

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

FOR THE QUARTERLY PERIOD ENDED FEBRUARY 28, 2002

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  
(state or other jurisdiction or  
incorporation or organization)

73-1493906  
(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                            No

At April 12, 2002, the registrant had units outstanding as follows:

Heritage Propane Partners, L.P.      15,805,847                      Common Units

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## PART I - FINANCIAL INFORMATION

## HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(in thousands, except unit data)

	February 28, 2002	August 31, 2001
	-----	-----
	(unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash	\$ 8,563	\$ 5,620
Marketable securities	3,539	4,245
Accounts receivable, net of allowance for doubtful accounts	71,487	40,221
Inventories	48,424	66,814
Assets from liquids marketing	211	6,465
Prepaid expenses and other	5,930	14,898
	-----	-----
Total current assets	138,154	138,263
PROPERTY, PLANT AND EQUIPMENT, net	409,316	394,742
INVESTMENT IN AFFILIATES	8,089	6,920
INTANGIBLES AND OTHER ASSETS, net	224,081	218,242
	-----	-----
Total assets	\$ 779,640	\$ 758,167
	=====	=====
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Working capital facility	\$ 33,000	\$ 19,900
Accounts payable	46,081	43,164
Accounts payable to related companies	5,591	7,937
Accrued and other current liabilities	30,747	33,404
Liabilities from liquids marketing	727	7,130
Current maturities of long-term debt	16,873	16,120
	-----	-----
Total current liabilities	133,019	127,655
LONG-TERM DEBT, less current maturities	431,027	423,748
MINORITY INTEREST	3,839	5,350
COMMITMENTS AND CONTINGENCIES		
	-----	-----
Total liabilities	567,885	556,753
	-----	-----
PARTNERS' CAPITAL:		
Common unitholders (15,805,847 and 14,260,316 units issued and outstanding at February 28, 2002 and August 31, 2001, respectively)	213,608	190,548
Class B subordinated unitholders (0 and 1,382,514 units issued and outstanding at February 28, 2002 and August 31, 2001, respectively)	-	15,532
Class C unitholders (1,000,000 units issued and outstanding)	-	-
General partner	1,997	1,875
Accumulated other comprehensive loss	(3,850)	(6,541)
	-----	-----
Total partners' capital	211,755	201,414
	-----	-----
Total liabilities and partners' capital	\$ 779,640	\$ 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 February 28, 2002 -----	Three Months Ended February 28, 2001 -----	Six Months Ended February 28, 2002 -----	Six Months Ended February 28, 2001 -----
<b>REVENUES:</b>				
Retail fuel	\$ 152,429	\$ 211,229	\$ 235,629	\$ 298,981
Wholesale fuel	14,534	26,168	27,127	42,749
Liquids marketing	47,326	77,763	98,146	126,083
Other	15,346	11,600	30,836	24,792
	-----	-----	-----	-----
Total revenues	229,635	326,760	391,738	492,605
	-----	-----	-----	-----
<b>COSTS AND EXPENSES:</b>				
Cost of products sold	97,143	138,706	157,378	208,645
Liquids marketing	45,633	76,456	99,778	124,246
Operating expenses	34,957	41,517	66,801	67,106
Depreciation and amortization	9,606	10,262	18,664	19,824
Selling, general and administrative	3,158	7,189	6,109	9,581
	-----	-----	-----	-----
Total costs and expenses	190,497	274,130	348,730	429,402
	-----	-----	-----	-----
OPERATING INCOME	39,138	52,630	43,008	63,203
<b>OTHER INCOME (EXPENSE):</b>				
Interest expense	(9,503)	(8,915)	(18,719)	(17,666)
Equity in earnings of affiliates	1,040	984	1,169	1,201
Gain on disposal of assets	248	(18)	715	203
Other	(94)	(25)	(192)	(163)
	-----	-----	-----	-----
INCOME BEFORE MINORITY INTEREST	30,829	44,656	25,981	46,778
Minority interest	(699)	(1,326)	(630)	(1,485)
	-----	-----	-----	-----
NET INCOME	30,130	43,330	25,351	45,293
<b>GENERAL PARTNER'S INTEREST IN NET INCOME</b>				
	-----	-----	-----	-----
	518	433	686	453
	-----	-----	-----	-----
<b>LIMITED PARTNERS' INTEREST IN NET INCOME</b>				
	\$ 29,612	\$ 42,897	\$ 24,665	\$ 44,840
	=====	=====	=====	=====
<b>BASIC NET INCOME PER LIMITED PARTNER UNIT</b>				
	\$ 1.89	\$ 3.30	\$ 1.57	\$ 3.45
	=====	=====	=====	=====
<b>BASIC WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING</b>				
	15,689,376	12,980,181	15,666,854	12,980,181
	=====	=====	=====	=====
<b>DILUTED NET INCOME PER LIMITED PARTNER UNIT</b>				
	\$ 1.88	\$ 3.30	\$ 1.57	\$ 3.45
	=====	=====	=====	=====
<b>DILUTED WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING</b>				
	15,731,276	13,014,231	15,707,411	13,009,540
	=====	=====	=====	=====

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 February 28, 2002 -----	Three Months Ended February 28, 2001 -----	Six Months Ended February 28, 2002 -----	Six Months Ended February 28, 2001 -----
Net income	\$ 30,130	\$ 43,330	\$ 25,351	\$ 45,293
Other comprehensive income				
Unrealized gain (loss) on derivative instruments	203	967	(2,551)	(1,585)
Unrealized (loss) on available-for-sale securities	(991)	(214)	(615)	(385)
	-----	-----	-----	-----
Comprehensive income	\$ 29,342	\$ 44,083	\$ 22,185	\$ 43,323
	=====	=====	=====	=====
 RECONCILIATION OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)				
Balance, beginning of period	\$ (7,329)	\$ 1,842	\$ (6,541)	\$ --
Cumulative effect of the adoption of SFAS 133	--	--	--	5,429
Current period reclassification to earnings	4,267	(2,431)	5,857	(3,295)
Current period change	(788)	753	(3,166)	(1,970)
	-----	-----	-----	-----
Balance, end of period	\$ (3,850)	\$ 164	\$ (3,850)	\$ 164
	=====	=====	=====	=====

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				
	Common -----	Class B Subordinated -----	Class C -----	Common -----	Class B Subordinated -----
BALANCE, AUGUST 31, 2001	14,260,316	1,382,514	1,000,000	\$ 190,548	\$ 15,532
Unit distribution	--	--	--	(18,006)	(1,746)
Conversion of phantom units	1,750	--	--	--	--
Conversion of subordinated units	1,382,514	(1,382,514)	--	15,137	(15,137)
Issuance of units upon conversion of minority interest	162,913	--	--	1,729	--
General partner capital contribution	(1,646)	--	--	(32)	--
Other	--	--	--	920	--
Net change in accumulated other comprehensive loss per accompanying statements	--	--	--	--	--
Net income	--	--	--	23,312	1,351
BALANCE, FEBRUARY 28, 2002	15,805,847 =====	-- =====	1,000,000 =====	\$ 213,608 =====	\$ -- =====

	Class C -----	General Partner -----	Accumulated Other Comprehensive Loss -----	Total -----
BALANCE, AUGUST 31, 2001	--	\$ 1,875	\$ (6,541)	\$ 201,414
Unit distribution	--	(598)	--	(20,350)
Conversion of phantom units	--	--	--	--
Conversion of subordinated units	--	--	--	--
Issuance of units upon conversion of minority interest	--	--	--	1,729
General partner capital contribution	--	32	--	--
Other	--	--	--	920
Net change in accumulated other comprehensive loss per accompanying statements	--	--	2,691	2,691
Net income	--	688	--	25,351
BALANCE, FEBRUARY 28, 2002	\$ -- =====	\$ 1,997 =====	\$ (3,850) =====	\$ 211,755 =====

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

## HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

	Six Months Ended February 28, 2002 -----	Six Months Ended February 28 2001 -----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 25,351	\$ 45,293
Reconciliation of net income to net cash provided by (used in)operating activities-		
Depreciation and amortization	18,664	19,824
Provision for loss on accounts receivable	523	2,385
Gain on disposal of assets	(715)	(203)
Deferred compensation on restricted units and long term incentive plan	974	462
Undistributed earnings of affiliates	(1,169)	(1,078)
Minority interest	166	653
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(31,506)	(63,425)
Inventories	14,134	12,357
Assets from liquids marketing	6,254	3,643
Prepaid and other expenses	8,808	774
Intangibles and other assets	(465)	(451)
Accounts payable	1,093	23,120
Accounts payable to related companies	(2,346)	3,621
Accrued and other current liabilities	(9,519)	5,231
Liabilities from liquids marketing	(6,404)	(2,983)
	-----	-----
Net cash provided by (used in) operating activities	23,843	49,223
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash paid for acquisitions, net of cash acquired	(14,472)	(44,538)
Capital expenditures	(16,371)	(12,094)
Deposit on the subsequent sale of assets	9,730	--
Proceeds from the sale of assets	1,362	992
Other	245	(4,436)
	-----	-----
Net cash used in investing activities	(19,506)	(60,076)
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from borrowings	103,617	149,892
Principal payments on debt	(84,606)	(117,047)
Unit distributions	(20,350)	(15,367)
Other	(55)	--
	-----	-----
Net cash provided by(used in) financing activities	(1,394)	17,478
	-----	-----
INCREASE IN CASH	2,943	6,625
CASH, beginning of period	5,620	4,845
	-----	-----
CASH, end of period	\$ 8,563	\$ 11,470
	=====	=====
<b>NONCASH FINANCING ACTIVITIES:</b>		
Notes payable incurred on noncompete agreements	\$ 2,120	\$ 2,097
	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for interest	\$ 18,811	\$ 17,349
	=====	=====

The accompanying notes are an integral part of these consolidated 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 Heritage Propane Partners, L.P. and subsidiaries (Heritage or the Partnership) 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.

Heritage Operating, L.P. (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.

On February 4, 2002, the Partnership's common unitholders, at a special meeting, approved the substitution of U.S. Propane, L.P. (U.S. Propane) as the successor General Partner of the Partnership replacing Heritage Holdings, Inc. Heritage Holdings, Inc. exchanged its general partner interest in Heritage and the incentive distribution rights (which are described in Note 2) 158,026 common units, and its 1.0101 percent general partner interest in the Operating Partnership for 162,913 common units. The 1.0101 percent limited partner interest in the Operating Partnership owned by U.S. Propane, L.P. converted to a 1.0101 percent general partner interest in the Operating Partnership and 158,026 of the common units owned by U.S. Propane, L.P. converted into a 1 percent general partner interest in the Partnership and the Incentive Distribution Rights and U.S. Propane, L.P. was admitted as the successor General Partner.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BALANCE SHEET DETAIL:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of the Partnership include the accounts of its subsidiaries, including the Operating Partnership, M-P Energy Partnership, Heritage Energy Resources, L.L.C. ("Resources"), AGL Propane, L.L.C., Peoples Gas Company, L.L.C., United Cities Propane Gas, L.L.C. and Retail Propane Company, L.L.C. (collectively 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. 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 percent to the General Partner. At February 28, 2002, as successor General Partner, U.S. Propane, L.P.'s 1.0101 percent general partner interest in the Operating Partnership was accounted for in the consolidated financial statements as a minority interest. For the six months ended February 28, 2001, Heritage Holdings, Inc.'s 1.0101 percent general partner interest and U.S. Propane's 1.0101 percent limited partner interest in the Operating Partnership were accounted for in the consolidated financial statements as minority interests.

RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform with the 2002 presentation. These reclassifications have no impact on net income or net assets.



ACCOUNTS RECEIVABLE

Heritage grants credit to its customers for the purchase of propane and propane-related products. Accounts receivable consisted of the following:

	February 28, 2002	August 31, 2001
	-----	-----
Accounts receivable	\$ 75,082	\$ 43,797
Less - allowance for doubtful accounts	3,595	3,576
	-----	-----
Total, net	\$ 71,487	\$ 40,221
	=====	=====
Allowance for doubtful accounts:		
Balance, beginning of the year	\$ 3,576	\$ --
Provision for loss on accounts receivable	523	4,055
Accounts receivable written off, net of recoveries	(504)	(479)
	-----	-----
Balance, end of period	\$ 3,595	\$ 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:

	February 28, 2002	August 31, 2001
	-----	-----
Fuel	\$39,163	\$56,975
Appliances, parts and fittings	9,261	9,839
	-----	-----
	\$48,424	\$66,814
	=====	=====

INCOME PER LIMITED PARTNER UNIT

Basic net income per limited partner unit is computed by dividing net income, after considering the General Partner's interest, by the weighted average number of common and subordinated units outstanding. Diluted net income per limited partner unit is computed by dividing net income, 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. A reconciliation of net income and weighted average units used in computing basic and diluted earnings per unit is as follows:

	Three Months Ended February 28, 2002	Three Months Ended February 28, 2001	Six Months Ended February 28, 2002	Six Months Ended February 28, 2001
	-----	-----	-----	-----
BASIC NET INCOME PER LIMITED PARTNER UNIT:				
Limited Partners' interest in net income	\$ 29,612	\$ 42,897	\$ 24,665	\$ 44,840
	=====	=====	=====	=====
Weighted average limited partner units	15,689,376	12,980,181	15,666,854	12,980,181
	=====	=====	=====	=====
Basic net income per limited partner unit	\$ 1.89	\$ 3.30	\$ 1.57	\$ 3.45
	=====	=====	=====	=====

DILUTED NET INCOME PER LIMITED PARTNER UNIT:

Limited partners' interest in net income	\$ 29,612	\$ 42,897	\$ 24,665	\$ 44,840
	=====	=====	=====	=====
Weighted average limited partner units	15,689,376	12,980,181	15,666,854	12,980,181
Dilutive effect of phantom units	41,900	34,050	40,557	29,359
	-----	-----	-----	-----
Weighted average limited partner units, assuming dilutive effect of phantom units	15,731,276	13,014,231	15,707,411	13,009,540
	=====	=====	=====	=====
Diluted net income per limited partner unit	\$ 1.88	\$ 3.30	\$ 1.57	\$ 3.45
	=====	=====	=====	=====

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 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.

Prior to the unitholder vote on February 4, 2002, distributions by Heritage in an amount equal to 100 percent of available cash were made 97 percent to the common and class B subordinated unitholders, 1.0101 percent to U.S. Propane, L.P. for its limited partner interest in the Operating Partnership and 1.9899 percent to the former General Partner, Heritage Holdings, Inc. After the unitholder vote, distributions by Heritage in an amount equal to 100 percent of available cash will generally be made 98 percent to the common unitholders and 2 percent to U.S. Propane, L.P., 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 January 14, 2002, a quarterly distribution of \$.6375 per unit, or \$2.55 annually, was paid to unitholders of record at the close of business on January 3, 2002 and to the former General Partner for its general partner interest in the Partnership, its minority interest and its Incentive Distribution Rights. On March 25, 2002, the Partnership declared a cash distribution for the second quarter ended February 28, 2002 of \$.6375 per unit, or \$2.55 per unit annually, payable on April 15, 2002 to unitholders of record at the close of business on April 4, 2002. These quarterly distributions included incentive distributions payable to the General Partner to the extent the quarterly distribution exceeded \$.55 per unit.

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 requires that all derivatives be recognized in the balance sheet as either an asset or liability measured at fair value. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement. 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 February 28, 2002 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 (\$1,170) as of February 28, 2002, which was recorded as accrued and other current liabilities on the balance sheet through other comprehensive loss, exclusive of (\$12) of minority interest. During the



three months and six months ended February 28, 2002, Heritage reclassified into earnings a loss of \$2,677 and \$4,267, respectively, that was reported in accumulated other comprehensive loss. There were no ineffective hedges or discontinued hedges as of February 28, 2002.

#### 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.

Heritage adopted Statement No. 142 on September 1, 2001 and accordingly has discontinued the amortization of goodwill existing at the time of adoption. Under the provisions of Statement No. 142, Heritage is required to perform a transitional goodwill impairment appraisal within six months from the time of adoption. Management engaged an independent appraisal firm to perform an assessment of the fair value of each of Heritage's operating segments, which were compared with the carrying value of each segment to determine whether any impairment existed on the date of adoption. Heritage has completed the transitional goodwill impairment appraisal and has determined that based on the fair value of Heritage's operating segments, Heritage's goodwill was not impaired as of September 1, 2001. The adoption of Statement No. 142 eliminated goodwill amortization that would have totaled approximately \$1,426 and \$2,852 for the three and six months ended February 28, 2002, based on the balances of August 31, 2001, and totaled approximately \$1,677 and \$2,941 for the three and six months ended February 28, 2001.

#### 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. 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 are included in the consolidated statement of operations of Heritage for the three and six months ended February 28, 2002.

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 February 28, 2001 -----	For the Six Months Ended February 28, 2001 -----
Total revenues	\$ 344,021	\$ 522,341
Limited partners' interest in net income	\$ 60,158	\$ 61,979
Basic net income per limited partner unit	\$ 4.64	\$ 4.78
Diluted net income per limited partner unit	\$ 4.62	\$ 4.76

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 acquisition of ProFlame was completed after Heritage adopted SFAS 142, therefore there is no amortization of goodwill and intangible assets have been separately identified. 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.

### 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 \$33,000 outstanding at February 28, 2002. 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 3.62 percent for the amount outstanding at February 28, 2002. 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 \$7,400 outstanding as of February 28, 2002. 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 3.62 percent for the amount outstanding at February 28, 2002. 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 liquids marketing 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 \$3,158 and \$7,189 for the three months ended February 28, 2002 and February 28, 2001, respectively, or \$6,109 and \$9,581 for the six months ended February 28, 2002 and February 28, 2001, respectively. The following table presents the unaudited financial information by segment for the following periods:

	For the Three Months ended February 28,		For the Six Months ended February 28,	
	2002	2001	2002	2001
Gallons:				
Domestic retail fuel	134,458	140,096	209,248	214,171
Domestic wholesale fuel	5,478	6,701	10,475	9,847
Foreign wholesale fuel				
Affiliated	23,744	29,585	38,815	47,610
Unaffiliated	24,728	34,864	42,992	57,247
Elimination	(23,744)	(29,585)	(38,815)	(47,610)
Total	164,664	181,661	262,715	281,265

Revenues:				
Domestic retail fuel	\$ 152,429	\$ 211,229	\$ 235,629	\$ 298,981
Domestic wholesale fuel	3,265	5,158	6,336	7,665
Foreign wholesale fuel				
Affiliated	11,576	22,284	20,516	33,324
Unaffiliated	11,269	21,010	20,791	35,084
Elimination	(11,576)	(22,284)	(20,516)	(33,324)
Liquids marketing	47,326	77,763	98,146	126,083
Other	15,346	11,600	30,836	24,792
Total	\$ 229,635	\$ 326,760	\$ 391,738	\$ 492,605

Operating Income (Loss):				
Domestic retail	\$ 41,036	\$ 57,571	\$ 51,559	\$ 69,644
Domestic wholesale fuel	(1,064)	200	(1,699)	147
Foreign wholesale fuel				
Affiliated	272	255	272	433
Unaffiliated	713	1,359	1,051	1,851
Elimination	(272)	(255)	(272)	(433)
Liquids marketing	1,611	689	(1,794)	1,142
Total	\$ 42,296	\$ 59,819	\$ 49,117	\$ 72,784

	As of February 28, 2002	As of August 31, 2001
Total Assets:		
Domestic retail	\$722,395	\$697,947
Domestic wholesale	15,703	19,533
Foreign wholesale	10,545	8,467
Liquids Marketing	16,650	20,086
Corporate	14,347	12,134
Total	\$779,640	\$758,167

	For the Three Months ended February 28,		For the Six Months ended February 28,	
	2002	2001	2002	2001
	-----	-----	-----	-----
Depreciation and amortization:				
Domestic retail	\$ 9,537	\$10,235	\$18,526	\$19,770
Domestic wholesale	65	23	129	46
Foreign wholesale	4	4	9	8
	-----	-----	-----	-----
Total	\$ 9,606	\$10,262	\$18,664	\$19,824
	=====	=====	=====	=====

5. SIGNIFICANT INVESTEE:

At February 28, 2002, 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 \$7,751 and \$6,610 at February 28, 2002 and August 31, 2001, respectively. Heritage received distributions from Bi-State Partnership for the year ended August 31, 2001 of \$125. On March 1, 2002, the Operating Partnership sold certain assets acquired in the ProFlame acquisition to Bi-State Partnership for approximately \$9,730 plus working capital. The proceeds were received February 28, 2002 and are included in accrued and other current liabilities as of February 28, 2002. There was no gain or loss on the transaction. This sale was made pursuant to the provision in the partnership agreement with Bi-State that requires Heritage to offer any newly acquired businesses within Bi-State Partnership's area of operations to be offered for sale to Bi-State Partnership. In conjunction with this sale, the Operating Partnership guaranteed \$5 million of debt incurred by Bi-State Partnership.

Bi-State Partnership's financial position is summarized below:

	February 28, 2002	August 31, 2001
	----	----
Current assets	\$ 4,275	\$ 2,783
Noncurrent assets	23,467	13,899
	-----	-----
	\$27,742	\$16,682
	=====	=====
Current liabilities	\$ 2,432	\$ 1,722
Long-term debt	11,166	3,131
Partners' capital:		
Heritage	7,751	6,610
Other partner	6,393	5,219
	-----	-----
	\$27,742	\$16,682
	=====	=====

Bi-State Partnership's results of operations for the three months and six months ended February 28, 2002 and 2001, respectively are summarized below:

	For the Three Months ended February 28,		For the Six Months ended February 28,	
	2002	2001	2002	2001
	----	----	----	----
Revenues	\$ 6,497	\$ 8,644	\$ 9,357	\$12,764
Gross profit	3,329	3,589	4,784	5,406
Net income:				
Heritage	1,015	964	1,141	1,166
Other Partner	1,031	1,012	1,174	1,260

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:

- CHANGES IN GENERAL ECONOMIC CONDITIONS IN THE UNITED STATES AS WELL AS CHANGES IN GENERAL ECONOMIC CONDITIONS AND CURRENCIES IN FOREIGN COUNTRIES;
- WEATHER CONDITIONS THAT VARY SIGNIFICANTLY FROM HISTORICALLY NORMAL CONDITIONS;
- ITS SUCCESS IN HEDGING ITS POSITIONS;
- THE EFFECTIVENESS OF RISK-MANAGEMENT POLICIES AND PROCEDURES AND THE ABILITY OF HERITAGE'S LIQUIDS MARKETING COUNTERPARTIES TO SATISFY THEIR FINANCIAL COMMITMENTS;
- THE GENERAL LEVEL OF PETROLEUM PRODUCT DEMAND, AND THE AVAILABILITY OF PROPANE SUPPLIES;
- ENERGY PRICES GENERALLY AND SPECIFICALLY, THE PRICE OF PROPANE TO THE CONSUMER COMPARED TO THE PRICE OF ALTERNATIVE AND COMPETING FUELS;
- COMPETITION FROM OTHER PROPANE DISTRIBUTORS AND ALTERNATE FUELS;
- THE AVAILABILITY AND COST OF CAPITAL;
- CHANGES IN LAWS AND REGULATIONS TO WHICH HERITAGE IS SUBJECT, INCLUDING TAX, ENVIRONMENTAL AND EMPLOYMENT REGULATIONS;



- ITS ABILITY TO GENERATE AVAILABLE CASH FOR DISTRIBUTIONS TO UNITHOLDERS;
- THE COSTS AND EFFECTS OF LEGAL AND ADMINISTRATIVE PROCEEDINGS AGAINST IT OR WHICH MAY BE BROUGHT AGAINST IT;
- ITS ABILITY TO SUSTAIN HISTORICAL LEVELS OF INTERNAL GROWTH; AND
- 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 six months ended February 28, 2002, Heritage completed eight propane acquisitions and one non-propane related acquisition for an aggregate purchase price of \$18.9 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 percent 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 FEBRUARY 28, 2002 COMPARED TO THE THREE MONTHS ENDED FEBRUARY 28, 2001

**Volume.** Total retail gallons sold in the three months ended February 28, 2002 were 134.5 million, a decrease of 5.6 million over the 140.1 million gallons sold in the three months ended February 28, 2001. The impact of volumes added through acquisitions was offset by the volumes lost to the significantly warmer than normal weather. Temperatures in the Partnership's areas of operations were an average of 22% warmer than in the second quarter last fiscal year and 14 % warmer than normal. The Partnership also sold approximately 30.2 million wholesale gallons in this second quarter of fiscal 2002, a decrease of 11.4 million gallons from the 41.6 million wholesale gallons sold in the second quarter of fiscal 2001. U.S. wholesale volumes decreased 1.2 million gallons to 5.5 million gallons due to warmer weather offset by acquisition related volumes while the foreign volumes of MP Energy Partnership decreased 10.1 million gallons to 24.7 million gallons for the second quarter due to the significantly warmer weather.

**Revenues.** Total revenues for the three months ended February 28, 2002 were \$229.6 million, a decrease of \$97.2 million, or 29.7% as compared to \$326.8 million in the three months ended February 28, 2001. The current period's domestic retail propane revenues decreased \$58.8 million or 27.8% to \$152.4 million versus the prior year's revenues of \$211.2 million primarily due to lower selling prices in the current period and somewhat due to the decreased retail volumes described above. Selling prices in all the reportable segments decreased from the same period last year in response to the lower supply costs. The U.S. wholesale revenues decreased \$1.9 million to \$3.3 million for the three months ended February 28, 2002 as compared to \$5.2 million for the period ended February 28, 2001, due to decreased volumes from the warmer winter weather and lower selling prices. Other domestic revenues increased by \$3.7 million, to \$15.3 million as compared to \$11.6 million in the prior year as a result of acquisitions. Foreign revenues decreased \$9.7 million for the three months ended February 28, 2002 to \$11.3 million as compared to \$21.0 million for the three months February 28, 2001, as a result of lower selling prices and the decreased volumes described above. The liquids marketing activity conducted through Heritage Energy Resources decreased \$30.5 million to \$47.3 million versus the prior year's activity of \$77.8 million due to a decrease in the volume of contracts sold due to the market conditions during the second quarter of fiscal 2002 and the lower selling prices.

**Cost of Products Sold.** Total cost of products sold and liquids marketing activities decreased to \$142.8 million for the three months ended February 28, 2002 as compared to \$215.2 million for the three months ended February 28, 2001. The current period's domestic retail cost of sales decreased \$31.4 million or 28.3% to \$79.7 million as compared to \$111.1 million in the prior year due to decreased volumes and lower cost of product from the same period last year. The U.S. wholesale cost of sales decreased \$1.6 million to \$3.2 million for the three months ended February 28, 2002 as compared to \$4.8 million for the period ended February 28, 2001, primarily due to decreased volumes and lower wholesale fuel costs. Foreign cost of sales decreased \$9.0 million to \$10.6 million as compared to \$19.6 million in the prior year primarily due to a decrease in wholesale fuel costs and lower volumes. Other cost of sales increased \$.5 million to \$3.7 million as compared to \$3.2 million for the three months ended February 28, 2001. Liquids marketing cost of sales decreased \$30.9 million during the three months ended February 28, 2002 to \$45.6 million as compared to the prior year's cost of sales of \$76.5 million. This decrease is primarily due to the decrease in the volumes contracts purchased in relation to the decrease of contracts sold and the decrease in overall product cost as compared to last year.



Gross Profit. Total gross profit for the three months ended February 28, 2002 was \$86.9 million as compared to \$111.6 million for the three months ended February 28, 2001. For the three months ended February 28, 2002, retail fuel gross profit was \$72.7 million, U.S. wholesale was \$.1 million, and other gross profit was \$11.7 million. Foreign wholesale gross profit was \$.7 million and liquids marketing was \$1.7 million. As a comparison, for the three months ended February 28, 2001, Heritage recorded retail fuel gross profit of \$100.1 million, U.S. wholesale was \$.4 million, and other gross profit was \$8.4 million. Foreign wholesale gross profit was \$1.4 million and liquids marketing gross profit was \$1.3 million for the three months ended February 28, 2001.

Operating Expenses. Operating expenses were \$35.0 million a decrease of \$6.5 million, for the three months ended February 28, 2002 as compared to \$41.5 million for the three months ended February 28, 2001. The increase in operating expenses relating to employee wages and benefits that normally occurs with growth through acquisitions was offset by the reduced operating expenses related to decreased volumes and a decrease in the short-term incentive plan expense for the operating employees due to reduced operating income during the second quarter as compared to last year.

Selling, General and Administrative. Selling, general and administrative expenses were \$3.2 million for the three months ended February 28, 2002, a \$4.0 million decrease from the \$7.2 million for the same three month period last year. This decrease is primarily related to the executive short-term compensation plan expense that did not reoccur this fiscal year due to the decrease in operating income.

Depreciation and Amortization. Depreciation and amortization was \$9.6 million in the three months ended February 28, 2002 as compared to \$10.3 million in the three months ended February 28, 2001. 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 February 28, 2002. This decrease is offset by additional depreciation and amortization of property, plant and equipment, and other intangible assets from businesses acquired since the second quarter of fiscal 2001.

Operating Income. For the three months ended February 28, 2002, Heritage had operating income of \$39.1 million as compared to operating income of \$52.6 million for the three months ended February 28, 2001. This decrease is a combination of, unseasonably warm weather, which hindered expected increases in volumes, decreased margins from retail sales and the acquisition related increase in operating expenses, which were offset by decreased employee and executive short-term compensation plan expenses and the cost control efforts in operations relating to the decreased volumes.

Net Income. For the three month period ended February 28, 2002, Heritage recorded net income of \$30.1 million, a decrease of \$13.2 million as compared to net income for the three months ended February 28, 2001 of \$43.3 million. The decrease is primarily the result of the decrease in operating income described above.

EBITDA. Earnings before interest, taxes, depreciation and amortization decreased \$13.7 million, or 21.4% to \$50.2 million for the three months ended February 28, 2002, as compared to EBITDA of \$63.9 million for the period ended February 28, 2001. This decrease is due to the operating conditions described above with a direct correlation to the decrease in degree days realized. 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.

SIX MONTHS ENDED FEBRUARY 28, 2002 COMPARED TO THE SIX MONTHS ENDED FEBRUARY 28, 2001

Volume. Total retail gallons sold in the six months ended February 28, 2002 were 209.2 million, a decrease of 5.0 million gallons over the 214.2 million gallons sold in the six months ended February 28, 2001. U.S. Wholesale gallons were 10.5 million for the six months ended February 28, 2002 as compared to 9.8 million for the six months ended February 28, 2001. Foreign gallons decreased 14.2 million for the six months ended February 28, 2002 to 43.0 million as compared to 57.2 million for the same period last fiscal year. Temperatures in the Partnership's area of operations were an average of 24% warmer than last year and 15% warmer than normal.

Revenues. Total revenues for the six months ended February 28, 2002 were \$391.7 million, a decrease of \$100.9 million, or 20.5% as compared to \$492.6 million in the six months ended February 28, 2001. Retail fuel revenues decreased \$63.4 million to \$235.6 million for the six months ended February 28, 2002 due primarily due to the decrease in selling prices and somewhat to the decreased volumes as compared to the same period last fiscal year. Selling prices in all the reportable segments decreased from the same period last year in response to the lower supply costs. U.S. wholesale revenues decreased \$1.3 million to \$6.3 million primarily due to lower selling prices this fiscal year as compared to the same period last fiscal year. Other domestic revenues increased by \$6.1 million, or 24.6% to \$30.8 million as compared to \$24.8 million in the prior six months as a result of acquisitions. Foreign revenues were \$20.8 million for the six months ended February 28, 2002 as compared to \$35.1 million for the six months ended February 28, 2001, a decrease of \$14.3 million primarily due to a combination of decreased volumes and lower selling prices. Liquids Marketing revenues decreased \$28.0 million to \$98.1 million for the six months ended February 28, 2002 primarily due to a reduced number of contracts entered into during the second quarter this fiscal year as compared to the second quarter of fiscal 2001 due to unfavorable market conditions and lower selling prices attached to trading contracts.

Cost of Products Sold. Total cost of products sold and liquids marketing activities decreased \$75.7 million, or 22.7%, to \$257.2 million for the six months ended February 28, 2002 as compared to \$332.9 million for the six months ended February 28, 2001. Retail fuel cost of sales decreased \$37.5 million or 23.2% due to the decreases in the cost of propane for the six months ended February 28, 2002 being lower as compared to the same time period last year. Although the market price for propane is well below last year, the average cost per gallon sold for the six months ended February 28, 2002 was higher than market as a higher cost of pre-bought inventory was absorbed into cost of sales during this time period. Foreign cost of sales decreased \$13.5 million to \$19.7 million for the six months ended February 28, 2002 due to a lower cost of product this fiscal year and the decreased volumes described above. The liquids marketing cost of sales decreased \$24.5 million during the six months ended February 28, 2002 as compared to the same time period last fiscal year as the volume of contracts purchased during the second quarter of fiscal 2002 declined in relation to the reduced volume of contracts sold coupled with the decreased market price.

Gross Profit. Total gross profit for the six months ended February 28, 2002 decreased \$25.1 million, or 15.7%, to \$134.6 million as compared to \$159.7 million for the six months ended February 28, 2001 due to the aforementioned decreases in volumes and revenues, offset by the decreases in product costs. For the six months ended February 28, 2002, retail fuel gross profit was \$111.6 million, U.S. wholesale was \$.3 million, and other gross profit was \$23.3 million as compared to \$137.4 million, \$.6 million and \$18.0 million, respectively for the six months ended February 28, 2001. Foreign wholesale gross profit was \$1.1 million and the liquids marketing recorded a gross loss of \$1.7 million for the period ended February 28, 2002 as compared to gross profit of \$1.9 million and \$1.8 million, respectively for the six months ended February 28, 2001.

Operating Expenses. Operating expenses were \$66.8 million for the six months ended February 28, 2002 as compared to \$67.1 million for the six months ended February 28, 2001. The decrease of \$.3 million is primarily the result of a decrease in the short-term incentive plan expense for the operating employees due to decreased operating income and the reduced operating expenses related to decreased volumes offset by the additional operating expenses incurred for employee wages and benefits related to the growth of Heritage from acquisitions since the second quarter of 2001.

Selling, General and Administrative. Selling, general and administrative expenses were \$6.1 million for the six months ended February 28, 2002 as compared to \$9.6 million for the six months ended February 28, 2001. This decrease is primarily attributable to the additional expenses incurred in the six months ended February 28, 2001 related to the executive short-term compensation plan that did not reoccur during this fiscal year.

Depreciation and Amortization. Depreciation and amortization decreased \$1.1 million to \$18.7 million in the six months ended February 28, 2002 as compared to \$19.8 million in the six months ended February 28, 2001. The increase is primarily attributable to the addition of property, plant and equipment, and intangible assets from the businesses acquired since the second quarter of fiscal 2001 offset by the fact that goodwill is no longer amortized effective September 1, 2001 with the adoption of SFAS 142, which would have totaled \$2.9 million for the six months ended February 28, 2002.

Operating Income. For the six months ended February 28, 2002 Heritage had operating income of \$43.0 million as compared to operating income of \$63.2 million for the six months ended February 28, 2001. The

decrease of \$20.2 million, or 32.0% is due to the related decrease in gross profit described above offset by the decrease in operating and selling, general and administrative expenses and the decrease in depreciation and amortization described above.

Net Income. For the six-month period ended February 28, 2002, Heritage had net income of \$25.4 million, a decrease of \$19.9 million as compared to net income for the six months ended February 28, 2001 of \$45.3 million. This decrease is due to the decreased operating income described above.

EBITDA. Earnings before interest, taxes, depreciation and amortization decreased \$20.6 million to \$63.9 million for the six months ended February 28, 2002, as compared to the EBITDA of \$84.5 million for the period ended February 28, 2001. This decrease is directly related to the decrease in degree days realized in the six months ended February 28, 2002 as compared to the same six month period last fiscal year. Heritage's EBITDA includes the EBITDA of investees, but does not include the EBITDA of the minority interest of M-P Energy Partnership. 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 six months ended February 28, 2002 was \$23.8 million as compared to cash provided by operating activities of \$49.2 million for the same six-month period ended February 28, 2001. The net cash provided by operations for the six months ended February 28, 2002 consisted of net income of \$25.3 million and noncash charges of \$18.4 million, principally depreciation and amortization offset by the impact of working capital used of \$19.9 million.

Investing Activities. Heritage completed eight propane acquisitions and one non-propane related acquisition during the six months ended February 28, 2002 spending \$14.5 million, net of cash received. This capital expenditure amount is reflected in the cash used in investing activities of \$19.5 million along with \$16.4 million spent for maintenance needed to sustain operations at current levels and customer tanks to support growth of operations. Investing activities also includes proceeds from the sale of idle property of \$1.4 million, \$9.7 million received as a deposit on the subsequent sale of assets to Bi-State Partnership and other investing activities of \$.3 million.

Financing Activities. Cash used in financing activities during the six months ended February 28, 2002 of \$1.4 million resulted mainly from a net increase in the Working Capital Facility of \$13.1 and a net increase in the Acquisition Facility of \$7.4 million used to acquire other propane businesses offset by cash distributions to unitholders of \$20.4 million and a net decrease in other long-term debt of \$1.5 million.

#### Financing and Sources of Liquidity

During the quarter ended February 28, 2002, 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 February 28, 2002, the Acquisition Facility had

\$42.6 million available to fund future acquisitions and the Working Capital Facility had \$32.0 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 \$14.5 million for the six months ended February 28, 2002. In addition to the \$14.5 million of cash expended for acquisitions, \$2.1 million for notes payable on non-compete agreements were issued and liabilities of \$2.3 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 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. On March 25, 2002, the Partnership declared a cash distribution for the second quarter ended February 28, 2002 of \$.6375 per unit, or \$2.55 per unit annually, payable on April 15, 2002 to unitholders of record at the close of business on April 4, 2002. These quarterly distributions included incentive distributions payable to the General Partner to the extent the quarterly distribution exceeded \$.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 February 28, 2002, Heritage had outstanding propane hedges (swap agreements) for a total of 5.3 million gallons of propane at a weighted average price of \$.556 per gallon. The fair value of the swap agreement is the amount at

which they could be settled, based on quoted market prices. At February 28, 2002, Heritage would have had to pay approximately \$1.2 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 liquids marketing revenue. 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 February 28, 2002 include fixed price payor for 355,000 barrels of propane and butane, and fixed price receiver of 225,000 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 February 28, 2002, was assets of \$211 thousand and liabilities of \$727 thousand. The unrealized loss related to trading activities for the period ended February 28, 2002, was \$125 thousand and is recorded in the income statement through the liquids marketing revenue.

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 5.5 million gallons of net unbalanced positions at February 28, 2002. Similarly, a theoretical change of 10 percent in the underlying commodity values of the hedging 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 2 CHANGES IN SECURITIES AND USE OF PROCEEDS

On February 4, 2002, at the Special Meeting of the Common Unitholders of the Registrant (the Special Meeting), the common unitholders approved the Listing Proposal, whereby all of the Registrants 1,382,514 issued and outstanding class B subordinated units were converted to 1,382,514 of the Registrant's common units. Following the conversion of the class B subordinated units, the Registrant has no voting securities other than 15,805,847 common units outstanding.

In conjunction with the approval of the Amendment Proposal at the Special Meeting, the Partnership also issued 162,913 common units to Heritage Holdings, Inc. in exchange for Heritage Holdings, Inc.'s 1.0101 percent general partner interest in the Operating Partnership. The Partnership issued 158,026 common units to HHI in conversion of its 1 percent general partner interest in the Partnership and cancelled 158,026 common units held by U.S. Propane, L.P. upon their conversion into incentive distribution rights and a 1 percent general partner interest in the Partnership. The additional units are not registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended, but are issued based upon an exemption from registration.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF COMMON UNITHOLDERS

On February 4, 2002, at the Special Meeting of the Common Unitholders of the Registrant, the common unitholders approved and the class B subordinated unitholders consented to the substitution of U.S. Propane, L.P. as the General Partner of the Partnership replacing Heritage Holdings, Inc. (the Amendment Proposal). The substitution of U.S. Propane, L.P. as the General Partner did not alter the business and acquisition strategies or the management of the Partnership. All of the directors and management of the former general partner have been appointed as the Board of Managers and management of U.S. Propane. The outcome of the vote to substitute U.S. Propane, L.P. as the general partner of the Partnership was 9,070,888 for, 131,257 against or withheld, 99,941 abstentions, and 0 broker non-votes. All 1,382,514 class B subordinated units affirmatively consented to the Amendment Proposal.

The common unitholders also approved the amendment of the Partnership Agreement to convert 1,382,514 outstanding class B subordinated units into 1,382,514 common units, bringing the total outstanding common units of the Partnership to 15,805,847 with no subordinated units outstanding. The vote for the conversion of the class B subordinated units consisted of 9,092,118 for, 90,497 against or withheld, 119,471 abstentions and 0 broker non-votes.

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.
(*) 3.3	Amended Certificate of Limited Partnership of Heritage Propane Partners, L.P.
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(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
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(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.
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(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.

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(*)	10.27 Assignment, Conveyance and Assumption Agreement between U.S. Propane, L.P. and Heritage Holdings, Inc., as the former general partner of Heritage Operating, L.P., dated as of February 4, 2002
(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.
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(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.
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- (\*) Filed herewith.
- (b) Reports on Form 8-K.

A Form 8-K was filed on February 13, 2002, reporting actions taken at the Special Meeting of the Common Unitholders of the Registrant held on February 4, 2002. At the Special Meeting, each of the common unitholders and the class B subordinated unitholders approved a proposal (the "Amendment Proposal"), whereby U.S. Propane, L.P. replaced Heritage Holdings, Inc. as the General Partner of the Registrant and Heritage Operating, L.P., the Registrant's operating partnership (the "Operating Partnership"). Although the approval of the Amendment Proposal was reported as an Item 1 matter, the approval of the Amendment Proposal did not alter the control of U.S. Propane, L.P., which owns 100 percent of Heritage Holdings, Inc. The 8-K also reported under Item 5 the approval by the common unitholders of the Listing Proposal, whereby all of the Registrant's 1,382,514 issued and outstanding class B subordinated units were converted to 1,382,514 of the Registrant's common units.

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: U.S. Propane, L.P., General Partner

Date: April 15, 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)

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(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.
- (17) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended November 30, 2001.
- (\*) Filed herewith.

CERTIFICATE OF AMENDMENT  
TO THE  
CERTIFICATE OF LIMITED PARTNERSHIP  
OF  
HERITAGE PROPANE PARTNERS, L.P.

The undersigned, desiring to amend the Certificate of Limited Partnership of Heritage Propane Partners, L.P. pursuant to the provisions of Section 17-202 of the Revised Uniform Limited Partnership Act of the State of Delaware, does hereby certify as follows:

FIRST: The name of the Limited Partnership is Heritage Propane Partners, L.P. (the "Partnership")

SECOND: Article 3 of the Certificate of Limited Partnership shall be amended as follows:

3. The name and business addresses of the General Partner is as follows:

General Partner -----	Address -----
U.S. Propane, L.P.	8801 South Yale Avenue Suite 310 Tulsa, Oklahoma 74137

IN WITNESS WHEREOF, the undersigned executed this Amendment to the Certificate of Limited Partnership on this 5th day of February, 2002.

General Partner:

U.S. PROPANE, L.P.

By:

-----  
H. Michael Krimbill  
President & Chief Executive Officer

CERTIFICATE OF AMENDMENT  
TO THE  
CERTIFICATE OF LIMITED PARTNERSHIP  
OF  
HERITAGE OPERATING, L.P.

The undersigned, desiring to amend the Certificate of Limited Partnership of Heritage Operating, L.P. pursuant to the provisions of Section 17-202 of the Revised Uniform Limited Partnership Act of the State of Delaware, does hereby certify as follows:

FIRST: The name of the Limited Partnership is Heritage Operating, L.P. (the "Partnership")

SECOND: Article 3 of the Certificate of Limited Partnership shall be amended as follows:

3. The name and business addresses of the General Partner is as follows:

General Partner -----	Address -----
U.S. Propane, L.P.	8801 South Yale Avenue Suite 310 Tulsa, Oklahoma 74137

IN WITNESS WHEREOF, the undersigned executed this Amendment to the Certificate of Limited Partnership on this 5th day of February, 2002.

General Partner:  
  
U.S. PROPANE, L.P.

By:  
-----  
H. Michael Krimbill  
President & Chief Executive Officer

HERITAGE PROPANE PARTNERS, L.P.  
SECOND AMENDED AND RESTATED  
RESTRICTED UNIT PLAN

Heritage Holdings, Inc., a Delaware corporation ("HHI"), as General Partner of Heritage Propane Partners, L.P. (the "Partnership"), established the Heritage Propane Partners, L.P. Restricted Unit Plan effective as of the effective date of the initial public offering of Units of the Partnership, which was amended and restated as of the 10th day of August, 2000 upon approval of the Board of Directors of HHI, and Amended and Restated as of February 4, 2002, effective upon the approval of the Common Unitholders to the change of the General Partner from HHI to U.S. Propane, L.P. (the "Company") (collectively, the "Plan"). Prior to February 4, 2002, the general partner of the Partnership was HHI, and thereafter the general partner is the Company.

1. Purpose. The purpose of the Plan is to promote the interests of the General Partner and the Partnership by encouraging key employees of the General Partner of the Partnership, its Subsidiaries and Affiliates, and the Directors of the Company and their successors to acquire or increase their ownership of Units and to provide a means whereby such individuals may develop a sense of proprietorship and personal involvement in the development and financial success of the Partnership, and to encourage them to devote their best efforts to the business of the Partnership, thereby advancing the interests of the Partnership and the Company.

2. Definitions. As used in this Plan:

(a) "Affiliate" means any person that directly or indirectly controls, is controlled by, or is under common control with the person in question. As used in this definition, the term "control" means the possession, directly or indirectly, of the power to direct or cause a direction of the management and policies of a person whether through ownership of voting securities, by contract or otherwise. When used with reference to any individual, the term "Affiliate" shall also mean any person that is a relative (within the second degree consanguinity) or spouse of such individual or is a guardian of such individual or such spouse or is a trust or estate in which such individual owns a 5% or greater beneficial interest or of which such individual serves as trustee, executor or in any similar capacity.

(b) "Board" means the Board of Directors of HHI prior to February 4, 2002 and the Board of Managers of the Company thereafter.

(c) "Change in Control" means any of:

(i) the date that the Parents cease to own, directly or indirectly through wholly-owned subsidiaries, in the aggregate of at least 51% of the capital stock or equity interest of the General Partner; or

(ii) the sale of all or substantially all of the assets of the Partnership (other than to any affiliate of any of the Parents); or



(iii) a liquidation or dissolution of the Partnership.

(d) "Committee" means the committee appointed to administer the Plan pursuant to Paragraph 10.

(e) "Date of Grant" means (i) with respect to a grant of Phantom Units to an Employee, the date specified by the Committee on which such grant is effective and (ii) with respect to a grant of Phantom Units to a Director, the automatic date of grant as provided in Paragraph 5.

(f) "Director" means a director of the General Partner, or other similar manager of the governing body of the General Partner if the General Partner is not a corporation, who is not also a direct or indirect employee of any Parent, the Company, a Subsidiary or the Partnership.

(g) "Employee" means any individual who is an employee of the Company, a Subsidiary or the Partnership or an Affiliate of any such entity rendering his or her primary service to the Partnership.

(h) "General Partner" means the general partner of Heritage Propane Partners, L.P.

(i) "Parents" means collectively, AGL Resources, Inc., Atmos Energy Corporation, Piedmont Natural Gas Company, Inc., and TECO Energy.

(j) "Participant" means an Employee who is selected by the Committee to receive a grant of Phantom Units and shall also include a Director who has received an automatic grant of Phantom Units pursuant to Paragraph 5.

(k) "Partnership" means Heritage Propane Partners L.P.

(l) "Phantom Units" means a notional Unit granted under the Plan, which upon vesting entitles the Participant to receive a Unit.

(m) "Units" means a limited partnership interest in the Partnership represented by Common Units as set forth in the Partnership Agreement as the securities of the Partnership.

(n) "Rule 16b-3" means Rule 16b-3 of the Securities and Exchange Commission (or any successor rule to the same effect) as in effect from time to time.

(o) "Subsidiary" means any entity in which, at the relevant time the General Partner or Partnership owns or controls, directly or indirectly, not less than 50% of the total combined voting power represented by all classes of equity interests issued by such entity.

3. Units Available Under Plan. Subject to adjustments as provided in Paragraph 7, the maximum number of Phantom Units that may be granted under this Plan is 146,000; provided, however, any Phantom Units that are forfeited or which expire for any reason will again be

available for grant under this Plan. Units to be delivered upon the vesting of Phantom Units granted under the Plan may be Units acquired by the Company in the open market, Units already owned by the Company, Units acquired by the Company directly from the Partnership, or any other person, or any combination of the foregoing.

4. Employee Grants. The Committee, in its discretion, may from time to time grant Phantom Units to any Employee upon such terms and conditions as it may determine in accordance with the following general guidelines:

(a) Each grant will specify the number of Phantom Units to which it pertains.

(b) Each grant will specify the terms and conditions for the Participant to become vested in such Phantom Units. Unless earlier terminated, the rights to acquire the Phantom Units will vest (i) upon, and in the same proportions as, the conversion of the Partnership's Subordinated Units to Units or (ii) if later, the third anniversary of their Date of Grant. Grants made after the conversion of all of the Partnership's Subordinated Units to Units shall vest on such terms as the Committee may establish, which may include the achievement of performance objectives.

(c) Each grant's vesting to an Employee may be terminated or revoked as to any Employee who voluntarily terminates employment or who enters into competition with the Company or the Partnership after termination of employment.

(d) Each grant will be evidenced by a written notification executed on behalf of the Company by the Chief Executive Officer or the Chairman of the Compensation Committee of the Board and delivered to and accepted by the Participant and shall contain such terms and provisions, consistent with this Plan, as the Committee may approve with respect to such grant, including provisions relating to the earlier vesting of the Phantom Units upon a Change in Control.

(e) Notwithstanding any of the foregoing, Phantom Units shall become fully vested upon any Change of Control.

5. Director Grants. (a) In order that the Committee not exercise any discretion with respect to a Director's grant, each Director who is elected or appointed to the Board for the first time after the Plan's effective date shall automatically receive, on the date of his or her election or appointment, a grant of 2,000 Phantom Units.

(b) Commencing on September 1, 1996, and on each September 1 thereafter that this Plan is in effect, each Director who is in office on such September 1 shall automatically receive a grant of 500 Phantom Units.

(c) Each grant of Phantom Units to a Director will vest upon, and in the same proportions as, (i) the conversion of the Partnership's Subordinated Units into Units or (ii) if later, the third anniversary of their Date of Grant; provided, however, notwithstanding the foregoing, a Director's Phantom Units shall become fully vested upon a Change in Control.

(d) In the event that the number of Phantom Units available for grants under this Plan is insufficient to make all automatic grants provided for in this Paragraph 5 on the applicable date, all Directors who are entitled to receive a grant on such date shall share ratably in the number of Phantom Units then available for grant under this Plan and thereafter shall have no right to receive any additional grants under this Paragraph 5.

(e) Grants made pursuant to this Paragraph 5 shall be subject to all of the terms and conditions of this Plan; however, if there is a conflict between the terms and conditions of this Paragraph 5 and the terms and conditions of any other Paragraph, then the terms and conditions of this Paragraph 5 shall control. The Committee may not exercise any discretion with respect to this Paragraph 5 which would be inconsistent with the intent that this Plan meet the requirements of Rule 16b-3.

6. Transferability. No Phantom Units granted under this Plan shall be transferable by a Participant other than by will or the laws of descent and distribution.

7. Adjustments. In the event that (i) any change is made to the Units deliverable under the Plan or (ii) the Partnership makes any distribution of cash, Units or other property to unitholders which results from the sale or disposition of a major asset or separate operating division of the Partnership or any other extraordinary event and, in the judgment of the Committee, such change or distribution would significantly dilute the value of the Phantom Units to the Participants hereunder, then the Committee may make appropriate adjustments in the maximum number of Phantom Units deliverable under the Plan and may make appropriate adjustments to each outstanding Phantom Unit. The adjustments determined by the Committee shall be final, binding and conclusive.

8. No Fractional Units. The Company will not be required to deliver any fractional Units pursuant to this Plan. The Committee, in its discretion, may provide for the elimination of fractions or for the settlement of fractions in cash.

9. Withholding of Taxes. To the extent that the Company is required to withhold federal, state, local or foreign taxes in connection with any grant or payment made to a Participant or any other person under this Plan, or is requested by a Participant to withhold additional amounts with respect to such taxes, it will be a condition to the receipt of such payment that the Participant or such other person make arrangements satisfactory to the Company for the payment of balance of the such taxes required or requested to be withheld, which arrangements in the discretion the Committee may include the relinquishment of a portion of each person's vested Phantom Units.

10. Rule 16b-3. It is intended that the Plan and any Phantom Unit grant to a person subject to Section 16 of the Securities and Exchange Act of 1934 meet all of the requirements of Rule 16b-3. If any provision of the Plan or any such grant would disqualify the Plan or such grant under, or would otherwise not comply with, Rule 16b-3, such provision or grant shall be construed or deemed amended to conform to Rule 16b-3.

11. Investment Representation. Unless the Units subject to the Phantom Units granted under the Plan have been registered under the Securities Act of 1933, as amended (the "1933 Act"), and (and, in the case of any Participant who may be deemed an affiliate (for securities law

purposes) of the Company or Partnership, such Units have been registered under the 1933 Act for resale by such Participant, (or the Partnership has determined that an exemption from registration is available), the Company may require prior to and as a condition of the delivery of any Units that the person vesting under a Phantom Unit hereunder furnish the Company with a written representation in a form prescribed by the Committee to the effect that such person is acquiring said Units solely with a view to investment for his or her own account and not with a view to the resale or distribution of all or any part thereof, and that such person will not dispose of any of such Units otherwise than in accordance with the provisions of Rule 144 under the 1933 Act unless and until either the Units are registered under the 1933 Act or the Company is satisfied that an exemption from such registration is available.

12. Compliance with Securities Laws. Notwithstanding anything herein or in any other agreement to the contrary, the Partnership shall not be obligated to sell or issue any Units to the Company under the Plan unless and until the Partnership is satisfied that such sale or issuance complies with (i) all applicable requirements of the securities exchange on which the Units are traded (or the governing body of the principal market in which such Units are traded, if such Units are not then listed on an exchange), (ii) all applicable provisions of the 1933 Act, and (iii) all other laws or regulations by which the Partnership is bound or to which the Partnership is subject. The Company acknowledges that, as the general partner of the Partnership, it is an affiliate of the Partnership under securities laws and it shall comply with such laws and obligations of the Partnership relating thereto as if they were directly applicable to the Company.

13. Administration of the Plan. (a) This Plan will be administered by a Committee, which at all times will consist entirely of not less than three Directors appointed by the Board, each of whom will be a "disinterested person" within the meaning of Rule 16b-3. A majority of the Committee will constitute a quorum, and the action of the members the Committee present at any meeting at which a quorum is present, or acts unanimously approved in writing, will be the acts of the Committee.

(b) Subject to the terms of the Plan and applicable law, the Committee shall have the sole power, authority and discretion to: (i) designate the Employees who are to be participants; (ii) determine the number of Phantom Units to be granted to an Employee; (iii) determine the terms and conditions of any grant of Phantom Units to an Employee; (iv) interpret, construe and administer the Plan and any instrument or agreement relating to Phantom Units granted under the Plan; (v) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; (vi) make a determination as to the right of any person to receive payment of (or with respect to) Phantom Units; and (vii) make any other determinations and take any other actions that the Committee deems necessary or desirable for the administration of the Plan.

(c) The Committee may correct any defect, supply any omission, or reconcile any inconsistency in the Plan or any Phantom Unit grant in the manner and to the extent it shall deem desirable in the establishment or administration of the Plan.

14. Amendments, Termination, Etc. (a) This Plan may be amended from time to time by the Board; provided, however, during the Subordination Period (the time prior to conversion of

the Partnership's Subordinated Units into Units, which conversion occurred in July of 2001), no amendment will be made without the approval of a majority of the Unitholders that would (i) increase the total number of Units available for grants under the Plan; (ii) change the class of individuals eligible to receive grants; (iii) extend the maximum period during which Phantom Units may be granted under the Plan; (iv) materially increase the cost of the Plan to the Partnership; or (v) result in this Plan no longer satisfying the requirements of Rule 16b-3. Further, the provisions of Paragraph 5 may not be amended more than once every six months other than to comport with changes in the Internal Revenue Code, the Employee Retirement Income Security Act of 1974, as amended, or the rule thereunder.

(b) This Plan will not confer upon any Participant any right with respect to continuance of employment or other service with the Company, any Subsidiary or Affiliate or the Partnership, nor will it interfere in any way with any right to Company, Subsidiary, any Affiliate or the Partnership would otherwise have to terminate such Participant's employment or other service at any time.

(c) No grants may be made under the Plan following the 10th anniversary of its original effective date; however, the Board in its discretion may terminate the Plan at any earlier time with respect to any Units for which a grant has not theretofore been made.

15. Governing Law. The validity, construction and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with applicable Federal law, and to the extent not preempted thereby, with the laws of the State of Delaware.

16. Replacement. This Plan is an amendment and restatement and replacement of the Heritage Holdings, Inc. Amended and Restated Restricted Unit Plan approved as of August 10, 2000, which is hereby replaced in its entirety as approved as of the 4th day of February, 2002.

CONSENT TO ASSIGNMENT OF EMPLOYMENT AGREEMENT

Pursuant to Section 7.5 of the Employment Agreement dated as of August 10, 2000, between Heritage Holdings, Inc., a Delaware corporation ("Heritage"), and the undersigned (the "Employee"), the undersigned Employee does hereby consent and agree to (i) the assignment of said Employment Agreement by Heritage to U.S. Propane, L.P., a Delaware limited partnership ("U.S. Propane"), and U.S. Propane's assumption of the duties and responsibilities of Heritage arising under said Employment Agreement.

DATED as of February 3, 2002.

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James E. Bertlesmeyer

CONSENT TO ASSIGNMENT OF EMPLOYMENT AGREEMENT

Pursuant to Section 7.5 of the Employment Agreement dated as of August 10, 2000, between Heritage Holdings, Inc., a Delaware corporation ("Heritage"), and the undersigned (the "Employee"), the undersigned Employee does hereby consent and agree to (i) the assignment of said Employment Agreement by Heritage to U.S. Propane, L.P., a Delaware limited partnership ("U.S. Propane"), and U.S. Propane's assumption of the duties and responsibilities of Heritage arising under said Employment Agreement.

DATED as of February 3, 2002.

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R.C. Mills

CONSENT TO ASSIGNMENT OF EMPLOYMENT AGREEMENT

Pursuant to Section 7.5 of the Employment Agreement dated as of August 10, 2000, between Heritage Holdings, Inc., a Delaware corporation ("Heritage"), and the undersigned (the "Employee"), the undersigned Employee does hereby consent and agree to (i) the assignment of said Employment Agreement by Heritage to U.S. Propane, L.P., a Delaware limited partnership ("U.S. Propane"), and U.S. Propane's assumption of the duties and responsibilities of Heritage arising under said Employment Agreement.

DATED as of February 3, 2002.

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Larry J. Dagley



CONSENT TO ASSIGNMENT OF EMPLOYMENT AGREEMENT

Pursuant to Section 7.5 of the Employment Agreement dated as of August 10, 2000, between Heritage Holdings, Inc., a Delaware corporation ("Heritage"), and the undersigned (the "Employee"), the undersigned Employee does hereby consent and agree to (i) the assignment of said Employment Agreement by Heritage to U.S. Propane, L.P., a Delaware limited partnership ("U.S. Propane"), and U.S. Propane's assumption of the duties and responsibilities of Heritage arising under said Employment Agreement.

DATED as of February 3, 2002.

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H. Michael Krimbill

CONSENT TO ASSIGNMENT OF EMPLOYMENT AGREEMENT

Pursuant to Section 7.5 of the Employment Agreement dated as of August 10, 2000, between Heritage Holdings, Inc., a Delaware corporation ("Heritage"), and the undersigned (the "Employee"), the undersigned Employee does hereby consent and agree to (i) the assignment of said Employment Agreement by Heritage to U.S. Propane, L.P., a Delaware limited partnership ("U.S. Propane"), and U.S. Propane's assumption of the duties and responsibilities of Heritage arising under said Employment Agreement.

DATED as of February 3, 2002.

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Bradley K. Atkinson

CONSENT TO ASSIGNMENT OF EMPLOYMENT AGREEMENT

Pursuant to Section 7.5 of the Employment Agreement dated as of August 10, 2000, between Heritage Holdings, Inc., a Delaware corporation ("Heritage"), and the undersigned (the "Employee"), the undersigned Employee does hereby consent and agree to (i) the assignment of said Employment Agreement by Heritage to U.S. Propane, L.P., a Delaware limited partnership ("U.S. Propane"), and U.S. Propane's assumption of the duties and responsibilities of Heritage arising under said Employment Agreement.

DATED as of February 3, 2002.

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Mark A. Darr

CONSENT TO ASSIGNMENT OF EMPLOYMENT AGREEMENT

Pursuant to Section 7.5 of the Employment Agreement dated as of August 10, 2000, between Heritage Holdings, Inc., a Delaware corporation ("Heritage"), and the undersigned (the "Employee"), the undersigned Employee does hereby consent and agree to (i) the assignment of said Employment Agreement by Heritage to U.S. Propane, L.P., a Delaware limited partnership ("U.S. Propane"), and U.S. Propane's assumption of the duties and responsibilities of Heritage arising under said Employment Agreement.

DATED as of February 3, 2002.

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Thomas H. Rose

CONSENT TO ASSIGNMENT OF EMPLOYMENT AGREEMENT

Pursuant to Section 7.5 of the Employment Agreement dated as of August 10, 2000, between Heritage Holdings, Inc., a Delaware corporation ("Heritage"), and the undersigned (the "Employee"), the undersigned Employee does hereby consent and agree to (i) the assignment of said Employment Agreement by Heritage to U.S. Propane, L.P., a Delaware limited partnership ("U.S. Propane"), and U.S. Propane's assumption of the duties and responsibilities of Heritage arising under said Employment Agreement.

DATED as of February 3, 2002.

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Curtis L. Weishahn

ASSIGNMENT, CONVEYANCE AND ASSUMPTION AGREEMENT  
(HPP)

This Assignment, Conveyance and Assumption Agreement, dated as of February 4 2002, is entered into by and among U.S. PROPANE, L.P., a Delaware limited partnership (the "Partnership") and HERITAGE HOLDINGS, INC., a Delaware corporation (the "Company").

RECITALS

WHEREAS, the Company was heretofore the general partner of each of Heritage Propane Partners, L.P. ("HPP") and Heritage Operating, L.P. ("HOP"), both Delaware limited partnerships (HPP and HOP are collectively the "Limited Partnerships") and the Partnership is the new general partner of the Limited Partnerships pursuant to Amendment No. 4 to the Amended and Restated Agreement of Limited Partnership of HPP and Amendment No. 2 to the Amended and Restated Agreement of Limited Partnership of HOP; and

WHEREAS, pursuant to the terms hereof the Company has agreed to assign and transfer to the Partnership all of the Contracts in accordance with the terms hereof.

NOW THEREFORE, in consideration of their mutual undertakings and agreements hereunder; the parties to this Agreement undertake and agree as follows:

ARTICLE I  
DEFINITIONS

The following capitalized terms shall have the meanings given below.

"Agreement" means this Assignment, Conveyance and Assumption Agreement.

"Contracts" means all of the contracts, permits, understandings, relationships, and other agreements entered into by the Company in its capacity as the general partner of the Limited Partnerships or for the benefit of the Limited Partnerships for the operation and support of the

Business, of every kind, character and description, whether written or oral, whether accrued or contingent, and however evidenced or memorialized, including, but not limited to:

(a) all rights in real property or personal property arising under leases, easements or other contracts or arrangements;

(b) all agreements for, or relating to, storage tanks, motor vehicles, trailers, tanks, railcars, and related equipment, whether owned or leased;

(c) every contract, agreement, arrangement, grant, trust or other arrangement or understanding of any kind;

(d) any and all right, claims and causes of action that the Company may have under warranties, insurance policies or otherwise against any person or property, whether known or unknown, accrued or contingent, and whether or not reflected on the books and records of the Company insofar as any of the same relate to the Business;

(e) every right to sell or distribute any product or service;

(f) all know-how, every trade secret, every customer list and all other confidential information of every kind;

(g) every customer relationship, employee relationship, supplier relationship and other relationship of any kind;

(h) every business conducted prior to the Effective Time;

(i) every other proprietary right of any kind;

(j) all governmental licenses, permits and authorizations of every kind;

(k) copies of all of the books, records, papers and instruments of the Company relating to the Business, of whatever nature and wherever located, including without limitation, accounting and financial records, documentation related to the Business,

customer correspondence, sales records, credit reports and other data relating to the Business;

(l) any and all monies, rents, revenues, accounts receivable or other proceeds receivable or owing to the Company as it relates to the Business;

(m) all deposits, prepayments and prepaid expenses;

(n) all unbilled receivables;

(o) all stock, partnership or other equity interests in any entity as the same relates to the Business;

(p) all trade names, trademarks, service marks, logos, marks and symbols of any kind, together with all goodwill associated therewith and all other trade names, trademarks and service marks;

(q) all rights, benefits, privileges and appurtenances pertaining to any of the foregoing; excluding however, any of such assets that constitute Excluded Assets.

"Assumed Liabilities" means all of the Company's liabilities arising from or relating to the Business arising under the Contracts, as of the Effective Time, of every kind, character and description, whether known or unknown, accrued or contingent, and whether or not reflected on the books and records of the Company as of the Effective Time, excluding, however, any of such liabilities that constitute Excluded Liabilities.

"Business" means the operations conducted by the Company as the general partner of Heritage Propane Partners, L.P.

"Company" has the meaning assigned to such term in the opening paragraph of this Agreement.

"Effective Time" means the time that the Partnership becomes the general partner of the Limited Partnerships.



"Excluded Assets" means those assets of the Company described on Schedule 1 hereto.

"Excluded Liabilities" means all of the liabilities described on Schedule 2 hereto.

"Restriction" has the meaning assigned to such term in Section 9.2.

"Restriction-Asset" has the meaning assigned to such term in Section 9.2.

"Specific Conveyances" has the meaning assigned to such term in Section 2.2.

ARTICLE II  
ASSIGNMENT TO THE PARTNERSHIP

2.1 Assignment. The Company, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, hereby grants, assigns, transfers and conveys to the Partnership, its successors and assigns, subject to the terms of this Agreement, for its and their own use forever, all right, title and interest in and to the Contracts. The Partnership hereby accepts the Contracts, TO HAVE AND TO HOLD the Contracts unto the Partnership, its successors and assigns, subject, however, to the terms and conditions stated in this Agreement, forever.

2.2 Specific Transfers. To further evidence this assignment and more fully and effectively convey record title with respect to any real property included in the Contracts (if any), the Company will execute and deliver to the Partnership such other documents as may be necessary to effect the purposes of this Agreement (a "Specific Conveyance"). Any Specific Conveyance is not intended to modify, and shall not modify, any of the terms, covenants and conditions herein set forth and is not intended to create, and shall not create, any additional covenants or warranties of or by the Company.

ARTICLE III  
[OMITTED]

ARTICLE IV  
ASSUMPTION OF CERTAIN LIABILITIES

4.1. Assumption of Certain Liabilities by the Partnership. In connection with the assumption and transfer of the Contracts to the Partnership by the Company, the Partnership hereby assumes and agrees to duly and timely pay, perform and discharge the Assumed Liabilities, to the full extent that the Company has been heretofore or would have been in the future were it not for the execution and delivery of this Agreement obligated to pay, perform and discharge the Assumed Liabilities; provided, however, that said assumption and agreement to duly and timely pay, perform and discharge the Assumed Obligations shall not increase the obligation of HOP with respect to the Assumed Liabilities beyond that of the Company, waive any valid defense that was available to the Company with respect to the Assumed Liabilities or enlarge any rights or remedies of any third party under any of the Assumed Liabilities.

ARTICLE V  
INDEMNIFICATION

5.1 Indemnification With Respect to Excluded Liabilities. The Company shall indemnify, defend and hold harmless the Partnership, its their respective officers and directors and their respective successors and assigns, from and against any and all claims, demands, costs, liabilities (including, without limitation, liabilities arising by way of active or passive negligence) and expenses (including court costs and reasonable attorneys' fees) of every kind, character and description, whether known or unknown, accrued or contingent, and whether or not reflected on the books and records of the Company as of the Effective Time, arising from or relating to the Excluded Liabilities.

5.2 Indemnification With Respect to Assumed Liabilities. The Partnership shall indemnify, defend and hold harmless the Company, its officers and directors, its successors and assigns from and against any and all claims, demands, costs, liabilities (including, without

limitation, liabilities arising by way of active or passive negligence) and expenses (including court costs and reasonable attorneys' fees) of every kind, character and description, whether known or unknown, accrued or contingent, and whether or not reflected on the books and records of the Company as of the Effective Time, arising from or relating to the Assumed Liabilities.

ARTICLE VI  
STATUS OF CONTRACTS

6.1 Encumbrances. The assignment of the Contracts made under Section 2.1 is made expressly subject to (a) all recorded and unrecorded liens, encumbrances, agreements, defects, restrictions, adverse claims and all laws, rules, regulations, ordinances, judgments and orders of governmental authorities or tribunals having or asserting jurisdiction over the Contracts of the business and operations conducted thereon or therewith, in each case to the extent the same are valid, enforceable and affect the Contracts, including, without limitation, the Assumed Liabilities and (b) all matters contained in any Specific Conveyance.

6.2 Disclaimer of Warranties; Subrogation.

(a) THE COMPANY IS CONVEYING THE CONTRACTS "AS IS" WITHOUT REPRESENTATION OR WARRANTY, WHETHER EXPRESS, IMPLIED OR STATUTORY (ALL OF WHICH THE COMPANY HEREBY DISCLAIMS), AS TO (i) TITLE, (ii) FITNESS FOR ANY PARTICULAR PURPOSE OR MERCHANTABILITY OR DESIGN OR QUALITY, OR (iii) ANY OTHER MATTER WHATSOEVER. THE PROVISIONS OF THIS SECTION 6.2 HAVE BEEN NEGOTIATED BY THE PARTNERSHIP AND THE COMPANY AFTER DUE CONSIDERATION AND ARE INTENDED TO BE A COMPLETE EXCLUSION AND NEGATION OF ANY REPRESENTATIONS OR WARRANTIES OF THE COMPANY, WHETHER EXPRESS, IMPLIED OR STATUTORY, WITH RESPECT TO THE

ASSETS THAT MAY ARISE PURSUANT TO ANY LAW NOW OR HEREAFTER IN EFFECT, OR OTHERWISE, EXCEPT AS EXPRESSLY SET FORTH HEREIN.

(b) The assignment of the Contracts made under Section 2.1 is made with full rights of substitution and subrogation of the Partnership, and all persons claiming by, through and under the Partnership, to the extent assignable, in and to all covenants and warranties by the predecessors-in-title of the Company, and with full subrogation of all rights accruing under applicable statutes of limitation and all rights of action of warranty against all former owners of the Contracts.

(c) The Company and the Partnership agree that the disclaimers contained in this Section 6.2 are "conspicuous" disclaimers. Any covenants implied by statute or law by the use of the words "grant," "convey," "bargain," "sell," "assign," "transfer," "deliver," or "set over" or any of them or any other words used in this Agreement are hereby expressly disclaimed, waived and negated.

#### ARTICLE VII FURTHER ASSURANCES

7.1 Company Assurances. From time to time after the date hereof, and without any further consideration, the Company shall execute, acknowledge and deliver all such additional assignments, bills of sale, conveyances, instruments, notices, releases, acquittances and other documents, and will do all such other acts and things, all in accordance with applicable law, as may be necessary or appropriate to more fully assure the Partnership, its successors and assigns, all of the properties, rights, interests, estates, remedies, powers and privileges by this Agreement granted to the Partnership or intend so to be.

7.2 Partnership Assurances. From time to time after the date hereof, and without any further consideration, the Partnership shall execute, acknowledge and deliver all such additional

instruments, notices and other documents, and will do all such other acts and things, all in accordance with applicable law, as may be necessary or appropriate to more fully and effectively carry out the purposes and intent of this Agreement.

ARTICLE VIII  
POWER OF ATTORNEY

The Company hereby constitutes and appoints the Partnership, its successors and assigns, its true and lawful attorney-in-fact with full power of substitution for it and in its name, place and stead or otherwise on behalf of the Company, its successors and assigns, and for the benefit of the Partnership, its successors and assigns, to demand and receive from time to time the Contracts and to execute in the name of the Company and its successors and assigns instruments of conveyance, instruments of further assurance and to give receipts and releases in respect of the same, and from time to time to institute and prosecute in the name of the Partnership or the Company for the benefit of the Partnership, HPP or HOP, as may be appropriate, any and all proceedings at law, in equity or otherwise which the Partnership, its successors and assigns may deem proper in order to collect, assert or enforce any claims, rights or titles of any kind in and to the Contracts, and to defend and compromise any and all actions, suits or proceedings in respect of any of the Contracts and to do any and all such acts and things in furtherance of this Agreement as the Partnership, its successors or assigns shall deem advisable. The Company hereby declares that the appointment hereby made and the powers hereby granted are coupled with an interest and are and shall be irrevocable and perpetual and shall not be terminated by any act of the Company, its successors or assigns or by operation of law.

ARTICLE IX  
MISCELLANEOUS

9.1 Effective Time. The assignment of the Contracts to the Partnership shall be effective for all purposes as of the Effective Time.

9.2 Consents; Restriction on Assignment. If there are prohibitions against or conditions to the assignment of one or more portions of the Contracts without the prior written consent of third parties, including, without limitation, governmental agencies (other than consents of a ministerial nature which are normally granted in the ordinary course of business), which is not satisfied would result in a breach of such prohibitions or conditions or would give an outside party the right to terminate the Partnership's rights with respect to such portion of the Contracts (herein called a "Restriction"), then any provision contained in this Agreement to the contrary notwithstanding, the transfer of title to or interest in each such portion of the Contracts (herein called the "Restriction-Asset") pursuant to this Agreement shall not become effective unless and until such Restriction is satisfied, waived or no longer applies. When and if such a Restriction is so satisfied, waived or no longer applies, to the extent permitted by applicable law and any applicable contractual provisions, the assignment of the Restriction-Asset subject thereto shall become effective automatically as of the Effective Time, without further action on the part of the Partnership or the Company. The Company and the Partnership agree to use their best efforts to obtain satisfaction of any Restriction on a timely basis. The description of any portion of the Contracts as a Restriction-Asset shall not be construed as an admission that any Restriction exists with respect to the transfer of such portion of the Contracts. In the event that any Restriction-Asset exists, the Company agrees to hold such Restriction-Asset in trust for the exclusive benefit of the Partnership and to otherwise use its best efforts to provide the Partnership with the benefits thereof, and the Company will enter into other agreements, or take such other action as it deems necessary,

in order to help ensure that the Partnership has the agreements and concomitant rights necessary to enable it to operate under the Contracts assigned to the Partnership in all material respects as they were operated prior to the Effective Time.

9.3 Costs. The Partnership, at the expense of HOP, shall pay all sales, use and similar taxes arising out of the assignments, conveyances and deliveries to be made hereunder, and shall pay all documentary, filing, recording, transfer, deed, and conveyance taxes and fees required in connection therewith. In addition, the Partnership shall be responsible for all costs, liabilities and expenses (including court costs and reasonable attorneys' fees) incurred in connection with the satisfaction or waiver of any Restriction pursuant to Section 9.2.

9.4 Headings; References; Interpretation. All Article and Section headings in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any of the provisions hereof. The words "hereof," "herein," and "hereunder" and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole, including, without limitation, all Schedules and Exhibits attached hereto and not to any particular provision of this Agreement. All references herein to Articles, Sections, Schedules and Exhibits shall, unless the context requires a different construction, be deemed to be references to the Articles and Sections of this Agreement and the Schedules and Exhibits attached hereto, and all such Schedules and Exhibits attached hereto are hereby incorporated herein and made a part hereof for all purposes. All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders, and the singular shall include the plural and vice versa. The use herein of the word "including" following any general statement, term or matter shall not be construed to limit such statement, term or matter to the specific items or matters set forth immediately following such word or to similar items or matters, whether or not non-limited language (such as "without limitation," "but not limited to," or words of similar import) is

used with reference thereto, but rather shall be deemed to refer to all other items or matters that could reasonably fall within the broadest possible scope of such general statement, term or matter.

9.5 Successors and Assigns. The Agreement shall be binding upon and inure to the benefit of the parties signatory hereto and their respective successors and assigns.

9.6 No Third Party Rights. The provisions of this Agreement are intended to bind the parties signatory hereto as to each other and are not intended to and do not create rights in any other person or confer upon any other person any benefits, rights or remedies and no person is or is intended to be a third party beneficiary of any of the provisions of this Agreement.

9.7 Counterparts. This Agreement may be executed in any number of counterparts, in all which together shall constitute one agreement binding on the parties hereto.

9.8 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Oklahoma applicable to contracts made and to be performed wholly within such state without giving effect to conflict of law principles thereof, except to the extent that it is mandatory that the law of such other jurisdiction, wherein the Assets are located, shall apply.

9.9 Severability. If any of the provisions of this Agreement are held by any court of competent jurisdiction to contravene, or to be invalid under, the laws of any political body having jurisdiction over the subject matter hereof, such contravention or invalidity shall not invalidate the entire Agreement. Instead, this Agreement shall be construed as if it did not contain the particular provisions or provisions held to be invalid, and an equitable adjustment shall be made and necessary provisions added so as to give effect to the intention of the parties as expressed in this Agreement at the time of execution of this Agreement.

9.10. Deed; Bill of Sale; Assignment. To the extent required by applicable law, this Agreement shall also constitute a "deed," "bill of sale" or "assignment" of the Assets.



9.11. Amendment or Modification. This Agreement may be amended or modified from time to time only by the written agreement of all the parties hereto. Each such instrument shall be reduced to writing and shall be designated on its face an "Amendment" to this Agreement.

9.12. Integration. This Agreement supersedes all previous understandings or agreements between the parties, whether oral or written, with respect to its subject matter. This document is an integrated agreement that contains the entire understanding of the parties. No understanding, representation, promise or agreement, whether oral or written, is intended to be or shall be included in or form part of this Agreement unless it is contained in a written amendment hereto executed by the parties hereto after the date of this Agreement.

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereto as of the date first above written.

HERITAGE HOLDINGS, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

U.S. PROPANE, L.P.

By U.S. Propane, L.L.C., General Partner

By: \_\_\_\_\_  
Title: Vice President  
\_\_\_\_\_

SCHEDULE 1

Excluded Assets

1. All ownership interests in 4,426,916 Common Units of Heritage Propane Partners, L.P.
2. The Company's rights in that certain Indemnification Agreement dated August 10, 2000, with U.S. Propane, L.P.
3. The Company's rights in that certain Indemnification Agreement dated February 4, 2002 with U.S. Propane, L.P.

SCHEDULE 2

Excluded Liabilities

1. The Company's liabilities, if any, arising under the Indemnification Agreement dated August 10, 2000 with U.S. Propane, L.P.
2. The Company's liabilities arising under the Indemnification Agreement dated February 4, 2002 with U.S. Propane, L.P.

ASSIGNMENT, CONVEYANCE AND ASSUMPTION AGREEMENT  
(OPERATING)

This Assignment, Conveyance and Assumption Agreement, dated as of February 4 2002, is entered into by and among U.S. PROPANE, L.P., a Delaware limited partnership (the "Partnership") and HERITAGE HOLDINGS, INC., a Delaware corporation (the "Company").

RECITALS

WHEREAS, the Company was heretofore the general partner of each of Heritage Propane Partners, L.P. ("HPP") and Heritage Operating, L.P. ("HOP"), both Delaware limited partnerships (HPP and HOP are collectively the "Limited Partnerships") and the Partnership is the new general partner of the Limited Partnerships pursuant to Amendment No. 4 to the Amended and Restated Agreement of Limited Partnership of HPP and Amendment No. 2 to the Amended and Restated Agreement of Limited Partnership of HOP; and

WHEREAS, pursuant to the terms hereof the Company has agreed to assign and transfer to the Partnership all of the Contracts in accordance with the terms hereof.

NOW THEREFORE, in consideration of their mutual undertakings and agreements hereunder; the parties to this Agreement undertake and agree as follows:

ARTICLE I  
DEFINITIONS

The following capitalized terms shall have the meanings given below.

"Agreement" means this Assignment, Conveyance and Assumption Agreement.

"Contracts" means all of the contracts, permits, understandings, relationships, and other agreements entered into by the Company in its capacity as the general partner of the Limited Partnerships or for the benefit of the Limited Partnerships for the operation and support of the

Business, of every kind, character and description, whether written or oral, whether accrued or contingent, and however evidenced or memorialized, including, but not limited to:

(a) all rights in real property or personal property arising under leases, easements or other contracts or arrangements;

(b) all agreements for, or relating to, storage tanks, motor vehicles, trailers, tanks, railcars, and related equipment, whether owned or leased;

(c) every contract, agreement, arrangement, grant, trust or other arrangement or understanding of any kind;

(d) any and all right, claims and causes of action that the Company may have under warranties, insurance policies or otherwise against any person or property, whether known or unknown, accrued or contingent, and whether or not reflected on the books and records of the Company insofar as any of the same relate to the Business;

(e) every right to sell or distribute any product or service;

(f) all know-how, every trade secret, every customer list and all other confidential information of every kind;

(g) every customer relationship, employee relationship, supplier relationship and other relationship of any kind;

(h) every business conducted prior to the Effective Time;

(i) every other proprietary right of any kind;

(j) all governmental licenses, permits and authorizations of every kind;

(k) copies of all of the books, records, papers and instruments of the Company relating to the Business, of whatever nature and wherever located, including without limitation, accounting and financial records, documentation related to the Business,

customer correspondence, sales records, credit reports and other data relating to the Business;

(l) any and all monies, rents, revenues, accounts receivable or other proceeds receivable or owing to the Company as it relates to the Business;

(m) all deposits, prepayments and prepaid expenses;

(n) all unbilled receivables;

(o) all stock, partnership or other equity interests in any entity as the same relates to the Business;

(p) all trade names, trademarks, service marks, logos, marks and symbols of any kind, together with all goodwill associated therewith and all other trade names, trademarks and service marks;

(q) all rights, benefits, privileges and appurtenances pertaining to any of the foregoing; excluding however, any of such assets that constitute Excluded Assets.

"Assumed Liabilities" means all of the Company's liabilities arising from or relating to the Business arising under the Contracts, as of the Effective Time, of every kind, character and description, whether known or unknown, accrued or contingent, and whether or not reflected on the books and records of the Company as of the Effective Time, excluding, however, any of such liabilities that constitute Excluded Liabilities.

"Business" means the operations conducted by the Company as the general partner of Heritage Operating, L.P.

"Company" has the meaning assigned to such term in the opening paragraph of this Agreement.

"Effective Time" means the time that the Partnership becomes the general partner of the Limited Partnerships.

"Excluded Assets" means those assets of the Company described on Schedule 1 hereto.

"Excluded Liabilities" means all of the liabilities described on Schedule 2 hereto.

"Restriction" has the meaning assigned to such term in Section 9.2.

"Restriction-Asset" has the meaning assigned to such term in Section 9.2.

"Specific Conveyances" has the meaning assigned to such term in Section 2.2.

ARTICLE II  
ASSIGNMENT TO THE PARTNERSHIP

2.1 Assignment. The Company, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, hereby grants, assigns, transfers and conveys to the Partnership, its successors and assigns, subject to the terms of this Agreement, for its and their own use forever, all right, title and interest in and to the Contracts. The Partnership hereby accepts the Contracts, TO HAVE AND TO HOLD the Contracts unto the Partnership, its successors and assigns, subject, however, to the terms and conditions stated in this Agreement, forever.

2.2 Specific Transfers. To further evidence this assignment and more fully and effectively convey record title with respect to any real property included in the Contracts (if any), the Company will execute and deliver to the Partnership such other documents as may be necessary to effect the purposes of this Agreement (a "Specific Conveyance"). Any Specific Conveyance is not intended to modify, and shall not modify, any of the terms, covenants and conditions herein set forth and is not intended to create, and shall not create, any additional covenants or warranties of or by the Company.

ARTICLE III  
[OMITTED]

ARTICLE IV  
ASSUMPTION OF CERTAIN LIABILITIES

4.1. Assumption of Certain Liabilities by the Partnership. In connection with the assumption and transfer of the Contracts to the Partnership by the Company, the Partnership hereby assumes and agrees to duly and timely pay, perform and discharge the Assumed Liabilities, to the full extent that the Company has been heretofore or would have been in the future were it not for the execution and delivery of this Agreement obligated to pay, perform and discharge the Assumed Liabilities; provided, however, that said assumption and agreement to duly and timely pay, perform and discharge the Assumed Obligations shall not increase the obligation of HOP with respect to the Assumed Liabilities beyond that of the Company, waive any valid defense that was available to the Company with respect to the Assumed Liabilities or enlarge any rights or remedies of any third party under any of the Assumed Liabilities.

ARTICLE V  
INDEMNIFICATION

5.1 Indemnification With Respect to Excluded Liabilities. The Company shall indemnify, defend and hold harmless the Partnership, its their respective officers and directors and their respective successors and assigns, from and against any and all claims, demands, costs, liabilities (including, without limitation, liabilities arising by way of active or passive negligence) and expenses (including court costs and reasonable attorneys' fees) of every kind, character and description, whether known or unknown, accrued or contingent, and whether or not reflected on the books and records of the Company as of the Effective Time, arising from or relating to the Excluded Liabilities.

5.2 Indemnification With Respect to Assumed Liabilities. The Partnership shall indemnify, defend and hold harmless the Company, its officers and directors, its successors and assigns from and against any and all claims, demands, costs, liabilities (including, without



limitation, liabilities arising by way of active or passive negligence) and expenses (including court costs and reasonable attorneys' fees) of every kind, character and description, whether known or unknown, accrued or contingent, and whether or not reflected on the books and records of the Company as of the Effective Time, arising from or relating to the Assumed Liabilities.

ARTICLE VI  
STATUS OF CONTRACTS

6.1 Encumbrances. The assignment of the Contracts made under Section 2.1 is made expressly subject to (a) all recorded and unrecorded liens, encumbrances, agreements, defects, restrictions, adverse claims and all laws, rules, regulations, ordinances, judgments and orders of governmental authorities or tribunals having or asserting jurisdiction over the Contracts of the business and operations conducted thereon or therewith, in each case to the extent the same are valid, enforceable and affect the Contracts, including, without limitation, the Assumed Liabilities and (b) all matters contained in any Specific Conveyance.

6.2 Disclaimer of Warranties; Subrogation.

(a) THE COMPANY IS CONVEYING THE CONTRACTS "AS IS" WITHOUT REPRESENTATION OR WARRANTY, WHETHER EXPRESS, IMPLIED OR STATUTORY (ALL OF WHICH THE COMPANY HEREBY DISCLAIMS), AS TO (i) TITLE, (ii) FITNESS FOR ANY PARTICULAR PURPOSE OR MERCHANTABILITY OR DESIGN OR QUALITY, OR (iii) ANY OTHER MATTER WHATSOEVER. THE PROVISIONS OF THIS SECTION 6.2 HAVE BEEN NEGOTIATED BY THE PARTNERSHIP AND THE COMPANY AFTER DUE CONSIDERATION AND ARE INTENDED TO BE A COMPLETE EXCLUSION AND NEGATION OF ANY REPRESENTATIONS OR WARRANTIES OF THE COMPANY, WHETHER EXPRESS, IMPLIED OR STATUTORY, WITH RESPECT TO THE

ASSETS THAT MAY ARISE PURSUANT TO ANY LAW NOW OR HEREAFTER IN EFFECT, OR OTHERWISE, EXCEPT AS EXPRESSLY SET FORTH HEREIN.

(b) The assignment of the Contracts made under Section 2.1 is made with full rights of substitution and subrogation of the Partnership, and all persons claiming by, through and under the Partnership, to the extent assignable, in and to all covenants and warranties by the predecessors-in-title of the Company, and with full subrogation of all rights accruing under applicable statutes of limitation and all rights of action of warranty against all former owners of the Contracts.

(c) The Company and the Partnership agree that the disclaimers contained in this Section 6.2 are "conspicuous" disclaimers. Any covenants implied by statute or law by the use of the words "grant," "convey," "bargain," "sell," "assign," "transfer," "deliver," or "set over" or any of them or any other words used in this Agreement are hereby expressly disclaimed, waived and negated.

#### ARTICLE VII FURTHER ASSURANCES

7.1 Company Assurances. From time to time after the date hereof, and without any further consideration, the Company shall execute, acknowledge and deliver all such additional assignments, bills of sale, conveyances, instruments, notices, releases, acquittances and other documents, and will do all such other acts and things, all in accordance with applicable law, as may be necessary or appropriate to more fully assure the Partnership, its successors and assigns, all of the properties, rights, interests, estates, remedies, powers and privileges by this Agreement granted to the Partnership or intend so to be.

7.2 Partnership Assurances. From time to time after the date hereof, and without any further consideration, the Partnership shall execute, acknowledge and deliver all such additional

instruments, notices and other documents, and will do all such other acts and things, all in accordance with applicable law, as may be necessary or appropriate to more fully and effectively carry out the purposes and intent of this Agreement.

ARTICLE VIII  
POWER OF ATTORNEY

The Company hereby constitutes and appoints the Partnership, its successors and assigns, its true and lawful attorney-in-fact with full power of substitution for it and in its name, place and stead or otherwise on behalf of the Company, its successors and assigns, and for the benefit of the Partnership, its successors and assigns, to demand and receive from time to time the Contracts and to execute in the name of the Company and its successors and assigns instruments of conveyance, instruments of further assurance and to give receipts and releases in respect of the same, and from time to time to institute and prosecute in the name of the Partnership or the Company for the benefit of the Partnership, HPP or HOP, as may be appropriate, any and all proceedings at law, in equity or otherwise which the Partnership, its successors and assigns may deem proper in order to collect, assert or enforce any claims, rights or titles of any kind in and to the Contracts, and to defend and compromise any and all actions, suits or proceedings in respect of any of the Contracts and to do any and all such acts and things in furtherance of this Agreement as the Partnership, its successors or assigns shall deem advisable. The Company hereby declares that the appointment hereby made and the powers hereby granted are coupled with an interest and are and shall be irrevocable and perpetual and shall not be terminated by any act of the Company, its successors or assigns or by operation of law.

ARTICLE IX  
MISCELLANEOUS

9.1 Effective Time. The assignment of the Contracts to the Partnership shall be effective for all purposes as of the Effective Time.

9.2 Consents; Restriction on Assignment. If there are prohibitions against or conditions to the assignment of one or more portions of the Contracts without the prior written consent of third parties, including, without limitation, governmental agencies (other than consents of a ministerial nature which are normally granted in the ordinary course of business), which is not satisfied would result in a breach of such prohibitions or conditions or would give an outside party the right to terminate the Partnership's rights with respect to such portion of the Contracts (herein called a "Restriction"), then any provision contained in this Agreement to the contrary notwithstanding, the transfer of title to or interest in each such portion of the Contracts (herein called the "Restriction-Asset") pursuant to this Agreement shall not become effective unless and until such Restriction is satisfied, waived or no longer applies. When and if such a Restriction is so satisfied, waived or no longer applies, to the extent permitted by applicable law and any applicable contractual provisions, the assignment of the Restriction-Asset subject thereto shall become effective automatically as of the Effective Time, without further action on the part of the Partnership or the Company. The Company and the Partnership agree to use their best efforts to obtain satisfaction of any Restriction on a timely basis. The description of any portion of the Contracts as a Restriction-Asset shall not be construed as an admission that any Restriction exists with respect to the transfer of such portion of the Contracts. In the event that any Restriction-Asset exists, the Company agrees to hold such Restriction-Asset in trust for the exclusive benefit of the Partnership and to otherwise use its best efforts to provide the Partnership with the benefits thereof, and the Company will enter into other agreements, or take such other action as it deems necessary,

in order to help ensure that the Partnership has the agreements and concomitant rights necessary to enable it to operate under the Contracts assigned to the Partnership in all material respects as they were operated prior to the Effective Time.

9.3 Costs. The Partnership, at the expense of HOP, shall pay all sales, use and similar taxes arising out of the assignments, conveyances and deliveries to be made hereunder, and shall pay all documentary, filing, recording, transfer, deed, and conveyance taxes and fees required in connection therewith. In addition, the Partnership shall be responsible for all costs, liabilities and expenses (including court costs and reasonable attorneys' fees) incurred in connection with the satisfaction or waiver of any Restriction pursuant to Section 9.2.

9.4 Headings; References; Interpretation. All Article and Section headings in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any of the provisions hereof. The words "hereof," "herein," and "hereunder" and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole, including, without limitation, all Schedules and Exhibits attached hereto and not to any particular provision of this Agreement. All references herein to Articles, Sections, Schedules and Exhibits shall, unless the context requires a different construction, be deemed to be references to the Articles and Sections of this Agreement and the Schedules and Exhibits attached hereto, and all such Schedules and Exhibits attached hereto are hereby incorporated herein and made a part hereof for all purposes. All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders, and the singular shall include the plural and vice versa. The use herein of the word "including" following any general statement, term or matter shall not be construed to limit such statement, term or matter to the specific items or matters set forth immediately following such word or to similar items or matters, whether or not non-limited language (such as "without limitation," "but not limited to," or words or similar import) is

used with reference thereto, but rather shall be deemed to refer to all other items or matters that could reasonably fall within the broadest possible scope of such general statement, term or matter.

9.5 Successors and Assigns. The Agreement shall be binding upon and inure to the benefit of the parties signatory hereto and their respective successors and assigns.

9.6 No Third Party Rights. The provisions of this Agreement are intended to bind the parties signatory hereto as to each other and are not intended to and do not create rights in any other person or confer upon any other person any benefits, rights or remedies and no person is or is intended to be a third party beneficiary of any of the provisions of this Agreement.

9.7 Counterparts. This Agreement may be executed in any number of counterparts, in all which together shall constitute one agreement binding on the parties hereto.

9.8 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Oklahoma applicable to contracts made and to be performed wholly within such state without giving effect to conflict of law principles thereof, except to the extent that it is mandatory that the law of such other jurisdiction, wherein the Assets are located, shall apply.

9.9 Severability. If any of the provisions of this Agreement are held by any court of competent jurisdiction to contravene, or to be invalid under, the laws of any political body having jurisdiction over the subject matter hereof, such contravention or invalidity shall not invalidate the entire Agreement. Instead, this Agreement shall be construed as if it did not contain the particular provisions or provisions held to be invalid, and an equitable adjustment shall be made and necessary provisions added so as to give effect to the intention of the parties as expressed in this Agreement at the time of execution of this Agreement.

9.10. Deed; Bill of Sale; Assignment. To the extent required by applicable law, this Agreement shall also constitute a "deed," "bill of sale" or "assignment" of the Assets.

9.11. Amendment or Modification. This Agreement may be amended or modified from time to time only by the written agreement of all the parties hereto. Each such instrument shall be reduced to writing and shall be designated on its face an "Amendment" to this Agreement.

9.12. Integration. This Agreement supersedes all previous understandings or agreements between the parties, whether oral or written, with respect to its subject matter. This document is an integrated agreement that contains the entire understanding of the parties. No understanding, representation, promise or agreement, whether oral or written, is intended to be or shall be included in or form part of this Agreement unless it is contained in a written amendment hereto executed by the parties hereto after the date of this Agreement.

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereto as of the date first above written.

HERITAGE HOLDINGS, INC.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

U.S. PROPANE, L.P.

By U.S. Propane, L.L.C., General Partner

By: \_\_\_\_\_

Title: Vice President  
\_\_\_\_\_

SCHEDULE 1

Excluded Assets

1. All ownership interests in 4,426,916 Common Units of Heritage Propane Partners, L.P.
2. The Company's rights in that certain Indemnification Agreement dated August 10, 2000, with U.S. Propane, L.P.
3. The Company's rights in that certain Indemnification Agreement dated February 4, 2002 with U.S. Propane, L.P.



SCHEDULE 2

Excluded Liabilities

1. The Company's liabilities, if any, arising under the Indemnification Agreement dated August 10, 2000 with U.S. Propane, L.P.
2. The Company's liabilities arising under the Indemnification Agreement dated February 4, 2002 with U.S. Propane, L.P.