FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

FOR THE QUARTERLY PERIOD ENDED MAY 31, 2001

OR

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

FOR THE TRANSITION PERIOD FROM __________ to __________

COMMISSION FILE NUMBER 1-11727

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes x No

At July 6, 2001, the registrant had units outstanding as follows:

Heritage Propane Partners, L.P.	11,655,667	Common Units
	1,382,514	Class B Subordinated Units

FORM 10-Q

HERITAGE PROPANE PARTNERS, L.P.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)

	May 31, 2001 (unaudited)	August 31, 2000
ASSETS		
CURRENT ASSETS:		
Cash	$ 4,471	$ 4,845
Marketable securities	6,980	--
Accounts receivable, net of allowance for doubtful accounts of $1,919 and $0, respectively	44,398	31,855
Inventories	45,403	39,045
Assets from liquids marketing	2,746	4,133
Prepaid expenses and other	1,594	4,991
Total current assets	105,592	84,869
PROPERTY, PLANT AND EQUIPMENT, net	371,499	339,366
INVESTMENT IN AFFILIATES	7,232	5,795
INTANGIBLES AND OTHER ASSETS, net	192,080	185,749
Total assets	$ 676,403	$ 615,779
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Working capital facility	$ --	$ 24,200
Accounts payable	37,044	43,244
Accounts payable to related companies	9,028	3,814
Accrued and other current liabilities	25,729	24,682
Liabilities from liquids marketing	2,438	3,684
Current maturities of long-term debt	3,577	2,588
Total current liabilities	77,816	102,212
LONG-TERM DEBT, less current maturities	430,828	361,990
MINORITY INTEREST	5,203	4,821
COMMITMENTS AND CONTINGENCIES		
Total liabilities	513,847	469,023
PARTNERS' CAPITAL:		
Common unitholders (9,804,196 and 9,674,146 units issued and outstanding at May 31, 2001 and August 31, 2000, respectively)	120,282	106,221
Subordinated unitholders (1,851,471 units issued and outstanding at May 31, 2001 and August 31, 2000)	25,464	23,130
Class B subordinated unitholders (1,382,514 units issued and outstanding at May 31, 2001 and August 31, 2000)	18,207	16,464
General partner	1,341	941
Accumulated other comprehensive loss	(2,738)	--
Total partners' capital	162,556	146,756
Total liabilities and partners' capital	$ 676,403	$ 615,779

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 May 31, 2001	Three Months Ended June 30, 2000	Three Months Ended May 31, 2000	Nine Months Ended May 31, 2001	Nine Months Ended June 30, 2000	Nine Months Ended May 31, 2000
		Peoples Gas	Predecessor Heritage		Peoples Gas	Predecessor Heritage
REVENUES:						
Retail fuel	$ 87,254	$ 9,287	$ 42,624	$ 386,235	$ 33,797	$ 162,143
Wholesale fuel	10,199	--	8,895	52,948	--	28,623
Liquids marketing	26,073	--	--	152,155	--	--
Other	8,627	--	5,705	33,419	--	20,508
Total revenues	132,153	9,287	57,224	624,757	33,797	211,274
COSTS AND EXPENSES:						
Cost of products sold	59,835	5,273	32,896	268,480	18,351	119,577
Liquids marketing	26,019	--	--	150,265	--	--
Operating expenses	28,902	3,600	15,092	96,008	10,477	45,689
Depreciation and amortization	10,499	857	4,888	30,322	2,444	13,624
Selling, general and administrative	4,422	--	1,616	14,003	--	4,969
Total costs and expenses	129,677	9,730	54,492	559,078	31,272	183,859
OPERATING INCOME(LOSS)	2,476	(443)	2,732	65,679	2,525	27,415
OTHER INCOME (EXPENSE):						
Interest expense	(8,756)	--	(4,871)	(26,423)	--	(14,094)
Equity in earnings of affiliates	368	--	78	1,568	--	721
Gain on disposal of assets	299	--	44	502	--	419
Other	(281)	67	(114)	(443)	(30)	38
INCOME (LOSS) BEFORE MINORITY INTEREST AND INCOME TAXES	(5,894)	(376)	(2,131)	40,883	2,495	14,499
Minority interest	49	--	(67)	(1,435)	--	(534)
INCOME BEFORE INCOME TAXES	(5,845)	(376)	(2,198)	39,448	2,495	13,965
Income taxes	--	(41)	--	--	1,089	--
NET INCOME (LOSS)	(5,845)	(335)	(2,198)	39,448	1,406	13,965
GENERAL PARTNER'S INTEREST IN NET INCOME (LOSS)	396	(3)	(21)	849	14	140
LIMITED PARTNERS' INTEREST IN NET INCOME (LOSS)	$ (6,241)	$ (332)	$ (2,177)	$ 38,599	$ 1,392	$ 13,825
BASIC NET INCOME (LOSS) PER LIMITED PARTNER UNIT	$ (.48)	$ .00	$ (.22)	$ 2.97	$ .88	$ 1.43
BASIC WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	12,981,442	1,732,271	9,984,297	12,980,606	1,732,271	9,650,928
DILUTED NET INCOME (LOSS) PER LIMITED PARTNER UNIT	$ (.48)	$ .00	$ (.22)	$ 2.97	$ .88	$ 1.42
DILUTED WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	12,981,442	1,732,271	9,984,297	13,011,546	1,732,271	9,725,841

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 May 31, 2001	Three Months Ended June 30, 2000 Peoples Gas	Three Months Ended May 31, 2000 Predecessor Heritage	Nine Months Ended May 31, 2001	Nine Months Ended June 30, 2000 Peoples Gas	Nine Months Ended May 31, 2000 Predecessor Heritage
Net income (loss)	$ (5,845)	$ (335)	$ (2,198)	$ 39,448	$ 1,406	$ 13,965
Other comprehensive income						
Unrealized loss on derivative instruments	(1,060)	--	--	(2,645)	--	--
Unrealized gain (loss) on available-for-sale securities	292	--	3,173	(93)	--	3,173
Comprehensive income (loss)	$ (6,613)	$ (335)	$ 975	$ 36,710	$ 1,406	$ 17,138
RECONCILIATION OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)						
Balance, beginning of period	$ 164	$ --	$ --	$ --	$ --	$ --
Cumulative effect of the adoption of SFAS 133	--	--	--	5,429	--	--
Current period reclassification to earnings	(549)	--	--	(3,844)	--	--
Current period change	(2,353)	--	3,173	(4,323)	--	3,173
Balance, end of period	$ (2,738)	$ --	$ 3,173	$ (2,738)	$ --	$ 3,173

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

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL
(in thousands, except unit data)
(unaudited) For the nine months ended May 31, 2001

	Number of Units					
	Common	Subordinated	Class B Subordinated	Common	Subordinated	Class B Subordinated
BALANCE, AUGUST 31, 2000	9,674,146	1,851,471	1,382,514	$ 106,221	$ 23,130	$ 16,464
Unit distribution	--	--	--	(17,178)	(3,263)	(2,437)
Issuance of Common Units pursuant to the vesting rights of the Restricted Unit Plan	72,050	--	--	--	--	--
Issuance of restricted Common Units in connection with certain acquisitions	58,000	--	--	1,600	--	--
Cumulative effect of the adoption of SFAS 133	--	--	--	--	--	--
Net change in accumulated other comprehensive income per accompanying statements	--	--	--	--	--	--
Other	--	--	--	614	116	87
Net income	--	--	--	29,025	5,481	4,093
BALANCE, MAY 31, 2001	9,804,196	1,851,471	1,382,514	$ 120,282	$ 25,464	$ 18,207

	General Partner	Accumulated Other Comprehensive Income	Total
BALANCE, AUGUST 31, 2000	$ 941	$ --	$ 146,756
Unit distribution	(456)	--	(23,334)
Issuance of Common Units pursuant to the vesting rights of the Restricted Unit Plan	--	--	--
Issuance of restricted Common Units in connection with certain acquisitions	--	--	1,600
Cumulative effect of the adoption of SFAS 133	--	5,429	5,429
Net change in accumulated other comprehensive income per accompanying statements	--	(8,167)	(8,167)
Other	7	--	824
Net income	849	--	39,448
BALANCE, MAY 31, 2001	$ 1,341	$ (2,738)	$ 162,556

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)

	Nine Months Ended May 31, 2001	Nine Months Ended June 30, 2000	Nine Months Ended May 31, 2000
		Peoples Gas	Predecessor Heritage
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 39,448	$ 1,406	$ 13,965
Reconciliation of net income to net cash provided by operating activities-			
Depreciation and amortization	30,322	2,444	13,624
Provision for loss on accounts receivable	2,739	--	193
Gain on disposal of assets	(502)	--	(419)
Deferred compensation on restricted units	825	--	329
Undistributed earnings of affiliates	(1,437)	--	(721)
Minority interest	436	--	253
Deferred income taxes	--	643	--
Unrealized gain on trading securities	--	--	(284)
Changes in assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(10,511)	(859)	(7,659)
Liquids marketing asset	1,387	--	--
Marketable securities	--	--	(2,413)
Inventories	(4,403)	(230)	(1,635)
Prepaid expenses	(2,458)	(13)	(501)
Intangibles and other assets	328	--	(435)
Accounts payable to related parties	5,213	5,044	--
Accounts payable	(5,760)	479	4,349
Liquids marketing liability	(1,247)	--	--
Accrued and other current liabilities	(3,033)	498	1,128
Net cash provided by operating activities	51,347	9,412	19,774
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash paid for acquisitions, net of cash acquired	(48,789)	(3,785)	(46,803)
Capital expenditures	(17,417)	(5,808)	(10,877)
Other	(5,299)	--	734
Net cash used in investing activities	(71,505)	(9,593)	(56,946)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings	251,491	--	126,474
Principal payments on debt	(208,373)	--	(94,897)
Net proceeds from issuance of common units	--	--	24,054
Unit distribution	(23,334)	--	(16,210)
Other	--	584	278
Net cash provided by financing activities	19,784	584	39,699
INCREASE (DECREASE) IN CASH	(374)	403	2,527
CASH, beginning of period	4,845	(392)	1,679
CASH, end of period	$ 4,471	$ 11	$ 4,206
NONCASH FINANCING ACTIVITIES:			
Notes payable incurred on noncompete agreements	$ 2,510	$ --	$ 3,198
Issuance of restricted common units	$ 1,600	$ --	$ 4,064
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for interest	$ 24,412	$ --	$ 12,046
Cash paid to parent for income taxes under tax sharing agreement, net	$ --	$ 1,203	$ --

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 the Partnership's consolidated financial statements as of August 31, 2000, 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, 2000. The accompanying financial statements have been prepared without audit and 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.

In August 2000, TECO Energy, Inc., Atmos Energy Corporation, Piedmont Natural Gas Co., Inc., and AGL Resources, Inc. contributed each company's propane operations, Peoples Gas Company ("Peoples Gas"), United Cities Propane Gas, Inc. ("United Cities"), Piedmont Propane Company ("Piedmont") and AGL Propane, Inc., ("AGL") respectively, to U.S. Propane L.P., ("U.S. Propane") in exchange for equity interests in U.S. Propane. The merger was accounted for as an acquisition using the purchase method of accounting with Peoples Gas being the acquirer. Accordingly, Peoples Gas' assets and liabilities were recorded at historical cost and the assets and liabilities of United Cities, Piedmont and AGL were recorded at fair market value, as determined based on a valuation and appraisal. The purchase allocations were as follows:

Purchase price of Piedmont, AGL and United Cities	$ 112,338
Net book value of Piedmont, AGL and United Cities	82,765
Step-up of net book value, allocated to property, plant and equipment	$ 29,573

In August 2000, U.S. Propane acquired all of the outstanding common stock of Heritage Holdings, Inc., ("General Partner"), the General Partner of Heritage Propane Partners, L.P., for $120,000. By virtue of Heritage Holdings, Inc.'s general partner and limited partner interests in Heritage Propane Partners, L.P., U.S. Propane gained control of Heritage Propane Partners, L.P. Simultaneously, U.S. Propane transferred its propane operations, consisting of its interest in four separate limited liability companies, 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. (former Piedmont operations), (collectively, the "Propane LLCs"), to Heritage Propane Partners, L.P. for $181,395 plus working capital. The $181,395 was payable $139,552 in cash, $31,843 of assumed debt, and the issuance of 372,392 Common Units of Heritage Propane Partners, L.P. valued at $7,348 and a 1.0101 percent limited partnership interest in Heritage Propane Partners, L.P.'s operating partnership, Heritage Operating, L.P., valued at $2,652. The purchase price and the exchange price for the Common Units were approved by an independent committee of the Board of Directors of Heritage Holdings, Inc. The exchange price for the Common Units was $19.73125 per unit under a formula based on the average closing price of Heritage Propane Partners L.P.'s Common Units on the New York Stock Exchange for the twenty (20) day period beginning ten (10) days prior to the public announcement of the transaction on June 15, 2000 (the "Formula Price"). An additional payment of $5,000 was accrued at August 31, 2000 for the working capital adjustment and was paid in March 2001. As of June 2001, payments totaling $11,400 were made for the working capital adjustment and goodwill was adjusted accordingly.

Concurrent with the acquisition, Heritage Propane Partners, L.P. borrowed $180,000 from several institutional investors and sold 1,161,814 Common Units and 1,382,514 Class B Subordinated Units in a private placement to the former shareholders of Heritage Holdings, Inc. based on the Formula Price resulting in net proceeds of $50,203. The total of these proceeds was utilized to finance the transaction and retire a portion of existing debt.

The merger was accounted for as a reverse acquisition in accordance with Accounting Principles Board Opinion No. 16. The propane operations of Heritage Propane Partners, L.P. prior to the series of transactions with U.S. Propane are referred to as Predecessor Heritage. Although Predecessor Heritage is the surviving entity for legal purposes, U.S. Propane's propane operations are the acquirer for accounting purposes. The assets and liabilities of

Predecessor Heritage have been recorded at fair value to the extent acquired by U.S. Propane's propane operations, approximately 36 percent, in accordance with Emerging Issues Task Force Issue No. 90-13, "Accounting for Simultaneous Common Control Mergers." The assets and liabilities of U.S. Propane have been recorded at historical cost, as recorded in the U.S. Propane transaction described above. The combined operations of Predecessor Heritage and U.S. Propane are referred to herein as "Heritage." Although the equity accounts of Peoples Gas survive the merger, Predecessor Heritage's partnership structure and partnership units survive. Accordingly, the equity accounts of Peoples Gas have been restated based on the general partner interest and common units received by Peoples Gas in the merger.

The excess purchase price over Predecessor Heritage's cost was determined as follows:

Net book value of Predecessor Heritage at August 9, 2000	$ 35,716
Equity investment	50,203
	85,919
Percent of Predecessor Heritage acquired by U.S. Propane	36%
Equity interest acquired	$ 30,931
Purchase price	$ 120,000
Equity interest acquired	30,931
Excess purchase price over Predecessor Heritage cost	$ 89,069

The excess purchase price over Predecessor Heritage cost was allocated as follows:

Property, plant and equipment (25 year life)	$ 11,180
Customer lists (15 year life)	5,935
Goodwill (30 year life)	71,954
	$ 89,069

The accompanying financial statements for the three-month and nine-month periods ended May 31, 2001 include the results of operations of Heritage. The financial statements of Peoples Gas are the prior period financial statements of the registrant as Peoples Gas was the acquirer in the transaction in which U.S. Propane was formed. The accompanying financial statements for the three month and nine month periods ended June 30, 2000 have been presented on a carve-out basis and reflect the historical results of operations, and cash flows of Peoples Gas. Certain expenses in the financial statements include allocations from TECO Energy, Inc. ("TECO") and other wholly-owned subsidiaries of TECO. Management believes that the allocations were made on a reasonable basis; however, the allocations of costs and expenses do not necessarily indicate the costs that would have been incurred by Peoples Gas on a stand-alone basis. Also, the financial statements may not necessarily reflect what the financial position, results of operations and cash flows of Peoples Gas would have been if Peoples Gas had been a separate, stand-alone company during the periods presented. Peoples Gas had a fiscal year-end of December 31, however, Heritage adopted Predecessor Heritage's August 31 year-end.

The following unaudited pro forma consolidated results of operations are presented as if the series of transactions with U.S. Propane and Predecessor Heritage had been made at the beginning of the period presented.

	Three months Ended June 30, 2000	Nine months Ended June 30, 2000
Total revenues	$ 74,176	$ 315,616
Net income	$ (14,789)	$ 6,402
Basic and diluted earnings per common unit	$ (1.14)	$ .50

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

In order to simplify Heritage's obligation under the laws of several jurisdictions in which Heritage conducts business, Heritage's activities are conducted through a subsidiary operating partnership, Heritage Operating, L.P. (the "Operating Partnership"). Heritage holds a 97.9798 percent limited partner interest in the Operating Partnership. In addition, the General Partner holds a 1.0101 percent general partner interest and U.S. Propane holds a 1.0101 percent limited partner interest in the Operating Partnership.

The Operating Partnership sells propane and propane-related products to more than 500,000 retail customers in 28 states throughout the United 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. Heritage grants credit to its customers for the purchase of propane and propane-related products.

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

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of Heritage include the accounts of its subsidiaries, including Heritage Operating, L.P. ("Operating Partnership"), M-P Energy Partnership, Heritage Energy Resources, L.L.C. ("Resources") and the Propane LLCs. Heritage accounts for its 50 percent partnership interest in Bi-State Partnership, another propane retailer, under the equity method. All significant intercompany transactions and accounts have been eliminated in consolidation. The General Partner's 1.0101 percent general partner interest and U.S. Propane's 1.0101 percent limited partner interest in the Operating Partnership are accounted for in the consolidated financial statements as minority interests. For purposes of maintaining partner capital accounts, Heritage's partnership agreement specifies that items of income and loss shall be allocated among the partners in accordance with their percentage interests. Normal allocations according to percentage interests are made, however, only after giving effect to any priority income allocations in an amount equal to the incentive distributions that are allocated 100% to the General Partner.

REVENUE RECOGNITION

Sales of propane, propane appliances, parts and fittings are recognized at the later of the time of delivery of the product to the customer or the time of sale or installation. Revenue from service labor is recognized upon completion of the service, and tank rent is recognized ratably over the period it is earned.

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:

	May 31, 2001	August 31, 2000
Fuel	$ 36,388	$ 30,882
Appliances, parts and fittings	9,015	8,163
	$ 45,403	$ 39,045

INCOME TAXES

For the three months and nine months ended June 30, 2000, Peoples Gas followed the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, deferred income taxes are recorded based upon differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets are received and liabilities are settled. TECO retained all tax liabilities related to Peoples Gas that may have existed as of August 9, 2000.

Heritage is a limited partnership. As a result, Heritage's earnings or loss for federal income tax purposes is included in the tax returns of the individual partners. Accordingly, because of the merger, no recognition has been given to income taxes in the accompanying financial statements of Heritage for the three months and nine months ended May 31, 2001. Net earnings for financial statement purposes may differ significantly from taxable income reportable to unit holders as a result of differences between the tax basis and financial reporting basis of assets and liabilities and the taxable income allocation requirements under the partnership agreement.

INCOME (LOSS) PER LIMITED PARTNER UNIT

Basic net income (loss) per limited partner unit is computed by dividing net income (loss), after considering the General Partner's one percent interest, by the weighted average number of Common and Subordinated Units outstanding. Diluted net income (loss) per limited partner unit is computed by dividing net income, after considering the General Partner's one percent 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 (loss) and weighted average units used in computing basic and diluted earnings (loss) per unit is as follows:

	Three Months Ended May 31, 2001	Three Months Ended June 30, 2000 (Peoples Gas)	Three Months Ended May 31, 2000 (Predecessor)	Nine Months Ended May 31, 2001	Nine Months Ended June 30, 2000 (Peoples Gas)	Nine Months Ended May 31, 2000 (Predecessor)
BASIC NET INCOME (LOSS) PER LIMITED PARTNER UNIT:						
Limited Partners' interest in net income (loss)	$ (6,241)	$ (332)	$ (2,177)	$ 38,599	$ 1,392	$ 13,825
Weighted average limited partner units	12,981,442	1,732,271	9,984,297	12,980,606	1,732,271	9,650,928
Basic net income (loss) per limited partner unit	$ (.48)	$ .00	$ (.22)	$ 2.97	$ .88	$ 1.43
DILUTED NET INCOME (LOSS) PER LIMITED PARTNER UNIT:						
Limited partners' interest in net income (loss)	$ (6,241)	$ (332)	$ (2,177)	$ 38,599	$ 1,392	$ 13,825
Weighted average limited partner units	12,981,442	1,732,271	9,984,297	12,980,606	1,732,271	9,650,928
Dilutive effect of Phantom Units	--	--	--	30,940	--	74,913
Weighted average limited partner units, assuming dilutive effect of Phantom Units	12,981,442	1,732,271	9,984,297	13,011,546	1,732,271	9,725,841
Diluted net income (loss) per limited partner unit	$ (.48)	$ .00	$ (.22)	$ 2.97	$ .88	$ 1.42

CASH DISTRIBUTIONS

Heritage is expected to make quarterly cash distributions of Available Cash, generally defined as consolidated cash receipts less consolidated operating expenses, debt service payments, maintenance capital expenditures and net changes in reserves established by the General Partner for future requirements. These reserves are retained to provide for the proper conduct of Heritage's business, or to provide funds for distributions with respect to any one or more of the next four fiscal quarters.

Distributions by Heritage in an amount equal to 100 percent of Available Cash have been made 97 percent to the Common, Subordinated and Class B Subordinated Unitholders, 1.0101 percent to U.S. Propane for its limited partner interest in the Operating Partnership and 1.9899 percent to the General Partner, subject to the payment of incentive distributions to the holders of Incentive Distribution Rights to the extent that certain target levels of cash distributions are achieved. Note 5 "Subsequent Events" describes the conversion of the subordinated units into common units.

On October 16, 2000, a quarterly distribution of $.575 per Common and Subordinated Unit, was paid to Unitholders of record at the close of business on October 9, 2000 and to the General Partner for its General Partner interest in the Partnership, its Minority Interest and its Incentive Distribution Rights and to U.S. Propane for its limited partner interest. On January 15, 2001 and April 16, 2001, a quarterly distribution of $.5875 and $.60 per Common and Subordinated Unit, respectively, was paid to Unitholders of record at the close of business on January 4, 2001 and April 2, 2001, and to the General Partner for its General Partner interest in the Partnership, its Minority Interest and its Incentive Distribution Rights and to U.S. Propane for its limited partner interest for each distribution. On June 25, 2001 the Partnership declared a cash distribution for the third quarter ended May 31, 2001 of $.6125 per unit payable on July 16, 2001 to Unitholders of record at the close of business on July 5, 2001. This was the fourth increase to the distribution level this fiscal year.

SFAS 133 ACCOUNTING FOR CERTAIN DERIVATIVE INSTRUMENTS AND CERTAIN HEDGING ACTIVITIES

SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, and for hedging activities, be recorded on the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. Heritage adopted the provisions of SFAS 133 effective September 1, 2000. The cumulative effect of adopting SFAS 133 was an adjustment to beginning other comprehensive income of $5,429.

Heritage had certain financial swap instruments outstanding at May 31, 2001 that have been designated as cash flow hedging instruments in accordance with SFAS 133. A financial swap is a contractual agreement to exchange obligations of money between the buyer and seller of the instruments as propane volumes during the pricing period are purchased. The swaps are tied to a set fixed price for the buyer and floating price determinants for the seller priced on certain indices. Heritage entered into these instruments to hedge the forecasted propane volumes to be purchased during each of the one-month periods ending October 2001 through March 2002. Heritage utilizes hedging transactions to provide price protection against significant fluctuations in propane prices. These instruments had a fair value of ($2,699) as of May 31, 2001, which was recorded as accrued and other liabilities on the balance sheet through other comprehensive income, exclusive of ($54) of minority interest. During the three months and nine months ended May 31, 2001, Heritage reclassified into earnings a gain of $549 and $3,844, respectively, that was reported in accumulated other comprehensive income.

MARKETABLE SECURITIES

Heritage's marketable securities are classified as available for sale securities as defined by SFAS No. 115 and are reflected as a current asset on the balance sheet at their fair value. Unrealized holding gains /(losses) of $292 and ($93) for the three months and nine months ended May 31, 2001, respectively, were recorded through accumulated other comprehensive income based on the market value of the securities at May 31, 2001.

3. WORKING CAPITAL FACILITY AND LONG-TERM DEBT:

Effective December 28, 2000 Heritage entered into the Fourth Amendment to First Amended and Restated Credit Agreement, with various financial institutions, which amended the Senior Revolving Working Capital Facility to increase it to $65,000. The terms of the Agreement as amended are as follows:

> A $65,000 Senior Revolving Working Capital Facility, expiring June 30, 2002, with $0 outstanding at May 31, 2001. The interest rate and interest payment dates vary depending on the terms the Partnership agrees to when the money is borrowed. The weighted average interest rate was 6.504 percent at May 31, 2001. The Partnership 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 .375 percent.

A $50,000 Senior Revolving Acquisition Facility is available through December 31, 2001, at which time the outstanding amount must be paid in ten equal quarterly installments, beginning March 31, 2002. The interest rate and interest payment dates vary depending on the terms the Partnership agrees to when the money is borrowed. The average interest rate was 6.504 percent on the $1,500 amount outstanding at May 31, 2001. The maximum commitment fee payable on the unused portion of the facility is .375 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 trading activities of Resources. Heritage's reportable domestic and wholesale fuel segments are strategic business units that sell products and services to different types of users: retail and wholesale customers. Intersegment sales by the foreign wholesale segment to the domestic segment are priced in accordance with the partnership agreement. Resources is a trading company that buys and sells financial instruments for its 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 selling, general, and administrative expenses of $4,422, $0, and $1,616 for the three months ended May 31, 2001, June 30, 2000 and May 31, 2000, respectively or the selling, general, and administrative expenses of $14,003 $0, and $4,969 for the nine months ended May 31, 2001, June 30, 2000 and May 31, 2000, respectively. The following table presents the unaudited financial information by segment for the following periods:

	For the Three Months ended May 31, 2001	For the Three Months ended June 30, 2000 (Peoples Gas)	For the Three Months ended May 31, 2000 (Predecessor)	For the Nine Months ended May 31, 2001	For the Nine Months ended June 30, 2000 (Peoples Gas)	For the Nine Months ended May 31, 2000 (Predecessor)
Gallons:						
Domestic retail fuel	68,663	6,026	38,874	282,834	22,933	155,101
Domestic wholesale fuel	1,823	--	2,170	11,670	--	6,644
Foreign wholesale fuel						
Affiliated	25,212	--	15,551	72,822	--	56,021
Unaffiliated	18,381	--	18,225	75,628	--	62,720
Elimination	(25,212)	--	(15,551)	(72,822)	--	(56,021)
Total	88,867	6,026	59,269	370,132	22,933	224,465
Revenues:						
Domestic retail fuel	$ 87,254	$ 9,287	$ 42,624	$ 386,235	$ 33,797	$ 162,143
Domestic wholesale fuel	1,548	--	1,423	9,214	--	4,036
Foreign wholesale fuel						
Affiliated	15,556	--	8,127	48,880	--	24,925
Unaffiliated	8,651	--	7,472	43,734	--	24,587
Elimination	(15,556)	--	(8,127)	(48,880)	--	(24,925)
Liquids marketing activities	26,073	--	--	152,155	--	--
Other domestic revenues	8,627	--	5,705	33,419	--	20,508
Total	$ 132,153	$ 9,287	$ 57,224	$ 624,757	$ 33,797	$ 211,274
Operating Income:						
Domestic retail	$ 6,400	$ (443)	$ 3,902	$ 76,044	$ 2,525	$ 30,628
Domestic wholesale fuel	(182)	--	49	(35)	--	275
Foreign wholesale fuel						
Affiliated	252	--	176	685	--	541
Unaffiliated	402	--	397	2,253	--	1,481
Elimination	(252)	--	(176)	(685)	--	(541)
Liquids marketing activities	278	--	--	1,420	--	--
Total	$ 6,898	$ (443)	$ 4,348	$ 79,682	$ 2,525	$ 32,384

	As of May 31, 2001	As of August 31, 2000
Total Assets:		
Domestic retail	$ 538,625	$ 473,725
Domestic wholesale	15,829	12,790
Foreign wholesale	12,002	7,918
Liquids marketing	13,393	7,747
Corporate	96,554	113,599
Total	$ 676,403	$ 615,779

	For the Three Months ended May 31, 2001	For the Three Months ended June 30, 2000 (Peoples Gas)	For the Three Months ended May 31, 2000 (Predecessor)	For the Nine Months ended May 31, 2001	For the Nine Months ended June 30, 2000 (Peoples Gas)	For the Nine Months ended May 31, 2000 (Predecessor)
Depreciation and amortization:						
Domestic retail	$ 10,487	$ 857	$ 4,878	$ 30,256	$ 2,444	$ 13,591
Domestic wholesale	8	--	8	54	--	27
Foreign wholesale	4	--	2	12	--	6
Total	$ 10,499	$ 857	$ 4,888	$ 30,322	$ 2,444	$ 13,624

5. SUBSEQUENT EVENTS:

Acquisitions. On July 5, 2001, the Partnership entered into definitive agreements to acquire the operations of ProFlame, Inc. (ProFlame) and related propane distribution companies in California and Nevada. ProFlame delivered approximately 38 million retail and wholesale gallons of propane for its fiscal year ended August 31, 2000 to over 32,000 customers. ProFlame's propane distribution network includes 20 customer service locations throughout California and Nevada, as well as 11 additional sites that are either railcar terminals and/or storage facilities located in areas such as the San Francisco Bay, San Joaquin Valley, Redding and Barstow, California, and in Reno and Las Vegas, Nevada

Conversion of Units. Pursuant to the Partnership Agreement, the remaining 1,851,471 Subordinated Units converted to common units on July 6, 2001 (the first day following the record date for the distribution of available cash to unitholders for the quarter ended May 31, 2001.) The conversion of these units occurred and the subordination period ended because the Partnership met certain cash performance and distribution requirements during the period that commenced with the Partnership's initial public offering in June of 1996. Under the Partnership Agreement, the subordination period could not end earlier than June 1, 2001.

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, 2000. 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.	INCOME TAXES
5.	WORKING CAPITAL FACILITY AND LONG-TERM DEBT
6.	COMMITMENTS AND CONTINGENCIES
7.	PARTNERS' CAPITAL
8.	PROFIT SHARING AND 401(K) SAVINGS PLAN
9.	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 RISKS AND UNCERTAINTIES INCLUDE, AMONG OTHER THINGS:

- 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;
- HERITAGE'S SUCCESS IN HEDGING ITS POSITIONS;
- 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;
- THE ABILITY OF HERITAGE TO GENERATE AVAILABLE CASH FOR DISTRIBUTION TO UNITHOLDERS;
- THE COSTS AND EFFECTS OF LEGAL AND ADMINISTRATIVE PROCEEDINGS AGAINST HERITAGE OR WHICH MAY BE BROUGHT AGAINST HERITAGE;
- THE ABILITY OF HERITAGE TO SUSTAIN ITS HISTORICAL LEVELS OF INTERNAL GROWTH; AND
- THE ABILITY OF HERITAGE 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, which 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. 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 derived from periods of 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 generally assumes that normal weather will prevail in each of the regions in which it operates.

Gross profit margins are not only affected by weather patterns but also by changes in customer mix. For example, sales to residential customers ordinarily generate higher margins than sales to other customer groups, such as commercial or agricultural customers. In addition, gross profit margins vary by geographic region. Accordingly, gross profit margins could vary significantly from year to year in a period of identical sales volumes.

GENERAL

Peoples Gas engaged in the sale, distribution and marketing of propane and other related products. Revenues were derived primarily from the retail propane marketing business. Peoples Gas believes that prior to the series of transactions with Atmos, AGL, Piedmont and Predecessor Heritage, it was among the top 25 retail propane marketers nationally and was the largest independent propane distributor in Florida. At the time of the transactions, Peoples Gas was serving more than 70,000 residential, commercial and industrial customers located in the Florida peninsula.

In August 2000, TECO Energy, Inc., Atmos Energy Corporation, Piedmont Natural Gas Company, Inc. and AGL Resources, Inc. contributed each company's propane operations, Peoples Gas Company ("Peoples Gas"), United Cities Propane Gas, Inc. ("United Cities"), Piedmont Propane Company ("Piedmont"), and AGL Propane, Inc. ("AGL"), respectively, to U.S. Propane, L.P. ("U.S. Propane") in exchange for equity interests in U.S. Propane. The merger was accounted for as an acquisition using the purchase method of accounting with Peoples Gas being the accounting acquirer.

Predecessor Heritage engaged in the sale, distribution and marketing of propane and other related products. Predecessor Heritage derived its revenues primarily from the retail propane marketing business. The General Partner believes that Predecessor Heritage was the seventh largest retail marketer of propane in the United States, based on retail gallons sold prior to the series of transactions with U.S. Propane, serving almost 286,000 residential, industrial/commercial and agricultural customers in 27 states through over 170 retail outlets. The General Partner believes that following the U.S. Propane transactions, Heritage is the fourth largest retail marketer of propane in the United States, based on retail gallons sold. Heritage now serves nearly 500,000 residential, industrial/commercial and agricultural customers in 28 states.

Since its formation in 1989, Predecessor Heritage grew primarily through acquisitions of retail propane operations and, to a lesser extent, through internal growth. Through August 9, 2000, Predecessor Heritage completed 70 acquisitions for an aggregate purchase price of approximately $297 million. Predecessor Heritage completed 42 of these acquisitions since its initial public offering on June 25, 1996. During the period between August 10, 2000 and May 31, 2001, Heritage completed 10 additional acquisitions, not including the merger with U.S. Propane. On July 5, 2001, the Partnership entered into definitive agreements to acquire the operations of ProFlame, Inc. (ProFlame) and related propane distribution companies in California and Nevada. ProFlame delivered approximately 38 million retail and wholesale gallons of propane for its fiscal year ended August 31, 2000 to over 32,000 customers. ProFlame's propane distribution network includes 20 customer service locations throughout California and Nevada, as well as 11 additional sites that are either railcar terminals and/or storage facilities located in areas such as the San Francisco Bay, San Joaquin Valley, Redding and Barstow, California, and in Reno and Las Vegas, Nevada.

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.

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. In the past, Predecessor Heritage generally attempted to reduce price risk by purchasing propane on a short- term basis. Predecessor Heritage 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 formation of U.S. Propane and the merger with Predecessor Heritage affect the comparability of the three and nine month periods ended May 31, 2001 and June 30, 2000, because the volumes and results of operations for the three and nine months ended May 31, 2001 include the volumes and results of operations of Heritage and acquisitions completed this fiscal year. The increases in the line items discussed below are a result of these transactions with U.S. Propane, the additional acquisitions this fiscal year and the effects of slightly colder than normal weather experienced during the quarter and nine months ended May 31, 2001. Amounts discussed below reflect 100 percent of the results of M-P Energy Partnership during the three and nine months ended May 31, 2001. 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 MAY 31, 2001 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2000

Volume. Total retail gallons sold in the three months ended May 31, 2001 were 68.7 million, an increase of 62.7 million over the 6.0 million gallons sold in the three months ended June 30, 2000. As a comparison, Predecessor Heritage sold 38.9 million retail gallons in the three months ended May 31, 2000.

Revenues. Total revenues for the three months ended May 31, 2001 were $132.2 million, an increase of $122.9 million as compared to $9.3 million in the three months ended June 30, 2000 and an increase of $74.9 million over Predecessor Heritage's revenues for the three months ended May 31, 2000. The liquids marketing activity conducted through Heritage Energy Resources represented $26.1 million of the increases described above. There was not any liquids marketing activity in the three months ended May 31, 2000 or June 30, 2000. The remainder related to increased volumes related to the transactions referred to above and the effects of slightly colder than normal weather experienced during the quarter ended May 31, 2001.

Cost of Products Sold. Total cost of products sold and liquids marketing activities increased to $85.9 million for the three months ended May 31, 2001, as compared to $5.3 million for the three months ended June 30, 2000. Of this increase, $26.0 million is the result of liquids marketing activity during the three months ended May 31, 2001. Predecessor Heritage had cost of sales of $32.9 million for the three months ended May 31, 2000. Fuel cost of sales increased due to the increases in volumes described above and due to the wholesale cost of propane for the three months ended May 31, 2001 being significantly higher as compared to the same time period last year.

Gross Profit. Total gross profit for the three months ended May 31, 2001, was $46.3 million as compared to $4.0 million for the three months ended June 30, 2000, due to the aforementioned increases in retail volumes and revenues, offset by the increase in product costs. For the three months ended May 31, 2001, retail fuel gross profit was $39.1 million, U.S. wholesale was $.1 million, and other gross profit was $6.6 million. Foreign wholesale gross profit was $.4 million, and liquids marketing gross profit was $.1 million for the period ended May 31, 2001. As a comparison, for the three months ended May 31, 2000, Predecessor Heritage recorded retail fuel gross profit of $19.8 million, wholesale fuel gross profit of $.1 million, foreign gross profit of $.4 million and other of $4.0 million, for a total gross profit of $24.3 million.

Operating Expenses. Operating expenses were $28.9 million for the three months ended May 31, 2001 as compared to $3.6 million for the three months ended June 30, 2000. The increase is the result of the additional operating expenses related to the merger of U.S. Propane with Predecessor Heritage. Predecessor Heritage had operating expenses of $15.1 million in the three months ended May 31, 2000.

Selling, General and Administrative. Selling, general and administrative expenses were $4.4 million for the three months ended May 31, 2001. Peoples Gas did not classify any of their operating expenses as selling, general and administrative, so as a comparison Predecessor Heritage had selling, general and administrative expenses of $1.6 million for the three months ended May 31, 2000. The increase of $2.8 million is primarily due to the formation of U.S. Propane and the merger with Predecessor Heritage.

Depreciation and Amortization. Depreciation and amortization was $10.5 million in the three months ended May 31, 2001 as compared to $.9 million in the three months ended June 30, 2000 and $4.9 million for Predecessor Heritage for the three months ended May 31, 2000. The increase is primarily attributable to the addition of property, plant and equipment, and intangible assets from the transactions referred to above.

Operating Income (Loss). For the three months ended May 31, 2001 Heritage had operating income of $2.5 million as compared to operating loss of $.4 million for the three months ended June 30, 2000. Predecessor Heritage reported operating income of $2.7 million in the three months ended May 31, 2000.

Net Loss. For the three-month period ended May 31, 2001, Heritage had a net loss of $5.8 million, an increase of $5.7 million as compared to net loss for the three months ended June 30, 2000 of $.3 million. As a comparison, Heritage's current quarter net loss of $5.8 million represents an increase of $3.6 million over Predecessor Heritage's reported net loss of $2.2 million for the three months ended May 31, 2000. This increase is primarily attributable to the increase in operating expenses and depreciation and amortization, and interest associated with the U. S. Propane merger.

EBITDA. Earnings before interest, taxes, depreciation and amortization increased $13.3 million to $13.8 million for the three months ended May 31, 2001, as compared to the EBITDA of $.5 million for the period ended June 30, 2000. The EBITDA for Predecessor Heritage for the three months ended May 31, 2000 was $7.9 million. 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.

NINE MONTHS ENDED MAY 31, 2001 COMPARED TO THE NINE MONTHS ENDED JUNE 30, 2000

Volume. Total retail gallons sold in the nine months ended May 31, 2001, were 282.8 million, an increase of 259.9 million over the 22.9 million gallons sold in the nine months ended June 30, 2000. As a comparison, Predecessor Heritage sold 155.1 million retail gallons in the nine months ended May 31, 2000.

Revenues. Total revenues for the nine months ended May 31, 2001, were $624.8 million, an increase of $591.0 million as compared to $33.8 million in the nine months ended June 30, 2000 and an increase of $413.5 million over Predecessor Heritage's revenues for the nine months ended May 31, 2000. The liquids marketing activity conducted through Heritage Energy Resources represented $152.2 million of the increases described above. There was not any liquids marketing activity in the nine-month period ended May 31, 2000 or June 30, 2000. The remainder related to increased volumes related to the transactions referred to above and increased volumes related to colder temperatures in the current heating season along with higher selling prices.

Cost of Products Sold. Total cost of products sold and liquids marketing activities increased to $418.7 million for the nine months ended May 31, 2001, as compared to $18.4 million for the nine months ended June 30, 2000. Of this increase, $150.3 million is the result of liquids marketing activity during the nine months ended May 31, 2001. Predecessor Heritage had cost of sales of $119.6 million for the nine months ended May 31, 2000. Fuel cost of sales increased due to the increases in volumes described above and due to the wholesale cost of propane for the nine months ended May 31, 2001, being significantly higher as compared to the same time period last year.

Gross Profit. Total gross profit for the nine months ended May 31, 2001 was $206.0 million as compared to $15.5 million for the nine months ended June 30, 2000, due to the aforementioned increases in retail volumes and revenues, offset by the increase in product costs. For the nine months ended May 31, 2001, retail fuel gross profit was $176.5 million, U.S. wholesale was $.7 million, and other gross profit was $24.6 million. Foreign wholesale gross profit was $2.3 million and liquids marketing gross profit was $1.9 million for the period ended May 31, 2001. As a comparison, for the nine months ended May 31, 2000, Predecessor Heritage recorded retail fuel gross profit of $76.4 million, wholesale fuel gross profit of $.5 million, foreign gross profit of $1.5 million and other of $13.3 million, for a total gross profit of $91.7 million.

Operating Expenses. Operating expenses were $96.0 million for the nine months ended May 31, 2001 as compared to $10.5 million for the nine months ended June 30, 2000. The increase of $85.5 million primarily is the result of the additional operating expense related to the merger of U.S. Propane with Predecessor Heritage and to a lesser extent, increased volumes due to cold weather and increased fuel costs, which affect the vehicle fuel costs. Predecessor Heritage had operating expenses of $45.7 million in the nine months ended May 31, 2000.

Selling, General and Administrative. Selling, general and administrative expenses were $14.0 million for the nine months ended May 31, 2001. Peoples Gas did not classify any of their operating expenses as selling, general and administrative, so as a comparison Predecessor Heritage had selling, general and administrative, expenses of $5.0 million for the nine months ended May 31, 2000. The increase of $9.0 million is primarily due to the transactions with U.S. Propane.

Depreciation and Amortization. Depreciation and amortization was $30.3 million in the nine months ended May 31, 2001 as compared to $2.4 million in the nine months ended June 30, 2000 and $13.6 million for Predecessor Heritage for the nine months ended May 31, 2000. The increase is primarily attributable to the addition of property, plant and equipment, and intangible assets from the transactions referred to above.

Operating Income. For the nine months ended May 31, 2001, Heritage had operating income of $65.7 million as compared to operating income of $2.5 million for the nine months ended June 30, 2000. Predecessor Heritage reported operating income of $27.4 million in the nine months ended May 31, 2000.

Net Income. For the nine-month period ended May 31, 2001, Heritage had net income of $39.4 million, an increase of $38.0 million as compared to net income for the nine months ended June 30, 2000 of $1.4 million. As a comparison, Heritage's net income of $39.4 million for the nine months ended May 31, 2001, represents an increase of $25.4 million over Predecessor Heritage's reported net income of $14.0 million for the nine months ended May 31, 2000.

EBITDA. Earnings before interest, taxes, depreciation and amortization increased $93.4 million to $98.3 million for the nine months ended May 31, 2001, as compared to the EBITDA of $4.9 million for the period ended June 30, 2000. The EBITDA for Predecessor Heritage for the nine months ended May 31, 2000 was $42.6 million. 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 nine months ended May 31, 2001, was $51.3 million. The net cash provided from operations for the nine months ended May 31, 2001 consisted of net income of $39.4 million and noncash charges of $32.4 million, principally depreciation and amortization offset by the impact of working capital used of $20.5 million. Accounts receivable have increased as compared to the prior year as a result of the net effect of the increase in propane costs and increased volume due to colder temperatures which in part was passed on to the customers. A larger customer base due to the merger with U.S. Propane also contributed to the increase in accounts receivable. Accounts payable has also increased due to the same related reasons of the increased cost of propane and the merger.

Investing Activities. Heritage completed ten acquisitions during the nine months ended May 31, 2001, spending $48.8 million, net of cash received, to purchase propane companies. This capital expenditure amount is reflected in the cash used in investing activities of $71.5 million along with a net $17.4 million invested for maintenance needed to sustain operations at current levels and customer tanks to support growth of operations. Other investing activities include $7.1 million of cash paid for marketable securities and proceeds from assets sales of $1.8 million.

Financing Activities. Cash provided by financing activities during the nine months ended May 31, 2001 of $19.8 million resulted mainly from a net decrease in the working capital facility of $24.2 million, a net decrease in the Acquisition Facility of $.4 million used to acquire other propane businesses and a net increase in fixed rate debt of $70.6 million. On May 24, 2001, the Partnership issued $70 million of fixed rate notes under our 2000 Note Purchase Agreement, which provided for repetitive debt issuance capabilities up to a maximum of $250 million. The notes were sold to a group of institutional lenders (see Exhibit 10.19.2). The notes have 7-, 12- and 15-year final maturities with an average coupon of 7.66%. The Partnership used the proceeds from the notes to repay the balance outstanding under our senior revolving acquisition facility and to reduce other debt. These increases were offset by cash distributions to unitholders of $23.3 million and payments on other long-term debt of $2.9 million.

Financing and Sources of Liquidity

The Partnership has a Bank Credit Facility, which includes a Working Capital Facility, a revolving credit facility providing for up to $65.0 million of borrowings to be used for working capital and other general partnership purposes, and an Acquisition Facility, a revolving credit facility providing for up to $50.0 million of borrowings to be used for acquisitions and improvements. As of May 31, 2001, the Acquisition Facility had $48.5 million available to fund future acquisitions and the Working Capital Facility had $65.0 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 $48.8 million for the nine months ended May 31, 2001. In addition to this, Heritage issued $2.6 million for notes payable on non-compete agreements in connection with certain acquisitions and $1.6 million of Common Units (58,000 Common Units).

Under its 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 Heritage, all cash on hand at the end of such quarter less the amount of cash reserves that are necessary or appropriate in the reasonable discretion of the General Partner to (i) provide for the proper conduct of the Heritage's business, (ii) comply with applicable law or any Heritage debt instrument or other agreement, or (iii) provide funds for distributions to Unitholders and the General Partner in respect of 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. previously filed as an exhibit. Distributions of Available Cash to the holders of the Subordinated Units and the Class B Subordinated Units are subject to the prior rights of the holders of the Common Units to receive the Minimum Quarterly Distributions of $.50 per unit for each quarter during the subordination period, and to receive any arrearages in the distribution of Minimum Quarterly Distributions on the Common Units for prior quarters during the subordination period. Pursuant to the Partnership Agreement, the remaining 1,851,471 Subordinated Units converted to common units on July 6, 2001. The conversion of these units was dependent on meeting certain cash performance and distribution requirements during the period that commenced with the

Partnership's initial public offering in June of 1996, all of which have been met. Under the Partnership Agreement, the subordination period could not end earlier than June 1, 2001.

Heritage's commitment to its unitholders is to distribute the increase in its cash flow while maintaining prudent reserves for operations. Heritage raised the quarterly distribution on four different occasions this fiscal year from a quarterly distribution level of $.5625 (or $2.25 annually) to a current quarterly distribution level of $.6125 (or $2.45 annually). In the case of each quarterly distribution increase, the decision resulted from a review of Predecessor Heritage's and Heritage's past financial performance, and current projections for available cash based on the current performance and future expectations for Heritage. The current distribution level includes incentive distributions payable to the General Partner to the extent the quarterly distribution exceeds $.55 per unit ($2.20 annually).

The assets utilized in the propane business do not typically require lengthy manufacturing process time or complicated, high technology components. Accordingly, Heritage does not have any significant financial commitments for capital expenditures. In addition, Heritage 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. Predecessor Heritage primarily entered into debt obligations to support general corporate purposes including capital expenditures and working capital needs. Predecessor 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 Predecessor 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, Predecessor Heritage in the past 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. Heritage also attempts to minimize the effects of market price fluctuations for its propane supply through its liquids marketing activities and by entering into certain financial contracts. Heritage's liquids marketing activities include both purchases and sales of product supply. Liquids marketing activity is recorded at fair value on Heritage's balance sheet, with the changes in fair value included in earnings.

The financial contracts entered into by Heritage are often referred to as swap instruments. 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 marketing 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 May 31, 2001, Heritage had outstanding propane hedges ("swap agreements") for the period from October 2001 through March 2002 for a total of approximately 60 million gallons of propane at a weighted average price of $.5581 per gallon. The fair value of the swap agreement is the amount at which they could be settled, based on quoted market prices. These instruments had a fair value of ($2,699) as of May 31, 2001, which was recorded as accrued and other liabilities on the balance sheet through other comprehensive income, exclusive of ($54) of minority interest. Heritage continues to monitor propane prices and may enter into additional propane hedges in the future. Inherent in the portfolio from the liquids marketing and hedging 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 ACTIVITIES

Heritage trades financial instruments for its own account through Heritage Energy Resources ("Resources"). Financial instruments utilized in connection with liquids marketing activities 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 trading activities. Unrealized gains and losses from the financial contracts and the impact of price movements are recognized in the income statement as other income (expense). Changes in the assets and liabilities from the liquids marketing activity result primarily from changes in the market prices, newly originated transactions and the timing of settlement. 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 an assessment of anticipated market movements.

Notional Amounts and Terms -

The notional amounts and terms of these financial instruments as of May 31, 2001 include fixed price payor for 1,575,000 barrels of propane and butane, and fixed price receiver of 1,455,000 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 values of the financial instruments related to trading activities as of May 31, 2001, were assets of $2,746 and liabilities of $2,438. The unrealized gain related to liquids marketing activities for the three months and nine months ended May 31, 2001, was $158 and $308, respectively and is recorded through the income statement as other income.

Market and Credit Risk -

Inherent in the resulting contractual portfolio 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 and Resources take active roles in managing and controlling market and credit risk and have 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.

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.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The exhibits listed on the following Exhibit Index are filed as part of this Report. Exhibits required by Item 601 of Regulation S-K, but which are not listed below, are not applicable.

	Exhibit Number	Description
(1)	3.1	Agreement of Limited Partnership of Heritage Propane Partners, L.P.

	Exhibit Number	Description
(10)	3.1.1	Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P.
(1)	3.2	Agreement of Limited Partnership of Heritage Operating, L.P.
(12)	3.2.1	Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Heritage Operating, L.P.
(7)	10.1	First Amended and Restated Credit Agreement with Banks Dated May 31, 1999
(8)	10.1.1	First Amendment to the First Amended and Restated Credit Agreement dated as of October 15, 1999
(9)	10.1.2	Second Amendment to First Amended and Restated Credit Agreement dated as of May 31, 2000
(10)	10.1.3	Third Amendment dated as of August 10, 2000 to First Amended and Restated Credit Agreement
(13)	10.1.4	Fourth Amendment to First Amended and Restated Credit Agreement dated effective as of December 28, 2000
(1)	10.2	Form of Note Purchase Agreement (June 25, 1996)
(3)	10.2.1	Amendment of Note Purchase Agreement (June 25, 1996) dated as of July 25, 1996
(4)	10.2.2	Amendment of Note Purchase Agreement (June 25, 1996) dated as of March 11, 1997
(6)	10.2.3	Amendment of Note Purchase Agreement (June 25, 1996) dated as of October 15, 1998
(8)	10.2.4	Second Amendment Agreement dated September 1, 1999 to June 25, 1996 Note Purchase Agreement
(11)	10.2.5	Third Amendment Agreement dated May 31, 2000 to June 25, 1996 Note Purchase Agreement and November 19, 1997 Note Purchase Agreement
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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
(12)	10.6.2	Amended and Restated Restricted Unit Plan dated as of August 10, 2000
(12)	10.7	Employment Agreement for James E. Bertelsmeyer dated as of August 10, 2000
(12)	10.8	Employment Agreement for R. C. Mills dated as of August 10, 2000

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(12)	10.9	Employment Agreement for Larry J. Dagley dated as of August 10, 2000
(12)	10.10	Employment Agreement for H. Michael Krimbill dated as of August 10, 2000
(12)	10.11	Employment Agreement for Bradley K. Atkinson dated as of August 10, 2000
(7)	10.12	First Amended and Restated Revolving Credit Agreement between Heritage Service Corp. and Banks Dated May 31, 1999
(12)	10.13	Employment Agreement for Mark A. Darr dated as of August 10, 2000
(12)	10.14	Employment Agreement for Thomas H. Rose dated as of August 10, 2000
(12)	10.15	Employment Agreement for Curtis L. Weishahn dated as of August 10, 2000
(5)	10.16	Note Purchase Agreement dated as of November 19, 1997
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(12)	21.1	List of Subsidiaries
(12)	99.1	Balance Sheet of Heritage Holdings, Inc. as of August 31, 2000

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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.

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(10) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 8-K dated August 10, 2000.

(11) Filed as Exhibit 10.16.3.

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(13) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended February 28, 2001.

(*) Filed herewith

(b) Reports on Form 8-K.

None

SIGNATURE

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

HERITAGE PROPANE PARTNERS, L.P.

By: Heritage Holdings, Inc., General Partner

Date: July 16, 2001

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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(b) Reports on Form 8-K.

None

FIRST SUPPLEMENTAL NOTE PURCHASE AGREEMENT

As of May 24, 2001

To Each of the Purchasers
Named in the Supplemental
Purchaser Schedule Attached Hereto

Ladies and Gentlemen:

Reference is made to that certain Note Purchase Agreement dated as of August 10, 2000 between the Company and each of the Initial Purchasers named in the Initial Purchaser Schedule attached thereto (the "Agreement"). Terms used but not defined herein shall have the respective meanings set forth in the Agreement.

As contemplated in Section 2B of the Agreement, the Company agrees with you as follows:

A. Subsequent Series of Notes. The Company will create Subsequent Series of Notes to be called the "Series G Notes", "Series H Notes" and "Series I Notes", respectively (collectively, the "Subsequent Notes").

(i) Said Series G Notes will be dated the date of issue; will bear interest from such date at the rate of 7.21% per annum, payable quarterly on the 15th day of each February, May, August and November in each year (commencing August 15, 2001) until the principal amount thereof shall become due and payable and shall bear interest on overdue principal (including any overdue optional prepayment of principal) and premium, if any, and, to the extent permitted by law, on any overdue installment of interest at the rate specified therein after the date due for payment, whether by acceleration or otherwise, until paid; will be expressed to mature on May 15, 2008; and will be substantially in the form attached to the Agreement as Exhibit A-7 with the appropriate insertions to reflect the terms and provisions set forth above.

(ii) Said Series H Notes will be dated the date of issue; will bear interest from such date at the rate of 7.89% per annum, payable quarterly on the 15th day of each February, May, August and November in each year (commencing August 15, 2001) until the principal amount thereof shall become due and payable and shall bear interest on overdue principal (including any overdue optional prepayment of principal) and premium, if any, and, to the extent permitted by law, on any overdue installment of interest at the rate specified therein after the date due for payment, whether by acceleration or otherwise, until paid; will be expressed to mature on May 15, 2016; and will be substantially in the form attached to the Agreement as Exhibit A-7 with the appropriate insertions to reflect the terms and provisions set forth above.

(iii) Said Series I Notes will be dated the date of issue; will bear interest from such date at the rate of 7.99% per annum, payable quarterly on the 15th day of each February, May, August and November in each year (commencing August 15, 2001) until the principal amount thereof shall become due and payable and shall bear interest on overdue principal (including any overdue optional prepayment of principal) and premium, if any, and, to the extent permitted by law, on any overdue installment of interest at the rate specified therein after the date due for payment, whether by acceleration or otherwise, until paid; will be expressed to mature on May 15, 2013; and will be substantially in the form attached to the Agreement as Exhibit A-7 with the appropriate insertions to reflect the terms and provisions set forth above.

B. Purchase and Sale of Series G Notes, Series H Notes and Series I Notes. The Company hereby agrees to sell to each Supplemental Purchaser set forth on the Supplemental Purchaser Schedule attached hereto (collectively, the "Supplemental Purchasers") and, subject to the terms and conditions in the Agreement and herein set forth, each Supplemental Purchaser agrees to purchase from the Company the aggregate principal amount of the Series G Notes, Series H Notes or Series I Notes set opposite each Supplemental Purchaser's name in the Supplemental Purchaser Schedule at 100% of the aggregate principal amount. The sale of the Series G Notes, Series H Notes and Series I Notes shall take place at the offices of Winston & Strawn, 35 West Wacker Drive, Chicago, Illinois 60601 at 10:00 a.m. Chicago time, at a closing (the "Supplemental Closing") on May 24, 2001, or such other date as shall be agreed upon by the Company and each Supplemental Purchaser. At the Supplemental Closing the Company will deliver to each Supplemental Purchaser one or more Series G Notes, Series H Notes or Series I Notes, as the case may be, registered in such Supplemental Purchaser's name (or in the name of its nominee), evidencing the aggregate principal amount of Series G Notes, Series H Notes or Series I Notes to be purchased by said Supplemental Purchaser and in the denomination or denominations specified with respect to such Supplemental Purchaser in the Supplemental Purchaser Schedule attached hereto against payment of the purchase price thereof by transfer of immediately available funds for credit to the Company's account on the date of the Supplemental Closing (the "Supplemental Closing Date") (as specified in a notice to each Supplemental Purchaser at least three Business Days prior to the Supplemental Closing Date).

C. Conditions of Supplemental Closing. The obligation of each Supplemental Purchaser to purchase and pay for the Series G Notes, Series H Notes or Series I Notes to be purchased by such purchaser hereunder on the Supplemental Closing Date is subject to the satisfaction, on or before such Supplemental Closing Date, of the conditions set forth in Section 3 of the Agreement.

D. Prepayments. The Subsequent Notes shall be subject to prepayment only (a) pursuant to the required prepayments, if any, specified in clause (x) below, and in Section 4C of the Agreement; and (b) pursuant to the optional prepayments permitted by Section 4B of the Agreement.

(x) Required Prepayments; Maturity.

(i) Series G Notes. Until the Series G Notes shall be paid in full, the Company shall apply to the prepayment of the Series G Notes, without premium, the designated amounts of principal set forth below (or, if less, the principal amount of the Series G Notes as shall at the time be outstanding) on May 15 in each of the years set forth below, together with interest thereon to the prepayment dates, provided, however, that if the Company shall prepay all or any portion of the Notes pursuant to Section 4B or 4C, or acquire any Series G Notes pursuant to the provisions of Section 4H, each of the principal amount payable at maturity and the principal amount of each required prepayment of the Series G Notes becoming due under this clause (x) on and after the date of such prepayment or purchase shall be reduced in the same proportion as the aggregate unpaid principal amount of the Series G Notes is reduced as a result of such prepayment or acquisition:

PRINCIPAL AMOUNT TO BE PREPAID	YEAR OF PREPAYMENT
$5,300,000	2004
$5,300,000	2005
$5,300,000	2006
$5,300,000	2007
$5,300,000	2008

The remaining outstanding principal amount of the Series G Notes, together with all interest accrued on the Series G Notes shall become due and payable on May 15, 2008.

(ii) Series H Notes. Until the Series H Notes shall be paid in full, the Company shall apply to the prepayment of the Series H Notes, without premium, the designated amounts of principal set forth below (or, if less, the principal amount of the Series H Notes as shall at the time be outstanding) on May 15 in each of the years set forth below, together with interest thereon to the prepayment dates, provided, however, that if the Company shall prepay all or any portion of the Notes pursuant to Section 4B or 4C, or acquire any Series H Notes pursuant to the provisions of Section 4H, each of the principal amount payable at maturity and the principal amount of each required prepayment of the Series H Notes becoming due under this clause (x) on and after the date of such prepayment or purchase shall be reduced in the same proportion as the aggregate unpaid principal amount of the Series H Notes is reduced as a result of such prepayment or acquisition:

PRINCIPAL AMOUNT TO BE PREPAID	YEAR OF PREPAYMENT
$2,500,000	2006
$2,500,000	2007
$2,500,000	2008
$2,500,000	2009
$2,500,000	2010
$2,500,000	2011
$2,500,000	2012
$2,500,000	2013
$2,500,000	2014
$2,500,000	2015
$2,500,000	2016

The remaining outstanding principal amount of the Series H Notes, together with all interest accrued on the Series H Notes shall become due and payable on May 15, 2016.

(iii) Series I Notes. The Series I Notes are not subject to required prepayments prior to their maturity date. The outstanding principal amount of the Series I Notes, together with all interest accrued on the Series I Notes shall become due and payable on May 15, 2013.

(y) Optional and Contingent Prepayments. As provided in Sections 4B and 4C of the Agreement.

E. Subsequent Notes Issued under and Pursuant to Agreement. Except as specifically provided above, the Subsequent Notes shall be deemed to be issued under, to be subject to and to have the benefit of all of the terms and provisions of the Agreement as the same may from time to time be amended and supplemented in the manner provided therein.

F. Waiver and Consent regarding certain Sections of Agreement. By its purchase and acceptance of any of the Series G Notes, Series H Notes or Series I Notes, each Supplemental Purchaser shall be deemed to have consented to the acquisition by the Company of certain of the assets of Earth America Company (the "Acquisition") for a purchase price, payable in cash and/or earn out options, in an amount not to exceed $29,000,000 and the operation by the Company of the business acquired in the Acquisition, which operation shall include, without limitation, selling (at the Company's discretion) certain assets purchased in the Acquisition and providing financial support therefor (the activities described above referred to herein, collectively, as the "Acquisition Transactions"), and each Supplemental Purchaser shall be deemed to have (i) waived the restrictions set forth in Section 6E(v)(iii) and Section 6G of the Agreement to the extent necessary to permit the Company to make Investments from time to time in respect of the Acquisition Transactions and sell certain assets acquired in connection therewith and (ii) consented and agreed that (x) no portion of such Investments shall be counted for purposes of computing the aggregate amounts of Investments under Section 6E(v)(iii) and (y) no sales of such assets shall be counted for purposes of computing the aggregate amounts of Asset Sales under Section 6G.

The execution hereof by the Supplemental Purchasers shall constitute a contract among the Company and the Supplemental Purchasers for the uses and purposes hereinabove set forth. By their acceptance hereof, each of the Supplemental Purchasers shall also be deemed to have accepted and agreed to the terms and provisions of the Agreement, as in effect on the date hereof.

HERITAGE OPERATING, L.P.

By Heritage Holdings, Inc., General Partner

By

Its

SIGNATURE PAGE TO THE FIRST SUPPLEMENTAL NOTE PURCHASE AGREEMENT

The foregoing Agreement is
hereby accepted as of the
date first above written.

JOHN HANCOCK LIFE INSURANCE COMPANY

By:

Name:
Title:

SIGNATURE PAGE TO THE FIRST SUPPLEMENTAL NOTE PURCHASE AGREEMENT

The foregoing Agreement is
hereby accepted as of the
date first above written.

JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY

By:

Name:
Title:

SIGNATURE PAGE TO THE FIRST SUPPLEMENTAL NOTE PURCHASE AGREEMENT

The foregoing Agreement is
hereby accepted as of the
date first above written.

MELLON BANK, N.A., solely in its capacity as Trustee for the Bell Atlantic Master Trust (as directed by John Hancock Life Insurance Company), and not in its individual capacity

By:

Name:
Title:

SIGNATURE PAGE TO THE FIRST SUPPLEMENTAL NOTE PURCHASE AGREEMENT

The foregoing Agreement is
hereby accepted as of the
date first above written.

INVESTORS PARTNER LIFE INSURANCE COMPANY

By:

Name:
Title:

SIGNATURE PAGE TO THE FIRST SUPPLEMENTAL NOTE PURCHASE AGREEMENT

The foregoing Agreement is
hereby accepted as of the
date first above written.

GENERAL ELECTRIC CAPITAL ASSURANCE COMPANY

By:

Name:
Title:

SIGNATURE PAGE TO THE FIRST SUPPLEMENTAL NOTE PURCHASE AGREEMENT

The foregoing Agreement is
hereby accepted as of the
date first above written.

METROPOLITAN LIFE INSURANCE COMPANY

By:

Name:
Title:

SIGNATURE PAGE TO THE FIRST SUPPLEMENTAL NOTE PURCHASE AGREEMENT

The foregoing Agreement is
hereby accepted as of the
date first above written.

CONNECTICUT GENERAL LIFE INSURANCE COMPANY

By:

      Name:
      Title:

SIGNATURE PAGE TO THE FIRST SUPPLEMENTAL NOTE PURCHASE AGREEMENT

The foregoing Agreement is
hereby accepted as of the
date first above written.

PHOENIX HOME LIFE MUTUAL INSURANCE COMPANY

By:

Name:
Title:

SIGNATURE PAGE TO THE FIRST SUPPLEMENTAL NOTE PURCHASE AGREEMENT

The foregoing Agreement is
hereby accepted as of the
date first above written.

C.M. LIFE INSURANCE COMPANY

By:

Name:
Title:

SIGNATURE PAGE TO THE FIRST SUPPLEMENTAL NOTE PURCHASE AGREEMENT

The foregoing Agreement is
hereby accepted as of the
date first above written.

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

By:

Name:
Title:

SUPPLEMENTAL PURCHASER SCHEDULE

NAME OF PURCHASER	SERIES AND PRINCIPAL AMOUNT OF NOTES BEING PURCHASED	
JOHN HANCOCK LIFE INSURANCE COMPANY	SERIES	PRINCIPAL AMOUNT
	H	$9,250,000(1)
		$2,000,000

(1) All payments on account of the Notes or other obligations in accordance with the provisions thereof shall be made by bank wire transfer of immediately available funds for credit, not later than 12 noon, Boston time, to:

Fleet Boston
ABA No. 011000390
Boston, Massachusetts 02110
Account of: John Hancock Life Insurance Company
Private Placement Collection Account
Account No. 541-55417
On Order of: Heritage Operating, L.P.
PPN Number: [Insert]

7.89% Series H Senior Secured Notes due May 15, 2016 in the aggregate principal amount of $27,500,000 and payable to John Hancock Life Insurance Company

(2) Contemporaneous with the above wire transfer, advice setting forth:

(a) the full name, interest rate and maturity date of the Notes or other obligations;

(b) allocation of payment between principal and interest and any special payment; and

(c) name and address of Bank (or Trustee) from which wire transfer was sent shall be delivered or faxed AND mailed to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Investment Accounting
Division, B-3
Fax: (617) 572-0628

- ----------
(1) John Hancock Life Insurance Company is requesting two (2) Series H Senior Secured Notes of $9,250,000 and $2,000,000.

(3) All notices with respect to prepayments, both scheduled and unscheduled, whether partial or in full, and notice of maturity shall be delivered or faxed AND mailed to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Investment Accounting
Division, B-3
Fax: (617) 572-0628

(4) All other communications which shall include, but not be limited to, financial statements and certificates of compliance with financial covenants, shall be delivered or faxed AND mailed to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Bond and Corporate Finance Group, T-57
Fax: (617) 572-1605

(5) A copy of any notices relating to change in issuer's name, address or principal place of business or location of collateral and a copy of any legal opinions shall be delivered or faxed AND mailed to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Investment Law Division, T-30
Fax: (617) 572-9269

(6) Tax I.D. No.: 04-1414660

(7) All Notes are to be sent for receipt the day after the closing to:

John Hancock Life Insurance Company
200 Clarendon Street., T-30
Boston, Massachusetts 02117
Attention: Amy S. Weed, Esq.

(8) Promptly after the closing (but no later than one week thereafter), one (1) fully executed original counterpart of the Purchase Agreement (i.e. Note Purchase Agreement, Securities Purchase Agreement, Loan Agreement, Participation Agreement, etc.) is to be sent to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Investment Law Paralegal Unit, T-30

(9) Promptly after the closing (but no later than 2 months thereafter) we require one (1) set of original closing documents AND five (5) sets of conformed copies of the principal operative documents are to be sent to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Investment Law Paralegal Unit,
T-30

NOTE: If more than one Hancock or advisory account is participating in this transaction, the requirements set forth in (9) only need to be fulfilled once (i.e., please don't send 5 conformed copies for each participating account) except where otherwise noted.

NAME OF PURCHASER	SERIES AND PRINCIPAL AMOUNT OF NOTES BEING PURCHASED	
JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY	SERIES	PRINCIPAL AMOUNT
	H	$1,500,000

(1) All payments on account of the Notes or other obligations in accordance with the provisions thereof shall be made by bank wire transfer of immediately available funds for credit, not later than 12 noon, Boston time, to:

Fleet Boston
ABA No. 011000390
Boston, Massachusetts 02110
Account of: John Hancock Life Insurance Company
Private Placement Collection Account
Account No. 541-55417
On Order of: Heritage Operating, L.P.
PPN Number: [insert]

7.89% Series H Senior Secured Notes due May 15, 2016 in the aggregate principal amount of $27,500,000 and payable to John Hancock Variable Life Insurance Company

(2) Contemporaneous with the above wire transfer, advice setting forth:

(a) the full name, interest rate and maturity date of the Notes or other obligations;

(b) allocation of payment between principal and interest and any special payment; and

(c) name and address of Bank (or Trustee) from which wire transfer was sent shall be delivered or faxed AND mailed to:

John Hancock Variable Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Investment Accounting
Division, B-3
Fax: (617) 572-0628

(3) All notices with respect to prepayments, both scheduled and unscheduled, whether partial or in full, and notice of maturity shall be delivered or faxed AND mailed to:

John Hancock Variable Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Investment Accounting
Division B-3
Fax: (617) 572-0628

(4) All other communications which shall include, but not be limited to, financial statements and certificates of compliance with financial covenants, shall be delivered or faxed AND mailed to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Bond and Corporate Finance Group, T-57
Fax: (617) 572-1605

(5) A copy of any notices relating to change in issuer's name, address or principal place of business or location of collateral and a copy of any legal opinions shall be delivered or faxed AND mailed to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Investment Law Division, T-30
Fax: (617) 572-9269

(6) Tax I.D. No.: 04-2664016

(7) All Notes are to be sent for receipt the day after the closing to:

John Hancock Life Insurance Company
200 Clarendon Street., T-30
Boston, Massachusetts 02117
Attn: Amy S. Weed, Esq.

(8) Promptly after the closing (but no later than one week thereafter), one (1) fully executed original counterpart of the Purchase Agreement (i.e. Note Purchase Agreement, Securities Purchase Agreement, Loan Agreement, Participation Agreement, etc.) is to be sent to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attn: Investment Law Paralegal Unit, T-30

(9) Promptly after the closing (but no later than 2 months thereafter) we require one (1) set of original closing documents AND five (5) sets of conformed copies of the principal operative documents are to be sent to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Investment Law Paralegal Unit,
T-30

NOTE: If more than one Hancock or advisory account is participating in this transaction, the requirements set forth in (9) only need to be fulfilled once (i.e., please don't send 5 conformed copies for each participating account) except where otherwise noted.

NAME OF PURCHASER	SERIES AND PRINCIPAL AMOUNT OF NOTES BEING PURCHASED	
MELLON BANK, N.A., TRUSTEE FOR THE BELL ATLANTIC MASTER TRUST	SERIES	PRINCIPAL AMOUNT
(1) All payments on account of the Notes or other obligations in accordance with the provisions thereof shall be made by bank wire transfer of immediately available funds for credit, not later than 12 noon, Boston time, to:	H	$2,000,000

Boston Safe Deposit and Trust Company
ABA No. 011001234
Account No: DDA: 125261
Ref: Bell Atlantic Master Trust:
NYXF 1783332

7.89% Series H Senior Secured Notes due May 15, 2016 in the aggregate principal amount of $27,500,000 and payable to Mellon Bank, N.A., as Trustee for the Bell Atlantic Master Trust

(2) Contemporaneous with the above wire transfer, advice setting forth:

(a) the full name, interest rate and maturity date of the Notes or other obligations;

(b) allocation of payment between principal, interest and any special payment; and

(c) name and address of Bank (or Trustee) from which wire transfer was sent, shall be delivered or faxed AND mailed to:

Mellon Bank, N.A.
Three Mellon Bank Center, Room 153-3610
Pittsburgh, Pennsylvania 15259-0001
Attention: Principal & Interest Unit
Fax: (412) 236-0120

(3) All notices with respect to prepayments, both scheduled and unscheduled, whether partial or in full, and notice of maturity shall be delivered or faxed AND mailed to:

Mellon Bank, N.A.
Three Mellon Bank Center, Room 153-3610
Pittsburgh, Pennsylvania 15259-0001
Attention: Principal & Interest Unit
Fax: (412) 236-0120

(4) All other communications which shall include, but not be limited to, financial statements and certificates of compliance with financial covenants, shall be delivered or faxed AND mailed to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Bond and Corporate Finance
Group, T-57
Fax: (617) 572-1605

(5) A copy of any notices relating to change in issuer's name, address or principal place of business or location of collateral and a copy of any legal opinions shall be delivered or faxed AND mailed to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Investment Law Division, T-30
Fax: (617) 572-9269

(6) Tax I.D. No.: 25-1448208

(7) All Notes are to be sent the day after the closing to:

Mellon Securities Trust Company
120 Broadway - 13th Floor Teller Window
New York, New York 10271
Attention: Robert A. Ferraro
Ref.: Bell Atlantic Master Trust
Account No. NYXF 1783332

(8) Promptly after the closing (but no later than one week thereafter), one (1) fully executed original counterpart of the Purchase Agreement (i.e. Note Purchase Agreement, Securities Purchase Agreement, Loan Agreement, Participation Agreement, etc.) is to be sent to:

Mellon Bank, N.A.
One Mellon Bank Center, Room 151-1935
Pittsburgh, Pennsylvania 15258
Attention: Bernadette T. Rist

(9) Promptly after closing (but no later than 2 months thereafter), one (1) set of original closing documents and four (4) sets of conformed copies of the principal operative documents are to be sent to:

Mellon Bank, N.A.
One Mellon Bank Center, Room 151-1935
Pittsburgh, Pennsylvania 15258
Attention: Bernadette T. Rist

NAME OF PURCHASER	SERIES AND PRINCIPAL AMOUNT OF NOTES BEING PURCHASED	
INVESTORS PARTNER LIFE INSURANCE COMPANY	SERIES	PRINCIPAL AMOUNT
	H	$250,000

(1) All payments on account of the Notes or other obligations in accordance with the provisions thereof shall be made by bank wire transfer of immediately available funds for credit, not later than 12 noon, Boston time, to:

Fleet Boston
ABA No. 011000390
Boston, Massachusetts 02110
Account of: John Hancock Life Insurance Company
Private Placement Collection Account
Account No.:541-55417
On Order of: Heritage Operating, L.P.
PPN Number: [Insert}

7.89% Series H Senior Secured Notes due May 15, 2016 in the aggregate principal amount of $27,500,000 and payable to Investors Partner Life Insurance Company

(2) Contemporaneous with the above wire transfer, advice setting forth:

(a) the full name, interest rate and maturity date of the Notes or other obligations;

(b) allocation of payment between principal and interest and any special payment; and

(c) name and address of Bank (or Trustee) from which wire transfer was sent shall be delivered or faxed AND mailed to:

Investors Partner Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Investment Accounting
Division B-3
Fax: (617) 572-0628

(3) All notices with respect to prepayments, both scheduled and unscheduled, whether partial or in full, and notice of maturity shall be delivered or faxed AND mailed to:

Investors Partner Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Investment Accounting
Division, B-3
Fax: (617) 572-0628

(4) All other communications which shall include, but not be limited to, financial statements and certificates of compliance with financial covenants, shall be delivered or faxed AND mailed to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Bond and Corporate Finance Group, T-57
Fax: (617) 572-1605

(5) A copy of any notices relating to change in issuer's name, address or principal place of business or location of collateral and a copy of any legal opinions shall be delivered or faxed AND mailed to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Investment Law Division, T-30
Fax: (617) 572-9269

(6) Tax I.D. No.: 13-3072894

(7) All Notes are to be sent for receipt the day after the closing to:

John Hancock Life Insurance Company
200 Clarendon Street., T-30
Boston, Massachusetts 02117
Attention: Amy S. Weed, Esq.

(8) Promptly after the closing (but no later than one week thereafter), one (1) fully executed original counterpart of the Purchase Agreement (i.e. Note Purchase Agreement, Securities Purchase Agreement, Loan Agreement, Participation Agreement, etc.) is to be sent to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Investment Law Paralegal Unit, T-30

(9) Promptly after the closing (but no later than 2 months thereafter) we require one (1) set of original closing documents AND five (5) sets of conformed copies of the principal operative documents are to be sent to:

John Hancock Life Insurance Company
200 Clarendon Street
Boston, Massachusetts 02117
Attention: Investment Law Paralegal Unit,
T-30

NOTE: If more than one Hancock or advisory account is participating in this transaction, the requirements set forth in (9) only need to be fulfilled once (i.e.: please don't send 5 conformed copies for each participating account) except where otherwise noted.

NAME OF PURCHASER	SERIES AND PRINCIPAL AMOUNT OF NOTES BEING PURCHASED	
GENERAL ELECTRIC CAPITAL ASSURANCE COMPANY (NOMINEE IS SALKELD & CO.)	SERIES	PRINCIPAL AMOUNT
	I	$4,000,000

(1) All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds to:

Bankers Trust Company
14 Wall Street
New York, New York 10005
SWIFT Code: BKTR US 33
ABA No. 021001033
Account No. 99-911-145
FCC No: 097817

7.99% Series I Senior Secured Notes due May 15, 2013 in the aggregated principal amount of 16,000,000 and payable to General Electric Capital Assurance Company (nominee is Salkeld & Co.) On Order of:Heritage Operating, L.P.

PPN Number: [Insert}

(2) Physical Delivery of the Notes:

Bankers Trust Company
14 Wall Street, 4th Floor
Mail Stop 4042, Window 61
New York, New York 10005
Account No. 097817
Attention: Lorraine Squires (212) 618-2200

(3) All notices with respect to payments and written confirmation of each such payment to be addressed as follows:

GE Financial Assurance
Account: GECA LTC
Two Union Square
601 Union Street
Seattle, Washington 98101
Attention: Investment Accounting
Tel.: (206) 516-2871
Fax: (206) 516-4740

(4) All other notices and communications, including original note purchase agreement, conformed copy of the note agreement, amendment requests, and financial statements, to be addressed as follows:

GE Financial Assurance
Account: GECA LTC
Two Union Square
601 Union Street
Seattle, Washington 98101
Attention: Investment Dept., Private Placements
Tel.: (206) 516-4954
Fax: (206) 516-4578

(5) Tax I.D. No.: 91-6027719

NAME OF PURCHASER	SERIES AND PRINCIPAL AMOUNT OF NOTES BEING PURCHASED	
GENERAL ELECTRIC CAPITAL ASSURANCE COMPANY (NOMINEE IS SALKELD & CO.)	SERIES	PRINCIPAL AMOUNT
(1) All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds to:	I	$12,000,000

(1) All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds to:

Bankers Trust Company
14 Wall Street
New York, New York 10005
SWIFT Code: BKTR US 33
ABA No. 021001033
Account No. 99-911-145
FCC No: 097833

7.99% Series I Senior Secured Notes due May 15, 2013 in the aggregated principal amount of 16,000,000 and payable to General Electric Capital Assurance Company (nominee is Salkeld & Co.) On Order of:Heritage Operating, L.P.

PPN Number: [Insert}

(2) Physical Delivery of the Notes:

Bankers Trust Company
14 Wall Street, 4th Floor
Mail Stop 4042, Window 61
New York, New York 10005
Account No. 097833
Attention: Lorraine Squires (212) 618-2200

(3) All notices with respect to payments and written confirmation of each such payment to be addressed as follows:

GE Financial Assurance
Account: General Electric Capital Assurance Company
Two Union Square
601 Union Street
Seattle, Washington 98101
Attention: Investment Accounting
Tel.: (206) 516-2871
Fax: (206) 516-4740

(4) All other notices and communications, including original note purchase agreement, conformed copy of the note agreement, amendment requests, and financial statements, to be addressed as follows:

GE Financial Assurance
Account: General Electric Capital Assurance Company
Two Union Square
601 Union Street
Seattle, Washington 98101
Attention: Investment Dept., Private Placements
Tel.: (206) 516-4954
Fax: (206) 516-4578

(5) Tax I.D. No.: 91-6027719

NAME OF PURCHASER	SERIES AND PRINCIPAL AMOUNT OF NOTES BEING PURCHASED	
GENERAL ELECTRIC CAPITAL ASSURANCE COMPANY (NOMINEE IS SALKELD & CO.)	SERIES	PRINCIPAL AMOUNT
	G	$5,000,000

(1) All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds to:

Bankers Trust Company
14 Wall Street
New York, New York 10005
SWIFT Code: BKTR US 33
ABA No. 021001033
Account No. 99-911-145
FCC No: 097833

7.21% Series G Senior Secured Notes due May 15, 2008 in the aggregated principal amount of 26,500,000 and payable to General Electric Capital Assurance Company (nominee is Salkeld & Co.) On Order of:Heritage Operating, L.P.

PPN Number: [Insert}

(2) Physical Delivery of the Notes:

Bankers Trust Company
14 Wall Street, 4th Floor
Mail Stop 4042, Window 61
New York, New York 10005
Account No. 097833
Attention: Lorraine Squires (212) 618-2200

(3) All notices with respect to payments and written confirmation of each such payment to be addressed as follows:

GE Financial Assurance
Account: General Electric Capital Assurance Company
Two Union Square
601 Union Street
Seattle, Washington 98101
Attention: Investment Accounting
Tel.: (206) 516-2871
Fax: (206) 516-4740

(4) All other notices and communications, including original note purchase agreement, conformed copy of the note agreement, amendment requests, and financial statements, to be addressed as follows:

GE Financial Assurance
Account: General Electric Capital Assurance Company
Two Union Square
601 Union Street
Seattle, Washington 98101
Attention: Investment Dept., Private Placements
Tel.: (206) 516-4954
Fax: (206) 516-4578

(5) Tax I.D. No.: 91-6027719

NAME OF PURCHASER	SERIES AND PRINCIPAL AMOUNT OF NOTES BEING PURCHASED	
METROPOLITAN LIFE INSURANCE COMPANY	SERIES	PRINCIPAL AMOUNT
	G	$7,500,000

(1) All payments on or in respect of the Notes to be made by bank wire transfer of Federal or other immediately available funds to:

The Chase Manhattan Bank
ABA No. 021000021
Acct. Name: Metropolitan Life Insurance Company
Account. No. 002-2-410591

7.21% Series G Senior Secured Notes due May 15, 2008 in the aggregate principal amount of $26,500,000 as payable to Metropolitan Life Insurance Company

(2) Delivery of Notes after Closing:

Metropolitan Life Insurance Company
One Madison Avenue, Area 6H
New York, New York 10010
Attention: Richard Clarke, Esq.

(3) All notices and communications to:

Metropolitan Life Insurance Company
334 Madison Avenue
P.O. Box 633
Convent Station, New Jersey 07961
Attention: Private Placements Unit
Fax: (973) 254-3032

(4) Tax I.D. No.: 13-5581829

NAME OF PURCHASER	SERIES AND PRINCIPAL AMOUNT OF NOTES BEING PURCHASED	
METROPOLITAN LIFE INSURANCE COMPANY	SERIES	PRINCIPAL AMOUNT
(1) All payments on or in respect of the Notes to be made by bank wire transfer of Federal or other immediately available funds to:	H	$7,500,000

The Chase Manhattan Bank
ABA No. 021000021
Acct. Name: Metropolitan Life Insurance Company
Acct. No. 002-2-410591
7.89% Series H Senior Secured Notes due May 15, 2016 in the aggregate principal amount of $27,500,000 as payable to Metropolitan Life Insurance Company

(2) Delivery of Notes after Closing:

Metropolitan Life Insurance Company
One Madison Avenue, Area 6H
New York, New York 10010
Attention: Richard Clarke, Esq.

(3) All notices and communications to:

Metropolitan Life Insurance Company
334 Madison Avenue
P.O. Box 633
Convent Station, New Jersey 07961
Attention: Private Placements Unit
Fax: (973) 254-3032

(4) Tax I.D. No.: 13-5581829

NAME OF PURCHASER	SERIES AND PRINCIPAL AMOUNT OF NOTES BEING PURCHASED	
CONNECTICUT GENERAL LIFE INSURANCE COMPANY	SERIES	PRINCIPAL AMOUNT
	G	$3,000,000(2) $3,000,000

(1) All payments on or in respect of the Notes to be made by bank wire transfer of Federal or other immediately available funds to:

The Chase/NYC/CTR
BNF=CIGNA Private Placements/AC=9009001802
ABA#021000021
On Order of: Heritage Operating, L.P.

PPN Number: [Insert}

7.21% Series G Senior Secured Notes due May 15, 2008 in the aggregate principal amount of $26,500,000 as payable to Cig & Co. c/o CIGNA Investments, Inc.

(2) All notices related to payments to:

Cig & Co.
c/o CIGNA Investments, Inc.
Attention: Securities Processing S-309
900 Cottage Grove Road
Hartford, CT 06152-2309
and:
Cig & Co.
c/o CIGNA Investments, Inc.
Attention: Private Securities -- S307
Operations Group
900 Cottage Grove Road
Hartford, CT 06152-2307
Fax: (860) 726-7203

with a copy to:

Chase Manhattan Bank
Private Placement Servicing
P.O. Box 1508
Bowling Green Station
New York, New York 10081
Attention: CIGNA Private Placements
Fax: (212) 552-3107/1005

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(2) CIGNA is requesting three (3) Series G Senior Secured Notes of $3,000,000, $3,000,000 and $1,000,000.

(3) All other notices and communications to:

Cig & Co.
c/o CIGNA Investments, Inc.
Attention: Private Securities -- S307
900 Cottage Grove Road
Hartford, CT 06152-2307
Fax: (860) 726-7203

(4) Tax I.D. No.: 13-3574027

(5) Nominee name: Cig & Co.

NAME OF PURCHASER	SERIES AND PRINCIPAL AMOUNT OF NOTES BEING PURCHASED	
CONNECTICUT GENERAL LIFE INSURANCE COMPANY on behalf of one or more separate accounts	SERIES	PRINCIPAL AMOUNT
(1) All payments on or in respect of the Notes to be made by bank wire transfer of Federal or other immediately available funds to:	G	$1,000,000(3)

The Chase/NYC/CTR
BNF=CIGNA Private Placements/AC=9009001802
ABA#021000021
On Order of: Heritage Operating, L.P.

PPN Number: [Insert}

7.21% Series G Senior Secured Notes due May 15, 2008 in the aggregate principal amount of $26,500,000 as payable to Cig & Co. c/o CIGNA Investments, Inc.

(2) All notices related to payments to:

Cig & Co.
c/o CIGNA Investments, Inc.
Attention: Securities Processing S-309
900 Cottage Grove Road
Hartford, CT 06152-2309
and:
Cig & Co.
c/o CIGNA Investments, Inc.
Attention: Private Securities -- S307
Operations Group
900 Cottage Grove Road
Hartford, CT 06152-2307
Fax: (860) 726-7203

with a copy to:

Chase Manhattan Bank
Private Placement Servicing
P.O. Box 1508
Bowling Green Station
New York, New York 10081
Attention: CIGNA Private Placements
Fax: (212) 552-3107/1005

- ----------
(3) CIGNA is requesting three (3) Series G Senior Secured Notes of $3,000,000, $3,000,000 and $1,000,000.

(3) All other notices and communications to:

Cig & Co.
c/o CIGNA Investments, Inc.
Attention: Private Securities -- S307
900 Cottage Grove Road
Hartford, CT 06152-2307
Fax: (860) 726-7203

(4) Tax I.D. No.: 13-3574027

(5) Nominee name: Cig & Co.

NAME OF PURCHASER	SERIES AND PRINCIPAL AMOUNT OF NOTES BEING PURCHASED	
PHOENIX HOME LIFE MUTUAL INSURANCE COMPANY, PHOENIX INVESTMENT PARTNERS, LTD.	SERIES	PRINCIPAL AMOUNT
(1) All payments on or in respect of the Notes to be made by bank wire transfer of Federal or other immediately available funds to:	H	$1,500,000

ABA: 021 000 021
Chase Manhattan Bank, N.A.
New York, NY
Account. No. 900 9000 200
Account Name: Income Processing
G05689, Phoenix Home
On Order of: Heritage Operating, L.P.

PPN Number: [insert}

7.89% Series H Senior Secured Notes due May 15, 2016 in the aggregate principal amount of $27,500,000 and payable to Phoenix Home Life Universal Portfolio c/o Phoenix Investment Partners

(2) All notices of such payments and other instructions and written confirmation of such wire transfer and all other notices and communications to:

Phoenix Home Life Mutual Insurance Company
c/o Phoenix Investment Partners, LTD.
56 Prospect Street
Hartford, CT 06115-0480
Attention: Private Placement Division

(3) Tax I.D. No.: 06-0493340

NAME OF PURCHASER	SERIES AND PRINCIPAL AMOUNT OF NOTES BEING PURCHASED	
PHOENIX HOME LIFE MUTUAL INSURANCE COMPANY, PHOENIX INVESTMENT PARTNERS, LTD.	SERIES	PRINCIPAL AMOUNT
	H	$1,500,000

(1) All payments on or in respect of the Notes to be made by bank wire transfer of Federal or other immediately available funds to:

ABA: 021 000 021
Chase Manhattan Bank, N.A.
New York, NY
Account. No. 900 9000 200
Account Name: Income Processing
G07185, Phoenix Home
On Order of: Heritage Operating, L.P.

PPN Number: [insert}

7.89% Series H Senior Secured Notes due May 15, 2016 in the aggregate principal amount of $27,500,000 and PHL Confederated Life Insurance Company c/o Phoenix Investment Partners

(2) All notices of such payments and other instructions and written confirmation of such wire transfer and all other notices and communications to:

Phoenix Home Life Mutual Insurance Company
c/o Phoenix Investment Partners, LTD.
56 Prospect Street
Hartford, CT 06115-0480
Attention: Private Placement Division

(3) Tax I.D. No.: 06-0493340

NAME OF PURCHASER	SERIES AND PRINCIPAL AMOUNT OF NOTES BEING PURCHASED	
PHOENIX HOME LIFE MUTUAL INSURANCE COMPANY, PHOENIX INVESTMENT PARTNERS, LTD.	SERIES	PRINCIPAL AMOUNT
	H	$2,000,000

(1) All payments on or in respect of the Notes to be made by bank wire transfer of Federal or other immediately available funds to:

ABA: 021 000 021
Chase Manhattan Bank, N.A.
New York, NY
Account. No. 900 9000 200
Account Name: Income Processing
G05123, Phoenix Home
On Order of: Heritage Operating, L.P.

PPN Number: [insert}

7.89% Series H Senior Secured Notes due May 15, 2016 in the aggregate principal amount of $27,500,000 and payable to Phoenix Home Life General Account/Closed Block Portfolio

(2) All notices of such payments and other instructions and written confirmation of such wire transfer and all other notices and communications to:

Phoenix Home Life Mutual Insurance Company
c/o Phoenix Investment Partners, LTD.
56 Prospect Street
Hartford, CT 06115-0480
Attention: Private Placement Division

(3) Tax I.D. No.: 06-0493340

NAME OF PURCHASER	SERIES AND PRINCIPAL AMOUNT OF NOTES BEING PURCHASED	
C.M. LIFE INSURANCE COMPANY c/o MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY	SERIES	PRINCIPAL AMOUNT
	G	$1,000,000

(1) All payments on account of the Note shall be made by crediting in the form of bank wire transfer of Federal or other immediately available funds (identifying each payment as "Heritage Operating, L.P., 7.21% Series G Senior Secured Notes due May 15, 2008, PPN [insert], interest and principal") to:

Citibank, N.A.
111 Wall Street
New York, NY 10043
ABA No. 021000089
For Segment 43 - Universal Life
Account No. 4068-6561

7.21% Series G Senior Secured Notes due May 15, 2008 in the aggregate principal amount of $26,500,000 and payable to C.M. Life Insurance Company c/o Massachusetts Mutual Life Insurance Company

(2) Telephone advice of payment to:

. Securities Custody and Collection Department
David L. Babson & Company
Phone: (413) 744-5104 or (413) 744-5718

(3) Send notices on payments to:

C.M. Life Insurance Company
c/o David L. Babson & Company, Inc.
1295 State Street
Springfield, MA 01111
Attention: Securities Custody and Collection Department - F381

(4) Send all other communications and notices to:

C.M. Life Insurance Company
c/o David L. Babson & Company, Inc.
1295 State Street
Springfield, MA 01111
Attention: Securities Investment Division

(5) Tax I.D. No.: 06-1041383

NAME OF PURCHASER	SERIES AND PRINCIPAL AMOUNT OF NOTES BEING PURCHASED	
MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY	SERIES	PRINCIPAL AMOUNT
	G	$1,000,000

(1) All payments on account of the Note shall be made by crediting in the form of bank wire transfer of Federal or other immediately available funds (identifying each payment as "Heritage Operating, L.P., 7.21% Series G Senior Secured Notes due May 15, 2008, PPN [insert], interest and principal") to:

Chase Manhattan Bank, N.A.
4 Chase MetroTech Center
New York, NY 10081
ABA No. 021000021
For MassMutual IFM Non-Traditional
Account No. 910-2509073

7.21% Series G Senior Secured Notes due May 15, 2008 in the aggregate principal amount of $26,500,000 and payable to Massachusetts Mutual Life Insurance Company

(2) Telephone advice of payment to:

Securities Custody and Collection Department
David L. Babson & Company
Phone: (413) 744-5104 or (413) 744-5718

(3) Send notices on payments to:

Massachusetts Mutual Life Insurance Company
c/o David L. Babson & Company, Inc.
1295 State Street
Springfield, MA 01111
Attention: Securities Custody and Collection Department - F381

(4) Send all other communications and notices to:
Massachusetts Mutual Life Insurance Company
c/o David L. Babson & Company, Inc.
1295 State Street
Springfield, MA 01111
Attention: Securities Investment Division

(5) Tax I.D. No.: 04-1590850

NAME OF PURCHASER	SERIES AND PRINCIPAL AMOUNT OF NOTES BEING PURCHASED	
MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY	SERIES	PRINCIPAL AMOUNT
	G	$1,000,000

(1) All payments on account of the Note shall be made by crediting in the form of bank wire transfer of Federal or other immediately available funds (identifying each payment as "Heritage Operating, L.P., 7.21% Series G Senior Secured Notes due May 15, 2008, PPN [insert], interest and principal") to:

Chase Manhattan Bank, N.A.
4 Chase MetroTech Center
New York, NY 10081
ABA No. 021000021
For MassMutual IFM Non-Traditional
Account No. 910-2594018

7.21% Series G Senior Secured Notes due May 15, 2008 in the aggregate principal amount of $26,500,000 and payable to Massachusetts Mutual Life Insurance Company

(2) Telephone advice of payment to:

Securities Custody and Collection Department
David L. Babson & Company
Phone: (413) 744-5104 or (413) 744-5718

(3) Send notices on payments to:

Massachusetts Mutual Life Insurance Company

Massachusetts Mutual Life Insurance Company
c/o David L. Babson & Company, Inc.
1295 State Street
Springfield, MA 01111
Attention: Securities Custody and Collection Department - F381

(4) Send all other communications and notices to:

Massachusetts Mutual Life Insurance Company
c/o David L. Babson & Company, Inc.
1295 State Street
Springfield, MA 01111
Attention: Securities Investment Division

(5) Tax I.D. No.: 04-1590850

NAME OF PURCHASER	SERIES AND PRINCIPAL AMOUNT OF NOTES BEING PURCHASED	
MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY	SERIES	PRINCIPAL AMOUNT
	G	$4,000,000

(1) All payments on account of the Note shall be made by crediting in the form of bank wire transfer of Federal or other immediately available funds, ("identifying each payment as "Heritage Operating, L.P., 7.21% Series G Senior Secured Notes due May 15, 2008, PPN [insert], interest and principal"), to:

Chase Manhattan Bank, N.A.
4 Chase MetroTech Center
New York, NY 10081
ABA No. 021000021
For MassMutual IFM Non-Traditional
Account No. 4067-3488

7.21% Series G Senior Secured Notes due May 15, 2008 in the aggregate principal amount of $26,500,000 and payable to Massachusetts Mutual Life Insurance Company

(2) Telephone advice of payment to:

Securities Custody and Collection Department
David L. Babson & Company
Phone: (413) 744-5104 or (413) 744-5718

(3) Send notices on payments to:

Massachusetts Mutual Life Insurance Company
c/o David L. Babson & Company, Inc.
1295 State Street
Springfield, MA 01111
Attention: Securities Custody and Collection Department - F381

(4) Send all other communications and notices to:

Massachusetts Mutual Life Insurance Company
c/o David L. Babson & Company, Inc.
1295 State Street
Springfield, MA 01111
Attention: Securities Investment Division

(5) Tax I.D. No.: 04-1590850