company or the Company Subsidiary, and no power of attorney granted by the Company or the Company Subsidiary with respect to any Taxes is currently in force.

(g) Neither the Company nor the Company Subsidiary has been a member of an “affiliated group” (within the meaning of the Code) filing a consolidated Federal tax return (other than a group the common parent of which is the Seller’s indirect parent, Star/Petro Inc.) or (ii) has any liability for any Tax of any Person other than under Treasury regulation Section 1.1502-6 (or any similar provision of state, local or foreign law), as a transferee or successor by contract or otherwise.

(h) There is no Contract or Plan covering any Person that, individually or collectively, would give rise to the payment of any amount that would not be deductible by the Company or the Company Subsidiary by reason of sections 280G or 162(m) of the Code.

(i) Neither the Company nor the Company Subsidiary has a permanent establishment in any foreign country.

(j) Neither the Company nor the Company Subsidiary is a real property holding corporation within the meaning of Section 897 of the Code.

(k) Neither the Company nor the Company Subsidiary has filed a consent pursuant to Section 341 of the Code or agreed to have Section 341(f) (2) of the Code apply to any disposition of any asset or liability owned by it.

(l) The Company and the Company Subsidiary are not, and never have been treated as S corporations within the meaning of Section 1361(a) of the Code, and the Company and the Company Subsidiary are not and never have been an S corporation within the meaning of any other laws comparable to Section 1361(a) of the Code.

(m) Neither the Company nor the Company Subsidiary is liable for any Tax under Section 1374 of the Code for any taxable year ending prior to the Closing Date. Neither the Company nor the Company Subsidiary has acquired the stock of any corporation which is a qualified subchapter S subsidiary.

(n) Neither the Company nor the Company Subsidiary is a party to any tax sharing or similar agreement or arrangement (whether or not written) pursuant to which it will have any obligation to make any payment after the Closing Date.

(o) Each of the Company and the Company Subsidiary has withheld all required amounts from its employees, agents, contractors, nonresidents, creditors, stockholders and third parties and remitted such amounts to the proper authorities, paid all employer contributions and premiums, and filed all Tax Returns with respect to employee income Tax withholding, and social security and unemployment Taxes and premiums, all in compliance with the withholding provisions of the Code, or any prior provision of the Code and other applicable laws.

(p) To the knowledge of Seller, there are no proposed reassessments of any property owned by each of the Company and the Company Subsidiary.

(q) Neither the Company nor the Company Subsidiary has been at any time a member of an entity treated as a partnership for tax purposes, a joint venture or a holder of a beneficial interest in any trust.

(r) None of the assets of the Company and the Company Subsidiary (i) is tax-exempt use property within the meaning of Section 168(h) of the Code, (ii) directly or indirectly secures any debt, the interest on which is exempt under Section 103(a) of the Code, or (iii) is property that is required to be treated as being owned by any Person (other than the Company and the Company Subsidiary as the case may be) under the provisions of Section 168(f)(8) of the Internal Revenue Code of 1954, as amended, and in effect immediately before the Tax Reform Act of 1986.

(s) All transfer Taxes payable in connection with this Agreement, the transactions contemplated by this Agreement or the documents giving effect to such transactions will be the responsibility equally of, and will be paid equally by, Seller and Buyer.

(t) Seller is obligated to comply with any and all bulk sales laws or regulations with respect to Taxes of each of the Company and the Company Subsidiary, including any and all filing obligations and the receipt of bulk sales tax clearance certificates from any Governmental Entity or taxing authority. Seller shall provide Buyer with a copy of all bulk sales tax filings and tax certificates with respect to Taxes of the Company and the Company Subsidiary. In the event that any applicable jurisdiction does not impose any bulk sales laws or regulations with respect to Taxes (including any filing requirements), Seller shall provide Buyer with evidence satisfactory to Buyer that such jurisdiction does not have any bulk sales laws or regulations with respect to Taxes. Any Damages that Buyer incurs for Seller's noncompliance with these provisions shall give rise to a claim for indemnification.

For the purposes of this section, the term Material Adverse Effect means any event or series of events or circumstances which, individually or in the aggregate exceed \$100,000.

3.19 Environmental Matters. The Company is presently in compliance with all environmental or health and safety-related laws, regulations, rules, ordinances, or bylaws at the federal, state or local level, whether existing as of the date hereof or previous thereto and applicable to the business of the Company and any facilities and operations thereof.

3.20 Inventory. All inventory of the Company and the Company Subsidiary, whether or not reflected on the 2003 Balance Sheet consists of a quality and quantity usable and salable in the Ordinary Course of Business.

3.21 Complete Disclosure. No representation or warranty made by Seller in this agreement, and no exhibit or schedule furnished to Buyer by or on behalf of Seller pursuant to this Agreement, contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to make the statements contained herein and therein not misleading.

3.22 Limitation of Representations and Warranties. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES SET FORTH IN THIS ARTICLE III, SELLER

DOES NOT MAKE ANY OTHER REPRESENTATIONS OR WARRANTIES, WRITTEN OR ORAL, STATUTORY, EXPRESS OR IMPLIED, CONCERNING SELLER, THE COMPANY AND THE COMPANY SUBSIDIARY AND THEIR BUSINESSES, ASSETS, OR LIABILITIES INCLUDING, IN PARTICULAR, ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, ALL OF WHICH ARE HEREBY EXPRESSLY EXCLUDED AND DISCLAIMED.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents, warrants, and covenants to Seller as follows:

4.1 Buyer Organization; Etc. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the state of Delaware and has full power and authority to carry on its business as it is now being conducted and to own the properties and assets it now owns.

4.2 Authorization; Etc. Buyer has full corporate power and authority to enter into this Agreement and to carry out the Contemplated Transactions. This Agreement has been duly executed and delivered and is a valid and binding agreement of Buyer enforceable in accordance with its terms except as (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 Contemplated Transactions will violate any provisions of the certificate of incorporation or bylaws or other organizational document of Buyer, 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 properties or assets of Buyer, under any agreement or commitment to which Buyer is a party or by which Buyer is bound, or violate any statute or law or any judgment, decree, order, regulation or rule of any court or governmental authority.

4.4 Proceedings.

(a) There is no pending Proceeding:

(i) that is by or against the Buyer or any subsidiary of the Buyer or, to the Knowledge of Buyer, by or against any third party, that relates to or may materially adversely affect the business of the Buyer or any subsidiary of the Buyer, or any of the their assets; or

(ii) that challenges, or that may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Contemplated Transactions.

To the Knowledge of Buyer, (1) no such Proceeding has been Threatened and (2) no event has occurred or circumstance exists that may give rise to or serve as a basis for the commencement of any such Proceeding.

ARTICLE 5
COVENANTS OF BUYER AND SELLER

The Buyer and Seller hereby covenant and agree, as applicable, as follows:

5.1 Access. The Seller shall cause the Company to afford to Buyer, its counsel, accountants and other representatives, reasonable access during normal business hours to the plants, offices, warehouses, properties, books and records of the Company and the Company Subsidiary in order that Buyer may have full opportunity to make such investigations as it shall desire to make of their business; and they will cause its officers and accountants to furnish such additional financial and operating data and other information as Buyer shall from time to time reasonably request; provided, however, that any such investigation shall be conducted in such a manner as not to interfere with the operation of their business. Buyer's independent investigation of such business shall not relieve, release, or otherwise constitute a waiver of Seller's liability and obligations to Buyer for breach of warranties and representations of this Agreement and to make true and complete disclosure to Buyer. Seller hereby waives and releases any claim that Buyer knew or should have known any fact as a result of such independent investigation, except where Buyer has admitted to such Knowledge in writing. The confidentiality provisions of the Confidentiality and Non-Disclosure Agreement dated October 21 (the "Letter of Intent") between the parties shall apply to all disclosures made by Seller after the execution of this Agreement.

5.2 No Solicitation. As consideration for Buyer's conducting due diligence, Seller hereby agrees that prior to Closing, it will not directly solicit, provide assistance or cooperation or hold discussions or negotiations with any Person other than Buyer having any interest in or proposing a transaction regarding the Company or the Company Subsidiary, or consider any expression of interest by such Person relating to the sale or exchange of the capital stock of the Seller, or to merge with the Company.

5.3 Tax Election. Seller and Buyer will jointly make an election under Section 338(h)(10) of the Code prior to the Closing Date with respect to the Company and the Company Subsidiary and any election under state law or local law comparable to the election under Section 338(g) of the Code or Section 338(h)(10) of the Code. Buyer and Seller will allocate the Purchase Price as set forth on Exhibit 5.3. Buyer and Seller agree to timely and consistently file IRS Form 8023 and any applicable state and local forms in connection with such election.

5.4 Affiliate Debt. All indebtedness to or from the Company and any Affiliate will be paid in full prior to the Closing.

5.5 Post-Closing. To the extent that either party receives after the Closing Date communications, documentation or payments that, but for manifest error, would be due to the other party, the receiving party shall promptly but in no event later than two business days after receipt forward to the other such communications or documents or transmit in immediately available funds the amount of such payments in accordance with the wire instructions attached as Exhibit 3.2.1.

5.6 Name Change. Following the Closing, the Seller will cause any Affiliate whose name includes the word "Total" to amend its Organization Documents to delete such words.

5.7 Covenant to Satisfy Conditions. Each of the Seller on the one hand and the Buyer on the other hand agrees to use commercially reasonable efforts to obtain all consents to execute all documents and to take such further actions as may be necessary to satisfy the conditions precedent to the obligations of the other.

5.8 Collection of Accounts Receivable. For a period of 12 months following the Closing, Buyer will cause the Company to assist in the collection of certain accounts receivable owned by a subsidiary of Star Gas Partners, LP representing amounts due from former customers of the Company, which assistance shall be consistent with the support presently provided by the Company such as access to its accounting system and hard copies of customer records, and as necessary, conversations with customers, utilities and regulators. For its services hereunder, the Seller shall pay to the Buyer an amount equal to 5% of all amounts paid by such former Customers, in each case within 30 days after amounts are received by Seller.

5.9 Visits to Customers. The Company shall permit the Buyer's representatives to visit and meet with executive personnel of suppliers, major customers and others doing business with the Company of the Company and the Company Subsidiary to be selected by Buyer with the reasonable approval of the Seller following the signing of this Agreement.

ARTICLE 6
CONDITIONS TO OBLIGATIONS OF SELLER

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

6.1 Representations and Warranties True. The representations and warranties of Buyer contained herein shall be in all material respects true and accurate as of the date when made and at and as of the Closing 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.

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

6.3 No Proceeding. No Proceeding shall have been instituted or Threatened which questions the validity or legality of any of the Contemplated Transactions.

6.4 Certificates. Buyer shall have furnished Seller with such certificates of its officers and others to evidence compliance with the conditions set forth in this Article VI as may be reasonably requested by Seller, including a certificate (signed by an officer of Buyer) to the effect that all representations and warranties of Buyer contained in this Agreement shall be true and correct in all material respects at and as of the date of this Agreement and at and as of the Closing Date as if such representations and warranties were made at and as of the Closing Date, and Buyer shall have performed in all material respects all agreements and covenants required hereby to be performed by it prior to or at the Closing Date.

6.5 Legal Opinion. Buyers shall have delivered to Seller an opinion of Buyers' counsel substantially in the form of Exhibit 6.5.

6.6 Consents. All permits, waivers, releases, approvals and consents necessary for the consummation of the Contemplated Transactions and for the operation of the business by Buyer, shall have been obtained.

6.7 Finders and Investment Bankers. Buyer has not employed any broker or finder or incurred any liability for any brokerage fees, commissions, or finders' fees in connection with this Agreement or the transactions contemplated hereunder.

6.8 Availability of Funding. Buyer has sufficient funds available to it or has received binding written commitments from third parties to provide sufficient funds to pay the Final Purchase Price and to enable Buyer to timely perform all of its obligations under this Agreement. Buyer has delivered to Seller evidence of the availability of such sufficient funds.

6.9 Release of Liens. The Seller and its Affiliates shall be released from those guarantees relating to the obligations of the Company and the Company Subsidiary set forth on Exhibit 6.9.

6.10 Release of Liens. The Liens under the Credit Documents relating to the assets of the Company and the Company Subsidiary shall be released, the guarantees by the Company and the Company Subsidiary of Petroleum Heat and Power Co., Inc.'s obligations under the Credit Documents shall be terminated and the stock certificates and stock powers of the Company and the Company Subsidiary pledged as collateral under the Credit Documents shall be delivered to the Buyer.

ARTICLE 7
CONDITIONS TO OBLIGATIONS OF BUYER

Each and every obligation of Buyer to consummate the transactions contemplated by this Agreement or 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 Buyer:

7.1 Representations and Warranties True. The representations and warranties of Seller contained herein and in the Seller's Disclosure Letter 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.

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

7.3 No Proceeding. No Proceeding shall have been instituted or Threatened which questions the validity or legality of any of the Contemplated Transactions.

7.4 Material Change. From the date of the 2003 Balance Sheet to the Closing Date, the Seller shall not have suffered any Material Adverse Effect. For the purposes of this section, the term Material Adverse Effect means any events or series of events or circumstances which, individually or in the aggregate exceed \$500,000.

7.5 Consents Obtained. All permits, waivers, releases, approvals and consents necessary for the consummation of the Contemplated Transactions and for the operation of the business by Buyer, shall have been obtained.

7.6 Certificates. Seller shall have furnished Buyer with such certificates of its officers and others to evidence compliance with the conditions set forth in this Article VII as may be reasonably requested by Buyer, including a certificate (signed by officers of Seller) to the effect that all representations and warranties of Seller contained in this Agreement shall be true and correct in all material respects at and as of the date of this Agreement and at and as of the Closing Date as if such representations and warranties were made at and as of the Closing Date, and Seller shall have performed in all material respects all agreements and covenants required hereby to be performed by it prior to or at the Closing Date.

7.7 Opinion of Seller's Counsel. Seller shall have delivered to Buyer an opinion of Seller's counsel dated the Closing Date in substantially the form of Exhibit 7.7.

7.8 Corporate Documents. Buyer shall have received from Seller certificates of existence and good standing of the Seller from the State of Florida and similar certificates from the jurisdiction of incorporation of the Company Subsidiary and certificate of good standing of the Company in the states of Maryland, New Jersey, Pennsylvania and New York, in each case dated not more than 10 days prior to the Closing.

7.9 Preferred Stock. Seller shall have retired all of its outstanding Series A and Series B preferred stock and shall have filed a Certificate of Amendment to the Company's Certificate of Incorporation to remove all references to such preferred stock.

7.10 Release of Liens. The Liens under the Credit Documents relating to the assets of the Company and the Company Subsidiary shall be released, the guarantees by the Company and the Company Subsidiary of Petroleum Heat and Power Co., Inc.'s obligations under the Credit Documents shall be terminated and the stock certificates and stock powers of the Company and the Company Subsidiary pledged as collateral under the Credit Documents shall be delivered to the Buyer.

ARTICLE 8
CONDUCT OF THE BUSINESS
OF THE COMPANY PENDING CLOSING AND RISK OF LOSS

From the date hereof to the Closing Date, and except as otherwise expressly consented to or approved by Buyer in writing:

8.1 Regular Course of Business. Seller shall cause the Company to carry on its business in the ordinary course consistent with past practice and shall not engage in any transaction or activity, and shall not enter into any agreement or make any commitment or take any action, inconsistent with this Agreement.

8.2 Organization. The Company and the Company Subsidiary shall use their best efforts to preserve their corporate existence and business organization intact, to maintain employment relationships with their respective officers and key employees, and to preserve for their relationships with licensors, suppliers, distributors, customers and others having business relations with it.

8.3 Certain Changes. Neither the Company nor the Company Subsidiary shall:

(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 current obligations and liabilities incurred in the Ordinary Course of Business and consistent with past practice;

(b) Permit or allow any of their property or assets (real, personal or mixed, tangible or intangible) to be subjected to any mortgage, pledge, lien or encumbrance, except for those of a kind permitted under Section 3.7 hereof;

(c) Dispose of or permit to lapse any rights, contract, licenses, permits or any other rights for or to the use of any Intellectual Property or dispose of or disclose to any Person, other than an employee in the Ordinary Course of Business and consistent with past practices, any trade secret, formula, process or know-how not theretofore a matter of public Knowledge;

(d) Take any action with respect to the grant of any increase in the compensation of officers, directors or employees, grant any bonus, severance or termination pay (including such benefits pursuant to any pension, profit sharing, stock option or other Plan or commitment) or any increase in the compensation or fringe benefits payable or to become payable to any officer or employee to, or implement or otherwise modify or amend any employee retirement or benefit Plan or program, collective bargaining agreement, employment policy or practice except as permitted by this Agreement;

(e) Amend its articles of incorporation or bylaws or make any distributions on or with respect to its capital stock, except that Seller shall cause the Company to amend its articles of incorporation as set forth in the Certificate of Amendment attached as Exhibit 8.3 prior to Closing;

(f) Cancel or waive any claims or rights of value to the Company or the Company Subsidiary;

(g) Make in the aggregate capital expenditures and commitments in excess of \$50,000 for additions to property, plant or equipment without the prior written approval of Buyer;

(h) Fail to maintain Assets in substantially their state of repair as of the date of this Agreement except normal wear and tear or fail to replace consistent with past practice and in accordance with the terms of this Agreement inoperable, worn-out or destroyed assets; or

(i) Commit to or commence any public relations, advertising or brand marketing program.

8.4 Contracts. Except in instances when Buyer has given its written consent, no Applicable Contract will be entered into, extended, materially modified, terminated or renewed except in the Ordinary Course of Business and no purchase of raw material or supplies and no sale of assets will be made, by or on behalf of the Company or any Company Subsidiary, except (a) normal contracts or commitments for the purchase of, and normal purchases of, gas or electricity, made in the Ordinary Course of Business; (b) normal contracts or commitments for the sale of, and normal sales of, inventory in the Ordinary Course of Business; and (c) other contracts, commitments, purchases or sales in the Ordinary Course of Business not in excess of \$50,000 in the aggregate.

8.5 Insurance of Property. Through the Closing Date, each of the Company and the Company Subsidiary shall maintain in full force and effect each of the insurance policies listed in Section 3.11(a) of the Seller's Disclosure Letter. After the Closing Date, such policies shall cease to be effective with respect to the Company and the Company Subsidiary.

8.6 No Default. Each of the Company and the Company Subsidiary shall not 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 which would cause the material breach of any representation, warranty, or covenant made pursuant to this Agreement.

8.7 Compliance With Laws. The Company and the Company Subsidiary shall duly comply with all Legal Requirements applicable to their properties, operations, business and employees.

8.8 Tax Returns. The Company and the Company Subsidiary shall prepare and file (or cause to be filed on their behalf) all Tax Returns required to be filed by them prior to closing and to pay (or cause to be paid on their behalf) all Taxes when due. Such Tax Returns shall be true, correct and complete in all respects.

ARTICLE 9
SURVIVAL OF REPRESENTATIONS
AND WARRANTIES; INDEMNIFICATION

9.1 Survival of Representations and Warranties. All statements contained in the Seller's Disclosure Letter or in any certificate, schedule, exhibit or instrument of conveyance delivered by or on behalf of the parties pursuant to this Agreement shall be deemed to be representations and warranties by the parties hereunder. The representations, warranties, covenants and agreements of Buyer and Seller contained herein shall survive the consummation of the Contemplated Transactions and the Closing Date, without regard to any investigation made by any of the parties hereto. All such representations and warranties and all claims and causes of action with respect thereto shall terminate on January 31, 2005 provided, however, that the representations and warranties made pursuant to Sections 3.1, 3.2, 3.4, 3.7, 3.14(c), 3.17, 3.18, 3.22, 4.1, 4.2 and 4.3 shall survive until the expiration of applicable statutes of limitation. The termination of the representations and warranties provided herein shall not affect the rights of a party in respect of any Claim (as hereinafter defined) made by such party in a writing received by the other party prior to the expiration of the applicable survival period provided herein.

9.2 Indemnifications. The Seller shall indemnify and save and hold harmless Buyer, its affiliates and subsidiaries, and their respective representatives, from and against any and all Damages incurred in connection with, arising out of, resulting from or incident to (i) any breach of any representation or warranty or the inaccuracy of any representation, made by Seller in or pursuant to this Agreement; (ii) any breach of any covenant or agreement made by Seller in or pursuant to this Agreement; (iii) the termination of any employee welfare or benefit Plan maintained by or on behalf of Seller or any ERISA Affiliate for the benefit of the employees of the Company or the Company Subsidiary; (iv) any claim that the use by the Company and the Company Subsidiary of the names "Total Gas & Electric" or "TG&E" in the same manner they presently use such name and in the same marketing areas they presently sell to Customers infringes the rights of a third party; (v) any claim arising because of lack of appropriate change of control approval from FERC; (vi) any claim arising out of the pending gross receipts dispute in New York or any other Tax matter in the State of New York or (vii) any claim against Buyer or the Company arising out of or relating to the Undisclosed Liabilities. Notwithstanding the foregoing, except with respect to Taxes, Buyer may not seek indemnification against the Seller until the aggregate of all claims for indemnification exceeds \$100,000, in which event indemnification will apply only to Claims in excess of \$100,000. No monetary limitations of any kind whatsoever shall apply to any obligation of Seller to indemnify Buyer for Taxes. Any Claim relating to the Undisclosed Liabilities must be asserted prior to April 1, 2009. Any Claim relating to matters arising under Section 9.2 (iv), (v) or (vi) (including claims which also fall within Section 9.2(vii)), shall survive until the expiration of the applicable statute of limitations.

Seller's obligation to indemnify Buyer and Buyer's obligation to indemnify Seller, shall not limit any other rights, including without limitation rights of contribution which either party may have under statute or common law.

(a) By Buyer. Buyer shall indemnify and save and hold harmless the Individual Seller from and against any and all Damages incurred in connection with, arising out of, resulting from or incident to (i) any breach of any representation or warranty or the inaccuracy of any representation, made by Buyer in or pursuant to this Agreement and (ii) any breach of any covenant or agreement made by Buyer in or pursuant to this Agreement.

(b) Cooperation. The indemnified party shall cooperate in all reasonable respects with the indemnifying party and its attorneys in the investigation, trial and defense of such lawsuit or action and any appeal arising therefrom; provided, however, that the indemnified party may, at its own cost, participate in the investigation, trial and defense of such lawsuit or action and any appeal arising therefrom. The parties shall cooperate with each other in any notifications to insurers.

(c) Defense of Claims. If a claim for Damages (a "Claim") is to be made by a party entitled to indemnification hereunder against the indemnifying party, the party claiming such indemnification shall give written notice (a "Claim Notice") to the indemnifying party as soon as practicable after the party entitled to indemnification becomes aware of any fact, condition or event which may give rise to Damages for which indemnification may be sought under this Section 9.2. If any lawsuit or enforcement action is filed against any party entitled to the benefit of indemnity hereunder, written notice thereof shall be given to the indemnifying party as promptly as practicable (and in any event within ten (10) calendar days after the service or the citation or summons). The failure of any indemnified party to give timely notice hereunder shall not affect rights to indemnification hereunder, except to the extent that the indemnifying party demonstrates actual damage caused by such failure. After such notice, if the indemnifying party shall acknowledge in writing to the indemnified party that the indemnifying party shall be obligated under the terms of its indemnity hereunder in connection with such lawsuit or action, then the indemnifying party shall be entitled, if it so elects, (i) to take control of the defense and investigation of such lawsuit or action; (ii) to employ and engage attorneys of its own choice to handle and defend the same, at the indemnifying party's cost, risk, and expense unless the named parties to such action or proceeding include both the indemnifying party and the indemnified party and the indemnified party has been advised in writing by counsel that there may be one or more legal defenses available to such indemnified party that are different from or additional to those available to the indemnifying party; and (iii) to compromise or settle such claim, which compromise or settlement shall be made only with the written consent of the indemnified party, such consent not to be unreasonably withheld. If the indemnifying party fails to assume the defense of such claim within fifteen (15) calendar days after receipt of the Claim Notice, the indemnified party against which such Claim has been asserted will (upon delivering notice to such effect to the indemnifying party) have the right to undertake, at the indemnifying party's cost and expense, the defense, compromise or settlement of such Claim on behalf of and for the account and risk of the indemnifying party; provided, however, that such Claim shall not be compromised or settled without the written consent of the indemnifying party, which consent shall not be unreasonably withheld. In the event the indemnified party assumes the defense of the Claim, the indemnified party will keep the indemnifying party reasonably informed of the progress of any such defense, compromise or settlement. The indemnifying party shall be liable for any settlement of any action effected pursuant to and in accordance with this Section 9.2 for any final judgment (subject to any right of appeal), and the indemnifying party agrees to indemnify and hold harmless an indemnified party from and against any Damages by reason of such settlement or judgment.

(d) At any time prior to the Closing, Seller may disclose facts or circumstances to the Buyer which were not known to Ami Trauber or Richard Ambury at the time of signing of this Agreement, and if the Closing occurs, neither the Buyer nor the Company shall have the right to seek indemnification for Damages arising out of or relating to such disclosed facts or circumstances.

(e) Seller's obligation to indemnify Buyer and Buyer's obligation to indemnify Seller shall constitute the exclusive remedy for Seller against Buyer for any Claim arising under this Agreement after the Closing, except for fraud by Buyer, and shall constitute the exclusive remedy for Buyer against Seller for any Claim arising under this Agreement after the Closing, except for fraud by Seller.

9.3 Limitation on Damages. Any provision herein to the contrary notwithstanding, except with respect to Taxes and the indemnity under Section 9.2 (iv) and (v), the total liability of the Seller to Buyer under this Article 9 shall be limited to \$5,000,000.

ARTICLE 10
TERMINATION AND ABANDONMENT

10.1 Methods of Termination. The transactions contemplated herein may be terminated and/or abandoned at any time but not later than the Closing:

(a) By mutual written consent of Buyer and Seller; or

(b) By Buyer on or after March 31, 2004, if any of the conditions provided for in Article VII of this Agreement shall not have been met or waived in writing by Buyer prior to such date; or

(c) By Seller on or after March 31, 2004, if any of the conditions provided for in Article VI of this Agreement shall not have been met or waived in writing by Seller prior to such date.

Notwithstanding the foregoing, either party may request an adjournment of the Closing of up to 30 days to accomplish the fulfillment of any condition to the obligations of the parties hereunder provided that the party requesting such adjournment shall diligently, continuously and with all commercially reasonable efforts attempt to accomplish such fulfillment.

10.2 Procedure Upon Termination. In the event of termination and abandonment by Buyer or Seller, or both, pursuant to Section 10.1 hereof, written notice thereof shall forthwith be given to the other party and the transactions contemplated by this Agreement shall be terminated and/or abandoned, without further action by Buyer or by Seller. If the transactions contemplated by this Agreement are terminated and/or abandoned as provided herein:

(a) Each party will redeliver all documents, work papers and other material of any other party relating to the Contemplated Transactions contemplated hereby, whether so obtained before or after the execution hereof, to the party furnishing the same;

(b) All confidential information received by any party hereto with respect to the business of any other party or its Subsidiaries shall be treated in accordance with the confidentiality provisions of the Letter of Intent.

ARTICLE 11
TAX MATTERS

11.1 Tax Sharing Agreements. Any tax sharing agreement between Seller and any of Company and its Company Subsidiary is terminated as of the Closing Date and shall have no further effect for any taxable year (whether the current year, a future year, or a past year).

11.2 Tax Indemnity. Seller will indemnify, defend and hold the Buyer harmless from and against (i) any liability for Taxes of the Company and the Company Subsidiary for any taxable period that ends on or before the Closing Date and the portion of any Taxes for any straddle period that Seller is obligated to pay pursuant to Section 11.3, (ii) any liability (as a result of Treasury Regulation Section 1.1502-6 or otherwise) for Taxes of Seller or any other Person (other than the Company and the Company Subsidiary) which is or has ever been affiliated with the Company and/or the Company Subsidiary, or with whom the Company and/or the Company Subsidiary otherwise joins or has ever joined (or is or has ever been required to join) in filing any consolidated, combined or unitary Tax Return, on or prior to the Closing, (iii) any liability for Taxes as a result of any breach of any of the representations and warranties in Section 3.18 or any covenants in this Agreement with respect to Taxes, (iv) any liability for Taxes attributable to a timely and properly made election by Buyer under Section 338(h)(10) of the Code or under state or local law comparable to the election under Section 338(g) of the Code or Section 338(h)(10) of the Code which is made in accordance with the provisions of Section 5.4 (v) any liability for Taxes, including Transfer Taxes, imposed as a result of any transaction of Seller, the Company, the Company Subsidiary or otherwise imposed on the Company and/or the Company Subsidiary that occurs on or before the Closing Date, (vi) any liability for Taxes as a result of transferee or successor liability, and (vii) any liability for Taxes resulting from noncompliance with any bulk sales laws or regulations. It is understood that this indemnification shall not apply to any taxes to the extent of any amount reflected in the Closing Working Capital Calculation.

11.3 Tax Returns for Periods Through the Closing Date. (i) Seller shall include the income of Company and Company Subsidiary (including any deferred items triggered into income by Reg. § 1.1502.13 and any excess loss account taken into income under Reg. § 1.1502.19) on (A) its consolidated Federal Income Tax Returns for all periods through the end of the Closing Date and (B) all other consolidated, combined, or unitary Tax Returns of Seller for all taxable periods including (or the taxable portion of any taxable year period ending on or before) the Closing Date and pay all Taxes attributable to such income. The income of the Company and the Company Subsidiary shall be apportioned to the period up to and including the Closing Date and the period after the Closing Date by closing the books of the Company and the

Company Subsidiary as of the end of the Closing Date. Seller will pay all Taxes attributable to income of the Company and the Company Subsidiary that are apportioned to any day up to and including the Closing Date; (ii) With respect to all other Taxes, Seller and Buyer will, unless prohibited by applicable law, close the taxable period of the Company and the Company Subsidiary as of the close of the Closing Date, Seller will pay all Taxes of the Company and the Company Subsidiary for the taxable period deemed to end on the Closing Date. Neither Seller nor Buyer shall take any position inconsistent with the preceding sentence on any Tax Return unless otherwise required by applicable law. In any case where applicable law does not permit the Company and the Company Subsidiary to close its taxable year on the Closing Date or in any case in which a Tax is assessed with respect to a taxable period which includes the Closing Date (but does not begin or end on that day), then Taxes, if any, attributable to the taxable period of the Company and the Company Subsidiary beginning before and ending after the Closing Date shall be allocated to Seller for the period up to and including the Closing Date, and to Buyer for the period subsequent to the Closing Date. Seller will pay or accrue in accordance with GAAP all Taxes for the period up to and including the Closing Date. Seller shall pay Taxes allocable for the period up to and including the Closing Date. Any allocation of income or deductions required to determine any Taxes attributable to any period beginning before and ending after the Closing Date shall be made by means of a closing of the books and records of the Company and the Company Subsidiary as of the close of the Closing Date. Buyer shall provide Seller with a schedule showing the computation of such allocation at least 30 days prior to the due date for filing a Tax Return which includes the Closing Date. Seller shall have the right to review such schedule, and Buyer and Seller shall attempt in good faith mutually to resolve any disagreements regarding the determination of such allocation. Any amount owing from Seller under this Article XI shall be paid to Buyer no later than five (5) days prior to the filing of the underlying Tax Return.

11.4 Audits.

(a) Seller shall have the sole right to represent the interests of the Company and the Company Subsidiary in any Tax Audit or administrative or court proceeding relating to taxable periods of the Company and the Company Subsidiary which end on or before the Closing Date and to employ counsel of its choice at its expense; provided, that Seller shall not settle any such audit in a manner which would materially adversely affect the Company and the Company Subsidiary for Taxable periods after the Closing Date without the written consent of Buyer (which consent shall not be unreasonably withheld).

(i) Seller and Buyer jointly shall represent the interests of the Company and the Company Subsidiary in any Tax Audit or Proceeding relating to any taxable period of the Company or the Company Subsidiary that includes (but does not begin or end on) the Closing Date and Buyer shall represent the interests of the Company and the Company Subsidiary for any taxable period of the Company or the Company Subsidiary that begins after the Closing Date. All costs, fees and expenses paid to third parties in the course of such proceeding shall be borne by Seller and Buyer in the same ratio as the ratio in which, pursuant to the terms of this Agreement, Seller and Buyer would share the responsibility for payment of the Taxes asserted by the taxing authority in such claim or assessment if such claim or assessment were sustained in its entirety.

(b) Transfer Taxes. All Transfer Taxes incurred in connection with this Agreement and the transactions contemplated hereby (including, without limitation, the New York transfer tax on conveyances of interests in real property) shall be borne by Buyer and Seller equally. Seller shall file, to the extent required by, or permissible under, applicable law, all necessary Tax Returns and other documentation with respect to all such Transfer Taxes. Buyer and Seller shall each use commercially reasonable efforts to provide cooperation and assistance (including documents and information) in order to minimize the amount of applicable transfer taxes to the extent permitted by law.

11.5 Tax Treatment of Indemnity Payments. Any indemnity payments made under this Agreement shall be treated by the parties hereto for federal, state and local income tax purposes (whether foreign or domestic) as a non-taxable reimbursement or purchase price adjustment, except to the extent that a contrary treatment is required by law. If any indemnity payments under this Agreement are not treated as a non-taxable reimbursement or purchase price adjustment, the Buyer or the Seller, as the case may be, shall make any indemnity payments under this Agreement on an after-tax basis such that the amount of such indemnity payment shall be increased to take into account any Taxes imposed on the Buyer or the Seller, as applicable, as a result of such receipt of such indemnity payment, and taking into account any Tax savings resulting from such indemnity payment.

ARTICLE 12
MISCELLANEOUS PROVISIONS

12.1 Amendment and Modification. Subject to applicable law, this Agreement may be amended, modified and supplemented by written agreement of the Buyer and the Seller any time prior to the Closing with respect to any terms contained herein.

12.2 Cumulative Remedies. All rights and remedies of either party hereto are cumulative of each other and of every other right or remedy such party may otherwise have at law or in equity, and the exercise of one or more rights or remedies shall not prejudice or impair the concurrent or subsequent exercise of other rights or remedies.

12.3 Waiver of Compliance. Any failure of Seller on the one hand, or Buyer, on the other, to comply with any obligation, covenant, agreement or condition herein may be expressly waived in writing by the President or Chief Executive Officer of Buyer or Seller, 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.

12.4 Expenses, Etc. Each party shall pay its own expenses (including but not limited to travel, legal counsel, accounting and consultants) incurred in connection with the Contemplated Transactions.

12.5 Notices. All notices or other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be considered as duly given on (a) the date of delivery, if delivered in person or if sent by telecopier and also as provided in clause (b), or (b) two days after mailing, if sent by Federal Express or other similar overnight delivery

service, or (c) three days after mailing if mailed from within the continental United States by registered or certified mail, return receipt requested, to the party entitled to receive the same, at the address provided in this Section.

Any party hereto may change its address by giving notice to the other stating its new address, all in the manner provided herein. Such newly designated address shall thereafter be such party's address for the purpose of all notices or other communications required or permitted to be given pursuant to this Agreement.

(a) If to Seller, to:

Petro, Inc.
2187 Atlantic Street
Stamford, CT 06904
Tel: 203-325-5400
Fax: 203-328-7393

with a copy to:

Phillips Nizer LLP
666 Fifth Avenue
New York, New York 10103
Attn: Alan Shapiro, Esq.
Tel: 212-841-0534
Fax: 212-262-5152

(b) If to Buyer, to:

MxEnergy Inc.
Attn: Chief Financial Officer
Tel: 203-356-1318
Fax: 203-425-9562

12.6 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.

12.7 Publicity. Prior to the Closing Date, neither of the parties hereto shall make or issue, or cause to be made or issued, any announcement or written statement concerning this Agreement or the Contemplated Transactions 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, 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.

12.8 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 New York, without regard to its conflicts of law doctrine.

12.9 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.

12.10 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.

12.11 Termination at Closing of Insurance and Benefit Plans. The employees of the Company are participants in a 401(k) plan, a health benefit plan and other employee benefit plans which are maintained by an affiliate of the Seller (all of which plans are Plans, as defined in this Agreement and subject to Seller's representations, warranties and covenants contained in Section 3.13 hereto) Seller shall effect the termination of the participation of the employees of the Company in all such Plans on the Closing Date and their full vesting thereunder. Seller shall provide promptly written notice to all of such employees of Seller's termination of such employees' participation in such Plans. Such employees shall be eligible for participation in Buyer's 401(k) plan, health benefit plan and other employee benefit plans, subject to all applicable eligibility requirements contained in such plans and after relevant waiting periods (if any); however, such employees will receive credit for participation and vesting for service with the Company.

12.12 Entire Agreement. This Agreement, including the Exhibits and Seller's Disclosure Letter hereto, and all documents required to be delivered thereto 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 negotiations, understandings, discussions, agreements (other than the confidentiality provisions of the Letter of Intent), promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto whether written or oral.

12.13 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.

[Signature Page Follows]

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.

SELLER:

PETRO, INC.

By: /s/ Ami A. Trauber

BUYER:

MxENERGY INC.

By: /s/ Jeffrey A. Mayer

CERTIFICATIONS

I, Irik P. Sevin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Star Gas Partners, L.P. and Star Gas Finance Company ("Registrants");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrants as of, and for, the periods presented in this quarterly report;
4. The registrants' other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrants and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrants, including their consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the registrants' disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this quarterly report any change in the registrants' internal control over financial reporting that occurred during the registrants' most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrants' internal control over financial reporting; and
5. The registrants' other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrants' auditors and the audit committee of the registrants' board of directors:
 - (a) all significant deficiencies and material weaknesses the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrants' ability to record, process, summarize and report financial information and;
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrants' internal control over financial reporting.

Date: April 29, 2004

/s/ Irik P. Sevin

Irik P. Sevin
Chief Executive Officer
Star Gas Partners, L.P.
Star Gas Finance Company

CERTIFICATIONS

I, Ami Trauber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Star Gas Partners, L.P. and Star Gas Finance Company; (“Registrants”);
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrants as of, and for, the periods presented in this quarterly report;
4. The registrants’ other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrants and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrants, including their consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the registrants’ disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this quarterly report any change in the registrants’ internal control over financial reporting that occurred during the registrants’ most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrants’ internal control over financial reporting; and
5. The registrants’ other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrants’ auditors and the audit committee of the registrants’ board of directors:
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrants’ ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrants’ internal control over financial reporting.

Date: April 29, 2004

/s/ Ami Trauber

Ami Trauber
Chief Financial Officer
Star Gas Partners, L.P.
Star Gas Finance Company

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Star Gas Partners, L.P. (the "Partnership") and Star Gas Finance Company on Form 10-Q for the quarterly period ended March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Irik P. Sevin, Chief Executive Officer of the Partnership and Star Gas Finance Company, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership and Star Gas Finance Company.

STAR GAS PARTNERS, L.P.
STAR GAS FINANCE COMPANY
By: STAR GAS LLC (General Partner)

April 29, 2004

By: /s/ Irik P. Sevin

Irik P. Sevin
Chief Executive Officer
Star Gas Partners, L.P.
Star Gas Finance Company

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Star Gas Partners, L.P. (the "Partnership") and Star Gas Finance Company on Form 10-Q for the quarterly period ended March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ami Trauber, Chief Financial Officer of the Partnership and Star Gas Finance Company, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership and Star Gas Finance Company.

STAR GAS PARTNERS, L.P.
STAR GAS FINANCE COMPANY
By: STAR GAS LLC (General Partner)

April 29, 2004

By: /s/ Ami Trauber

Ami Trauber
Chief Financial Officer
Star Gas Partners, L.P.
Star Gas Finance Company