FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2001

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 1-11727

HERITAGE PROPANE PARTNERS, L.P.
(Exact name of registrant as specified in its charter)

DELAWARE	73-1493906
(state or other jurisdiction or incorporation or organization)	(I.R.S. Employer Identification No.)

8801 SOUTH YALE AVENUE, SUITE 310
TULSA, OKLAHOMA 74137
(Address of principal executive offices and zip code)

(918) 492-7272
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has 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) has been subject to such filing requirements for the past 90 days.

Yes X No ___

At January 3, 2002, the registrant had units outstanding as follows:

Heritage Propane Partners, L.P.	14,262,066	Common Units
	1,382,514	Subordinated Units

FORM 10-Q

HERITAGE PROPANE PARTNERS, L.P.

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PART I - FINANCIAL INFORMATION

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except unit data)

	November 30, 2001	August 31, 2001
	(unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash	$ 8,173	$ 5,620
Marketable securities	4,768	4,245
Accounts receivable, net of allowance for doubtful accounts	57,469	40,221
Inventories	80,133	66,814
Assets from liquids marketing	6,812	6,465
Prepaid expenses and other	5,916	14,898
Total current assets	163,271	138,263
PROPERTY, PLANT AND EQUIPMENT, net	403,313	394,742
INVESTMENT IN AFFILIATES	7,067	6,920
INTANGIBLES AND OTHER ASSETS, net	218,885	218,242
Total assets	$ 792,536	$ 758,167
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Working capital facility	$	

48,500 $
19,900
Accounts
payable
61,771
43,164
Accounts
payable to
related
companies
9,600 7,937
Accrued and
other
current
liabilities
32,001
33,404
Liabilities
from liquids
marketing
9,336 7,130
Current
maturities
of long-term
debt 16,273
16,120 -----
------ -----
------ Total
current
liabilities
177,481
127,655
LONG-TERM
DEBT, less
current
maturities
423,753
423,748
MINORITY
INTEREST
5,077 5,350
COMMITMENTS
AND
CONTINGENCIES

Total
liabilities
606,311
556,753 ----
------- ----

PARTNERS'
CAPITAL:
Common
unitholders
(14,262,066
and
14,260,316
units issued
and
outstanding
at November
30, 2001 and
August 31,
2001,
respectively)
177,561
190,548
Class B
subordinated
unitholders
(1,382,514
units issued
and
outstanding)
14,229
15,532 Class
C
unitholders
(1,000,000

units issued and outstanding)
- - General partner 1,764 1,875
Accumulated other comprehensive loss (7,329) (6,541) ----------- -----------
Total partners' capital 186,225 201,414 ----------- -----------
Total liabilities and partners' capital $ 792,536 $ 758,167
===========
===========

The accompanying notes are an integral part of these consolidated financial statements.

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per unit and unit data)
(unaudited)

	Three Months Ended November 30, 2001	Three Months Ended November 30, 2000
REVENUES:		
Retail fuel	$ 83,200	$ 87,752
Wholesale fuel	12,593	16,581
Liquids marketing	50,820	48,320
Other	15,490	13,192
Total revenues	162,103	165,845
COSTS AND EXPENSES:		
Cost of products sold	60,235	69,939
Liquids marketing	54,145	47,790
Operating expenses	31,844	25,589
Depreciation and amortization	9,058	9,562
Selling, general and administrative	2,951	2,392
Total costs and expenses	158,233	155,272
OPERATING INCOME	3,870	10,573
OTHER INCOME (EXPENSE):		
Interest expense	(9,216)	(8,751)
Equity in earnings of affiliates	129	217
Gain on disposal of assets	467	221
Other	(98)	(138)

INCOME (LOSS) BEFORE MINORITY INTEREST	(4,848)	2,122
Minority interest	69	(159)
NET INCOME (LOSS)	(4,779)	1,963
GENERAL PARTNER'S INTEREST IN NET INCOME (LOSS)	168	20
LIMITED PARTNERS' INTEREST IN NET INCOME (LOSS)	$ (4,947)	$ 1,943
BASIC NET INCOME (LOSS) PER LIMITED PARTNER UNIT	$ (.32)	$ .15
BASIC WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	15,644,580	12,980,181
DILUTED NET INCOME (LOSS) PER LIMITED PARTNER UNIT	$ (.32)	$ .15
DILUTED WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	15,644,580	13,004,901

The accompanying notes are an integral part of these consolidated financial statements.

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands, unaudited)

	Three Months Ended November 30, 2001	Three Months Ended November 30, 2000
Net income (loss)	$ (4,779)	$ 1,963
Other comprehensive loss		
Unrealized loss on derivative instruments	(2,755)	(3,416)
Unrealized gain (loss) on available-for-sale securities	377	(171)
Comprehensive loss	$ (7,157)	$ (1,624)
RECONCILIATION OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, beginning of period	$ (6,541)	$ -
Cumulative effect of the adoption of SFAS 133	-	5,429
Current period reclassification to earnings	1,590	(864)
Current period change	(2,378)	(2,723)
Balance, end of period	$ (7,329)	$ 1,842

The accompanying notes are an integral part
of these consolidated financial statements.

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
(in thousands, except unit data)
(unaudited)

Number of Units ------------------------------------ Class B Class B Common Subordinated Class C Common Subordinated ---------- ----------- ------- ------ ------------ BALANCE, AUGUST 31, 2001 14,260,316 1,382,514 1,000,000 $ 190,548 $ 15,532 Unit distribution - - - (8,914) (866) Conversion of phantom units 1,750 - - - Other - - - 437 - Net change in accumulated other comprehensive income per accompanying statements - - - - - Net loss - - - (4,510) (437) ----- ---- --------- --------- --------- --------- BALANCE, NOVEMBER 30, 2001 14,262,066 1,382,514 1,000,000 $ 177,561 $ 14,229 ========= ========= ========= ========= ========= Accumulated Other General Comprehensive Class C Partner Loss Total --------- --------- ------------ ---------- BALANCE, AUGUST 31, 2001 $ - $ 1,875 $ (6,541) $ 201,414 Unit distribution - (279) - (10,059) Conversion of phantom units - - - Other - - - 437 Net change in accumulated other comprehensive income per accompanying statements - - (788) (788) Net loss - 168 - (4,779) --------- ------- --------- ---------- BALANCE, NOVEMBER 30, 2001 $ - $ 1,764 $ (7,329) $ 186,225 ========= ======= =========== =========
The accompanying notes are an integral part of these consolidated financial statements. 4

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands) (unaudited)
Three Three Months Months Ended Ended November 30, November 30, 2001 2000 --- --------- --- --------- CASH FLOWS FROM OPERATING ACTIVITIES: Net income (loss) $ (4,779) $ 1,963 Reconciliation of net income (loss) to net cash provided by (used in)operating activities- Depreciation and amortization 9,058 9,562 Provision for loss on accounts receivable 350 160 Gain on disposal of assets (467) (221) Deferred compensation on restricted units and long term incentive plan 487 201 Undistributed earnings of affiliates (146) (216) Minority interest (213) (446) Changes in assets and liabilities, net of effect

of
acquisitions:
Accounts
receivable
(17,508)
(26,240)
Inventories
(13,297)
(5,785)
Assets from
liquids
marketing
(347) 3,240
Prepaid and
other
expenses
8,801 (1,451)
Intangibles
and other
assets (182)
(820)
Accounts
payable
17,083 12,890
Accounts
payable to
related
companies
1,663 (1,901)
Accrued and
other current
liabilites
(2,621) 2,822
Liabilities
from liquids
marketing
2,206 (2,987)
--------- ---
------- Net
cash provided
by (used in)
operating
activities 88
(9,229) -----
---- --------
-- CASH FLOWS
FROM
INVESTING
ACTIVITIES:
Cash paid for
acquisitions,
net of cash
acquired
(7,344)
(12,194)
Capital
expenditures
(9,792)
(6,253)
Proceeds from
the sale of
assets 1,116
- Other -
(1,922) -----
---- --------
-- Net cash
used in
investing
activities
(16,020)
(20,369) ----
------ ------
---- CASH
FLOWS FROM
FINANCING
ACTIVITIES:
Proceeds from
borrowings
56,265 81,493
Principal
payments on

debt	(27,672)	(41,169)
Unit distributions	(10,059)	(7,589)
Other	(49)	-
Net cash provided by financing activities	18,485	32,735
INCREASE IN CASH	2,553	3,137
CASH, beginning of period	5,620	4,845
CASH, end of period	$ 8,173	$ 7,982
NONCASH FINANCING ACTIVITIES:		
Notes payable incurred on noncompete agreements	$ 165	$ 1,766
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 7,741	$ 6,769

The accompanying notes are an integral part of these financial statements.

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollar amounts in thousands, except unit and per unit data) (unaudited) 1. OPERATIONS AND ORGANIZATION: The accompanying financial statements should be read in conjunction with the Partnership's consolidated financial statements as of August 31, 2001, and the notes thereto included in the Partnership's consolidated financial statements included in Form 10-K as filed with the Securities and Exchange Commission on November 29, 2001. The accompanying financial statements include only normal recurring accruals and all adjustments that the Partnership considers necessary for a fair presentation. Due to the seasonal nature of the Partnership's business, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year. The Operating Partnership sells propane and propane-related products to more than 600,000 active residential, commercial, industrial and agricultural customers in 28 states. Heritage is also a wholesale propane supplier in the southwestern and southeastern United States and in Canada, the latter through participation in M-P Energy Partnership. M-P Energy Partnership is a Canadian partnership primarily engaged in lower-margin wholesale distribution in which Heritage owns a 60 percent interest. 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BALANCE SHEET DETAIL: PRINCIPLES OF CONSOLIDATION The consolidated financial statements of Heritage include the accounts of its subsidiaries, including the Operating Partnership, M-P Energy Partnership, Heritage Energy Resources, L.L.C. ("Resources") and the Propane LLCs. Heritage accounts for its 50 percent partnership interest in Bi-State Partnership, another propane retailer, under the equity method. All significant intercompany transactions and accounts have been eliminated in consolidation. The General Partner's 1.0101 percent general partner interest and U.S. Propane's 1.0101 percent limited partner interest in the Operating Partnership are accounted for in the consolidated financial statements as minority interests. For purposes of maintaining partner capital accounts, Heritage's partnership agreement specifies that items of income and loss shall be allocated among the partners in accordance with their percentage interests. Normal allocations according to percentage interests are made, however, only after giving effect to any priority income allocations in an amount equal to the incentive distributions that are allocated 100% to the General Partner. ACCOUNTS RECEIVABLE Heritage grants credit to its customers for the purchase of propane and propane-related products. Accounts receivable consisted of the following:

	November 30, 2001	August 31, 2001
Accounts receivable	$ 61,036	$ 43,797
Less - allowance for doubtful accounts	3,567	3,576
Total, net	$ 57,469	$ 40,221
Allowance for doubtful accounts:		
Balance, beginning of the year	$ 3,576	$ --
Provision for loss on accounts receivable	350	4,055
Accounts receivable written off, net of recoveries	(359)	(479)
Balance, end of period	$ 3,567	$ 3,576

INVENTORIES Inventories are valued at the lower of cost or market. The cost of fuel inventories is determined using weighted-average cost, while the cost of appliances, parts and fittings is determined by the first-in, first-out method. Inventories consisted of the following:

	November 30, 2001	August 31, 2001
Fuel	$ 70,764	$ 56,975
Appliances, parts and fittings	9,369	9,839
	$ 80,133	$ 66,814

INCOME (LOSS) PER LIMITED PARTNER UNIT Basic net income (loss) per limited partner unit is computed by dividing net income (loss), after considering the General Partner's interest, by the weighted average number of common and subordinated units outstanding. Diluted net income (loss) per limited partner unit is computed by dividing net income (loss), after considering the General Partner's interest, by the weighted average number of common and subordinated units outstanding and the weighted average number of restricted units ("phantom units") granted under the Restricted Unit Plan. For the three months ended November 30, 2001, 41,900 phantom units were excluded from the calculation of diluted net loss as such units were anti-dilutive due to the net loss for the period. A reconciliation of net income (loss) and weighted average units used in computing basic and diluted earnings (loss) per unit is as follows:

	Three Months Ended November 30, 2001	Three Months Ended November 30, 2000
BASIC NET INCOME (LOSS) PER LIMITED PARTNER UNIT:		
Limited Partners' interest in net income (loss)	$ (4,947)	$ 1,943
Weighted average limited partner units	15,644,580	12,980,181
Basic net income (loss) per limited partner unit	$ (.32)	$ .15
DILUTED NET INCOME (LOSS) PER LIMITED PARTNER UNIT:		
Limited partners' interest in net income (loss)	$ (4,947)	$ 1,943
Weighted average limited partner units	15,644,580	12,980,181
Dilutive effect of phantom units	-	24,720
Weighted average limited partner units, assuming dilutive effect of phantom units	15,644,580	13,004,901
Diluted net income (loss) per limited partner unit	$ (.32)	$ .15

QUARTERLY DISTRIBUTIONS OF AVAILABLE CASH The partnership agreement requires that Heritage will distribute all of its "available cash" to its unitholders and its General Partner within 45 days following the end of each fiscal quarter, subject to the payment of incentive distributions to the holders of Incentive Distribution Rights to the extent that certain target levels of cash distributions are achieved. The term "available cash" generally means, with respect to any fiscal quarter of the partnership, all cash on hand at the end of such quarter, plus working capital borrowings after the end of the quarter, less reserves established by the General Partner in its sole discretion to provide for the proper conduct of Heritage's business, comply with applicable laws or any Heritage debt instrument or other agreement, or to provide funds for 7 future distributions to partners with respect to any one or more of the next four quarters. Available cash is more fully defined in the Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. Distributions by Heritage in an amount equal to 100 percent of available cash will generally be made 97 percent to the common and class B subordinated unitholders, 1.0101 percent to U.S. Propane for its limited partner interest in the Operating Partnership and 1.9899 percent to the General Partner, subject to the payment of incentive distributions to the holders of Incentive Distribution Rights to the extent that certain target levels of cash distributions are achieved. On October 15, 2001, a quarterly distribution of $.6250 per unit, or $2.50 annually, was paid to unitholders of record at the close of business on October 5, 2001 and to the General Partner for its general partner interest in the Partnership, its minority interest and its Incentive Distribution Rights and to U.S. Propane for its limited partner interest in the Operating Partnership. On December 20, 2001, the Partnership declared a cash distribution for the first quarter ended November 30, 2001 of $.6375 per unit, or $2.55 per unit annually, payable on January 14, 2002 to unitholders of record at the close of business on January 3, 2002. These quarterly distributions included incentive distributions payable to the General Partner to the extent the quarterly distribution exceeded $.55 per unit. This was the sixth consecutive quarterly increase since the merger with U.S. Propane in August 2000 and the seventh since the inception of the Partnership in 1996. SFAS 133 ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES In June 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, and for hedging activities, be recorded on the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. Heritage adopted the provisions of SFAS 133 effective September 1, 2000. The cumulative effect of adopting SFAS 133 was an adjustment to beginning other comprehensive income of $5,429. Heritage had certain financial swap instruments outstanding at November 30, 2001 that have been designated as cash flow hedging instruments in accordance with SFAS 133. A financial swap is a contractual agreement to exchange obligations of money between the buyer and seller of the instruments as propane volumes during the pricing period are purchased. The swaps are tied to a set fixed price for the buyer and floating price determinants for the seller priced on certain indices. Heritage entered into these instruments to hedge the forecasted propane volumes to be purchased during each of the one-month periods ending October 2001 through March 2002. Heritage utilizes hedging transactions to provide price protection against significant fluctuations in propane prices. These instruments had a fair value of ($5,745) as of November 30, 2001, which was recorded as accrued and other liabilities on the balance sheet through other comprehensive loss, exclusive of ($116) of minority interest. During the quarter ended November 30, 2001, Heritage reclassified into earnings a loss of $1,590 that was reported in accumulated other comprehensive loss. There were no ineffective hedges or discontinued hedges as of November 30, 2001. SFAS 142 GOODWILL AND OTHER INTANGIBLE ASSETS In June 2001, the FASB issued Statement No. 142, Goodwill and Other Intangible Assets. Under Statement 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based test. Additionally, any acquired intangible assets should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the acquirer's intent to do so. There will be more recognized intangible assets, such as unpatented technology and database content, being separated from goodwill. Those assets will be amortized over their useful lives, other than assets that have an indefinite life. Statement No. 142 is required to be applied starting with fiscal years beginning after December 15, 2001. Early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not previously been issued.

Heritage adopted Statement No. 142 on September 1, 2001 and accordingly has discontinued the amortization of goodwill existing at the time of adoption. Management has engaged an independent appraisal firm to perform an assessment of the fair value of each of Heritage's operating segments, which will be compared with the carrying value of each segment to determine whether any impairment exists on the date of adoption. Under the provisions of Statement No. 142, Heritage has six months from the time of adoption to have its appraisals completed. However, management does not believe that any impairment existed at adoption. The adoption of Statement No. 142 will eliminate goodwill amortization that would have totaled approximately $1,426 for the three months ended November 30, 2001, based on the balances of August 31, 2001, and totaled approximately $1,263 for the three months ended November 30, 2000. RECENTLY ISSUED ACCOUNTING STANDARD NOT YET ADOPTED In June 2001, the FASB issued Statement No. 143, Accounting for Asset Retirement Obligations. Statement No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This statement amends FASB Statement No. 19, Financial Accounting and Reporting by Oil and Gas Producing Companies. Heritage will adopt the provisions of Statement No. 143 effective September 1, 2002. Management has not determined the impact of adopting Statement No. 143. In August 2001, the FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This Statement supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. This statement retains the fundamental provisions of Statement No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used, and measurement of long-lived assets to be disposed of by sale. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years, with early application encouraged. Heritage will adopt the provisions of Statement No. 144 effective September 1, 2002. Management has not determined the impact of adopting Statement No. 144. PROFORMA RESULTS On July 31, 2001, Heritage purchased the propane operations of ProFlame, Inc. and subsidiaries and affiliates (ProFlame) located in California and Nevada, in a series of mergers, stock purchases and asset purchases. The results of operations of ProFlame from September 1, 2001 through November 30, 2001 are included in the consolidated statement of operations of Heritage for the three months ended November 30, 2001. The following unaudited pro forma consolidated results of operations are presented as if the series of transactions with ProFlame and Heritage had been made at the beginning of the period presented:

	For the Three Months Ended November 30, 2000
Total revenues	$ 178,320
Limited partners' interest in net income	$ 1,821
Basic and diluted net income per limited partner unit	$ .14

The pro forma consolidated results of operations include adjustments to give effect to amortization of non-competes and customer lists, interest expense on acquisition and assumed debt and certain other adjustments, including the elimination of income taxes. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the transactions been made at the beginning of the period presented or the future results of the combined operations. 9

3. WORKING CAPITAL FACILITY AND LONG-TERM DEBT: Effective July 16, 2001, the Operating Partnership entered into the Fifth Amendment to the First Amended and Restated Credit Agreement. The terms of the Agreement as amended are as follows: A $65,000 Senior Revolving Working Capital Facility, expiring June 30, 2004, with $48,500 outstanding at November 30, 2001. The interest rate and interest payment dates vary depending on the terms Heritage agrees to when the money is borrowed. The weighted average interest rate was 4.145 percent for the amount outstanding at November 30, 2001. Heritage must be free of all working capital borrowings for 30 consecutive days each fiscal year. The maximum commitment fee payable on the unused portion of the facility is .50 percent. A $50,000 Senior Revolving Acquisition Facility is available through December 31, 2003, at which time the outstanding amount must be paid in ten equal quarterly installments, beginning March 31, 2004, with $894 outstanding as of November 30, 2001. The interest rate and interest payment dates vary depending on the terms Heritage agrees to when the money is borrowed. The weighted average interest rate was 4.145 percent for the amount outstanding at November 30, 2001. The maximum commitment fee payable on the unused portion of the facility is .50 percent. 4. REPORTABLE SEGMENTS: Heritage's financial statements reflect four reportable segments: the domestic retail operations of Heritage, the domestic wholesale operations of Heritage, the foreign wholesale operations of M-P Energy Partnership and the liquids marketing activities of Resources. Heritage's reportable domestic and wholesale fuel segments are strategic business units that sell products and services to different types of users; retail and wholesale customers. Intersegment sales by the foreign wholesale segment to the domestic segment are priced in accordance with the partnership agreement. Resources is a trading company that buys and sells financial instruments for their own account. Heritage manages these segments separately as each segment involves different distribution, sale and marketing strategies. Heritage evaluates the performance of its operating segments based on operating income. The operating income below does not reflect domestic and foreign selling, general, and administrative expenses of $2,951 and $2,392 for the periods ended November 30, 2001 and November 30, 2000, respectively. The following table presents the unaudited financial information by segment for the following periods:

For the Three Months ended November 30,	2001	2000
Gallons:		
Domestic retail fuel	74,790	74,075
Domestic wholesale fuel	4,997	3,146
Foreign wholesale fuel		
Affiliated	15,071	18,025
Unaffiliated	18,264	22,383
Elimination	(15,071)	(18,025)
Total	98,051	99,604
Revenues:		
Domestic retail fuel	$ 83,200	$ 87,752
Domestic wholesale		

fuel 3,071
2,507
Foreign
wholesale
fuel
Affiliated
8,940
11,040
Unaffiliated
9,522
14,074
Elimination
(8,940)
(11,040)
Liquids
marketing
50,820
48,320
Other
15,490
13,192 ----
------- ---

Total $
162,103 $
165,845
===========
===========

	For the Three Months ended November 30, 2001	2000
Operating Income (Loss):		
Domestic retail	$ 10,523	$ 12,073
Domestic wholesale fuel	(635)	(53)
Foreign wholesale fuel		
Affiliated	-	178
Unaffiliated	338	492
Elimination	-	(178)
Liquids marketing	(3,405)	453
Total	$ 6,821	$ 12,965

	As of November 30, 2001	As of August 31, 2001
Total Assets:		
Domestic retail	$ 693,701	$ 682,906
Domestic wholesale	21,012	19,533
Foreign wholesale	10,683	8,467
Liquids Marketing	53,347	35,127
Corporate	13,793	12,134
Total	$ 792,536	$ 758,167

	For the Three Months ended November 30, 2001	2000
Depreciation and amortization:		
Domestic retail	$ 8,989	$ 9,535
Domestic wholesale	64	23
Foreign wholesale	5	4
Total	$ 9,058	$ 9,562

5. SIGNIFICANT INVESTEE: At November 30, 2001, Heritage held a 50 percent interest in Bi-State Partnership. Heritage accounts for its 50 percent interest in Bi-State Partnership under the equity method. Heritage's investment in Bi-State Partnership totaled $6,736 and $6,610 at November 30, 2001 and August 31, 2001, respectively. Heritage did not receive any distributions from Bi-State Partnership for the three months ended November 30, 2001 or 2000. Bi-State Partnership's financial position is summarized below:

	November 30, 2001	August 31, 2001
Current assets	$ 2,957	$ 2,783
Noncurrent assets	13,777	13,899
	$16,734	$16,682
Current liabilities	$ 1,992	$ 1,722
Long-term debt	2,644	3,131
Partners' capital:		
Heritage	6,736	6,610
Other partner	5,362	5,219
	$16,734	$16,682

Bi-State Partnership's results of operations for three months ended November 30, 2001 and 2000, respectively are summarized below:

	2001	2000
Revenues	$2,860	$4,120
Gross profit	1,455	1,817
Net income:		
Heritage	126	202
Other Partner	143	248

6. FOOTNOTES INCORPORATED BY REFERENCE: Certain footnotes are applicable to the consolidated financial statements but would be substantially unchanged from those presented on Form 10-K filed with the Securities and Exchange Commission on November 29, 2001. Accordingly, reference should be made to the Company's Annual Report filed with the Securities and Exchange Commission on Form 10-K for the following: NOTE DESCRIPTION ---- ----------- 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BALANCE SHEET DETAIL 4. WORKING CAPITAL FACILITY AND LONG-TERM DEBT 5. COMMITMENTS AND CONTINGENCIES 6. PARTNERS' CAPITAL 7. PROFIT SHARING AND 401(K) SAVINGS PLAN 8. RELATED PARTY TRANSACTIONS ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FORWARD-LOOKING STATEMENTS CERTAIN MATTERS DISCUSSED IN THIS REPORT, EXCLUDING HISTORICAL INFORMATION, AS WELL AS SOME STATEMENTS BY HERITAGE IN PERIODIC PRESS RELEASES, INCLUDE CERTAIN "FORWARD-LOOKING" STATEMENTS. ALTHOUGH HERITAGE BELIEVES SUCH FORWARD-LOOKING STATEMENTS ARE BASED ON REASONABLE ASSUMPTIONS AND CURRENT EXPECTATIONS AND PROJECTIONS ABOUT FUTURE EVENTS, NO ASSURANCE CAN BE GIVEN THAT EVERY OBJECTIVE WILL BE REACHED. SUCH STATEMENTS ARE MADE IN RELIANCE ON THE "SAFE HARBOR" PROTECTIONS PROVIDED UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. AS REQUIRED BY THAT LAW, HERITAGE HEREBY IDENTIFIES THE FOLLOWING IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM ANY RESULTS PROJECTED, FORECASTED OR ESTIMATED BY HERITAGE IN FORWARD-LOOKING STATEMENTS. THESE INCLUDE: o CHANGES IN GENERAL ECONOMIC CONDITIONS IN THE UNITED STATES AS WELL AS CHANGES IN GENERAL ECONOMIC CONDITIONS AND CURRENCIES IN FOREIGN COUNTRIES; o WEATHER CONDITIONS THAT VARY SIGNIFICANTLY FROM HISTORICALLY NORMAL CONDITIONS; o ITS SUCCESS IN HEDGING ITS POSITIONS;

o THE EFFECTIVENESS OF RISK-MANAGEMENT POLICIES AND PROCEDURES AND THE ABILITY OF HERITAGE'S LIQUIDS MARKETING COUNTERPARTIES TO SATISFY THEIR FINANCIAL COMMITMENTS; o THE GENERAL LEVEL OF PETROLEUM PRODUCT DEMAND, AND THE AVAILABILITY OF PROPANE SUPPLIES; o ENERGY PRICES GENERALLY AND SPECIFICALLY, THE PRICE OF PROPANE TO THE CONSUMER COMPARED TO THE PRICE OF ALTERNATIVE AND COMPETING FUELS; o COMPETITION FROM OTHER PROPANE DISTRIBUTORS AND ALTERNATE FUELS; o THE AVAILABILITY AND COST OF CAPITAL; o CHANGES IN LAWS AND REGULATIONS TO WHICH HERITAGE IS SUBJECT, INCLUDING TAX, ENVIRONMENTAL AND EMPLOYMENT REGULATIONS; o ITS ABILITY TO GENERATE AVAILABLE CASH FOR DISTRIBUTIONS TO UNITHOLDERS; o THE COSTS AND EFFECTS OF LEGAL AND ADMINISTRATIVE PROCEEDINGS AGAINST IT OR WHICH MAY BE BROUGHT AGAINST IT; o ITS ABILITY TO SUSTAIN HISTORICAL LEVELS OF INTERNAL GROWTH; AND o ITS ABILITY TO CONTINUE TO LOCATE AND ACQUIRE OTHER PROPANE COMPANIES AT PURCHASE PRICES THAT ARE ACCRETIVE TO ITS FINANCIAL RESULTS. WEATHER AND SEASONALITY Heritage's propane distribution business is seasonal and dependent upon weather conditions in its service areas. Propane sales to residential and commercial customers are affected by winter heating season requirements. This generally results in higher operating revenues and net income during the period from October through March of each year and lower operating revenues and either net losses or lower net income during the period from April through September of each year. Sales to industrial and agricultural customers are much less weather sensitive. A substantial portion of Heritage's propane is used in the heating-sensitive residential and commercial markets causing the temperatures realized in Heritage's areas of operations, particularly during the six-month peak-heating season, to have a significant effect on its financial performance. In any given area, sustained warmer-than-normal temperatures will tend to result in reduced propane use, while sustained colder-than-normal temperatures will tend to result in greater propane use. Heritage therefore uses information on normal temperatures in understanding how temperatures that are colder or warmer than normal affect historical results of operations and in preparing forecasts of future operations, which assumes that normal weather will prevail in each of the regions in which it operates. GENERAL The retail propane business is a "margin-based" business in which gross profits depend on the excess of sales price over propane supply costs. The market price of propane is often subject to volatile changes as a result of supply or other market conditions over which Heritage will have no control. Product supply contracts are one-year agreements subject to annual renewal and generally permit suppliers to charge posted prices (plus transportation costs) at the time of delivery or the current prices established at major delivery points. Since rapid increases in the wholesale cost of propane may not be immediately passed on to retail customers, such increases could reduce gross profits. Heritage generally has attempted to reduce price risk by purchasing propane on a short-term basis. Heritage has had on occasion purchased significant volumes of propane during periods of low demand, which generally occur during the summer months, at the then current market price, for storage both at its service centers and in major storage facilities for future resale.

The retail propane business of Heritage consists principally of transporting propane purchased in the contract and spot markets, primarily from major fuel suppliers, to its retail distribution outlets and then to tanks located on the customers' premises, as well as to portable propane cylinders. In the residential and commercial markets, propane is primarily used for space heating, water heating and cooking. In the agricultural market, propane is primarily used for crop drying, tobacco curing, poultry brooding and weed control. In addition, propane is used for certain industrial applications, including use as an engine fuel that burns in internal combustion engines that power vehicles and forklifts and as a heating source in manufacturing and mining processes. Since its formation in 1989, Heritage has grown primarily through acquisitions of retail propane operations and, to a lesser extent, through internal growth. Since its inception through August 31, 2001, Heritage completed 81 acquisitions for an aggregate purchase price approximating $608 million, including the transfer by U.S. Propane of its propane operations to Heritage for $181.4 million, plus working capital of approximately $12.9 million. During the period ended November 30, 2001, Heritage completed three propane acquisitions and one non-propane related acquisition for an aggregate purchase price of $9.1 million. The General Partner believes that Heritage is the fourth largest retail marketer of propane in the United States, based on retail gallons sold. Heritage serves approximately 600,000 customers from over 275 customer service locations in 28 states. The retail propane distribution business is largely seasonal due to propane's use as a heating source in residential and commercial buildings. Historically, approximately two-thirds of Heritage's retail propane volume and in excess of 80% of Heritage's EBITDA is attributable to sales during the six-month peak-heating season of October through March. Consequently, sales and operating profits are concentrated in the first and second fiscal quarters. Cash flow from operations, however, is generally greatest during the second and third fiscal quarters when customers pay for propane purchased during the six-month peak-heating season. Gross profit margins vary according to customer mix. For example, sales to residential customers generate higher margins than sales to certain other customer groups, such as agricultural customers. Wholesale margins are substantially lower than retail margins. In addition, gross profit margins vary by geographical region. Accordingly, a change in customer or geographic mix can affect gross profit without necessarily affecting total revenues. Amounts discussed below reflect 100 percent of the results of M-P Energy Partnership. M-P Energy Partnership is a general partnership in which Heritage owns a 60 percent interest. Because M-P Energy Partnership is primarily engaged in lower-margin wholesale distribution, its contribution to Heritage's net income is not significant and the minority interest of this partnership is excluded from the EBITDA calculation. THREE MONTHS ENDED NOVEMBER 30, 2001 COMPARED TO THE THREE MONTHS ENDED NOVEMBER 30, 2000 Volume. Total retail gallons sold in the three months ended November 30, 2001 were 74.8 million, an increase of .7 million over the 74.1 million gallons sold in the three months ended November 30, 2000. The slight increase in volume reflects the benefits of the volume added through acquisitions, offset by volume lost to the warmer than normal weather. The Partnership also sold approximately 23.3 million wholesale gallons in this first quarter of fiscal 2001, a decrease of 2.2 million gallons from the 25.5 million wholesale gallons sold in the first quarter of fiscal 2000. U.S. wholesale volumes increased 1.9 million gallons to 5.0 million gallons due to acquisition related volumes while the foreign volumes of MP Energy Partnership decreased 4.1 million gallons to 18.3 million gallons for the first quarter due to warmer weather. Revenues. Total revenues for the three months ended November 30, 2001 were $162.1 million, a decrease of $3.7 million, or 2.2% as compared to $165.8 million in the three months ended November 30, 2000. The current period's domestic retail propane revenues decreased $4.6 million or 5.2% to $83.2 million versus the prior year's revenues of $87.8 million primarily due to lower selling prices in the current period offset by slightly increased retail volumes. The U.S. wholesale revenues increased slightly to $3.1 million, as compared to $2.5 million for the period ended November 30, 2000, due to increased volumes from acquisitions, offset by warmer winter weather and lower selling prices. Other domestic revenues increased by $2.3 million, or 17.4% to $15.5 million as compared to $13.2 million in the prior year as a result of acquisitions. Foreign revenues decreased $4.6 million for the three months ended November 30, 2001 to $9.5 million as compared to $14.1 million for the three months ended November 30, 2000, as a result of lower selling prices and the decreased volumes described above. The liquids marketing activity conducted through Heritage Energy Resources increased $2.5 million or 5.2% to $50.8 million verses the prior year's activity of $48.3 million due to an increase in the volume of contracts sold.

Cost of Products Sold. Total cost of products sold and liquids marketing activities decreased to $114.4 million for the three months ended November 30, 2001 as compared to $117.7 million for the three months ended November 30, 2000. The current period's domestic retail cost of sales decreased $6.1 million or 12.1% to $44.4 million as compared to $50.5 million in the prior year. Although the retail cost per gallon is well below last year's, the average cost per gallon sold for the quarter was above market as a higher cost of pre-bought inventory was absorbed during the quarter. The U.S. Wholesale cost of sales increased slightly to $2.9 million as compared to $2.3 million for the period ended November 30, 2000, primarily due to increased volumes from acquisitions offset by lower wholesale fuel costs. Foreign cost of sales decreased $4.4 million to $9.2 million as compared to $13.6 million in the prior year primarily due to a decrease in wholesale fuel costs and lower volumes. Other cost of sales increased $.3 million to $3.8 million as compared to $3.5 million for the three months ended November 30, 2000. Liquids marketing cost of sales increased $6.3 million during the three months ended November 30, 2001 to $54.1 million as compared to the prior year's cost of sales of $47.8 million. This increase is primarily due to the fuel contract purchase prices that were realized into cost of sales being higher than market price for those sold and an increase in contracts purchased. Gross Profit. Total gross profit for the three months ended November 30, 2001 was slightly lower at $47.7 million as compared to $48.1 million for the three months ended November 30, 2000. For the three months ended November 30, 2001, retail fuel gross profit was $38.9 million, U.S. wholesale was $.2 million, and other gross profit was $11.6 million. Foreign wholesale gross profit was $.3 million and liquids marketing incurred a gross loss of $3.3 million. As a comparison, for the three months ended November 30, 2000, Heritage recorded retail fuel gross profit of $37.2 million, U.S. wholesale was $.2 million, and other gross profit was $9.7 million. Foreign wholesale gross profit and trading gross profit were both $.5 million for the three months ended November 30, 2000. Operating Expenses. Operating expenses were $31.8 million for the three months ended November 30, 2001 as compared to $25.6 million for the three months ended November 30, 2000. The increase of $6.2 million is primarily the result of the additional operating expenses incurred for employee wages and benefits related to the growth of Heritage from acquisitions since the first quarter of 2000. Selling, General and Administrative. Selling, general and administrative expenses were $2.9 million for the three months ended November 30, 2001, a $.5 million increase from the $2.4 million for the same three month period last year. This increase is due to acquisition related costs. Depreciation and Amortization. Depreciation and amortization was $9.1 million in the three months ended November 30, 2001 as compared to $9.5 million in the three months ended November 30, 2000. The decrease is primarily attributable to the fact that goodwill is no longer being amortized effective September 1, 2001 with the adoption of SFAS 142, which would have totaled approximately $1.4 million for the quarter ended November 30, 2001. This decrease is offset by additional depreciation and amortization of property, plant and equipment, and other intangible assets from acquisitions. Operating Income. For the three months ended November 30, 2001, Heritage had operating income of $3.9 million as compared to operating income of $10.6 million for the three months ended November 30, 2000. This decrease is a combination of losses incurred from the liquids marketing contracts, unseasonably warm weather, which hindered expected increases in volumes, decreased margins from retail sales and the acquisition related increase in operating expenses. Net Income(Loss). For the three month period ended November 30, 2001, Heritage had a net loss of $4.8 million, a decrease of $6.8 million as compared to net income for the three months ended November 30, 2000 of $2.0 million. The decrease is primarily the result of the operating income decrease described above. EBITDA. Earnings before interest, taxes, depreciation and amortization decreased $6.9 million to $13.7 million for the three months ended November 30, 2001, as compared to EBITDA of $20.6 million for the period ended November 30, 2000. This decrease is due to the operating conditions described above. Heritage's EBITDA includes the EBITDA of investees, but does not include the EBITDA of the minority interest of M-P Energy Partnership or any non-cash compensation expense. EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations), but provides additional information for evaluating Heritage's ability to make the Minimum Quarterly Distribution.

LIQUIDITY AND CAPITAL RESOURCES The ability of Heritage 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, many of which are beyond its control. Future capital requirements of Heritage are expected to be provided by cash flows from operating activities. To the extent future capital requirements exceed cash flows from operating activities: a) working capital will be financed by the working capital line of credit and repaid from subsequent seasonal reductions in inventory and accounts receivable b) growth capital, expended mainly for customer tanks, will be financed by the revolving acquisition bank line of credit; and c) acquisition capital expenditures will be financed by the revolving acquisition bank line of credit; other lines of credit, long term debt, issues of additional Common Units or a combination thereof. Operating Activities. Cash provided by operating activities during the three months ended November 30, 2001, was $.1 million as compared to cash used in operating activities of $9.2 million for the same three-month period ended November 30, 2000. The net cash provided by operations for the three months ended November 30, 2001 consisted of the impact of working capital used of $4.2 million and net loss of $4.8 million offset by noncash charges of $9.1 million, principally depreciation and amortization. Investing Activities. Heritage completed four acquisitions during the three months ended November 30, 2001 spending $7.3 million, net of cash received. This capital expenditure amount is reflected in the cash used in investing activities of $16.0 million along with a $9.8 million spent for maintenance needed to sustain operations at current levels and customer tanks to support growth of operations. Other investing activities includes proceeds from the sale of idle property of $1.1 million. Financing Activities. Cash provided by financing activities during the three months ended November 30, 2001 of $18.5 million resulted mainly from a net increase in the Working Capital Facility of $28.6 million and a net increase in the Acquisition Facility of $.9 million used to acquire other propane businesses. These increases were offset by cash distributions to unitholders of $10.1 million and payments on other long-term debt of $.9 million. Financing and Sources of Liquidity During the quarter ended November 30, 2001, Heritage used its Bank Credit Facility, which includes a Working Capital Facility, a revolving credit facility providing for up to $65.0 million of borrowings for working capital and other general partnership purposes, and the Acquisition Facility, a revolving credit facility providing for up to $50.0 million of borrowings for acquisitions and improvements. As of November 30, 2001, the Acquisition Facility had $49.1 million available to fund future acquisitions and the Working Capital Facility had $16.5 million available for borrowings. Heritage uses its cash provided by operating and financing activities to provide distributions to unitholders and to fund acquisition, maintenance and growth capital expenditures. Acquisition capital expenditures, which include expenditures related to the acquisition of retail propane operations and intangibles associated with such acquired businesses, were $7.3 million for the three months ended November 30, 2001. In addition to the $7.3 million of cash expended for acquisitions, $.2 million for notes payable on non-compete agreements were issued and liabilities of $1.6 million were assumed in connection with certain acquisitions. Under the partnership agreement, Heritage will distribute to its partners, 45 days after the end of each fiscal quarter, an amount equal to all of its Available Cash for such quarter. Available cash generally means, with respect to any quarter of the Partnership, all cash on hand at the end of such quarter less the amount of cash reserves established by the General Partner in its reasonable discretion that is necessary or appropriate to provide for future cash requirements. Heritage's commitment to its unitholders is to distribute the increase in its cash flow while maintaining prudent reserves for the Partnership's operations. Heritage raised the quarterly distribution paid on 16

October 15, 2001 for the fourth quarter ended August 31, 2001, to $0.625 per unit (or $2.50 annually) from $0.6125 paid the previous quarter, and again for the distribution declared on December 20, 2001 payable on January 14, 2002, to $0.6375 (or $2.55 annually). This was the sixth consecutive increase and the seventh since the formation of the Partnership. The decision to increase the quarterly distribution resulted from a review of Heritage's past financial performance and current projections for available cash. The current distribution level includes incentive distributions payable to the General Partner to the extent the quarterly distribution exceeds $.55 per unit ($2.20 annually). The assets utilized in the propane business do not typically require lengthy manufacturing process time or complicated, high technology components. Accordingly, the Partnership does not have any significant financial commitments for capital expenditures. In addition, the Partnership has not experienced any significant increases attributable to inflation in the cost of these assets or in its operations. ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK. Heritage has very little cash flow exposure due to rate changes for long-term debt obligations. Heritage primarily enters debt obligations to support general corporate purposes including capital expenditures and working capital needs. Heritage's long-term debt instruments were typically issued at fixed interest rates. When these debt obligations mature, Heritage may refinance all or a portion of such debt at then-existing market interest rates which may be more or less than the interest rates on the maturing debt. Commodity price risk arises from the risk of price changes in the propane inventory that Heritage buys and sells. The market price of propane is often subject to volatile changes as a result of supply or other market conditions over which Heritage will have no control. In the past, price changes have generally been passed along to Heritage's customers to maintain gross margins, mitigating the commodity price risk. In order to help ensure adequate supply sources are available to Heritage during periods of high demand, Heritage at times will purchase significant volumes of propane during periods of low demand, which generally occur during the summer months, at the then current market price, for storage both at its service centers and in major storage facilities and for future delivery. Heritage also attempts to minimize the effects of market price fluctuations for its propane supply by entering into certain financial contracts. In order to manage a portion of its propane price market risk, Heritage uses contracts for the forward purchase of propane, propane fixed-price supply agreements, and derivative commodity instruments such as price swap and option contracts. The swap instruments are a contractual agreement to exchange obligations of money between the buyer and seller of the instruments as propane volumes during the pricing period are purchased. The swaps are tied to a fixed price bid by the buyer and a floating price determination for the seller based on certain indices at the end of the relevant trading period. Heritage enters into these swap instruments to hedge the projected propane volumes to be purchased during each of the one-month periods during the projected heating season. At November 30, 2001, Heritage had outstanding propane hedges (swap agreements) for a total of 21.6 million gallons of propane at a weighted average price of $.5572 per gallon. The fair value of the swap agreement is the amount at which they could be settled, based on quoted market prices. At November 30, 2001, Heritage would have had to pay approximately $5.7 million to terminate the swap agreements then in place, which was recorded as accrued and other liabilities on the balance sheet through other comprehensive loss and minority interest liability. Heritage continues to monitor propane prices and may enter into additional propane hedges in the future. Inherent in the portfolio from the liquids marketing activities is certain business risks, including market risk and credit risk. Market risk is the risk that the value of the portfolio will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers, or financial counterparties to a contract. Heritage takes an active role in managing and controlling market and credit risk and has established control procedures, which are reviewed on an ongoing basis. Heritage monitors market risk through a variety of techniques, including routine reporting to senior management. Heritage attempts to minimize credit risk exposure through credit policies and periodic monitoring procedures. LIQUIDS MARKETING Heritage buys and sells financial instruments for its own account through its wholly owned subsidiary, Heritage Energy Resources ("Resources"). Financial instruments utilized in connection with the liquids marketing activity are accounted for using the mark-to-market method. Under the mark-to-market method of accounting, forwards, swaps, options and storage contracts are reflected at fair value, and are shown in the consolidated balance sheet as assets and liabilities from liquids marketing activities. Unrealized gains and losses from the financial contracts and the impact of price movements are recognized in the income statement, as other income (expense). Changes in the assets and liabilities from the liquids marketing activities result primarily from changes in the market prices, newly originated transactions and the timing of settlement related to the receipt of cash for certain contracts. Resources attempts to balance its contractual portfolio in terms of notional amounts and timing of performance and delivery obligations. However, net unbalanced positions can exist or are established based on assessment of anticipated market movements. Notional Amounts and Terms - The notional amounts and terms of these financial instruments as of November 30, 2001 include fixed price payor for 1,507,500 barrels of propane and butane, and fixed price receiver of 1,306,964 barrels of propane and butane. Notional amounts reflect the volume of the transactions, but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure Heritage's exposure to market or credit risks. Fair Value - The fair value of the financial instruments related to liquids marketing activities as of November 30, 2001, was assets of $6.8 million and liabilities of $9.3 million. The unrealized loss related to trading activities for the period ended November 30, 2001, was $2,139 and is recorded through the income statement through the liquids marketing revenue. Resources has an option contract in which the counter party has the option to purchase 6.3 million gallons of propane from October 1, 2001 through December 31, 2001 at $.62 per gallon. This contract had not been exercised during the October and November periods. The market prices used to value these transactions reflect management's best estimate considering various factors including closing average spot prices for the current and outer months plus a differential to consider time value and storage costs. SENSITIVITY ANALYSIS A theoretical change of 10 percent in the underlying commodity value of the liquids marketing contracts would not have a significant impact in the Partnership's financial position as there were approximately 15.6 million gallons of net unbalanced positions at November 30, 2001. Similarly, a theoretical change of 10 percent in the underlying commodity values of the hedge instruments would not have a significant impact, as a change in their fair value would be equally offset by a change in value of the hedged item.

PART II - OTHER INFORMATION ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K (a) The exhibits listed on the following Exhibit Index are filed as part of this Report. Exhibits required by Item 601 of Regulation S-K, but which are not listed below, are not applicable. Exhibit Number Description ------- ----------- (1) 3.1 Agreement of Limited Partnership of Heritage Propane Partners, L.P. (10) 3.1.1 Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (16) 3.1.2 Amendment No. 2 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (1) 3.2 Agreement of Limited Partnership of Heritage Operating, L.P. (12) 3.2.1 Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Heritage Operating, L.P. (7) 10.1 First Amended and Restated Credit Agreement with Banks Dated May 31, 1999 (8) 10.1.1 First Amendment to the First Amended and Restated Credit Agreement dated as of October 15, 1999 (9) 10.1.2 Second Amendment to First Amended and Restated Credit Agreement dated as of May 31, 2000 (10) 10.1.3 Third Amendment dated as of August 10, 2000 to First Amended and Restated Credit Agreement (13) 10.1.4 Fourth Amendment to First Amended and Restated Credit Agreement dated as of December 28, 2000 (16) 10.1.5 Fifth Amendment to First Amended and Restated Credit Agreement dated as of July 16, 2001 (1) 10.2 Form of Note Purchase Agreement (June 25, 1996) (3) 10.2.1 Amendment of Note Purchase Agreement (June 25, 1996) dated as of July 25, 1996 (4) 10.2.2 Amendment of Note Purchase Agreement (June 25, 2996) dated as of March 11, 1997 (6) 10.2.3 Amendment of Note Purchase Agreement (June 25, 1996) dated as of October 15, 1998 (8) 10.2.4 Second Amendment Agreement dated September 1, 1999 to June 25, 1996 Note Purchase Agreement (11) 10.2.5 Third Amendment Agreement dated May 31, 2000 to June 25, 1996 Note Purchase Agreement and November 19, 1997 Note Purchase Agreement

Exhibit Number Description ------- ----------- (10) 10.2.6 Fourth Amendment Agreement dated August 10, 2000 to June 25, 1996 Note Purchase Agreement and November 19, 1997 Note Purchase Agreement (13) 10.2.7 Fifth Amendment Agreement dated as of December 28, 2000 to June 25, 1996 Note Purchase Agreement, November 19, 1997 Note Purchase Agreement and August 10, 2000 Note Purchase Agreement (1) 10.3 Form of Contribution, Conveyance and Assumption Agreement among Heritage Holdings, Inc., Heritage Propane Partners, L.P. and Heritage Operating, L.P. (1) 10.6 Restricted Unit Plan (4) 10.6.1 Amendment of Restricted Unit Plan dated as of October 17, 1996 (12) 10.6.2 Amended and Restated Restricted Unit Plan dated as of August 10, 2000 (12) 10.7 Employment Agreement for James E. Bertelsmeyer dated as of August 10, 2000 (12) 10.8 Employment Agreement for R. C. Mills dated as of August 10, 2000 (12) 10.9 Employment Agreement for Larry J. Dagley dated as of August 10, 2000 (12) 10.10 Employment Agreement for H. Michael Krimbill dated as of August 10, 2000 (12) 10.11 Employment Agreement for Bradley K. Atkinson dated as of August 10, 2000 (7) 10.12 First Amended and Restated Revolving Credit Agreement between Heritage Service Corp. and Banks Dated May 31, 1999 (16) 10.12.1 First Amendment to First Amended and Restated Revolving Credit Agreement, dated October 15, 1999 (16) 10.12.2 Second Amendment to First Amended and Restated Revolving Credit Agreement, dated August 10, 2000 (16) 10.12.3 Third Amendment to First Amended and Restated Revolving Credit Agreement, dated December 28, 2000 (16) 10.12.4 Fourth Amendment to First Amended and Restated Revolving Credit Agreement, dated July 16, 2001 (12) 10.13 Employment Agreement for Mark A. Darr dated as of August 10, 2000 (12) 10.14 Employment Agreement for Thomas H. Rose dated as of August 10, 2000 (12) 10.15 Employment Agreement for Curtis L. Weishahn dated as of August 10, 2000 (5) 10.16 Note Purchase Agreement dated as of November 19, 1997 (6) 10.16.1 Amendment dated October 15, 1998 to November 19, 1997 Note Purchase Agreement (8) 10.16.2 Second Amendment Agreement dated September 1, 1999 to November 19, 1997 Note Purchase Agreement and June 25, 1996 Note Purchase Agreement

Exhibit Number Description ------- ----------- (9) 10.16.3 Third Amendment Agreement dated May 31, 2000 to November 19, 1997 Note Purchase Agreement and June 25, 1996 Note Purchase Agreement (10) 10.16.4 Fourth Amendment Agreement dated August 10, 2000 to November 19, 1997 Note Purchase Agreement and June 25, 1996 Note Purchase Agreement (13) 10.16.5 Fifth Amendment Agreement dated as of December 28, 2000 to June 25, 1996 Note Purchase Agreement, November 19, 1997 Note Purchase Agreement and August 10, 2000 Note Purchase Agreement (10) 10.17 Contribution Agreement dated June 15, 2000 among U.S. Propane, L.P., Heritage Operating, L.P. and Heritage Propane Partners, L.P. (10) 10.17.1 Amendment dated August 10, 2000 to June 15, 2000 Contribution Agreement (10) 10.18 Subscription Agreement dated June 15, 2000 between Heritage Propane Partners, L.P. and individual investors (10) 10.18.1 Amendment dated August 10, 2000 to June 15, 2000 Subscription Agreement (16) 10.18.2 Amendment Agreement dated January 3, 2001 to the June 15, 2000 Subscription Agreement. (*) 10.18.3 Amendment Agreement dated October 5, 2001 to the June 15, 2000 Subscription Agreement. (10) 10.19 Note Purchase Agreement dated as of August 10, 2000 (13) 10.19.1 Fifth Amendment Agreement dated as of December 28, 2000 to June 25, 1996 Note Purchase Agreement, November 19, 1997 Note Purchase Agreement and August 10, 2000 Note Purchase Agreement (14) 10.19.2 First Supplemental Note Purchase Agreement dated as of May 24, 2001 to the August 10, 2000 Note Purchase Agreement (15) 10.20 Stock Purchase Agreement dated as of July 5, 2001 among the shareholders of ProFlame, Inc. and Heritage Holdings, Inc. (15) 10.21 Stock Purchase Agreement dated as of July 5, 2001 among the shareholders of Coast Liquid Gas, Inc. and Heritage Holdings, Inc. (15) 10.22 Agreement and Plan of Merger dated as of July 5, 2001 among California Western Gas Company, the Majority Stockholders of California Western Gas Company signatories thereto, Heritage Holdings, Inc. and California Western Merger Corp. (15) 10.23 Agreement and Plan of Merger dated as of July 5, 2001 among Growth Properties, the Majority Shareholders signatories thereto, Heritage Holdings, Inc. and Growth Properties Merger Corp. (15) 10.24 Asset Purchase Agreement dated as of July 5, 2001 among L.P.G. Associates, the Shareholders of L.P.G. Associates and Heritage Operating, L.P. (15) 10.25 Asset Purchase Agreement dated as of July 5, 2001 among WMJB, Inc., the Shareholders of WMJB, Inc. and Heritage Operating, L.P.

Exhibit Number Description ------- ----------- (15) 10.25.1 Amendment to Asset Purchase Agreement dated as of July 5, 2001 among WMJB, Inc., the Shareholders of WMJB, Inc. and Heritage Operating, L.P. (16) 21.1 List of Subsidiaries --- (1) Incorporated by reference to the same numbered Exhibit to Registrant's Registration Statement of Form S-1, File No. 333-04018, filed with the Commission on June 21, 1996. (2) Incorporated by reference to Exhibit 10.11 to Registrant's Registration Statement on Form S-1, File No. 333-04018, filed with the Commission on June 21, 1996. (3) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended November 30, 1996. (4) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended February 28, 1997. (5) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended May 31, 1998. (6) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 1998. (7) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 1999. (8) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 1999. (9) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 2000. (10) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 8-K dated August 23, 2000. (11) File as Exhibit 10.16.3. (12) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 2000. (13) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended February 28, 2001. (14) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 2001. (15) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 8-K dated August 15, 2001. (16) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 2001. (*) Filed herewith (b) Reports on Form 8-K. None.

SIGNATURE Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. HERITAGE PROPANE PARTNERS, L.P. By: Heritage Holdings, Inc., General Partner Date: January 14, 2002 By: /s/ Larry J. Dagley -- Larry J. Dagley (Vice President, Chief Financial Officer and officer duly authorized to sign on behalf of the registrant)

EXHIBIT INDEX Exhibit Number Description ------- ----------- (1) 3.1 Agreement of Limited Partnership of Heritage Propane Partners, L.P. (10) 3.1.1 Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (16) 3.1.2 Amendment No. 2 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (1) 3.2 Agreement of Limited Partnership of Heritage Operating, L.P. (12) 3.2.1 Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Heritage Operating, L.P. (7) 10.1 First Amended and Restated Credit Agreement with Banks Dated May 31, 1999 (8) 10.1.1 First Amendment to the First Amended and Restated Credit Agreement dated as of October 15, 1999 (9) 10.1.2 Second Amendment to First Amended and Restated Credit Agreement dated as of May 31, 2000 (10) 10.1.3 Third Amendment dated as of August 10, 2000 to First Amended and Restated Credit Agreement (13) 10.1.4 Fourth Amendment to First Amended and Restated Credit Agreement dated as of December 28, 2000 (16) 10.1.5 Fifth Amendment to First Amended and Restated Credit Agreement dated as of July 16, 2001 (1) 10.2 Form of Note Purchase Agreement (June 25, 1996) (3) 10.2.1 Amendment of Note Purchase Agreement (June 25, 1996) dated as of July 25, 1996 (4) 10.2.2 Amendment of Note Purchase Agreement (June 25, 2996) dated as of March 11, 1997 (6) 10.2.3 Amendment of Note Purchase Agreement (June 25, 1996) dated as of October 15, 1998 (8) 10.2.4 Second Amendment Agreement dated September 1, 1999 to June 25, 1996 Note Purchase Agreement (11) 10.2.5 Third Amendment Agreement dated May 31, 2000 to June 25, 1996 Note Purchase Agreement and November 19, 1997 Note Purchase Agreement

Exhibit Number Description ------- ----------- (10) 10.2.6 Fourth Amendment Agreement dated August 10, 2000 to June 25, 1996 Note Purchase Agreement and November 19, 1997 Note Purchase Agreement (13) 10.2.7 Fifth Amendment Agreement dated as of December 28, 2000 to June 25, 1996 Note Purchase Agreement, November 19, 1997 Note Purchase Agreement and August 10, 2000 Note Purchase Agreement (1) 10.3 Form of Contribution, Conveyance and Assumption Agreement among Heritage Holdings, Inc., Heritage Propane Partners, L.P. and Heritage Operating, L.P. (1) 10.6 Restricted Unit Plan (4) 10.6.1 Amendment of Restricted Unit Plan dated as of October 17, 1996 (12) 10.6.2 Amended and Restated Restricted Unit Plan dated as of August 10, 2000 (12) 10.7 Employment Agreement for James E. Bertelsmeyer dated as of August 10, 2000 (12) 10.8 Employment Agreement for R. C. Mills dated as of August 10, 2000 (12) 10.9 Employment Agreement for Larry J. Dagley dated as of August 10, 2000 (12) 10.10 Employment Agreement for H. Michael Krimbill dated as of August 10, 2000 (12) 10.11 Employment Agreement for Bradley K. Atkinson dated as of August 10, 2000 (7) 10.12 First Amended and Restated Revolving Credit Agreement between Heritage Service Corp. and Banks Dated May 31, 1999 (16) 10.12.1 First Amendment to First Amended and Restated Revolving Credit Agreement, dated October 15, 1999 (16) 10.12.2 Second Amendment to First Amended and Restated Revolving Credit Agreement, dated August 10, 2000 (16) 10.12.3 Third Amendment to First Amended and Restated Revolving Credit Agreement, dated December 28, 2000 (16) 10.12.4 Fourth Amendment to First Amended and Restated Revolving Credit Agreement, dated July 16, 2001 (12) 10.13 Employment Agreement for Mark A. Darr dated as of August 10, 2000 (12) 10.14 Employment Agreement for Thomas H. Rose dated as of August 10, 2000 (12) 10.15 Employment Agreement for Curtis L. Weishahn dated as of August 10, 2000 (5) 10.16 Note Purchase Agreement dated as of November 19, 1997 (6) 10.16.1 Amendment dated October 15, 1998 to November 19, 1997 Note Purchase Agreement (8) 10.16.2 Second Amendment Agreement dated September 1, 1999 to November 19, 1997 Note Purchase Agreement and June 25, 1996 Note Purchase Agreement

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EXHIBIT 10.18.3

AMENDMENT AGREEMENT

This Amendment Agreement (this "Agreement"), dated as of October 5, 2001, is entered into by and among the following:

1. Heritage Propane Partners, L.P., a Delaware limited partnership ("Heritage MLP"); and

2. James E. Bertelsmeyer and Donna C. Bertelsmeyer, as Tenants by the Entireties; H. Michael Krimbill; R. C. Mills; G. A. Darr; The Beth Elise Bertelsmeyer Snapp Trust; The Amy Renee Bertelsmeyer Trust; The John D. Capps Trust; J. Charles Sawyer; Bill W. Byrne; Robert K Blackman; Byron Jay Cook; Blaine L. Cronn; Mark A. Darr; Larry J. Lindsey; Ray S. Parsons; Charles B. Pass; Kermit V. Jacobsen; Thomas H. Rose; C. H. Timberlake, III; Curtis L. Weishahn; William V. Cody; James C. Hamilton, II; and Jack McKeehan (collectively, the "Former GP Stockholders").

RECITALS

Each of the Former GP Stockholders has purchased Common Units of Heritage MLP and/or Class B Subordinated Units of limited partner interests from Heritage MLP pursuant to the terms of a Subscription Agreement dated June 15, 2000 and amended as of August 10, 2000 and again amended as of January 5, 2001 (the "Subscription Agreement").

The Parties desire to amend the timing of voting obligations with respect to the unitholders' vote(s) for approval of the conversion of the Class B Subordinated Units to Common Units (the "Conversion").

NOW, THEREFORE, in consideration of the mutual agreements set forth herein, the parties hereto agree as follows:

A. DEFINED TERMS. As used in this Amendment Agreement, each capitalized term used herein, but not defined, has the meaning given to it in the Subscription Agreement.

B. The Parties agree to amend Section 5.3 of the Subscription Agreement to postpone the preparation and filing with the Securities and Exchange Commission of a proxy for the Conversion until a date no later than January 15, 2002, and further agree to defer the date of the increased distribution rights of the holders of the Class B Subordinated Units until March 31, 2002, and consent to the amendment of the Heritage MLP Partnership Agreement in the form of Amendment No. 3 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. in the form of Exhibit "A" attached hereto and incorporated herein by reference.

C. This Amendment Agreement may be executed by the parties hereto individually, or in any combination of the parties hereto in several counterparts, all of which taken together shall constitute one and the same Amendment Agreement.

D. Except as amended hereby, all of the representations, warranties, provisions, covenants, terms and conditions of the Subscription Agreement shall remain unaltered and in full force and effect and the Subscription Agreement, as amended hereby, is in all respects agreed to, ratified and confirmed by the parties hereto.

E. Upon the effectiveness of this Amendment Agreement, each reference in the Subscription Agreement and in other documents describing or referencing the Subscription Agreement to "this Agreement," "hereunder," "hereof," "herein," or words of like import referring to such Subscription Agreement, shall mean and be a reference to such Subscription Agreement as amended hereby.

AGREED to as of October 5, 2001.

Heritage MLP

HERITAGE PROPANE PARTNERS, L.P.,
A DELAWARE LIMITED PARTNERSHIP

BY: HERITAGE HOLDINGS, INC.
ITS GENERAL PARTNER

By:

Name:

Title:

Former GP Stockholders

By:

James E. Bertelsmeyer

By:

Donna C. Bertelsmeyer

By:

H. Michael Krimbill

By:

R. C. Mills

By:

G. A. Darr

The Beth Elise Bertelsmeyer Snapp Trust

By:

Beth Elise Bertelsmeyer Snapp,
as Co-Trustee

By:

Amy Rene Bertelsmeyer Westbrock,
as Co-Trustee

The Amy Rene Bertelsmeyer Trust

By:

Amy Rene Bertelsmeyer Westbrock,
as Co-Trustee

By:

Beth Elise Bertelsmeyer Snapp,
as Co-Trustee

The John D. Capps Trust

By:

Estelle A. Capps, as Trustee

By:

J. Charles Sawyer

By:

Bill W. Byrne

By:

Robert K. Blackman

By:

Byron Jay Cook

By:

Blaine L. Cronn

By:

Mark A. Darr

By:

Larry J. Lindsey

By:

Ray S. Parsons

By:

Charles B. Pass

By:

Kermit V. Jacobsen

By:

Thomas H. Rose

By:

C. H. Timberlake, III

By:

Curtis L. Weishahn

By:

William V. Cody

By:

James C. Hamilton, II

By:

Jack McKeehan