

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED AUGUST 31, 2000

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 1-11727

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

73-1493906
(I.R.S. Employer
Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of class	Name of each exchange on which registered
Common Units	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: None

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

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value as of November 6, 2000, of the registrant's Common Units held by nonaffiliates of the registrant, based on the reported closing price of such units on the New York Stock Exchange on such date, was approximately \$142,092,000.

At November 6, 2000, the registrant had units outstanding as follows:

Heritage Propane Partners, L.P.	9,746,196	Common Units
	1,851,471	Subordinated Units
	1,382,514	Class B Subordinated Units

Documents Incorporated by Reference: None

HERITAGE PROPANE PARTNERS, L.P.

2000 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

	PAGE

PART I	
ITEM 1. BUSINESS.	1
ITEM 2. PROPERTIES.....	9
ITEM 3. LEGAL PROCEEDINGS.....	10
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.....	10
PART II	
ITEM 5. MARKET FOR THE REGISTRANT'S UNITS AND RELATED UNITHOLDER MATTERS.....	11
ITEM 6. SELECTED HISTORICAL FINANCIAL AND OPERATING DATA.....	12
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.....	15
ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.....	26
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.....	27
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.....	27
PART III	
ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.....	28
ITEM 11. EXECUTIVE COMPENSATION.....	32
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.....	35
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.....	37
PART IV	
ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.....	37

PART I

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:

- o CHANGES IN GENERAL ECONOMIC CONDITIONS IN THE UNITED STATES AS WELL AS CHANGES IN GENERAL ECONOMIC CONDITIONS AND CURRENCIES IN FOREIGN COUNTRIES;
- o WEATHER CONDITIONS THAT VARY SIGNIFICANTLY FROM HISTORICALLY NORMAL CONDITIONS;
- o THE GENERAL LEVEL OF PETROLEUM PRODUCT DEMAND, AND THE AVAILABILITY OF PROPANE SUPPLIES;
- o ENERGY PRICES GENERALLY AND SPECIFICALLY, THE PRICE OF PROPANE TO THE CONSUMER COMPARED TO THE PRICE OF ALTERNATIVE AND COMPETING FUELS;
- o COMPETITION FROM OTHER PROPANE DISTRIBUTORS AND ALTERNATE FUELS;
- o THE AVAILABILITY AND COST OF CAPITAL;
- o CHANGES IN LAWS AND REGULATIONS TO WHICH HERITAGE IS SUBJECT, INCLUDING TAX, ENVIRONMENTAL AND EMPLOYMENT REGULATIONS;
- o THE COSTS AND EFFECTS OF LEGAL AND ADMINISTRATIVE PROCEEDINGS AGAINST HERITAGE OR WHICH MAY BE BROUGHT AGAINST HERITAGE;
- o THE ABILITY OF HERITAGE TO SUSTAIN ITS HISTORICAL LEVELS OF INTERNAL GROWTH; AND
- o THE ABILITY OF HERITAGE TO CONTINUE TO LOCATE AND ACQUIRE OTHER PROPANE COMPANIES AT PURCHASE PRICES THAT ARE ACCRETIVE TO ITS FINANCIAL RESULTS.

ITEM 1. BUSINESS

MERGER

In August 2000, TECO Energy, Inc. ("TECO"), 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.

In August 2000, U.S. Propane acquired all of the outstanding common stock of Heritage Holdings, Inc., Heritage Propane Partners, L.P.'s General Partner, for \$120 million. 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) to Heritage Propane Partners, L.P. for \$181.4 million plus working capital. The \$181.4 million was payable \$139.5 million in cash, \$31.8 million of assumed debt, and the issuance of 372,392 Common Units of Heritage Propane Partners, L.P. valued at \$7.3 million and a 1.0101 percent limited partnership interest in Heritage Operating, L.P. valued at \$2.7 million. The purchase price and the issuance price for the Common Units were approved by an independent committee of the Board of Directors of Heritage Holdings, Inc. The issuance price for the Common Units was \$19.73125 per unit under a formula based on the average closing price of the 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"). The working capital adjustment is anticipated to be settled in December 2000.

Concurrent with the acquisition, Heritage Propane Partners, L.P. borrowed \$180 million 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 \$50.2 million. The total of these proceeds was utilized to finance the transaction and retire a portion of existing debt.

Heritage Propane Partners, L.P. is the surviving entity for legal purposes; however, U.S. Propane's propane operations will be the acquirer for accounting purposes. For purposes of the discussion herein: (1) Peoples Gas is described as the accounting acquirer because Peoples Gas was the acquirer in the transaction that formed U.S. Propane; (2) 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; and (3) the combined operations of U.S. Propane's propane operations and Predecessor Heritage are described as Heritage.

Peoples Gas has a fiscal year-end of December 31. The eight-month period ended August 31, 2000 Form 10-K will be treated as a transition period under the rules of the Securities and Exchange Commission. However, this Form 10-K is not a transition report as the registrant will continue to have an August 31 fiscal year-end.

Heritage believes it is presently the fourth largest retail marketer of propane in the United States (as measured by retail gallons sold). Heritage currently serves more than 485,000 active residential, commercial, industrial and agricultural customers located in 28 states. Heritage's operations extend from coast to coast with concentrations in the western, upper midwestern, northeastern and southeastern regions of the United States.

BUSINESS OF PREDECESSOR HERITAGE

Heritage Propane Partners, L.P., a publicly traded Delaware limited partnership, was formed in April 1996. Heritage Propane Partners, L.P.'s activities are conducted through its subsidiary, Heritage Operating, L.P. (the "Operating Partnership"). Heritage, with a 98.9899 percent limited partner interest, was the sole limited partner of the Operating Partnership. The Operating Partnership accounts for nearly all of the consolidated assets, sales and operating earnings of Heritage Propane Partners, L.P.

The business of Predecessor Heritage, starting with the formation of Heritage Holdings, Inc. in 1989, has grown primarily through acquisitions of retail propane operations and, to a lesser extent, through internal growth. Since its inception in 1989 through August 9, 2000, Predecessor Heritage completed 70 acquisitions for a total purchase price of approximately \$297 million. Volumes of propane sold to retail customers have increased steadily from 63.2 million gallons for the fiscal year ended August 31, 1992 to 170.9 million gallons for the period ended August 9, 2000.

BUSINESS OF PEOPLES GAS

Peoples Gas is a Florida corporation and formerly a wholly owned subsidiary of TECO. In June 1997, TECO acquired Lykes Energy, Inc. ("Lykes") for approximately 12.1 million shares of its common stock valued at approximately \$300 million. Prior to the merger between TECO and Lykes, Peoples Gas was a wholly owned subsidiary of Lykes.

In January 1998, TECO completed its merger with Griffis, Inc. ("Griffis") for approximately 600,000 shares of its common stock valued at approximately \$15 million. This merger was accounted for as a pooling of interests. Concurrent with the merger, Griffis was merged into Peoples Gas.

GENERAL

At the time of the series of transactions that formed U.S. Propane and combined the operations of Predecessor Heritage and U.S. Propane, Peoples Gas was serving more than 70,000 active residential, commercial and wholesale customers located in the Florida peninsula. Peoples Gas has grown by expanding existing markets as well as through acquisitions of independent propane operations located in northeast and southwest Florida. Prior to the series of transactions, Peoples Gas believes it was among the top 25 independent propane distributors nationally and was the largest independent propane distributor in Florida.

Peoples Gas believes it has held competitive advantages in both the residential and commercial markets through its focus on customer service and product reliability. Following is a summary of retail sales volumes per fiscal year for Peoples Gas. The transition period ended August 31, 2000 represents seven months of Peoples Gas stand-alone and one month of Heritage.

RETAIL PROPANE GALLONS SOLD (IN MILLIONS) :	For the Year Ended December 31,					For the Eight-months Ended August 31,
	1995	1996	1997	1998	1999	2000
	----	----	----	----	----	----
	24.7	26.7	29.1	30.9	33.6	38.3

As a result of the implementation of the strategy described below, Predecessor Heritage has achieved the following retail sales volumes per fiscal year and for the period ended August 9, 2000:

RETAIL PROPANE GALLONS SOLD (IN MILLIONS) :	For the Year Ended August 31,									For the Period Ended August 9,
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
	----	----	----	----	----	----	----	----	----	----
	48.2	63.2	73.4	79.7	98.3	118.2	125.6	146.7	159.9	170.9

Heritage believes that its competitive strengths include: (i) experience in identifying, evaluating and completing acquisitions, (ii) operations that are focused in areas experiencing higher-than-average population growth, (iii) a low cost administrative infrastructure and (iv) a decentralized operating structure and entrepreneurial workforce. These competitive strengths have enabled Predecessor Heritage to achieve levels of EBITDA per retail propane gallon sold that Heritage believes are among the highest of any publicly traded propane partnership. Heritage believes that as a result of its geographic diversity and district-level incentive compensation program, it has been able to reduce the effect of adverse weather conditions on EBITDA, including those experienced by Predecessor Heritage during the warmer-than-normal winters of the past five years with the winters of 1998 - 1999 and 1999 - 2000 recorded as two of the warmest winters of this century. Heritage believes that its concentration in higher-than-average population growth areas provides a strong economic foundation for expansion through acquisitions and internal growth. Heritage does not believe that it is significantly more vulnerable than its competitors to displacement by natural gas distribution systems.

BUSINESS STRATEGY

Heritage's strategy is to expand operations and increase retail market share in order to increase the funds available for distribution to its Unitholders. The three critical elements to this strategy are described below.

Acquisitions. Acquisitions will be the principal means of growth for Heritage, as the retail propane industry is mature and overall demand for propane is expected to experience limited growth in the foreseeable future. Management believes that the fragmented nature of the propane industry provides significant opportunities for growth through acquisition. Industry sources indicate that there are over 8,000 retail propane operations, of which the 10 largest retailers, including Heritage, account for approximately 37 percent of the total retail sales. Heritage follows a disciplined acquisition strategy that concentrates on companies (i) in geographic areas experiencing higher-than-average population growth, (ii) with a high percentage of sales to residential customers, (iii) with local reputations for quality service and (iv) with a high percentage of tank ownership. In addition Heritage attempts to capitalize on the reputations of the companies it acquires by maintaining local brand names, billing practices and employees, thereby creating a sense of continuity and minimizing customer loss. Management believes that this strategy has helped to make Heritage an attractive buyer for many acquisition candidates from the seller's viewpoint.

Through August 9, 2000, Predecessor Heritage completed 70 acquisitions for a total purchase price of approximately \$297 million. On August 10, 2000 Predecessor Heritage completed the merger with U.S. Propane. During the period between August 10, 2000 through August 31, 2000, Heritage completed two additional acquisitions. Of these 70 companies acquired by Predecessor Heritage, 19 represent "core acquisitions" with multiple plants in a specific geographic area, with the balance representing "blend-in companies" which operate in an existing region. Heritage will focus on acquisition candidates in its existing areas of operations, but will consider core acquisitions in other higher-than-average population growth areas in order to further reduce the impact of adverse weather patterns in any one region of Heritage's operations. While Heritage is currently evaluating numerous acquisition candidates, there can be no assurance that Heritage will identify attractive acquisition candidates in the future, that Heritage will be able to acquire such businesses on economically acceptable terms or successfully integrate them into existing operations and make cost-saving changes, that any acquisition will not dilute earnings and distributions to Unitholders or that any additional debt incurred to finance an acquisition will not adversely affect the ability of Heritage to make distributions to Unitholders.

In order to facilitate Heritage's acquisition strategy, the Operating Partnership maintains a Bank Credit Facility. Heritage recently amended its Bank Credit Facility to increase the total amount available for borrowings from \$85 million to \$100 million. The Bank Credit Facility consists of a \$50 million Acquisition Facility to be used for acquisitions and improvements and a \$50 million Working Capital Facility to be used for working capital and other general partnership purposes. Heritage also has the ability to fund acquisitions through the issuance of additional partnership interests and through the Medium Term Note Program and Senior Secured Notes if certain conditions are met. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Description of Indebtedness."

Internal Growth. In addition to pursuing expansion through acquisitions, Predecessor Heritage has aggressively focused on internal growth at its existing district locations. Heritage believes that, by concentrating its operations in areas experiencing higher-than-average population growth, it is well positioned to achieve internal growth by adding new customers. Heritage also believes that its decentralized structure, in which operational decisions are made at the district and regional level, together with a bonus system that allocates a significant portion of a district's EBITDA in relation to budgeted objectives to district employees, has fostered an entrepreneurial environment that has allowed Heritage to achieve its high rates of internal growth. Heritage believes that Predecessor Heritage's rate of internal growth has exceeded the average internal growth rate in the industry.

Low Cost, Decentralized Operations. Heritage focuses on controlling costs at the corporate and district levels. While Predecessor Heritage has realized certain economies of scale as a result of its acquisitions, it attributes its low operating costs primarily to its decentralized structure, which Heritage plans to continue. By delegating all customer billing and collection activities to the district level, Predecessor Heritage has been able to operate without a large corporate staff. Of Heritage's 1,889 full-time employees as of August 31, 2000, only 66, or approximately 4

percent, were general and administrative. In addition Heritage's district level incentive compensation program encourages district employees at all levels to control costs and expand revenues.

INDUSTRY BACKGROUND AND COMPETITION

Propane, a by-product of natural gas processing and petroleum refining, is a clean-burning energy source recognized for its transportability and ease of use relative to alternative forms of stand-alone energy sources. Retail propane use falls into three broad categories: (i) residential applications, (ii) industrial, commercial, and agricultural applications, and (iii) other retail applications, including motor fuel sales. Residential customers use propane primarily for space and water heating. Industrial customers use propane primarily as fuel for forklifts and stationary engines, to fire furnaces, as a cutting gas, in mining operations and in other process applications. Commercial customers, such as restaurants, motels, laundries and commercial buildings, use propane in a variety of applications, including cooking, heating and drying. In the agricultural market, propane is primarily used for tobacco curing, crop drying, poultry brooding and weed control. Other retail uses include motor fuel for cars and trucks, outdoor cooking and other recreational uses, propane resales and sales to state and local governments. In its wholesale operations, Heritage sells propane principally to large industrial end-users and other propane distributors.

Propane is extracted from natural gas or oil wellhead gas at processing plants or separated from crude oil during the refining process. Propane is normally transported and stored in a liquid state under moderate pressure or refrigeration for ease of handling in shipping and distribution. When the pressure is released or the temperature is increased, it is usable as a flammable gas. Propane is colorless and odorless: an odorant is added to allow its detection. Like natural gas, propane is a clean burning fuel and is considered an environmentally preferred energy source.

Propane competes with other sources of energy, some of which are less costly for equivalent energy value. Heritage competes for customers against suppliers of electricity, natural gas and fuel oil. Competition from alternative energy sources has been increasing as a result of reduced regulation of many utilities including natural gas and electricity. Except for certain industrial and commercial applications, propane is generally not competitive with natural gas in areas where natural gas pipelines already exist because natural gas is a significantly less expensive source of energy than propane. The gradual expansion of the nation's natural gas distribution systems has resulted in the availability of natural gas in many areas that previously depended upon propane. Although the extension of natural gas pipelines tends to displace propane distribution in areas affected, Heritage believes that new opportunities for propane sales arise as more geographically remote neighborhoods are developed. Although propane is similar to fuel oil in certain applications and market demand, propane and fuel oil compete to a lesser extent primarily because of the cost of converting from one to another. Based upon information provided by the Energy Information Agency, propane accounts for approximately three to four percent of household energy consumption in the United States.

In addition to competing with alternative energy sources, Heritage competes with other companies engaged in the retail propane distribution business. Competition in the propane industry is highly fragmented and generally occurs on a local basis with other large full-service multi-state propane marketers, thousands of smaller local independent marketers and farm cooperatives. Based on industry publications, Heritage believes that the domestic retail market for propane is approximately 8.6 billion gallons annually and that the 10 largest retailers, including Heritage, account for approximately 37 percent of the total retail sales of propane in the United States. Most of Heritage's retail distribution branches compete with five or more marketers or distributors. Each retail distribution outlet operates in its own competitive environment because retail marketers tend to locate in close proximity to customers. The typical retail distribution outlet generally has an effective marketing radius of approximately 50 miles although in certain rural areas the marketing radius may be extended by a satellite location.

The ability to compete effectively further depends on the reliability of service, responsiveness to customers and the ability to maintain competitive prices. Heritage believes that its safety programs, policies and procedures are more comprehensive than many of its smaller, independent competitors and give it a competitive advantage over such retailers. Heritage also believes that its service capabilities and customer responsiveness differentiate it from many of these smaller competitors. Heritage's employees are on call 24-hours-a-day, 7-days-a-week for emergency repairs and deliveries.

The wholesale propane business is highly competitive. For the period ended August 9, 2000, Predecessor Heritage's domestic wholesale operations (excluding M-P Energy Partnership) accounted for only 4.0 percent of total volumes and less than 1 percent of its gross profit. Heritage does not emphasize wholesale operations, but it believes that limited wholesale activities enhance its ability to supply its retail operations.

PRODUCTS, SERVICES AND MARKETING

Heritage distributes propane through a nationwide retail distribution network consisting of over 225 customer service locations in 28 states. Heritage's operations are concentrated in large part in the western, upper midwestern and southeastern regions of the United States. Heritage serves almost 485,000 active customers. Historically, approximately two-thirds of Predecessor Heritage's retail propane volumes and in excess of 80 percent of its EBITDA were attributable to sales during the six-month peak heating season from October through March, as many customers use propane for heating purposes. Consequently, sales and operating profits were normally concentrated in Predecessor Heritage's first and second fiscal quarters. Cash flows from operations however, were generally greatest during the second and third fiscal quarters when customers pay for propane purchased during the six-month peak season. Historically, approximately half of Peoples Gas's propane volumes have been attributable to sales during the five-month peak season from November through March, as Florida realizes temporary growth from numerous seasonal residents. Consequently, sales and operating profits were normally concentrated in the Peoples Gas' first and fourth calendar quarters. Cash flows from operations for Peoples Gas, however, were generally greatest during the first and second calendar quarters when customers pay for propane purchased during the five-month peak season. To the extent necessary, Heritage will reserve cash from peak periods for distribution to Unitholders during the warmer seasons.

Typically, district locations are found in suburban and rural areas where natural gas is not readily available. Generally, such locations consist of a one to two acre parcel of land, an office, a small warehouse and service facility, a dispenser and one or more 18,000 to 30,000 gallon storage tanks. Propane is generally transported from refineries, pipeline terminals, leased storage facilities and coastal terminals by rail or truck transports to Heritage's district locations where it is unloaded into storage tanks. In order to make a retail delivery of propane to a customer, a bobtail truck is loaded with propane from the storage tank. Propane is then pumped from the bobtail truck, which generally holds 2,500 to 3,000 gallons of propane, into a stationary storage tank on the customer's premises. The capacity of these customer tanks ranges from approximately 100 gallons to 1,200 gallons, with a typical tank having a capacity of 100 to 300 gallons in milder climates and from 500 to 1,000 gallons in colder climates. Heritage also delivers propane to retail customers in portable cylinders, which typically have a capacity of 5 to 35 gallons. When these cylinders are delivered to customers, empty cylinders are picked up for refilling at Heritage's distribution locations or are refilled in place. Heritage also delivers propane to certain other bulk end users of propane in tractor-trailers known as transports, which typically have an average capacity of approximately 10,500 gallons. End users receiving transport deliveries include industrial customers, large-scale heating accounts, mining operations, and large agricultural accounts.

Heritage encourages its customers to implement a regular delivery schedule by, in some cases, charging extra for non-scheduled deliveries. Many of Heritage's residential customers receive their propane supply pursuant to an automatic delivery system which eliminates the customer's need to make an affirmative purchase decision and allows for more efficient route scheduling and maximization of volumes delivered. From its district locations, Heritage also sells, installs and services equipment related to its propane distribution business, including heating and cooking appliances.

Propane use falls into three broad categories: (i) residential applications, (ii) industrial, commercial and agricultural applications and (iii) other retail applications, including motor fuel sales. Approximately 22 percent of the gallons sold by Peoples Gas in calendar 2000 were to retail customers and 78 percent to commercial customers. Approximately 96 percent of the domestic gallons sold by Predecessor Heritage in the period ended August 9, 2000 were to retail customers and approximately 4 percent were to wholesale customers. Of the retail gallons sold by Predecessor Heritage in the period ended August 9, 2000, 59 percent were to residential customers, 32 percent were to industrial, commercial and agricultural customers, and 9 percent were to other retail users. Sales to residential customers in the period ended August 9, 2000 for Predecessor Heritage accounted for 56 percent of total domestic gallons sold inclusive of domestic wholesale but 71 percent of Predecessor Heritage's gross profit from propane sales. Residential sales have a greater profit margin and a more stable customer base than other markets served by

Heritage. Industrial, commercial and agricultural sales accounted for 21 percent of Predecessor Heritage's gross profit from propane sales for the period ended August 9, 2000, with all other retail users accounting for 7 percent. Additional volumes sold to wholesale customers contributed the remaining 1 percent of gross profit from propane sales. No single customer accounts for 10 percent or more of revenues.

The propane business is very seasonal with weather conditions significantly affecting demand for propane. Heritage believes that the geographic diversity of its operations helps to minimize its nationwide exposure to regional weather. Although overall demand for propane is affected by climate, changes in price and other factors, Heritage believes its residential and commercial business to be relatively stable due to the following characteristics: (i) residential and commercial demand for propane has been relatively unaffected by general economic conditions due to the largely non-discretionary nature of most propane purchases, (ii) loss of customers to competing energy sources has been low, (iii) the tendency of Heritage's customers to remain with Heritage due to the product being delivered pursuant to a regular delivery schedule and to Heritage's ownership of over 87 percent of the storage tanks utilized by its customers, and (iv) the historic ability of Heritage to more than offset customer losses through internal growth of its customer base in existing markets. Since home heating usage is the most sensitive to temperature, residential customers account for the greatest usage variation due to weather. Variations in the weather in one or more regions in which Heritage operates can significantly affect the total volumes of propane sold by Heritage and the margins realized thereon and, consequently, Heritage's results of operations. Heritage believes that sales to the commercial and industrial markets, while affected by economic patterns, are not as sensitive to variations in weather conditions as sales to residential and agricultural markets.

PROPANE SUPPLY AND STORAGE

Heritage's propane supply is purchased from over 50 oil companies and natural gas processors at numerous supply points located in the United States and Canada. Heritage typically enters into one-year supply agreements subject to annual renewal. The percentage of contract purchases may vary from year to year as determined by Heritage. Supply contracts generally provide for pricing in accordance with posted prices at the time of delivery or the current prices established at major delivery points. Most of these agreements provide maximum and minimum seasonal purchase guidelines. Heritage receives its supply of propane predominately through railroad tank cars and common carrier transport.

Supplies of propane from Peoples Gas' sources historically have been readily available. During the eight months ended August 31, 2000, Dynegy Liquids Marketing and Trade ("Dynegy") provided approximately 35 percent of Heritage's total propane supply.

Supplies of propane from Predecessor Heritage's sources historically have been readily available. In the period ended August 9, 2000, Dynegy provided approximately 15 percent of Predecessor Heritage's total domestic propane supply. Heritage believes that, if supplies from Dynegy were interrupted, it would be able to secure adequate propane supplies from other sources without a material disruption of its operations. Aside from Dynegy, no single supplier provided more than 10 percent of Heritage's or Predecessor Heritage's total domestic propane supply. Although no assurances can be given that supplies of propane will be readily available in the future, Heritage expects a sufficient supply to continue to be available. However, increased demand for propane in periods of severe cold weather, or otherwise, could cause future propane supply interruptions or significant volatility in the price of propane.

During the period ended August 9, 2000, Predecessor Heritage purchased approximately 77 percent of its propane supplies from domestic suppliers with the remainder being procured through M-P Oils, Ltd., a wholly owned subsidiary of Heritage. M-P Oils, Ltd. holds a 60 percent interest in a Canadian partnership, M-P Energy Partnership, which buys and sells propane for its own account as well as supplies Heritage's volume requirements in the northern states. Those volumes are included in the sources of propane set forth in the immediately preceding paragraph.

The market price of propane is subject to volatile changes as a result of supply or other market conditions over which Heritage will have no control. Since rapid increases in the wholesale cost of propane may not be immediately passed on to customers, such increases could reduce Heritage's gross profits. Predecessor Heritage has generally been successful in maintaining retail gross margins on an annual basis despite changes in the wholesale cost of propane. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--

General." However, there may be times when Heritage will be unable to pass on fully such price increases to its customers. Consequently, Heritage's profitability will be sensitive to changes in wholesale propane prices.

Heritage leases space in storage facilities in Michigan, Mississippi, North Carolina and Arizona and smaller storage facilities in other locations and has rights to use storage facilities in additional locations when it "pre-buys" product from these sources. Heritage believes that it has adequate third party storage to take advantage of supply purchasing advantages as they may occur from time to time. Access to storage facilities allows Heritage to buy and store large quantities of propane during periods of low demand, which generally occur during the summer months, thereby helping to ensure a more secure supply of propane during periods of intense demand or price instability.

PRICING POLICY

Pricing policy is an essential element in the marketing of propane. Heritage relies on regional management to set prices based on prevailing market conditions and product cost, as well as local management input. All regional managers are advised regularly of any changes in the posted price of the district's propane suppliers. In most situations, Heritage believes that its pricing methods will permit Heritage to respond to changes in supply costs in a manner that protects Heritage's gross margins and customer base, to the extent possible. In some cases, however, Heritage's ability to respond quickly to cost increases could occasionally cause its retail prices to rise more rapidly than those of its competitors, possibly resulting in a loss of customers.

BILLING AND COLLECTION PROCEDURES

Customer billing and account collection responsibilities are retained at the district level. Heritage believes that this decentralized approach is beneficial for several reasons: (i) the customer is billed on a timely basis; (ii) the customer is more apt to pay a "local" business; (iii) cash payments are received faster, and; (iv) district personnel have a current account status available to them at all times to answer customer inquiries.

GOVERNMENT REGULATION

Heritage is subject to various federal, state and local environmental, health and safety laws and regulations. Generally, these laws impose limitations on the discharge of pollutants and establish standards for the handling of solid and hazardous wastes. These laws include without limitation, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), the Clean Air Act, the Occupational Safety and Health Act, the Emergency Planning and Community Right-to-Know Act, the Clean Water Act, and comparable state statutes. CERCLA, also known as the "Superfund" law, imposes joint and several liability in most instances, without regard to fault or the legality of the original conduct on certain classes of persons that are considered to have contributed to the release or threatened release of a "hazardous substance" into the environment. Propane is not a hazardous substance within the meaning of CERCLA. However, certain automotive waste products generated by Heritage's truck fleet, as well as "hazardous substances" or "hazardous waste" disposed of during past operations by third parties on Heritage's properties, could subject Heritage to liability under CERCLA. Such laws and regulations could result in civil or criminal penalties in cases of non-compliance and impose liability for remediation costs. In addition, third parties may make claims against owners or operators of properties for personal injuries and property damage associated with releases of hazardous or toxic substances or waste.

In connection with all acquisitions of retail propane businesses that involve the acquisition of any interest in real estate, Heritage conducts an environmental review in an attempt to determine whether any substance other than propane has been sold from, or stored on, any such real estate prior to its purchase. Such review includes questioning the seller, obtaining representations and warranties concerning the seller's compliance with environmental laws and conducting inspections of the properties. Where warranted, independent environmental consulting firms are hired to look for evidence of hazardous substances or the existence of underground storage tanks.

Petroleum-based contamination or environmental wastes are known to be located on or adjacent to six sites, which Heritage presently or formerly operates. These sites were evaluated at the time of their acquisition. In all cases, remediation operations have been or will be undertaken by others, and in all six cases, Heritage obtained indemnification for expenses associated with any remediation from the former owners or related entities. Based on

information currently available to Heritage, such projects are not expected to have a material adverse effect on Heritage's financial condition or results of operation.

National Fire Protection Association Pamphlets No. 54 and No. 58, which establish rules and procedures governing the safe handling of propane, or comparable regulations, have been adopted as the industry standard in all of the states in which Heritage operates. In some states these laws are administered by state agencies, and in others they are administered on a municipal level. With respect to the transportation of propane by truck, Heritage is subject to regulations promulgated under the Federal Motor Carrier Safety Act. These regulations cover the transportation of hazardous materials and are administered by the United States Department of Transportation. Heritage conducts ongoing training programs to help ensure that its operations are in compliance with applicable regulations. Heritage maintains various permits that are necessary to operate some of its facilities, some of which may be material to its operations. Heritage believes that the procedures currently in effect at all of its facilities for the handling, storage and distribution of propane are consistent with industry standards and are in compliance in all material respects with applicable laws and regulations.

Heritage has implemented environmental programs and policies designed to avoid potential liability and cost under applicable environmental laws. It is possible, however, that Heritage will have increased costs due to stricter pollution control requirements or liabilities resulting from non-compliance with operating or other regulatory permits. It is not anticipated that Heritage's compliance with or liabilities under environmental, health and safety laws and regulations, including CERCLA, will have a material adverse effect on Heritage. To the extent that there are any environmental liabilities unknown to Heritage or environmental, health or safety laws or regulations are made more stringent, there can be no assurance that Heritage's results of operations will not be materially and adversely affected.

EMPLOYEES

As of August 31, 2000, Heritage had 1,889 full time employees, of whom 66 were general and administrative and 1,823 were operational employees. None of Heritage's employees are represented by a labor union. Heritage believes that its relations with its employees are satisfactory. Predecessor Heritage has hired as many as 100 seasonal workers to meet peak winter demands.

ITEM 2. PROPERTIES

Heritage operates bulk storage facilities at over 250 customer service locations, of which approximately 80 percent are owned or under long-term lease and the balance are subject to renewal in the ordinary course of business during the next ten years. Heritage believes that the increasing difficulty associated with obtaining permits for new propane distribution locations makes its high level of site ownership and control a competitive advantage. Heritage owns approximately thirty million gallons of above ground storage capacity at its various plant sites. In addition, Heritage has leased approximately 30.8 million gallons of underground storage facilities in four states (5.0 million gallons of storage in Alto, Michigan, 12.8 million gallons in Hattiesburg, Mississippi, 9.0 million gallons in Tirzah, North Carolina and 4.0 million gallons in Bumstead, Arizona). Heritage does not own or operate any underground storage facilities (excluding customer and local distribution tanks) or pipeline transportation assets (excluding local delivery systems).

Heritage also owns 50 percent of Bi-State Propane, a California general partnership that conducts business in South Lake Tahoe, Truckee, Mammoth Lakes and other locations in California and in Reno and other Nevada locations. The Bi-State Propane locations are included in Heritage's site counts and all site, customer and other property descriptions contained herein include all Bi-State Propane information on a gross basis.

The transportation of propane requires specialized equipment. The trucks and railroad tank cars utilized for this purpose carry specialized steel tanks that maintain the propane in a liquefied state. As of August 31, 2000, Heritage had 36 transport truck tractors, 34 transport trailers and 7 railroad tank cars, all of which are owned by Heritage. In addition, Heritage utilizes approximately 880 bobtails and 1,300 other delivery and service vehicles, all of which are owned by Heritage. As of August 31, 2000, Heritage owned approximately 340,000 customer storage tanks with typical capacities of 120 to 1,000 gallons. These customer storage tanks are collateral to secure the obligations of Heritage under its borrowings from its banks and noteholders.

Heritage believes that it has satisfactory title to or valid rights to use all of its material properties. Although some of such properties are subject to liabilities and leases, liens for taxes not yet due and payable, encumbrances securing payment obligations under non-competition agreements entered in connection with acquisitions and immaterial encumbrances, easements and restrictions, Heritage does not believe that any such burdens will materially interfere with the continued use of such properties by Heritage in its business, taken as a whole. In addition, Heritage believes that it has, or is in the process of obtaining, all required material approvals, authorizations, orders, licenses, permits, franchises and consents of, and has obtained or made all required material registrations, qualifications and filings with, the various state and local government and regulatory authorities which relate to ownership of Heritage's properties or the operations of its business.

Heritage utilizes a variety of trademarks and tradenames that it owns, including "Heritage Propane." Heritage believes that its strategy of retaining the names of the acquired companies has maintained the local identification of such companies and has been important to the continued success of these businesses. Heritage's most significant trade names are AGL Propane, Balgas, Bi-State Propane, Blue Flame Gas of Charleston, Blue Flame Gas of Mt. Pleasant, Blue Flame Gas of Vermont, Carolane Propane Gas, Gas Service Company, Holton's L. P. Gas, Ikard & Newsom, Northern Energy, Pardee Gas, Sawyer Gas, Keen Propane, Gibson Propane, Peoples Gas Company, Piedmont Propane Company, Rural Bottled Gas and Appliance, ServiGas and United Cities Propane Gas. Heritage regards its trademarks, tradenames and other proprietary rights as valuable assets and believes that they have significant value in the marketing of its products.

ITEM 3. LEGAL PROCEEDINGS.

Heritage is threatened with or is named as a defendant in various personal injury, property damage and product liability suits. In general, these lawsuits have arisen in the ordinary course of Heritage's business since the formation of Heritage and involve claims for actual damages arising from the alleged negligence of Heritage or as a result of product defects or similar matters. Of the pending or threatened matters, the suits currently involve property damage and serious personal injuries. Although any litigation is inherently uncertain, based on past experience, the information currently available to it and the availability of insurance coverage, Heritage does not believe that these pending or threatened litigation matters will have a material adverse effect on its results of operations or its financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of the security holders of Heritage Propane Partners, L.P. during the fiscal year ended August 31, 2000.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S UNITS AND RELATED UNITHOLDER MATTERS.

MARKET PRICE OF AND DISTRIBUTIONS ON THE COMMON UNITS AND RELATED UNITHOLDER MATTERS

The Common Units representing limited partners interests ("Common Units") are listed on the New York Stock Exchange, which is the principal trading market for such securities, under the symbol "HPG". The following table sets forth, for the periods indicated, the high and low sales prices per Common Unit, as reported on the New York Stock Exchange Composite Tape, and the amount of cash distributions paid per Common Unit.

	High -----	Price Range Low ----	Cash Distribution(1) -----
2000 FISCAL YEAR			
First Quarter Ended November 30, 1999	\$23.000	\$18.688	\$0.5625
Second Quarter Ended February 29, 2000	\$19.500	\$16.750	\$0.5625
Third Quarter Ended May 31, 2000	\$19.125	\$16.500	\$0.5625
Fourth Quarter Ended August 31, 2000	\$21.250	\$18.563	\$0.5750
1999 FISCAL YEAR			
First Quarter Ended November 30, 1998	\$23.750	\$20.813	\$0.5000
Second Quarter Ended February 28, 1999	\$24.000	\$20.875	\$0.5125
Third Quarter Ended May 31, 1999	\$23.375	\$21.500	\$0.5625
Fourth Quarter Ended August 31, 1999	\$23.375	\$21.875	\$0.5625

- (1) Distributions are shown in the quarter with respect to which they were declared. For each of the indicated quarters for which distributions have been made, an identical per unit cash distribution was paid on the Subordinated Units.

As of November 6, 2000 there were approximately 281 holders of record of Heritage's Common Units, including Common Units held in street name, representing approximately seven thousand individual common unitholders. Heritage also has 1,851,471 Subordinated Units, all of which are held by the General Partner and 1,382,514 Class B Subordinated Units, all of which are held by former Heritage Holdings, Inc. shareholders for which there is no established public trading market. Heritage will distribute to its partners on a quarterly basis, all of its Available Cash in the manner described herein. 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. The subordination period will not end earlier than June 1, 2001 ("Subordination Period"). Restrictions on Heritage's distributions required by Item 5 is incorporated herein by reference to Note 7 of Heritage's Consolidated Financial Statements which begin on page F-1 of this Report, and to Management's Discussion and Analysis of Financial Condition and Results of Operations - Description of Indebtedness.

CHANGES IN SECURITIES AND RECENT SALES OF UNREGISTERED SECURITIES

On August 10, 2000, 372,392 Common Units of Heritage Propane Partners, L.P. were issued to U.S. Propane, L.P. in partial consideration for its ownership interest in four separate limited liability companies holding

the propane operations of 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). These Units were not registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Act"), by virtue of an exemption under Section 4(2) thereof. These Units carry a restrictive legend with regard to transfer of the Units.

Also, on August 10, 2000, 1,161,814 Common Units and 1,382,514 Class B Subordinated Units of Heritage Propane Partners, L.P. were sold to the former shareholders of Heritage Holdings, Inc. for \$50.2 million. None of these Units were registered with the Securities and Exchange Commission under the Act, by virtue of an exemption under Section 4(2) thereof. These Units carry a restrictive legend with regard to transfer of the Units. The Class B Subordinated Units are convertible to Common Units on a one-for-one basis only upon approval by the requisite vote or consent of unit holders required under the Partnership Agreement and New York Stock Exchange rules or staff interpretations for listing of the Common Units issued upon conversion.

On August 10, 2000, as a result of the acquisition of the General Partner by U.S. Propane, 71,300 Common Units of Heritage Propane Partners, L.P. were issued to participants in Heritage's Restricted Unit Plan. Subsequent to August 31, 2000, 750 Common Units of Heritage Propane Partners, L.P. were issued to participants in Heritage's Restricted Unit Plan in accordance with the vesting rights of the Restricted Unit Plan. None of the Common Units were registered with the Securities and Exchange Commission under the Act, by virtue of an exemption under Section 4(2). These Units carry a restricted legend with regard to their transfer.

On March 3, 2000 and March 17, 2000, Predecessor Heritage issued 19,899 and 38,419 Common Units of Heritage Propane Partners, L.P., respectively, to Heritage Holdings, Inc., the General Partner, in connection with the assumption of certain liabilities by the General Partner from Heritage's acquisition of certain assets of two propane companies. The General Partner's Units were not registered with the Securities and Exchange Commission under the Act, by virtue of an exemption under Section 4(2) thereof. These Units carry a restrictive legend with regard to transfer of the Units.

During fiscal 2000, Predecessor Heritage issued 76,152 Common Units of Heritage Propane Partners, L.P. in exchange for certain assets in connection with the acquisitions of certain propane businesses, for a total value of \$1.7 million. The Units issued in connection with the acquisitions were issued utilizing Heritage's Registration Statement No. 333-40407 on Form S-4.

On October 28, 1999, Predecessor Heritage sold 1,200,000 Common Units in an underwritten public offering at a public offering price of \$22.00 per Common Unit. The net proceeds of approximately \$24 million were used to repay a portion of the outstanding indebtedness under the acquisition facility that was incurred to acquire propane businesses.

ITEM 6. SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

The following table sets forth, for the periods and as of the dates indicated, selected historical financial and operating data for Heritage Propane Partners, L.P. (formerly Peoples Gas and surviving legal entity in the series of transactions with U.S. Propane). The selected historical financial and operating data should be read in conjunction with the financial statements of Heritage Propane Partners, L.P. (formerly Peoples Gas Company) included elsewhere in this Report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" also included elsewhere in this Report. The amounts in the table below, except per unit data, are in thousands.

	Years ended December 31,					Eight Months Ended August 31,	
	1995	1996	1997	1998	1999	1999	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Statements of Operating Data:							
Revenues	\$ 32,194	\$ 37,508	\$ 32,874	\$ 30,187	\$ 34,045	\$ 21,766	\$ 63,072
Gross profit (a)	14,434	16,139	15,811	17,904	19,196	13,299	33,110
Depreciation and amortization	2,251	2,234	2,514	2,855	3,088	2,037	4,686
Operating income (loss)	3,028	4,611	1,370	3,961	2,885	2,666	(714)
Interest expense	--	--	--	--	--	--	(2,409)
Income (loss) before income taxes and minority interest	2,421	3,962	980	3,483	2,895	2,677	(3,547)
Provision for income taxes	776	1,323	378	1,412	1,127	1,035	379
Net income (loss)	1,645	2,639	602	2,071	1,768	1,642	(3,846)
Net Income (loss) per Unit (b)	.95	1.52	.35	1.19	1.02	.92	(.37)
Cash dividends per Unit	--	--	--	1.13	1.30	1.30	--

	As of December 31,					As of August 31,	
	1995	1996	1997	1998	1999	1999	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Balance Sheet Data (end of period):							
Current assets	\$ 4,645	\$ 6,829	\$ 5,278	\$ 4,310	\$ 6,643	\$ 4,326	\$ 81,420
Total assets	28,579	33,455	33,982	37,206	43,724	39,481	615,779
Current liabilities	2,139	12,619	8,204	13,671	19,636	15,716	107,033
Long-term debt	--	--	--	--	--	--	361,990
Partner's capital-General Partner (b)	31	37	39	39	37	41	1,409
Partners' capital-Limited Partner (b)	12,244	14,857	15,457	15,557	15,070	16,670	146,756
(d)							

	Years ended December 31,					Eight Months Ended August 31,	
	1995	1996	1997	1998	1999	1999	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating Data (Unaudited):							
EBITDA (c)	\$ 5,279	\$ 6,845	\$ 3,884	\$ 6,816	\$ 5,973	\$ 4,703	\$ 4,507
Capital expenditures (e)							
Maintenance and growth	2,437	3,560	4,239	2,877	4,791	2,537	3,708
Acquisition	--	--	--	1,719	1,015	1,015	123,300
Retail propane gallons sold	24,659	26,654	29,077	30,921	33,608	22,118	38,268

- (a) Gross profit is computed by reducing total revenues by the direct cost of the products sold.
- (b) Net income (loss) per unit is computed by dividing the net income by the weighted average number of units outstanding. Although 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 general partner interest and Common Units received by Peoples Gas in the merger.
- (c) EBITDA is defined as operating income plus non-cash compensation, depreciation and amortization (including the EBITDA of investees). 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.
- (d) Partners' Capital is anticipated to decrease to the extent depreciation and amortization exceeds maintenance capital expenditure requirements.
- (e) Capital expenditures fall generally into three categories: (i) maintenance capital expenditures which include expenditures for repairs that extend the life of the assets and replacement of property, plant and equipment, (ii) growth capital expenditures, which include expenditures for purchase of new propane tanks and other equipment to facilitate retail customer base expansion, and (iii) acquisition expenditures which include expenditures related to the acquisition of retail propane operations and the portion of the purchase price allocated to intangibles associated with such acquired businesses.

The following table sets forth, for the periods and as of the dates indicated, selected historical financial and operating data for Predecessor Heritage. The selected historical financial and operating data of Predecessor Heritage should be read in conjunction with the financial statements of Predecessor Heritage included elsewhere in this Report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" also included elsewhere in this Report. The amounts in the table below, except per Unit data, are in thousands.

	Year Ended August 31, 1995 (e)	Ten	Two	Years Ended			Period
		Months Ended June 30, 1996 (e)	Months Ended August 31, 1996	August 31,			Ended August 9, 2000
				1997	1998	1999	
Statements of Operating Data:							
Revenues	\$ 131,508	\$ 144,623	\$ 18,477	\$ 199,785	\$ 185,987	\$ 184,020	\$ 242,491
Gross Profit(a)	55,841	55,634	6,314	73,838	89,103	96,753	101,746
Depreciation and amortization	8,896	7,581	1,733	11,124	13,680	14,749	17,143
Operating income (loss)	12,675	15,755	(1,956)	16,919	22,929	24,567	23,475
Interest expense	12,201	10,833	1,962	12,063	14,599	15,915	17,664
Income (loss) before income taxes and minority interest	759	6,084	(4,087)	5,625	9,266	10,116	6,936
Provision for income taxes	666	2,735	--	--	--	--	--
Net income (loss)	(211)	2,921	(8,423)	5,177	8,790	9,662	6,504
Basic and Diluted Net Income (loss) per Unit(b)	--	--	(1.06)	0.64	1.04	1.11	.66

August 31,					
1995(e)	1996	1997	1998	1999	

Balance Sheet Data (end of period):

	1995(e)	1996	1997	1998	1999
Current Assets	\$ 21,293	\$ 24,014	\$ 27,951	\$ 26,185	\$ 29,267
Total Assets	163,423	187,850	203,799	239,964	262,958
Current Liabilities	35,825	24,728	34,426	35,444	47,680
Long-term debt	103,412	132,521	148,453	177,431	196,216
Redeemable preferred stock	12,337	--	--	--	--
Stockholders' deficit	(6,975)	--	--	--	--
Partner's capital-General Partner	--	307	208	273	176
Partners' capital-Limited Partner(g)	--	30,294	20,712	26,816	18,886

	Years ended December 31,					Period
	1995 (e)	1996 (f)	1997	1998	1999	Ended August 9, 2000
Operating Data (unaudited):						
EBITDA(c)	\$ 21,672	\$ 24,365	\$ 28,718	\$ 37,792	\$ 41,047	\$ 42,373
Capital Expenditures(d)						
Maintenance and growth	8,634	7,244	7,170	9,359	14,974	12,931
Acquisition	27,879	16,665	14,549	23,276	17,931	46,801
Retail propane gallons sold	98,318	118,200	125,605	146,747	159,938	170,891

(a) Gross profit is computed by reducing total revenues by the direct cost of the products sold.

(b) Net income (loss) per Unit is computed by dividing the limited partners' interest in net income (loss) by the limited partners' weighted average number of units outstanding.

(c) EBITDA is defined as operating income plus non-cash compensation, depreciation and amortization (including the EBITDA of investees). 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. EBITDA for the year ended August 31, 1998 was restated to account for non-cash compensation. The minority interest of MP Energy Partnership, a majority owned partnership, is deducted from the EBITDA calculation.

- (d) Capital expenditures fall generally into three categories: (i) maintenance capital expenditures of approximately \$5.1 million for the period ended August 9, 2000 and \$4.6 million, \$3.6 million and \$2.3 million in fiscal 1999, 1998 and 1997, respectively, which include expenditures for repairs that extend the life of the assets and replacement of property, plant and equipment, (ii) growth capital expenditures, which include expenditures for purchases of new propane tanks and other equipment to facilitate retail customer base expansion, and (iii) acquisition capital expenditures, which include expenditures related to the acquisition of retail propane operations and the portion of the purchase price allocated to intangibles associated with such acquired businesses.
- (e) Information for Heritage Propane Partners, L.P.'s predecessor, Heritage Holdings, Inc.
- (f) Reflects unaudited pro forma information for Predecessor Heritage as if Heritage Propane Partners, L.P. formation had occurred as of the beginning of the period presented.
- (g) Partners' Capital is anticipated to decrease to the extent depreciation and amortization exceeds maintenance capital expenditure requirements.

ITEM 7. 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:

- o CHANGES IN GENERAL ECONOMIC CONDITIONS IN THE UNITED STATES AS WELL AS CHANGES IN GENERAL ECONOMIC CONDITIONS AND CURRENCIES IN FOREIGN COUNTRIES;
- o WEATHER CONDITIONS THAT VARY SIGNIFICANTLY FROM HISTORICALLY NORMAL CONDITIONS;
- o THE GENERAL LEVEL OF PETROLEUM PRODUCT DEMAND, AND THE AVAILABILITY OF PROPANE SUPPLIES;
- o ENERGY PRICES GENERALLY AND SPECIFICALLY, THE PRICE OF PROPANE TO THE CONSUMER COMPARED TO THE PRICE OF ALTERNATIVE AND COMPETING FUELS;
- o COMPETITION FROM OTHER PROPANE DISTRIBUTORS AND ALTERNATE FUELS;
- o THE AVAILABILITY AND COST OF CAPITAL;
- o CHANGES IN LAWS AND REGULATIONS TO WHICH HERITAGE IS SUBJECT, INCLUDING TAX, ENVIRONMENTAL AND EMPLOYMENT REGULATIONS;
- o THE COSTS AND EFFECTS OF LEGAL AND ADMINISTRATIVE PROCEEDINGS AGAINST HERITAGE OR WHICH MAY BE BROUGHT AGAINST HERITAGE;
- o THE ABILITY OF HERITAGE TO SUSTAIN ITS HISTORICAL LEVELS OF INTERNAL GROWTH; AND

- o 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.

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.

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES (FORMERLY PEOPLES GAS COMPANY AND SURVIVING LEGAL ENTITY IN THE SERIES OF TRANSACTIONS WITH U.S. PROPANE)

GENERAL

Peoples Gas engaged in the sale, distribution and marketing of propane and other related products. Revenues are 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 merger, 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.

In August 2000, U.S. Propane acquired all of the outstanding common stock of Heritage Holdings, Inc., Heritage Propane Partner, L.P.'s General Partner, for \$120 million. 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) to Heritage Propane Partners, L.P. for \$181.4 million plus working capital. The \$181.4 million was payable \$139.5 million in cash, \$31.8 million of assumed debt, and the issuance of 372,392 Common Units of Heritage Propane Partners, L.P. valued at \$7.3 million and a 1.0101 percent limited partnership interest in Heritage Operating, L.P. valued at \$2.7 million. The purchase price and the issuance price for the Common Units were approved by an independent committee of the Board of Directors of Heritage Holdings, Inc. The issuance 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 working capital adjustment is anticipated to be settled in December 2000.

The formation of U.S. Propane and the merger with Predecessor Heritage affect the comparability of the eight months ended August 31, 2000 and August 31, 1999, because the volumes and results of operations for the period from August 10, 2000 through August 31, 2000 include the volumes and results of operations of AGL, United

Cities, Piedmont and Predecessor Heritage. The increases in the line items discussed below are a result of these transactions. Amounts discussed below reflect 100 percent of the results of M-P Energy Partnership during the period from August 10, 2000 through August 31, 2000. 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.

ANALYSIS OF HISTORICAL RESULTS OF OPERATIONS - HERITAGE PROPANE PARTNERS, L.P.
(FORMERLY PEOPLES GAS)

The following discussion of the historical financial condition and results of operations of Peoples Gas should be read in conjunction with the Selected Historical Financial and Operating Data and notes thereto, and the historical financial statements and notes thereto included elsewhere herein.

EIGHT MONTHS ENDED AUGUST 31, 2000 COMPARED TO THE EIGHT MONTHS ENDED AUGUST 31, 1999 (UNAUDITED)

Volume. Total retail gallons sold in the eight months ended August 31, 2000 were 38.3 million, an increase of 16.2 million over the 22.1 million gallons sold in the eight months ended August 31, 1999. Heritage sold 16.3 million retail gallons in the period from August 10, 2000 through August 31, 2000, thus the increase in retail gallons is primarily attributable to the transactions referred to above.

Revenues. Total revenues for the eight months ended August 31, 2000 were \$63.1 million, an increase of \$41.3 million as compared to \$21.8 million in the eight months ended August 31, 1999. Revenues for Heritage for the period from August 10, 2000 through August 31, 2000 were \$36.4 million, of which \$11.7 million was due to trading activity conducted through Heritage Energy Resources and the remainder related to increased volumes. The increase in revenue is primarily attributable to the transactions referred to above.

Cost of Products Sold. Total cost of products sold increased \$33.0 million to \$41.5 million for the eight months ended August 31, 2000. Of this increase, \$11.5 million is the result of trading activity for the period from August 10, 2000 through August 31, 2000, with the remainder relating to the increased volumes described above.

Operating Expenses. Operating expenses were \$16.6 million for the eight-month period ended August 31, 2000 as compared to \$8.6 million for the eight months ended August 31, 1999. The increase of \$8.0 million is the result of the additional operating expense related to the merger.

Depreciation and Amortization. Depreciation and amortization was \$4.7 million in the eight months ended August 31, 2000 as compared to \$2.0 million in the eight months ended August 31, 1999. The increase is attributable to the transactions referred to above.

Operating Income (Loss). Heritage had an operating loss of \$.7 million for the eight months ended August 31, 2000 as compared to operating income of \$2.7 million for the eight months ended August 31, 1999. The decrease is the result of the additional operating expenses and depreciation and amortization resulting from the merger.

Provision for Income Taxes. Provision for income taxes decreased \$.6 million, to \$.4 million in the eight months ended August 31, 2000 as compared to \$1.0 million for the eight months ended August 31, 1999. This decrease is a result of the decrease in income before provision for income taxes in the comparable eight-month period of Peoples Gas. Prior to the transaction with Predecessor Heritage, Peoples Gas filed a consolidated federal income tax return with TECO and, based on a tax sharing agreement, included, in its statements of operations, a provision for income taxes calculated on a separate return basis.

Net Income (Loss). For the eight-month period ended August 31, 2000, Heritage had a net loss of \$3.8 million, a decrease of \$5.4 million as compared to net income for the eight months ended August 31, 1999 of \$1.6 million. This decrease is the result of decreased operating income described above.

FISCAL YEAR ENDED DECEMBER 31, 1999 AS COMPARED TO FISCAL YEAR 1998

Volume. Peoples Gas sold 33.6 million gallons in fiscal 1999, an increase of 2.7 million gallons, or 9 percent from the 30.9 million gallons sold in fiscal 1998, primarily as a result of the July 1999 acquisition of Commercial Propane, Inc. The increase in volumes was net of the effects of unseasonably warm weather.

Revenues. Total revenues for Peoples Gas increased \$3.8 million, or 12.6 percent to \$34.0 million from fiscal 1998's total revenues of \$30.2 million. The increase is primarily the result of increased volumes associated with the July 1999 acquisition of Commercial Propane, Inc. and the effects of higher cost of fuel.

Cost of Products Sold. Total cost of product sold increased \$2.5 million, or 20.3 percent to \$14.8 million for fiscal 1999 as compared to \$12.3 million for fiscal 1998. The increase is primarily the result of increased volumes associated with the July 1999 acquisition of Commercial Propane, Inc. and the effects of higher cost of propane that was passed through to customers.

Operating Expenses. Operating expenses for fiscal 1999 increased \$2.1 million, or 18.9 percent to \$13.2 million as compared to \$11.1 million in fiscal 1998. This increase is primarily the result of increased costs related to additional marketing efforts and costs related to the July 1999 acquisition of Commercial Propane, Inc.

Depreciation and Amortization. Depreciation and amortization was \$3.1 million for fiscal 1999, a \$0.2 million increase over fiscal 1998's \$2.9 million. This increase is the result of additional depreciation on maintenance and growth capital expenditures and fixed assets recorded in relation to acquisitions.

Operating Income. Operating income decreased \$1.1 million, or 27.5 percent to \$2.9 million as compared to \$4.0 million in fiscal 1998. The increased revenues described above were more than offset by the increases in operating expenses, depreciation and amortization, also described above, which resulted in this decrease.

Provision for Income Taxes. Provision for income taxes decreased \$0.3 million, or 21.4 percent to \$1.1 million as compared to \$1.4 million for 1998. This decrease is a result of the decrease in income before provision for income taxes.

Net Income. Net income for fiscal year 1999 decreased \$0.3 million, or 14.3 percent to \$1.8 million as compared to fiscal 1998's net income of \$2.1 million. This decrease is the result of decreased operating income being somewhat offset by lower taxes, as discussed above.

FISCAL YEAR 1998 COMPARED TO FISCAL YEAR 1997

Volume. Peoples Gas sold 30.9 million gallons in fiscal 1998, an increase of 1.8 million gallons, or 6 percent from the 29.1 million gallons sold in fiscal 1997, primarily as a result of the January 1998 acquisition of Ankney Gas, Inc. and the July 1998 acquisition of Florida Gas Service Corp.

Revenues. Total revenues for Peoples Gas decreased \$2.7 million, or 8.2 percent to \$30.2 million from fiscal 1997's total revenues of \$32.9 million. The decrease is primarily the result of higher volumes sold being more than offset by lower costs of propane that was passed through to customers.

Cost of Products Sold. Total cost of product sold decreased \$4.8 million, or 28.1 percent to \$12.3 million for fiscal 1998 as compared to \$17.1 million for fiscal 1997. The decrease in cost of products sold directly relates to a decrease in the cost per gallon of propane.

Operating Expenses. Operating expenses for fiscal 1998 decreased \$0.8 million, or 6.7 percent to \$11.1 million as compared to \$11.9 million in fiscal 1997. The decrease was attributable to synergies leading to lower operating costs realized from the January 1998 acquisition of Griffis Inc.

Depreciation and Amortization. Depreciation and amortization was \$2.9 million for fiscal 1998, a \$0.4 million increase over fiscal 1997's \$2.5 million. This increase was primarily the result of additional depreciation and amortization associated with the Griffis Inc. acquisition.

Operating Income. Operating income increased \$2.6 million, or 185.7 percent to \$4.0 million as compared to \$1.4 million in fiscal 1997. This increase was the result of the increase in gross profit and decreases in operating expenses.

Provision for Income Taxes. Provision for income taxes increased \$1.0 million, or 250.0 percent to \$1.4 million as compared to \$0.4 million for 1997. This increase is a result of the increase in income before provision for income taxes.

Net income. Net income for fiscal year 1998 increased \$1.5 million, or 250.0 percent to \$2.1 million as compared to fiscal 1997's net income of \$0.6 million. This increase is due to higher operating income for the fiscal year 1998 as compared to 1997, partially offset by increased provision for income taxes.

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES (PREDECESSOR HERITAGE)
(THE PROPANE OPERATIONS OF HERITAGE PROPANE PARTNERS, L.P., PRIOR TO THE SERIES OF TRANSACTIONS WITH U.S. PROPANE)

GENERAL

Predecessor Heritage engaged in the sale, distribution and marketing of propane and other related products. Predecessor Heritage derived its revenue 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 after the U.S. Propane transactions, Heritage is the fourth largest retail marketer of propane in the United States, based on retail gallons sold, serving almost 485,000 residential, industrial/commercial and agricultural customers in 28 states through over 250 retail outlets.

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 9, 2000 and August 31, 2000, Heritage completed two additional acquisitions. Annual retail propane sales volumes in gallons for Predecessor Heritage were 170.9 million for the period ended August 9, 2000 and 159.9 million and 146.7 million for the fiscal years ended August 31, 1999 and 1998, respectively.

The retail propane business of Predecessor Heritage consisted principally of transporting propane purchased in the contract and spot markets, primarily from major oil companies, 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 distribution business is largely seasonal due to propane's use as a heating source in residential and commercial buildings. Historically, approximately two-thirds of Predecessor Heritage's retail propane volume and in excess of 80 percent of Predecessor Heritage's EBITDA was attributable to sales during the six-month peak heating season of October through March. Consequently, sales and operating profits were concentrated in Predecessor Heritage's first and second fiscal quarters. Cash flow from operations, however, was generally greatest during the second and third fiscal quarters when customers pay for propane purchased during the six-month peak-heating season.

A substantial portion of Predecessor Heritage's propane was used in the heating-sensitive residential and commercial markets causing the temperatures realized in Predecessor Heritage's areas of operations, particularly during the six-month peak heating season, to have a significant effect on their financial performance. In any given

area, sustained warmer-than-normal temperatures will tend to result in reduced propane use, while sustained colder-than-normal temperatures will tend to result in greater propane use. Heritage therefore uses information on normal temperatures in understanding how temperatures that are colder or warmer than normal affect historical results of operations and in preparing forecasts of future operations, which assumes that normal weather will prevail in each of the regions in which it operates.

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.

Gross profit margins vary according to customer mix. For example, sales to residential customers generate higher margins than sales to certain other customer groups, such as agricultural customers. Wholesale margins are substantially lower than retail margins. In addition, gross profit margins vary by geographical region. Accordingly, a change in customer or geographic mix can affect gross profit without necessarily affecting total revenues.

ANALYSIS OF HISTORICAL RESULTS OF OPERATIONS - PREDECESSOR HERITAGE

The following discussion of the historical financial condition and results of operations of Predecessor Heritage should be read in conjunction with the Selected Historical Financial and Operating Data and notes thereto, and the historical financial statements and notes thereto included elsewhere herein.

The following discussion reflects for the periods indicated the results of operations and operating data for Predecessor Heritage. Most of the increases in the line items discussed below result from the acquisitions made by Predecessor Heritage during the periods discussed. During the period ended August 9, 2000, Predecessor Heritage completed 11 acquisitions for a total purchase price of \$54.9 million. In fiscal 1999, Predecessor Heritage consummated six acquisitions for a total purchase price of \$22.7 million. In fiscal 1998, Predecessor Heritage consummated seven acquisitions for a total purchase price of \$37.1 million. These acquisitions affect the comparability of prior period financial matters, as the volumes are not included in the prior period's results of operations. Amounts discussed below reflect 100 percent of the results of M-P Energy Partnership, a general partnership in which Predecessor Heritage owns a 60 percent interest. Because M-P Energy Partnership is primarily engaged in lower-margin wholesale distribution, its contribution to Predecessor Heritage's net income is not significant and the minority interest of this partnership is excluded from the EBITDA calculation. As a result of the series of transactions between Predecessor Heritage and U.S. Propane, the results of Predecessor Heritage are included in the results of Heritage beginning August 10, 2000.

THE PERIOD SEPTEMBER 1, 1999 TO AUGUST 9, 2000 COMPARED TO FISCAL YEAR 1999

The following discussion compares the period September 1, 1999 to August 9, 2000, an approximate eleven-month period for Predecessor Heritage to its full fiscal year ended August 31, 1999. The pro forma amounts include the "stand alone" results of Predecessor Heritage without the effect of the series of transactions with U.S. Propane.

Volume. Predecessor Heritage sold 170.9 million retail gallons during the period ended August 9, 2000, an increase of 11.0 million gallons or 6.9 percent from the 159.9 million gallons sold in fiscal 1999 primarily as a result of acquisitions. The increases in volumes were net of the effects of one of the warmest winters this century. The pro forma retail gallons for Predecessor Heritage sold through August 31, 2000 were approximately 180.6 million, an increase of 20.7 million gallons or 12.9 percent as compared to fiscal 1999.

Predecessor Heritage also sold approximately 82.6 million wholesale gallons during the period ended August 9, 2000, a increase of 1.5 million gallons from fiscal 1999's 81.1 million gallons. The increase in the wholesale volumes was attributable to the net of an increase of 2.2 million gallons in the foreign operations of M-P Energy Partnership and the decline of .7 million gallons in the U.S. wholesale operations.

Revenues. Total revenues for Predecessor Heritage increased \$58.5 million or 31.8 percent to \$242.5 million for the period ended August 9, 2000 as compared to \$184.0 million for fiscal 1999. The current period's domestic retail propane revenues increased \$41.5 million or 30.2 percent to \$178.9 million as compared to fiscal 1999's results of \$137.4 million due to increased volumes and higher selling prices. The U.S. wholesale revenues increased slightly in this comparison to \$4.3 million as compared to \$3.4 million for fiscal 1999, due to higher selling prices. Other revenues increased \$1.5 million or 6.6 percent to \$24.1 million as a result of acquisitions and internal growth. Foreign revenues increased \$10.2 million for the period ended August 9, 2000, to \$30.8 million as compared to \$20.6 million for the fiscal year ended August 31, 1999, primarily as a result of higher selling prices and to a lesser degree, increased volume. Sales price per gallon during the period ended August 9, 2000 continued to remain above last year's level due to the higher cost of propane, which was passed through to customers, as compared to the same period last year. Total revenues included \$4.3 million of trading activity for the period ended August 9, 2000, which Predecessor Heritage did not have last fiscal year. The pro forma results for Predecessor Heritage for the period ended August 31, 2000, would reflect total revenues of approximately \$271.1 million, an \$87.1 million increase or 47.3 percent as compared to fiscal 1999. This pro forma amount includes \$15.9 million of trading revenues, which are new to Predecessor Heritage as of July 1, 2000.

Cost of Sales. Total cost of sales increased \$53.5 million or 61.3 percent to \$140.8 million for the period ended August 9, 2000 as compared to \$87.3 million for the fiscal year ended August 31, 1999. This increase is the result of a significant increase in the wholesale propane prices which began increasing during the first fiscal quarter as compared to the low wholesale costs experienced in the fiscal year ended August 31, 1999, the increase in gallons sold and \$4.3 million of trading cost of sales which were not included in fiscal 1999 cost of sales. Retail fuel cost of sales increased \$37.5 million or 65.1 percent to \$95.1 million during the period ended August 9, 2000, compared to \$57.6 million for the fiscal year ended August 31, 1999. Foreign wholesale cost of sales also reflected an increase, increasing from \$19.1 million for the fiscal year ended August 31, 1999 to \$29.3 million for the period ended August 9, 2000 due to the impact of the increase in the cost of propane and increased volumes in this area. U. S. wholesale cost of sales increased \$9.9 million as a result of the higher cost of fuel. Other cost of sales also increased \$7.7 million due to an increase in other revenues. The pro forma cost of sales for the period ended August 31, 2000, for Predecessor Heritage is approximately \$162.8 million, of which \$15.8 million represents trading cost of sales that are not included in fiscal 1999 cost of sales.

Gross Profit. Total gross profit increased \$4.9 million or 5.1 percent to \$101.7 million for the period ended August 9, 2000, as compared to \$96.8 million for the fiscal year ended August 31, 1999 due to the increases in volumes sold and revenues discussed above, offset by the increase in product costs. The pro forma gross profit for Predecessor Heritage for the twelve months ended August 31, 2000 is approximately \$108.3 million as compared to \$96.8 million for the fiscal year ended August 31, 1999, an increase of \$11.5 million or 11.9 percent.

Operating Expenses. Operating expenses increased \$3.9 million or 7.6 percent to \$55.1 million in the period ended August 9, 2000 as compared to \$51.2 million in the fiscal year ended August 31, 1999 primarily due to acquisition related operating expenses. Pro forma operating expenses for Predecessor Heritage for the period ended August 31, 2000 were approximately \$61.3 million, a 19.7 percent increase over fiscal 1999.

Selling, General and Administrative. Selling, general and administrative expenses were \$6.0 million for the period ended August 9, 2000, a decrease of \$.2 million from the \$6.2 million reported for the fiscal year ended August 31, 1999. Selling, general and administrative expenses for the pro forma period ended August 31, 2000 for Predecessor Heritage were approximately \$6.5 million, a \$.3 million increase over fiscal 1999.

Depreciation and Amortization. Depreciation and amortization increased \$2.4 million for the period ended August 9, 2000 to \$17.1 million as compared to \$14.7 million for the same period last year. This increase is primarily the result of additional depreciation and amortization cost on the fixed assets and intangible assets recorded in connection with acquisitions. Pro forma depreciation and amortization for the period ended August 31, 2000 was approximately \$19.0 million.

Operating Income. Operating income for the period ended August 9, 2000 decreased \$1.1 million to \$23.5 million as compared to \$24.6 million for the fiscal year ended August 31, 1999. The pro forma operating income for Predecessor Heritage for the period ended August 31, 2000 was \$21.5 million. This decrease is primarily attributable to the increased operating expenses and depreciation and amortization related to acquisitions, as well as lower volumes in existing operations as a result of unusually warm weather.

Interest Expense. Interest expense increased \$1.8 million or 11.3 percent to \$17.7 million for the period ended August 9, 2000 as compared to \$15.9 million for the twelve-month ended August 31, 1999. The increase was primarily due to borrowings related to acquisitions and to lesser extent, increased borrowings as a result of higher product costs. Interest expense for the pro forma twelve month period ended August 31, 2000, was approximately \$19.5 million, a \$3.6 million increase over fiscal 1999's interest expense.

Net Income. Net income for the period ended August 9, 2000 was \$6.5 million as compared to the net income of \$9.7 million for the fiscal year ended August 31, 1999. The \$3.2 million decrease is the result of the decrease in operating income described above together with an increase in interest costs. Net income for the pro forma period ended August 31, 2000 for Predecessor Heritage was approximately \$3.2 million, a \$6.5 million decrease from fiscal 1999.

EBITDA. Earnings before interest, taxes, depreciation and amortization increased \$1.4 million to \$42.4 million for the period ended August 9, 2000, as compared to fiscal 1999's EBITDA of \$41.0 million. The pro forma EBITDA for Predecessor Heritage for the twelve months ended August 31, 2000 was \$42.3 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.

FISCAL YEAR 1999 COMPARED TO FISCAL YEAR 1998

Volume. Predecessor Heritage sold 159.9 million retail gallons in fiscal 1999, an increase of 13.2 million gallons or 9.0 percent from the 146.7 million gallons sold in fiscal 1998 primarily as a result of acquisitions. The increases in volumes were net of the effects of one of the warmest winters this century.

Predecessor Heritage also sold approximately 81.1 million wholesale gallons during fiscal 1999, a decrease of 5.1 million gallons from fiscal 1998's 86.2 million gallons. The decrease in the wholesale volumes was attributable to a decline of 1.5 million gallons in the foreign operations of M-P Energy Partnership and the decline of 3.6 million gallons in the U.S. wholesale operations. The warm weather this past heating season was the main factor in the decline in these volumes.

Revenues. Total revenues for Predecessor Heritage decreased \$2.0 million to \$184.0 million from fiscal 1998 total revenues of \$186.0 million. Retail fuel revenues increased \$1.1 million to \$137.4 million while domestic wholesale fuel revenues decreased \$1.9 million and foreign wholesale revenues decreased \$4.3 million. The increase in retail fuel revenues due to increased volumes was partially offset by the effects of lower cost of fuel in fiscal year 1999. The decreases in the U.S. and foreign wholesale revenues correspond primarily to the decrease in volumes. Other revenues increased \$3.2 million primarily as a result of acquisitions and to a lesser extent internal growth.

Cost of Sales. Total cost of sales decreased \$9.7 million, or 10.0 percent to \$87.2 million for the fiscal year ended August 31, 1999 as compared to \$96.9 million for fiscal year ended August 31, 1998. Domestic cost of sales decreased \$5.0 million, or 6.8 percent to \$68.1 million and foreign cost of sales decreased \$4.7 million, or 19.7 percent to \$19.1 million. Retail fuel cost of sales decreased \$4.4 million to \$57.6 million in fiscal 1999 due to the lower cost of propane realized in 1999, which offset the increase in volumes. Domestic wholesale and foreign cost of sales both decreased due to the lower cost of fuel realized in fiscal 1999 and the decrease in volumes.

Gross Profit. Total gross profit for fiscal 1999 was \$96.8 million, a \$7.7 million increase or 8.6 percent over fiscal 1998's gross profit of \$89.1 million. The reduction in the cost of fuel in fiscal year 1999 was the primary contributing factor in the increase in gross profit along with the increase in other revenues.

Operating Expenses. Operating expenses for fiscal 1999 increased \$4.2 million or 8.9 percent to \$51.2 million as compared to \$47.0 million in fiscal 1998. This increase is primarily the result of increased costs related to acquisitions.

Selling, General and Administrative. Selling, general and administrative expense increased \$0.7 million or 12.7 percent to \$6.2 million for fiscal 1999 as compared to \$5.5 million for fiscal 1998. The increase was the result of additional expenses to support business growth.

Depreciation and Amortization. Depreciation and amortization was \$14.7 million for fiscal 1999, a \$1.0 million increase over fiscal 1998's \$13.7 million. This increase is the result of additional depreciation and amortization costs on the fixed assets and intangibles recorded in relation to acquisitions.

Operating Income. Operating income increased 7.4 percent to \$24.6 million in fiscal 1999, a \$1.7 million increase over fiscal 1998's \$22.9 million. The increased gross profit described above offset by the increases in operating and other expenses, also described above, resulted in this increase.

Net Income. Net income for the fiscal year ended August 31, 1999, increased \$0.9 million, or 10.2 percent to \$9.7 million as compared to fiscal 1998's net income of \$8.8 million. This increase is the result of increased operating income partially offset by increased interest costs related to acquisition debt.

EBITDA. Earnings before interest, taxes, depreciation and amortization increased \$3.2 million or 8.5 percent to \$41.0 million for fiscal 1999 as compared to the restated 1998 EBITDA of \$37.8 million. Fiscal 1998's EBITDA was restated to account for the non-cash compensation expense that was previously included. Predecessor 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 obligation), 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, mainly for customer tanks, expended will be financed by the revolving acquisition bank line of credit; and
- c) acquisition capital expenditures will be financed by revolving acquisition bank line of credit; other lines of credit, long term debt, issues of additional Common Units or a combination thereof.

Cash Flows - Heritage Propane Partners, L.P. (Formerly Peoples Gas)

Operating Activities. Cash provided by operating activities during the period ended August 31, 2000, was \$14.5 million compared to cash provided by operating activities of \$9.4 million in the twelve months ended December 31, 1999. The net cash provided from operations for the period ended August 31, 2000 consisted of a net loss of \$3.8 million offset by the impact of working capital provided of \$12.5 million and noncash charges of \$5.8 million, principally depreciation and amortization. Working Capital items have increased over the period ended August 31, 2000 as a result of the net effect of the formation of U.S. Propane and the merger with Predecessor Heritage.

Investing Activities. Cash used in investing activities is primarily the result of the \$171.4 million spent in the formation of U.S. Propane. Heritage completed two acquisitions during the period from August 10, 2000 and August 31, 2000 spending \$1.9 million, net of cash received, to purchase the two propane companies. In January 2000, Peoples Gas purchased substantially all of the assets of a company for approximately \$3.8 million. These capital expenditure amounts are reflected in the cash used in investing activities of \$183.0 million along with \$3.5 million spent for maintenance needed to sustain operations at current levels and customer tanks to support growth of operations and other investing activities of \$2.4 million.

Financing Activities. Cash provided by financing activities during the period ended August 31, 2000 of \$173.4 million was primarily from the \$180.0 million received from the issuance of Senior Secured Promissory Notes in conjunction with the merger with U.S. Propane. (See Description of Indebtedness). The proceeds were used in conjunction with the merger with U.S. Propane and to repay the outstanding indebtedness under the Acquisition Facility and a portion of the Working Capital Facility assumed in the transaction with Predecessor Heritage. Proceeds of \$50.2 million were received from the sale of Common and Subordinated Units to the former shareholders of the General Partner. These increases were offset by debt issuance costs of \$1.1 million and dividends paid by Peoples Gas to their parent company of \$1.5 million.

Cash Flows - Predecessor Heritage

Operating Activities. Cash provided by operating activities during the period ended August 9, 2000, was \$14.1 million compared to cash provided of \$23.6 million in the twelve months ended August 31, 1999. The net cash provided from operations for the period ended August 9, 2000 consisted of net income of \$6.5 million and the impact of working capital used of \$9.1 million offset by noncash charges of \$16.8 million, principally depreciation and amortization. Accounts receivable have increased over last year as a result of the net effect of the increase in propane costs which in part was passed on to the customers and a larger customer base due to acquisitions. Accounts payable has also increased due to the same related reasons of increased cost of propane and acquisitions.

Investing Activities. Predecessor Heritage completed eleven acquisitions during the period ended August 9, 2000 spending \$46.8 million, net of cash received, to purchase propane companies. This capital expenditure amount is reflected in the cash used in investing activities of \$58.3 million along with \$12.9 million spent for maintenance needed to sustain operations at current levels and customer tanks to support growth of operations.

Financing Activities. Cash provided by financing activities during the period ended August 9, 2000 of \$44.6 million is primarily the result of net proceeds received in a public offering of 1,200,000 Common Units of Heritage Propane Partners, L.P. The net proceeds of approximately \$24 million were used to repay a portion of the outstanding indebtedness under the Acquisition Facility that was incurred to acquire propane businesses. Other cash provided by financing activities of \$20.6 million was mainly from a net increase in the working capital facility of \$13.4 million and a net increase in the Acquisition Facility of \$31.0 million used to acquire other propane businesses. These increases were offset by cash distributions to unitholders of \$21.9 million, payments on other long-term debt of \$2.2 million and contributions by the General Partner of \$.3 million.

Financing and Sources of Liquidity

Heritage has a Bank Credit Facility, which includes a Working Capital Facility, a revolving credit facility providing for up to \$50.0 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. See page F-14, "Notes to Consolidated Financial Statements - 5. Working Capital Facilities and Long-Term Debt."

Predecessor Heritage used 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 \$46.8 million for the period ended August 9, 2000 as compared to \$17.9 million for fiscal year 1999 and \$23.3 million during fiscal 1998. In addition to the \$46.8 million of cash expended for acquisitions during the period ended August 9, 2000, \$4.1 million of Common Units and \$3.6 million for notes payable on non-compete agreements were issued in connection with certain acquisitions. In addition to the \$17.9

million of cash expended for acquisitions during fiscal 1999, \$1.0 million of Common Units and \$3.3 million for notes payable on non-compete agreements were issued in connection with certain acquisitions.

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. . The subordination period will not end earlier than June 1, 2001 ("Subordination Period"). 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 paid on October 16, 2000 for the fourth quarter ended August 31, 2000, to \$.575 per unit (or \$2.30 annually) from the quarterly distribution of \$.5625 (or \$2.25 annually). The decision to increase the quarterly distribution resulted from a review of Predecessor Heritage's past financial performance and current projections for available cash due to the merger between U.S. Propane and 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 nor 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.

DESCRIPTION OF INDEBTEDNESS

Predecessor Heritage assumed \$120 million principal amount of 8.55 percent Senior Secured Notes (the "Notes") at its formation in a private placement with institutional investors. Interest is payable semi-annually in arrears on each December 31 and June 30. The Notes have a final maturity of 15 years, with ten equal mandatory repayments of principal beginning on June 30, 2002.

On November 19, 1997, Predecessor Heritage entered into a Note Purchase Agreement ("Medium Term Note Program"), that provides for the issuance of up to \$100 million of senior secured promissory notes if certain conditions are met. An initial placement of \$32 million (Series A and B) at an average interest rate of 7.23 percent with an average 10 year maturity was completed at the closing of the Medium Term Note Program. Interest is payable semi-annually in arrears on each November 19 and May 19. An additional placement of \$15 million (Series C, D and E) at an average interest rate of 6.59 percent with an average 12 year maturity was completed in March 1998. Interest is payable on Series C, D and E semi-annually in arrears on each September 13 and March 13. The proceeds of the placements were used to refinance amounts outstanding under the Acquisition Facility.

On August 10, 2000, Heritage entered into a Note Purchase Agreement ("Senior Secured Promissory Notes") that provides for the issuance of up to \$250 million of senior secured promissory notes if certain conditions are met. An initial placement of \$180 million (Series A through F) at an average rate of 8.66 percent with an average 13 year maturity was completed in conjunction with the merger with U.S. Propane. Interest is payable quarterly commencing November 15, 2000. The proceeds were used to finance the transaction with U.S. Propane and retire a portion of existing debt.

The agreements for each of the Notes, Medium Term Note Program, Senior Secured Promissory Notes and Bank Credit Facility contain customary restrictive covenants applicable to the Operating Partnership including limitations on the level of additional indebtedness, creation of liens and sale of assets. In addition, the Operating Partnership must maintain certain ratios of Consolidated Funded Indebtedness to Consolidated EBITDA and Consolidated EBITDA to Consolidated Interest Expense. These agreements also provide that the Operating

Partnership may declare, make or incur a liability to make a Restricted Payment during each fiscal quarter, if: (a) the amount of such Restricted Payment, together with all other Restricted Payments during such quarter, do not exceed Available Cash with respect to the immediately preceding quarter; and (b) no default or event of default exists before such Restricted Payment and after giving effect thereto. The agreements provide that cash is required to reflect a reserve equal to 50 percent of the interest to be paid on the notes. In addition, in the third, second and first quarters preceding a quarter in which a scheduled principal payment is to be made on the notes, Available Cash is required to reflect a reserve equal to 25 percent, 50 percent and 75 percent, respectively, of the principal amount to be repaid on such payment dates.

The Operating Partnership is in compliance with all requirements, tests, limitations and covenants related to the Notes, Medium Term Note Program, Senior Secured Promissory Notes and Bank Credit Facility.

ITEM 7a. 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 has 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. Heritage also attempts to minimize the effects of market price fluctuations for its propane supply through its trading activities and by entering into certain financial contracts. Heritage's trading activities include both purchases and sales of product supply. Trading 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 trading period. Heritage enters into these swap instruments to hedge the projected propane volumes to be purchased during each of the one-month periods during the projected heating season.

At August 31, 2000, Heritage had outstanding propane hedges ("swap agreements") for a total of 54.2 million gallons of propane at a weighted average price of \$.505 per gallon. The fair value of the swap agreement is the amount at which they could be settled, based on quoted market prices. At August 31, 2000, Heritage would have received approximately \$9.1 million to terminate the swap agreements then in place. Heritage continues to monitor propane prices and may enter into additional propane hedges in the future. Inherent in the portfolio from the trading activities are 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.

TRADING ACTIVITIES

Heritage trades financial instruments for its own account through its wholly owned subsidiary, Heritage Energy Resources ("Resources"). Financial instruments utilized in connection with trading 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 trading activities result primarily from changes in the market prices, newly originated transactions and the timing of settlement related to the receipt of cash for certain contracts. Resources attempts to balance its contractual portfolio in terms of notional amounts and timing of performance and delivery obligations. However, net unbalanced positions can exist or are established based on assessment of anticipated market movements.

Heritage has recorded its trading activities at fair value in accordance with Emerging Issues Task Force Issue No. 98-10 ("EITF 98-10"), "Accounting for Contracts Involved in Energy Trading and Risk Management Activities". EITF 98-10 requires energy trading contracts to be recorded at fair value on the balance sheet, with the changes in fair value included in earnings.

Notional Amounts and Terms -

The notional amounts and terms of these financial instruments as of August 31, 2000 include fixed price payor for 898 thousand barrels and 285 thousand barrels of propane and butane, respectively and fixed price receiver of 858 thousand barrels and 285 thousand barrels of propane and butane, respectively. Notional amounts reflect the volume of the transactions, but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure Heritage's exposure to market or credit risks.

Fair Value -

The fair value of the financial instruments related to trading activities as of August 31, 2000, were assets of \$4.1 million and liabilities of \$3.7 million related to propane and butane. The income related to trading activities for the period ended August 31, 2000, was \$.7 million.

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 Heritage Energy 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Financial statements set forth on pages F-1 to F-36 of this Report are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

HERITAGE MANAGEMENT

The Board of Directors of the General Partner appoints members of the Board to serve on the Independent Committee with the authority to review specific matters to which the Board of Directors believes there may be a conflict of interest in order to determine if the resolution of such conflict proposed by the General Partner is fair and reasonable to Heritage Propane Partners, L.P. Any matters approved by the Independent Committee will be conclusively deemed to be fair and reasonable to Heritage Propane Partners, L.P., approved by all partners of Heritage Propane Partners, L.P. and not a breach by the General Partner or its Board of Directors of any duties they may owe Heritage Propane Partners, L.P. or the Unitholders. Bill W. Byrne, Stephen L. Cropper and J. Charles Sawyer currently serve as the members of the Independent Committee.

In April 2000, in order to avoid and resolve any potential conflict of interest between the shareholders of the General Partner and Heritage Propane Partners, L.P. and its Unitholders in conjunction with the transactions with U.S. Propane, the Board of Directors of the General Partner appointed independent directors J.T. Atkins and Stephen L. Cropper to serve as members of a Special Independent Committee. The Special Independent Committee was granted the authority to evaluate and negotiate the transactions with U.S. Propane on behalf of Heritage Propane Partners, L.P., to retain independent counsel and other advisors for the purpose of receiving a fairness opinion and to recommend to the Board of Directors whether the transactions should be completed and the terms thereof.

The Board of Directors of the General Partner has appointed persons who are neither officers nor employees of Heritage Propane Partners, L.P. or any affiliates of Heritage Propane Partners, L.P. to serve on its Audit Committee. The Audit Committee has the authority and responsibility to review external financial reporting of Heritage Propane Partners, L.P., to engage Heritage Propane Partners, L.P.'s independent accountants and to review Heritage Propane Partners, L.P.'s procedures for internal auditing and the adequacy of Heritage Propane Partners, L.P.'s internal accounting controls. Any matters approved by the Audit Committee will be conclusively deemed to be fair and reasonable to Heritage Propane Partners, L.P., approved by all partners of Heritage Propane Partners, L.P. and not a breach by the General Partner or its Board of Directors of any duties they may owe Heritage Propane Partners, L.P. or the Unitholders. Currently, Bill W. Byrne, Stephen L. Cropper and J. Charles Sawyer serve as members of the Audit Committee

Heritage does not directly employ any of the persons responsible for managing or operating the business. At August 31, 2000, the General Partner employed 1,889 full time individuals.

DIRECTORS AND EXECUTIVE OFFICERS OF THE GENERAL PARTNER

The following table sets forth certain information with respect to the executive officers and members of the Board of Directors of the General Partner. Executive officers and directors are elected for one-year terms.

Name - - - - -	Position with General Partner -----
H. Michael Krimbill(1)	President, Chief Executive Officer and Director
James E. Bertelsmeyer	Chairman of the Board and Director
R. C. Mills	Executive Vice President and Chief Operating Officer
Larry J. Dagley(3)	Vice President, Chief Financial Officer, Secretary & Treasurer

Name	Position with General Partner
- - - - -	-----
Bradley K, Atkinson	Vice President of Corporate Development
Mark A. Darr(4)	Vice President - Southern Operations
Thomas H. Rose(4)	Vice President - Northern Operations
Curtis L. Weishahn(4)	Vice President - Western Operations
Bill W. Byrne	Director of the General Partner
J. Charles Sawyer	Director of the General Partner
Stephen L. Cropper(2)	Director of the General Partner
J. Patrick Reddy(1)	Director of the General Partner
Tom S. Hawkins, Jr.(1)	Director of the General Partner
Royston K. Eustace(1)	Director of the General Partner
William N. Cantrell(1)	Director of the General Partner
Ware F. Schiefer(1)	Director of the General Partner
Clayton H. Preble(1)	Director of the General Partner
David J. Dzuricky(1)	Director of the General Partner
Paul Shlanta(1)	Director of the General Partner

- (1) Elected to the Board of Directors August 2000.
- (2) Elected to the Board of Directors April 2000.
- (3) Elected Vice President and Chief Financial Officer August 2000.
- (4) Elected an Executive Officer July 2000.

H. Michael Krimbill. Before joining Heritage in 1990 as Vice President and Chief Financial Officer, Mr. Krimbill, age 47, was Treasurer of Total Petroleum, Inc. ("Total"). Total was a publicly traded, fully integrated oil company located in Denver, Colorado. Mr. Krimbill was promoted to President of Heritage April 1999 and to Chief Executive Officer in March 2000. Mr. Krimbill is a director of the National Propane Gas Association.

James E. Bertelsmeyer. Mr. Bertelsmeyer, age 58, has 25 years of experience in the propane industry, including six years as President of Buckeye Gas Products Company, at the time the nation's largest retail propane marketer. Mr. Bertelsmeyer served as Chief Executive Officer of Heritage since its formation until the election of H. Michael Krimbill in March 2000. Mr. Bertelsmeyer began his career with Conoco Inc. where he spent ten years in positions of increasing responsibility in the pipeline and gas products departments. Mr. Bertelsmeyer has been a Director of the National Propane Gas Association for the past 24 years, and is a past president of the National Propane Gas Association.

R. C. Mills. Mr. Mills, age 63, has 42 years of experience in the propane industry. Mr. Mills joined Heritage in 1991 as Executive Vice President and Chief Operating Officer. Before coming to Heritage, Mr. Mills spent 25 years with Texgas Corporation and its successor, Suburban Propane, Inc. At the time he left Suburban in 1991, Mr. Mills was Vice President of Supply and Wholesale.

Larry J. Dagley. Mr. Dagley, age 52, became Heritage's Vice President and Chief Financial Officer in August 2000, following with transactions with U.S. Propane. Mr. Dagley was Chief Operating Officer of U.S.

Propane, LLC. Mr. Dagley has also served as Executive Vice President and Chief Financial Officer of Atmos Energy Corporation, a Dallas-based gas distribution company; Senior Vice President and Chief Financial Officer of Pacific Enterprises, a California-based holding company whose primary subsidiary is Southern California Gas Company; Senior Vice President and Chief Financial Officer for Transco Energy Company, a Houston-based natural gas pipeline company; and as Audit Partner with Arthur Andersen & Co., where he supervised audit and financial consulting engagements in the energy industry.

Bradley K. Atkinson. Mr. Atkinson, age 45 joined Heritage on April 16, 1998 as Vice President of Administration. Prior to joining Heritage, Mr. Atkinson was with MAPCO/Thermogas for 12 years, eight of which were in the acquisitions and business development of Thermogas. Mr. Atkinson is a CPA and received an undergraduate business degree from Pittsburgh State University and an MBA from Oklahoma State University. Mr. Atkinson was promoted to Vice President of Corporate Development in August 2000.

Mark A. Darr. Mr. Darr, age 40, has 17 years in the propane industry. Mr. Darr joined Heritage in 1991 and has held various positions including District Manager and Vice President and Regional Manager before his election to Vice President - Southern Operations, in July 2000. Prior to joining Heritage, Mr. Darr held various positions with Texgas Corporation, and its successor, Suburban Propane. He is currently serving as President of the Florida Propane Gas Association and is the Florida Director of the National Propane Gas Association. Mr. Darr received his undergraduate business degree from the University of Tennessee.

Thomas H. Rose. Mr. Rose, age 56, joined Heritage in November 1994 as Vice President and Regional Manager. Mr. Rose has 26 years in the propane industry including the position of President of a family owned propane business. Prior to joining Heritage, Mr. Rose held Regional Manager positions with Texgas Corporation, and its successor, Suburban Propane and later Vision Energy of Florida. Mr. Rose earned a BBA degree from the University of Miami and spent four years in the U.S. Navy. Mr. Rose was elected Vice President - Northern Operations in July 2000.

Curtis L. Weishahn. Mr. Weishahn, age 48, has 23 years experience in the propane industry. Mr. Weishahn joined Heritage in 1995 as Vice President and Regional Manager and was elected Vice President - Western Operations in July 2000. Prior to joining Heritage, Mr. Weishahn owned his own propane business and previously spent 12 years with AmeriGas/CalGas when at the time of departing, he was Director of Marketing/Strategic Development for the Western United States.

Bill W. Byrne. Mr. Byrne, age 70, served as Vice President of Warren Petroleum Company, the gas liquids division of Chevron Corporation, from 1982-1992. Since that time Mr. Byrne has served as the principal of Byrne & Associates, L.L.C., a gas liquids consulting group based in Tulsa, Oklahoma. Mr. Byrne has been a Director of Heritage since 1992 and is Chairman of the Audit Committee and a member of the Independent Committee. Mr. Byrne is a past president and Director of the National Propane Gas Association.

J. Charles Sawyer. Mr. Sawyer, age 63, has served as President and Chief Executive Officer of Computer Energy, Inc., a provider of software of the propane industry, since 1981. Mr. Sawyer was formerly Chief Executive Officer of Sawyer Gas Co., a regional propane distributor that was purchased by Heritage in 1991. Mr. Sawyer has served as a director of Heritage since 1991 and is a member of the Audit Committee and the Independent Committee. Mr. Sawyer is a past president and Director of the National Propane Gas Association.

Stephen L. Cropper. Mr. Cropper, age 50 was elected to the Board of Directors of Heritage in April 2000. Mr. Cropper spent 25 years with The Williams Companies before retiring in 1998. At the time of his retirement, Mr. Cropper was President and Chief Executive Officer of Williams Energy Services. Mr. Cropper is currently involved in consulting and investing in the energy field. Mr. Cropper is a member of both the Independent and the Audit Committee.

J. Patrick Reddy. Mr. Reddy, age 48, is currently the Senior Vice President and Chief Financial Officer of Atmos Energy Corporation ("Atmos"). Prior to being named to that position, Mr. Reddy served as Atmos' Senior Vice President, Chief Financial Officer and Treasurer from April 2000 to September 2000, and prior to that time he served as Atmos' Vice President and Treasurer. Prior to joining Atmos in August 1998 as Vice President, Corporate Development, Mr. Reddy held a number of management positions with Pacific Enterprises, Inc. Mr. Reddy was elected a Director of Heritage in August 2000.

Tom S. Hawkins, Jr. Mr. Hawkins, age 44, is currently the President of Energas Company, a division of Atmos Energy Corporation. Prior thereto, he was Vice President - Planning of Atmos Energy Corporation from September 1997 through October 2000, and prior to that time he served as the Vice President - Finance of United Cities Gas Company from June 1988 through September 1997. Mr. Hawkins was elected a Director of Heritage in August 2000.

Royston K. Eustace. Mr. Eustace, age 59, has been the Senior Vice President of Business Development for TECO Energy, Inc. ("TECO") since 1998. Mr. Eustace joined TECO in 1987 as its Vice President of Strategic Planning and Business Development. Mr. Eustace also serves as President of TECO Coalbed Methane and TECO Oil & Gas. Mr. Eustace was elected a Director of Heritage in August 2000.

William N. Cantrell. Mr. Cantrell, age 48, currently serves as the President of TECO Solutions. Prior thereto, he served as the President of Bosek, Gibson & Associates. Mr. Cantrell also serves as the President of Peoples Gas and Peoples Gas System, having been named to each of those positions in 1997. Mr. Cantrell began his association with the TECO companies in 1995 when he was named Vice President Energy Supply of Tampa Electric Company. Mr. Cantrell was elected a Director of Heritage in August 2000.

Ware F. Schiefer. Mr. Schiefer, age 63, has been the President and Chief Executive Officer of Piedmont Natural Gas Company, Inc. ("Piedmont") since February 2000. Mr. Schiefer also serves as a director of Piedmont. From February 1999 to February 2000, he served as Piedmont's Chief Operating Officer. From 1995 to 1999, Mr. Schiefer served as Executive Vice President, and prior to that time he served as Piedmont's Vice President - Marketing and Gas Supply. Mr. Schiefer was elected a Director of Heritage in August 2000.

Clayton H. Preble. Mr. Preble, age 53 has been the Senior Vice President of AGL Resources, Inc. ("AGL") since June 1999. Prior to his current position, Mr. Preble served as the Senior Vice President - Direct Marketing of SouthStar Energy Services, L.L.C. and as the President of The Energy Spring, Inc., both affiliates of AGL. Mr. Preble joined AGL in 1970 and served in various executive capacities prior to these positions. Mr. Preble was elected a Director of Heritage in August 2000.

David J. Dzuricky. Mr. Dzuricky age 49, is the Senior Vice President and Chief Financial Officer of Piedmont Natural Gas Company and has served in that capacity since May 1995. Prior thereto, Mr. Dzuricky held a variety of executive officer positions with Consolidated Natural Gas Company during the period from 1982 to 1995. Mr. Dzuricky was elected a Director of Heritage in August 2000.

Paul Shlanta. Mr. Shlanta, age 43, is Senior Vice President and General Counsel of AGL Resources, Inc., and has held that position since September 1998. Prior thereto, he was a partner in the law firm of Rowe, Fultz & Martin, P.C. in Atlanta, Georgia. Mr. Shlanta also serves as a director of SouthStar Energy Services, L.L.C.

COMPENSATION OF THE GENERAL PARTNER.

The General Partner does not receive any management fee or other compensation in connection with its management of Heritage. The General Partner and its affiliates performing services for Heritage are reimbursed at cost for all expenses incurred on behalf of Heritage, including the costs of compensation allocable to Heritage, and all other expenses necessary or appropriate to the conduct of the business of, and allocable to, Heritage.

The General Partner has a 1.9899 percent general partner interest in the combined operations of Heritage and the OLP.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES AND EXCHANGE ACT

Section 16(a) of the Securities and Exchange Act of 1934 requires the General Partner's officers and directors, and persons who own more than 10 percent of a registered class of Heritage's equity securities, to file reports of beneficial ownership and changes in beneficial ownership with the Securities and Exchange Commission ("SEC"). Officers, directors and greater than 10 percent unitholders are required by SEC regulations to furnish the General Partner with copies of all Section 16(a) forms.

Based solely on its review of the copies of such forms received by the General Partner, or written representations from certain reporting persons that no Form 5's were required for those persons, the General Partner believes that during fiscal year ending August 31, 2000, all filing requirements applicable to its officers, directors, and greater than 10 percent beneficial owners were met in a timely manner other than one late filing for each of Bradley K. Atkinson, Bill W. Byrne, Stephen L. Cropper, G.A. Darr, Mark A. Darr, Thomas H. Rose, Curtis L. Weishahn, and two late filings for Heritage Holdings, Inc. J.T. Atkins made one corrective filing for the previous year and J. Charles Sawyer made one corrective filing for the current fiscal year.

ITEM 11. EXECUTIVE COMPENSATION.

The following table sets forth the annual salary, bonus and all other compensation awards and payouts for each of the past three fiscal years earned by: (i) all persons serving as the General Partner's Chief Executive Officer during fiscal year 2000; (ii) the four next highly compensated executive officers other than the Chief Executive Officer, who served as executive officers of the General Partner during the 2000 fiscal year; and (iii) any persons who would have been reported had they been an executive officer of the General Partner at the end of the 2000 fiscal year.

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation(5)	All Other Compensation(6)
James E. Bertelsmeyer	2000	\$ 387,297	\$ --	\$ 695	\$ 129,306
Chairman of the Board(1)	1999	356,150	--	1,078	--
	1998	355,756	--	2,048	--
H. Michael Krimbill	2000	\$ 251,678	\$ --	\$ 193	\$ 214,838
President and Chief	1999	211,255	--	267	--
Executive Officer(2)	1998	185,000	--	357	--
R. C. Mills	2000	\$ 244,732	\$ --	\$ 822	\$ 129,306
Executive Vice President	1999	234,770	--	1,257	--
and Chief Operating Officer	1998	225,000	--	2,201	--
G.A. Darr(3)	2000	\$ 123,994	\$ --	\$ 604	\$ 137,859
Former Vice President -	1999	136,570	--	1,071	--
Corporate Development	1998	150,756	--	1,933	--
Bradley K. Atkinson	2000	\$ 134,836	\$ 125,000	\$ 72	\$ 131,718
Vice President -	1999	128,910	--	125	--
Corporate Development	1998	125,000	--	--	--
Curtis Weishahn(4)	2000	\$ 115,334	\$ 25,000	\$ 63	\$ 94,337
Vice President -	1999	109,769	29,508	101	--
Western Operations	1998	92,244	8,518	119	--
Thomas H. Rose(4)	2000	\$ 103,892	\$ 40,980	\$ 139	\$ 31,044
Vice President -	1999	100,000	166	189	--
Northern Operations	1998	94,272	17,323	241	--

(1) Mr. Bertelsmeyer served as Chief Executive Officer of Heritage until March 2000.

(2) Mr. Krimbill was named Chief Executive Officer of Heritage in March 2000.

- (3) Mr. Darr is a former executive officer. He resigned as Vice President of Corporate Development in June 2000.
- (4) Mr. Weishahn and Mr. Rose were named executive officers in July 2000.
- (5) Consists of life insurance premiums.
- (6) Consists of the value of Common Units issued pursuant to the vesting rights of the Restricted Unit Plan.

EMPLOYMENT AGREEMENTS

The General Partner has entered into employment agreements (the "Employment Agreements") with Messrs. Bertelsmeyer, Krimbill, Mills, Dagley, Atkinson, Weishahn, Rose and M. Darr. The summary of such Employment Agreements contained herein does not purport to be complete and is qualified in its entirety by reference to the Employment Agreements, which have been filed as exhibits to this Report.

The Employment Agreement for Mr. Bertelsmeyer has an initial term of two years. The Employment Agreements for Messrs. Krimbill, Mills, Dagley, Atkinson, Weishahn, Rose and M. Darr (each an "Executive") have an initial term of three years. However, for each Executive with the three year Employment Agreement, beginning on the second anniversary of the effective date and on each day thereafter the expiration date shall be automatically extended one additional day unless either party (i) shall give written notice to the other that the Term shall cease to be so extended beginning immediately after the date of such notice or (ii) shall give a Notice of Termination to the other by delivering notice to the Chairman of the Board, or in the event of the Executive's death. The Employment Agreements provide for an annual base salary of \$193,500, \$350,000, \$335,000, \$325,000, \$200,000, \$150,000, \$135,000 and \$135,000 ("Base Salary") for each of Messrs. Bertelsmeyer, Krimbill, Mills, Dagley, Atkinson, Weishahn, Rose and Darr, respectively. The Board shall review the Base Salary at least annually and may adjust the amount of the Base Salary at any time as the Board may deem appropriate in its sole discretion; provided, however, that in no event may the Base Salary be decreased below the above stated amount without the prior written consent of the employee. The Employment Agreements provide the Executives to participate in bonus and incentive plans. The Employment Agreements also provide for the Executive and, where applicable, the Executive's dependents, to have the right to participate in benefit plans made available to other executives of Heritage including the Restricted Unit Plan described below.

The Employment Agreements provide that in the event of a change of control of the ownership of the General Partner or in the event an Executive (i) is involuntarily terminated (other than for "misconduct" or "disability") or (ii) voluntarily terminates employment for "good reason" (as defined in the agreements), such Executive will be entitled to continue receiving his base salary and to participate in all group health insurance plans and programs that may be offered to executives of the General Partner for the remainder of the term of the Employment Agreement or, if earlier, the Executive's death, all restrictions on the transferability of the Units (as defined in the Subscription Agreement dated as of June 15, 2000, previously filed as an exhibit) purchased by such employee on the Closing shall automatically lapse in full on such date, and the Executive will vest immediately in the Minimum Award of the number of Common Units to which the Executive is entitled under the Long Term Incentive Plan to the extent not previously awarded. Each Employment Agreement also provides that if any payment received by an Executive is subject to the 20 percent federal excise tax under Section 4999(a) of the Code of the Internal Revenue Service, the Payment will be grossed up to permit the Executive to retain a net amount on an after-tax basis equal to what he would have received had the excise tax and all other federal and state taxes on such additional amount not been payable. In addition, each Employment Agreement contains non-competition and confidentiality provisions.

RESTRICTED UNIT PLAN

The General Partner has adopted the Amended and Restated Restricted Unit Plan dated August 10, 2000 (the "Restricted Unit Plan"), filed as an exhibit hereto, for certain directors and key employees of the General Partner and its affiliates. The Restricted Unit Plan covers rights to acquire 146,000 Common Units. The right to acquire the Common Units under the Restricted Unit Plan, including any forfeiture or lapse of rights are available for grant to key employees on such terms and conditions (including vesting conditions) as the Compensation Committee of the General Partner shall determine. Each director shall automatically receive a Director's grant with respect to 500

Common Units on each September 1 that such person continues as a director. Newly elected directors are also entitled to receive a grant with respect to 2,000 Common Units upon election or appointment to the Board. Messrs. Bertelsmeyer and Krimbill are not entitled to receive a Director's Grant of Common Units but may receive Common Units as employees. Directors who are employees of TECO, Atmos, Piedmont or AGL or their affiliates are not entitled to receive a Director's grant of Common Units. Generally, the rights to acquire the Common Units will vest upon the later to occur of (i) the three-year anniversary of the grant date, or (ii) the conversion of the Subordinated Units to Common Units. Grants made after the conversion of all of the Subordinated Units to Common Units shall vest on such terms as the Committee may establish, which may include the achievement of performance objectives. In the event of a "change of control" (as defined in the Restricted Unit Plan), all rights to acquire Common Units pursuant to the Restricted Unit Plan will immediately vest.

Common Units to be delivered upon the "vesting" of rights may be Common Units acquired by the General Partner in the open market, Common Units already owned by the General Partner, Common Units acquired by the General Partner directly from Heritage, or any other person, or any combination of the foregoing. Although the Restricted Unit Plan permits the grant of distribution equivalent rights to key employees, it is anticipated that until such Common Units have been delivered to a participant, such participant shall not be entitled to any distributions or allocations of income or loss and shall not have any voting or other rights in respect of such Common Units.

The Board of Heritage in its discretion may terminate the Restricted Unit Plan at any time with respect to any Common Units for which a grant has not therefore been made. The Board will also have the right to alter or amend the Restricted Unit Plan or any part thereof from time to time; provided, however, that no change in any Restricted Unit may be made that would impair the rights of the participant without the consent of such participant; and provide further, that, during the Subordination Period, without the approval of a majority of the Unitholders no amendment or alteration will be made that would (i) increase the total number of Units available for awards under the Restricted Unit Plan; (ii) change the class of individuals eligible to receive Restricted Unit awards; (iii) extend the maximum period which Restricted Units may be granted under the Restricted Unit Plan; or (iv) materially increase the cost of the Restricted Unit Plan.

The issuance of the Common Units pursuant to the Restricted Unit Plan is intended to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation in respect of the Common Units. Therefore, no consideration will be payable by the plan participants upon vesting and issuance of the Common Units. As of August 31, 2000, 80,800 Restricted Units had been granted to non-employee directors and key employees. All of these units vested pursuant to the change of control provision of the Restricted Unit Plan as the result of U.S. Propane acquiring all of the outstanding common stock of Heritage Holdings, Inc., with the exception of 5,000 units of members of the Special Independent Committee who waived their vesting rights. Compensation expense of \$549,000 was recognized in the financial statements for the period ended August 31, 2000, which recorded the remaining deferred expense related to the vested units. See Note 7 of the Consolidated Financial Statements, which begin on page F-1 of this Report. Compensation expense of \$365,808 was recognized in Predecessor Heritage's financial statements for the period ended August 9, 2000 and \$358,000 and \$215,000 for fiscal years 1999 and 1998, respectively. See Note 6 of Predecessor Heritage's Consolidated Financial Statements that begin on page F-20 of this Report.

The following table sets forth the number of grants awarded to persons serving as executive officers of the Company in the last fiscal year that resulted in the issuance of Common Units pursuant to the change of control provision under the Restricted Unit Plan:

Name	Number of Shares, Units or Other Rights(#)	Performance or Other Period Until Maturation or Payout
James E. Bertelsmeyer	2,000	(1)
H. Michael Krimbill	2,000	(1)
R.C. Mills	2,000	(1)
G.A. Darr(2)	2,000	(1)
Bradley K. Atkinson	2,000	(1)
Curtis Weishahn	1,000	(1)
Thomas H. Rose	500	(1)
Mark A. Darr	500	(1)

- (1) In accordance with the change in control provision of the Restricted Unit Plan, these Units and the Units representing grants awarded in previous years vested on August 10, 2000 when U.S. Propane acquired all of the outstanding stock of Heritage Holdings, Inc.
- (2) Mr. Darr is not an executive officer as of August 31, 2000, having resigned as such in June 2000.

COMPENSATION OF DIRECTORS

Heritage currently pays no additional remuneration to its employees for serving as directors. Under the Restricted Unit Plan, directors other than directors who are employees of Heritage Holdings, Inc., Atmos, AGL, TECO and Piedmont, or their affiliates, will be awarded 500 of these Restricted Units annually, and newly elected directors receive an initial award of 2,000 Restricted Units. The General Partner will pay each of its non-employee and nonaffiliated directors \$10,000 annually, plus \$1,000 per Board meeting attended and \$500 per committee meeting attended. All expenses associated with compensation of directors will be reimbursed to the General Partner by Heritage.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Compensation of the executive officers of Heritage is determined by the Compensation Committee of the Board of Directors of the General Partner. J.T. Atkins, James E. Bertelsmeyer, Bill W. Byrne and J. Charles Sawyer served as members of the Compensation Committee. Mr. Bertelsmeyer, Heritage's Chairman of the Board, participated in deliberations of the compensation Committee concerning executive officer compensation, but did not participate in deliberations concerning his own compensation.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of November 3, 2000, regarding the beneficial ownership by certain beneficial owners, all directors and named executive officers of the General Partner and Heritage, each of the named executive officers and all directors and executive officers of the General Partner as a group, of (i) the Common and Subordinated Units of Heritage Propane Partners, L.P., and (ii) the Common Stock of the General Partner. The General Partner knows of no other person beneficially owning more than 5 percent of the Common Units.

HERITAGE PROPANE PARTNERS, L.P. UNITS

Title of Class	Name and Address(5) of Beneficial Owner	Beneficially Owned(1)	Percent of Class
Common Units	James E. Bertelsmeyer(2)	133,001	1.36%
	H. Michael Krimbill(2)	101,500	1.04%
	R.C. Mills(2)	94,000	*
	G.A. Darr(6)	170,210	1.74%
	Larry J. Dagley	5,000	*
	Bradley K. Atkinson	13,100	*
	Thomas H. Rose	23,230	*
	Curtis Weishahn	29,230	*
	Mark A. Darr	20,530	*
	Bill W. Byrne	66,157	*
	J. Charles Sawyer	66,282	*
	Stephen L. Cropper	5,000	*
	J. Patrick Reddy	--	*
	Tom S. Hawkins, Jr.	--	*
	Royston K. Eustace	--	*
	William N. Cantrell	--	*
	Ware F. Schiefer	--	*
	David J. Dzuricky	--	*
	Clayton H. Preble	--	*
	Paul Shlanta	--	*
	All Directors and Executive Officers as a group (20 persons)	727,240	7.46%
	Heritage Holdings, Inc.(3)	2,149,857	22.06%
	U.S. Propane L.P.(3)	372,392	3.82%
Subordinated Units(4)	Heritage Holdings, Inc.(3)	1,851,471	100%
Class B Subordinated Units	James E. Bertelsmeyer	946,946	68.49%
	H. Michael Krimbill	211,059	15.27%
	R.C. Mills	224,509	16.24%

HERITAGE HOLDINGS, INC. COMMON STOCK

Title of Class -----	Name and Address of Beneficial Owner -----	Beneficially Owned(1) -----	Percent of Class -----
Common Stock	U.S. Propane(3)	534,787.84	100%

* Less than one percent (1 percent)

(1) Beneficial ownership for the purposes of the foregoing table is defined by Rule 13d-3 under the Securities Exchange Act of 1934. Under that rule, a person is generally considered to be the beneficial owner of a security if he has or shares the power to vote or direct the voting thereof ("Voting Power") or to dispose or direct the disposition thereof ("Investment Power") or has the right to acquire either of those powers within sixty (60) days.

(2) Each of Messrs. Bertelsmeyer, Mills and Krimbill shares Voting and Investment Power on a portion of their respective Units with his spouse.

(3) U.S. Propane, L.P. owns 100 percent of the common stock of Heritage Holdings, Inc. U.S. Propane, L.L.C. is the general partner of U.S. Propane, L.P. The members of U.S. Propane L.L.C. and their respective membership interest is as follows:

AGL Energy Corporation	22.36%
United Cities Propane Gas, Inc.	18.97%
TECO Propane Ventures, LLC	37.98%
Piedmont Propane Company	20.69%

(4) The directors of the General Partner share Voting and Investment Power of the Subordinated Units.

(5) The address for Heritage Holdings, Inc., Mr. Krimbill, Mr. Dagley and Mr. Atkinson is 8801 S. Yale, Suite 310, Tulsa, Oklahoma 74137. The address for U.S. Propane is 702 N. Franklin Street, Tampa, Florida 33602. The address for each of Messrs. Bertelsmeyer, M. Darr, Rose and Mills is 5000 Sawgrass Village Circle, Suite 4, Ponte Vedra Beach, Florida 32082. The address for Mr. Weishahn is 70 Autumn Lane, Reno Nevada 89511. The address for G.A. Darr is 2830 Halle Parkway, Collerville, Tennessee 38017.

(6) G.A. Darr was not an executive officer as of August 31, 2000, having resigned as such in June 2000.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORT OF FORM 8-K.

(a) 1. FINANCIAL STATEMENTS.

See "Index to Financial Statements" set forth on page F-1.

2. FINANCIAL STATEMENT SCHEDULES.

None.

3. EXHIBITS.

See "Index to Exhibits" set forth on page E-1.

(b) REPORTS OF FORM 8-K.

Heritage Propane Partners, L.P. filed two reports on Form 8-K during the three months ended August 31, 2000 and one report subsequent to that date. Form 8-K dated August 23, 2000, was filed reporting the announcement of the transaction with U.S. Propane on August 10, 2000. The report described the transaction and attached as exhibits, the First Amendment to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P., the Third Amendment dated as of August 10, 2000 to First Amended and Restated Credit Agreement, the Fourth Amendment Agreement dated August 10, 2000 to June 25, 1996 Note Purchase Agreement and November 19, 1997 Note Purchase Agreement, the Fourth Amendment Agreement dated August 10, 2000 to November 19, 1997 Note Purchase Agreement and June 25, 1996 Note Purchase Agreement, the Contribution Agreement dated June 15, 2000 among US Propane, L.P., Heritage Operating, L.P. and Heritage Propane Partners, L.P., the Amendment dated August 10, 2000 to June 15, 2000 Contribution Agreement, the Subscription Agreement dated June 15, 2000 between Heritage Propane Partners, L.P. and individual investors, the Amendment dated August 10, 2000 to June 15, 2000 Subscription Agreement, the Note Purchase Agreement dated as of August 10, 2000 and the Press Release dated August 10, 2000.

Form 8-K/A to the August 23, 2000 Form 8-K was filed on August 25, 2000 to report the change of control of Heritage Propane Partners, L.P. due to the transaction with U.S. Propane. On October 24, 2000, Form 8-K/A was filed to amend the Form 8-K of Heritage Propane Partners, L.P. dated August 23, 2000 and filed with the Securities and Exchange Commission on August 23, 2000. That Form 8-K reported under Item 2 the acquisition of assets from U.S. Propane, L.P. This report provided the financial statements and the pro forma financial information as required under Item 7. This Form 8-K/A also amended the Date of Report (Date of earliest event reported) to be August 10, 2000.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

By: /s/ H. Michael Krimbill

H. Michael Krimbill
President and Chief Executive
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ H. Michael Krimbill ----- H. Michael Krimbill	President and Chief Executive Officer and Director (Principal Executive Officer)	November 28, 2000
/s/ James E. Bertelsmeyer ----- James E. Bertelsmeyer	Chairman of the Board and Director	November 28, 2000
/s/ Larry J. Dagley ----- Larry J. Dagley	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	November 28, 2000
/s/ Bill W. Byrne ----- Bill W. Byrne	Director	November 28, 2000
/s/ J. Charles Sawyer ----- J. Charles Sawyer	Director	November 28, 2000
/s/ Stephen L. Cropper ----- Stephen L. Cropper	Director	November 28, 2000
/s/ J. Patrick Reddy ----- J. Patrick Reddy	Director	November 28, 2000
/s/ Tom S. Hawkins, Jr. ----- Tom S. Hawkins, Jr.	Director	November 28, 2000
/s/ Royston K. Eustace ----- Royston K. Eustace	Director	November 28, 2000
/s/ William N. Cantrell ----- William N. Cantrell	Director	November 28, 2000
/s/ Ware F. Schiefer ----- Ware F. Schiefer	Director	November 28, 2000

Signature

Title

Date

/s/ David J. Dzuricky

David J. Dzuricky

Director

November 28, 2000

/s/ Clayton H. Preble

Clayton H. Preble

Director

November 28, 2000

/s/ Paul Shlanta

Paul Shlanta

Director

November 28, 2000

INDEX TO EXHIBITS

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

EXHIBIT NUMBER -----	DESCRIPTION -----
(1)	3.1 Agreement of Limited Partnership of Heritage Propane Partners, L.P.
(10)	3.1.1 Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P.
(1)	3.2 Agreement of Limited Partnership of Heritage Operating, L.P.
(*)	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
(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
(10)	10.2.6 Fourth Amendment Agreement dated August 10, 2000 to June 25, 1996 Note Purchase Agreement and November 19, 1997 Note Purchase Agreement
(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
(*)	10.6.2 Amended and Restated Restricted Unit Plan dated as of August 10, 2000

EXHIBIT NUMBER -----	DESCRIPTION -----
(*) 10.7	Employment Agreement for James E. Bertelsmeyer dated as of August 10, 2000
(*) 10.8	Employment Agreement for R. C. Mills dated as of August 10, 2000
(*) 10.9	Employment Agreement for Larry J. Dagley dated as of August 10, 2000
(*) 10.10	Employment Agreement for H. Michael Krimbill dated as of August 10, 2000
(*) 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
(*) 10.13	Employment Agreement for Mark A. Darr dated as of August 10, 2000
(*) 10.14	Employment Agreement for Thomas H. Rose dated as of August 10, 2000
(*) 10.15	Employment Agreement for Curtis L. Weishahn dated as of August 10, 2000
(5) 10.16	Note Purchase Agreement dated as of November 19, 1997
(6) 10.16.1	Amendment dated October 15, 1998 to November 19, 1997 Note Purchase Agreement
(8) 10.16.2	Second Amendment Agreement dated September 1, 1999 to November 19, 1997 Note Purchase Agreement and June 25, 1996 Note Purchase Agreement
(9) 10.16.3	Third Amendment Agreement dated May 31, 2000 to November 19, 1997 Note Purchase Agreement and June 25, 1996 Note Purchase Agreement
(10) 10.16.4	Fourth Amendment Agreement dated August 10, 2000 to November 19, 1997 Note Purchase Agreement and June 25, 1996 Note Purchase Agreement
(10) 10.17	Contribution Agreement dated June 15, 2000 among U.S. Propane, L.P., Heritage Operating, L.P. and Heritage Propane Partners, L.P.
(10) 10.17.1	Amendment dated August 10, 2000 to June 15, 2000 Contribution Agreement
(10) 10.18	Subscription Agreement dated June 15, 2000 between Heritage Propane Partners, L.P. and individual investors
(10) 10.18.1	Amendment dated August 10, 2000 to June 15, 2000 Subscription Agreement
(10) 10.19	Note Purchase Agreement dated as of August 10, 2000
(*) 21.1	List of Subsidiaries
(*) 23.3	Consent of Arthur Andersen LLP
27.1	Financial Data Schedule - Heritage Propane Partners, L.P. (formerly Peoples Gas) for the eight months ended August 31, 2000 - Filed with EDGAR version only
27.2	Financial Data Schedule - Heritage Propane Partners, L.P. (Predecessor Heritage) for the period ended August 9, 2000 - Filed with EDGAR version only
27.3	Financial Data Schedule - Heritage Propane Partners, L.P. (formerly Peoples Gas) for the year ended December 31, 1997 - Filed with EDGAR version only
27.4	Financial Data Schedule - Heritage Propane Partners, L.P. (formerly Peoples Gas) for the year ended December 31, 1998 - Filed with EDGAR version only
27.5	Financial Data Schedule - Heritage Propane Partners, L.P. (formerly Peoples Gas) for the year ended December 31, 1999 - Filed with EDGAR version only
(*) 99.1	Balance Sheet of Heritage Holdings, Inc. as of August 31, 2000

- (1) Incorporated by reference to the same numbered Exhibit to Registrant's Registration Statement of Form S-1, File No. 333-04018, filed with the Commission on June 21, 1996.
- (2) Incorporated by reference to Exhibit 10.11 to Registrant's Registration Statement on Form S-1, File No. 333-04018, filed with the Commission on June 21, 1996.
- (3) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended November 30, 1996.
- (4) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended February 28, 1997.
- (5) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended May 31, 1998.
- (6) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 1998.
- (7) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 1999.
- (8) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 1999.
- (9) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 2000.
- (10) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 8-K dated August 10, 2000.
- (11) File as Exhibit 10.16.3.
- (*) Filed Herewith.

INDEX TO FINANCIAL STATEMENTS

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES
(FORMERLY PEOPLES GAS COMPANY AND SURVIVING LEGAL ENTITY IN THE SERIES OF TRANSACTIONS WITH U.S. PROPANE)

	PAGE
Report of Independent Public Accountants.....	F-2
Consolidated Balance Sheets -- August 31, 2000 and December 31, 1999.....	F-3
Consolidated Statements of Operations -- Eight Months Ended August 31, 2000 and 1999 (unaudited) and Years Ended December 31, 1999, 1998 and 1997.....	F-4
Consolidated Statements of Partners' Capital -- Eight Months Ended August 31, 2000 and Years Ended December 31, 1999, 1998 and 1997.....	F-5
Consolidated Statements of Cash Flows -- Eight Months Ended August 31, 2000 and Years Ended December 31, 1999, 1998 and 1997.....	F-6
Notes to Consolidated Financial Statements.....	F-7

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES (PREDECESSOR HERITAGE)
(THE PROPANE OPERATIONS OF HERITAGE PROPANE PARTNERS, L.P.,
PRIOR TO THE SERIES OF TRANSACTIONS WITH U.S. PROPANE)

Report of Independent Public Accountants.....	F-20
Consolidated Balance Sheet -- August 31, 1999.....	F-21
Consolidated Statements of Operations -- Period Ended August 9, 2000 and Years Ended August 31, 1999 and 1998.....	F-22
Consolidated Statements of Partners' Capital -- Period Ended August 9, 2000 and Years Ended August 31, 1999 and 1998.....	F-23
Consolidated Statements of Cash Flows -- Period Ended August 9, 2000 and Years Ended August 31, 1999 and 1998.....	F-24
Notes to Consolidated Financial Statements.....	F-25

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Partners of
Heritage Propane Partners, L.P.:

We have audited the accompanying consolidated balance sheets of Heritage Propane Partners, L.P. (a Delaware limited partnership) and subsidiaries, formerly Peoples Gas Company, as of August 31, 2000 and December 31, 1999 and the related consolidated statements of operations, partners' capital and cash flows for the eight month period ended August 31, 2000, and for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heritage Propane Partners, L.P. and subsidiaries, formerly Peoples Gas Company, as of August 31, 2000 and December 31, 1999, and the results of their operations and their cash flows for the eight month period ended August 31, 2000, and for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Tulsa, Oklahoma
October 26, 2000

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES
(FORMERLY PEOPLES GAS COMPANY)

CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)

	August 31, 2000	December 31, 1999
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash	\$ 4,845	\$ 21
Accounts receivable	31,855	5,224
Inventories	39,045	1,384
Assets from trading activities	4,133	--
Prepaid expenses and other	4,991	14
	-----	-----
Total current assets	84,869	6,643
PROPERTY, PLANT AND EQUIPMENT, net	339,366	36,063
INVESTMENT IN AFFILIATE	5,795	--
INTANGIBLES AND OTHER ASSETS, net	185,749	1,018
	-----	-----
Total assets	\$ 615,779	\$ 43,724
	=====	=====
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Working capital facility	\$ 24,200	\$ --
Accounts payable	43,244	2,072
Accounts payable to related companies	3,814	16,315
Accrued and other current liabilities	24,682	1,249
Liabilities from trading activities	3,684	--
Current maturities of long-term debt	2,588	--
	-----	-----
Total current liabilities	102,212	19,636
LONG-TERM DEBT, less current maturities	361,990	525
MINORITY INTEREST	4,821	--
DEFERRED TAX LIABILITIES	--	8,456
COMMITMENTS AND CONTINGENCIES	--	--
	-----	-----
Total liabilities	469,023	28,617
	-----	-----
PARTNERS' CAPITAL:		
Common unitholders (9,674,146 and 1,294,873 units issued and outstanding at August 31, 2000 and December 31, 1999, respectively)	106,221	11,294
Subordinated unitholders (1,851,471 and 437,398 issued and outstanding at August 31, 2000 and December 31, 1999, respectively)	23,130	3,776
Class B subordinated unitholders (1,382,514 units issued and outstanding at August 31, 2000)	16,464	--
General partner	941	37
	-----	-----
Total partners' capital	146,756	15,107
	-----	-----
Total liabilities and partners' capital	\$ 615,779	\$ 43,724
	=====	=====

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

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES
(FORMERLY PEOPLES GAS COMPANY)

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

	For the Eight Months Ended August 31,		For the Years Ended December 31,		
	2000	1999	1999	1998	1997
		(Unaudited)			
REVENUES:					
Retail fuel	\$ 43,815	\$ 21,766	\$ 34,045	\$ 30,187	\$ 32,874
Wholesale fuel	3,807	--	--	--	--
Trading activities	12,262	--	--	--	--
Other	3,188	--	--	--	--
Total revenues	63,072	21,766	34,045	30,187	32,874
COSTS AND EXPENSES:					
Cost of products sold	29,962	8,467	14,849	12,283	17,063
Trading activities	11,538	--	--	--	--
Operating expenses	16,581	8,596	13,223	11,088	11,927
Depreciation and amortization	4,686	2,037	3,088	2,855	2,514
Selling, general and administrative	1,019	--	--	--	--
Total costs and expenses	63,786	19,100	31,160	26,226	31,504
OPERATING INCOME (LOSS)	(714)	2,666	2,885	3,961	1,370
OTHER INCOME (EXPENSE):					
Interest expense	(2,409)	--	--	--	--
Equity in earnings (losses) of affiliates	(67)	--	--	--	--
Gain on disposal of assets	121	--	--	--	--
Other	(478)	11	10	(478)	(390)
INCOME (LOSS) BEFORE MINORITY INTEREST AND INCOME TAXES	(3,547)	2,677	2,895	3,483	980
Minority interest	80	--	--	--	--
INCOME (LOSS) BEFORE INCOME TAXES	(3,467)	2,677	2,895	3,483	980
Income taxes	379	1,035	1,127	1,412	378
NET INCOME (LOSS)	(3,846)	1,642	1,768	2,071	602
GENERAL PARTNER'S INTEREST IN NET INCOME (LOSS)	(46)	4	4	5	2
LIMITED PARTNERS' INTEREST IN NET INCOME (LOSS)	\$ (3,800)	\$ 1,638	\$ 1,764	\$ 2,066	\$ 600
BASIC AND DILUTED NET INCOME (LOSS) PER LIMITED PARTNER UNIT	\$ (.37)	\$.94	\$ 1.02	\$ 1.19	\$.35
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	10,225,387	1,732,271	1,732,271	1,732,271	1,732,271

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

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES
(FORMERLY PEOPLES GAS COMPANY)

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

	Number of Units				
	Common	Subordinated	Class B Subordinated	Common	Subordinated
BALANCE, DECEMBER 31, 1996	1,294,873	437,398	--	\$ 11,135	\$ 3,722
Net income	--	--	--	450	150
BALANCE, DECEMBER 31, 1997	1,294,873	437,398	--	11,585	3,872
Net income	--	--	--	1,549	517
Dividends paid to parent	--	--	--	(1,475)	(491)
BALANCE, DECEMBER 31, 1998	1,294,873	437,398	--	11,659	3,898
Net income	--	--	--	1,323	441
Dividends paid to parent	--	--	--	(1,688)	(563)
BALANCE, DECEMBER 31, 1999	1,294,873	437,398	--	11,294	3,776
Dividends paid to parent	--	--	--	(1,132)	(377)
Liabilities retained by parent	--	--	--	21,080	7,051
Merger with AGL, Atmos, and Piedmont	--	--	--	83,410	28,085
Merger with Predecessor Heritage	8,379,273	1,414,073	1,382,514	(4,080)	(14,657)
General Partner capital contribution	--	--	--	--	--
Other	--	--	--	(1,502)	(285)
Net loss	--	--	--	(2,849)	(463)
BALANCE, AUGUST 31, 2000	9,674,146	1,851,471	1,382,514	\$ 106,221	\$ 23,130

	Class B Subordinated	General Partner	Total
BALANCE, DECEMBER 31, 1996	\$ --	\$ 37	\$ 14,894
Net income	--	2	602
BALANCE, DECEMBER 31, 1997	--	39	15,496
Net income	--	5	2,071
Dividends paid to parent	--	(5)	(1,971)
BALANCE, DECEMBER 31, 1998	--	39	15,596
Net income	--	4	1,768
Dividends paid to parent	--	(6)	(2,257)
BALANCE, DECEMBER 31, 1999	--	37	15,107
Dividends paid to parent	--	(4)	(1,513)
Liabilities retained by parent	--	71	28,202
Merger with AGL, Atmos, and Piedmont	--	843	112,338
Merger with Predecessor Heritage	17,167	(523)	(2,093)
General Partner capital contribution	--	581	581
Other	(213)	(20)	(2,020)
Net loss	(490)	(44)	(3,846)
BALANCE, AUGUST 31, 2000	\$ 16,464	\$ 941	\$ 146,756

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

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES
(FORMERLY PEOPLES GAS COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Eight Months Ended August 31, 2000	For the Years Ended December 31,		
		1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	\$ (3,846)	\$ 1,768	\$ 2,071	\$ 602
Reconciliation of net income (loss) to net cash provided by operating activities-				
Depreciation and amortization	4,686	3,088	2,855	2,514
Gain on disposal of assets	(121)	--	--	--
Deferred compensation on restricted units	509	--	--	--
Undistributed earnings of affiliates	67	--	--	--
Minority interest	700	--	--	--
Deferred income taxes	--	517	444	326
Changes in assets and liabilities, net of effect of acquisitions:				
Accounts receivable	(5,109)	(2,051)	698	869
Trading asset	(3,909)	--	--	--
Inventories	(7,274)	(413)	255	443
Prepaid expenses	142	51	22	(87)
Intangibles and other assets	--	(97)	--	(95)
Accounts payable to related parties	5,057	6,064	4,226	4,546
Accounts payable	17,976	511	(300)	(194)
Accrued and other current liabilities	5,630	(85)	(1,052)	(1,242)
Net cash provided by operating activities	14,508	9,353	9,219	7,682
CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash paid for acquisitions, net of cash acquired	(177,067)	(1,015)	(1,719)	--
Capital expenditures	(3,559)	(6,176)	(5,328)	(4,497)
Other	(2,411)	--	--	--
Net cash used in investing activities	(183,037)	(7,191)	(7,047)	(4,497)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from borrowings	193,032	--	--	--
Principal payments on debt	(67,898)	--	(346)	(7,811)
Net proceeds from issuance of common units	22,924	--	--	--
Net proceed from issuance of subordinated units	27,279	--	--	--
Debt issuance costs	(1,052)	--	--	--
Capital contributions	581	--	--	4,250
Dividends paid to parent	(1,513)	(2,257)	(1,971)	--
Net cash provided by (used in) financing activities	173,353	(2,257)	(2,317)	(3,561)
INCREASE (DECREASE) IN CASH	4,824	(95)	(145)	(376)
CASH, beginning of period	21	116	261	637
CASH, end of period	\$ 4,845	\$ 21	\$ 116	\$ 261
NONCASH FINANCING ACTIVITIES:				
Notes payable incurred on noncompete agreements	\$ 809	\$ 200	\$ 253	\$ 500
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid during the period for interest	\$ 581	\$ --	\$ --	\$ --
Cash paid to parent for income taxes under tax sharing agreement, net	\$ 1,028	\$ 851	\$ 582	\$ 403

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

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES
(FORMERLY PEOPLES GAS COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except unit and per unit data)
(Unaudited as to August 31, 1999 data)

1. OPERATIONS AND ORGANIZATION:

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"). The working capital adjustment is anticipated to be settled in December 2000. An additional payment of \$5,000 has been accrued at August 31, 2000 for the working capital adjustment. To the extent the final payment is more or less than \$5,000, goodwill recorded in the transaction will be adjusted.

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 were 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 is 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 eight month period ended August 31, 2000 include the results of operations for Peoples Gas and the results of operations of Predecessor Heritage, Piedmont, AGL and United Cities beginning August 10, 2000. The financial statements of Peoples Gas are the 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 periods ended December 31, 1999, 1998 and 1997 have been presented on a carve-out basis and reflect the historical results of operations, financial position and cash flows of Peoples Gas. As discussed further in Note 9, certain expenses in the financial statements include allocations from TECO Energy, Inc. ("TECO" or "Parent Company") and other wholly-owned subsidiaries of the Parent Company (individually, a "Related Company" and collectively, the "Related Companies"). 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.

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 periods presented.

	8-months Ended August 31, 2000	12-months Ended December 31, 1999
	-----	-----
Net revenues	\$ 316,555	\$ 299,600
Net income (loss)	\$ 4,712	\$ (1,662)
Basic and diluted earnings (loss) per common unit	\$.36	\$ (.14)

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.

Peoples Gas had a fiscal year-end of December 31, however, Heritage will continue to have Predecessor Heritage's August 31 year-end. Accordingly, the eight-month period ended August 31, 2000 is a transition period under the rules of the Securities and Exchange Commission.

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 and U.S. Propane each hold a 1.0101 percent limited partner interest in the Operating Partnership.

The Operating Partnership sells propane and propane-related products to more than 485,000 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.

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:

	August 31, 2000	December 31, 1999
	-----	-----
Fuel	\$ 30,882	\$ 1,315
Appliances, parts and fittings	8,163	69
	-----	-----
	\$ 39,045	\$ 1,384
	=====	=====

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are expensed as incurred. Additionally, Heritage capitalizes certain costs directly related to the installation of company-owned tanks, including internal labor costs. Components and useful lives of property, plant and equipment were as follows:

	August 31, 2000	December 31, 1999
	-----	-----
Land and improvements	\$ 16,648	\$ 719
Buildings and improvements (10 to 30 years)	22,483	1,673
Bulk storage, equipment and facilities (3 to 30 years)	28,210	2,393
Tanks and other equipment (5 to 30 years)	241,934	42,206
Vehicles (5 to 10 years)	41,125	6,248
Furniture and fixtures (5 to 10 years)	5,262	1,391
Other	2,995	522
	-----	-----
	358,657	55,152
Less -- Accumulated depreciation	(23,948)	(20,657)
	-----	-----
	334,709	34,495
Plus -- Construction work-in-process	4,657	1,568
	-----	-----
Property, plant and equipment, net	\$ 339,366	\$ 36,063
	=====	=====

INTANGIBLES AND OTHER ASSETS

Intangibles and other assets are stated at cost net of amortization computed on the straight-line method. Heritage eliminates from its balance sheet any fully amortized intangibles and the related accumulated amortization. Components and useful lives of intangibles and other assets were as follows:

	August 31, 2000	December 31, 1999
	-----	-----
Goodwill (30 years)	\$ 119,588	\$ --
Noncompete agreements (10 to 15 years)	30,665	1,295
Customer lists (15 years)	32,678	200
Other	4,808	81
	-----	-----
	187,739	1,576
Less - Accumulated amortization	(1,990)	(558)
	-----	-----
Intangibles and other assets, net	\$ 185,749	\$ 1,018
	=====	=====

LONG-LIVED ASSETS

Heritage reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such a review should indicate that the carrying amount of long-lived assets is not recoverable, Heritage reduces the carrying amount of such assets to fair value. No impairment of long-lived assets was required during the period ended August 31, 2000 or the years ended December 31, 1999, 1998 and 1997.

ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities consisted of the following:

	August 31, 2000	December 31, 1999
	-----	-----
Interest payable	\$ 4,647	\$ --
Wages and payroll taxes	3,337	90
Deferred tank rent	2,568	278
Customer deposits	2,220	800
Taxes other than income	2,523	--
U.S. Propane working capital payable	5,000	--
Other	4,387	81
	-----	-----
Accrued and other current liabilities	\$ 24,682	\$ 1,249
	=====	=====

INCOME TAXES

For the years ended December 31, 1999, 1998 and 1997, 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 has 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 period ended August 31, 2000 except those incurred by Peoples Gas prior to the transaction with Predecessor Heritage. 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. For the transition period ended August 31, 2000, diluted net loss per limited partner unit is the same as basic net loss per limited partner unit because the 5,000 Restricted Units ("Phantom Units") granted that remain unvested under the Restricted Unit Plan (see Note 7) were anti-dilutive due to the net loss for the period.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain 1999, 1998, and 1997 amounts have been reclassified to conform with the 2000 presentation. These reclassifications have no impact on net income.

FAIR VALUE

The carrying amount of accounts receivable and accounts payable approximates their fair value. Based on the estimated borrowing rates currently available to Heritage for long-term loans with similar terms and average maturities, the aggregate fair value at August 31, 2000 of long-term debt approximates the aggregate carrying amount.

RECENTLY ISSUED ACCOUNTING STANDARD NOT YET ADOPTED

At the date of acquisition of Predecessor Heritage, TECO and Peoples Gas had not yet adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, and for hedging activities, be recorded on the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. Predecessor Heritage previously applied the provisions of SFAS 133. Accordingly, since Peoples Gas is the accounting acquirer, Predecessor Heritage discontinued applying the provisions of SFAS 133 as of August 10, 2000.

SFAS 133 is effective for fiscal years beginning after June 15, 2000, which would be Heritage's fiscal year 2001 beginning September 1, 2000. Heritage has evaluated the impact of adopting SFAS 133 and does not expect it to have a significant impact on its reported financial condition, results of operations and cash flows. Heritage entered into certain financial swap instruments during the period ended August 31, 2000 that have been designated as cash flow hedging instruments in accordance with SFAS 133. Financial swaps 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 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 2000 through March 2001. Heritage utilizes hedging transactions to provide price protection against significant fluctuations in propane prices. These instruments had an unrecorded fair value of \$5,659 as of August 31, 2000. Upon adoption of SFAS 133, Heritage will recognize the fair value of these instruments on the balance sheet through other comprehensive income. Heritage will then reclassify into earnings the gain or loss that is reported in accumulated other comprehensive income as the related physical transactions occur.

TRADING ACTIVITIES

Heritage trades financial instruments for its own account through Heritage Energy Resources ("Resources"). Financial instruments utilized in connection with trading 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 trading activities 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 assessment of anticipated market movements.

Heritage has recorded its trading activities at fair value in accordance with Emerging Issues Task Force Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" ("EITF 98-10"). EITF 98-10 requires energy trading contracts to be recorded at fair value on the balance sheet, with the changes in fair value included in earnings.

Notional Amounts and Terms -

The notional amounts and terms of these financial instruments as of August 31, 2000 include fixed price payor for 898 thousand barrels and 285 thousand barrels of propane and butane, respectively and fixed price receiver of 858 thousand barrels and 285 thousand barrels of propane and butane, respectively. Notional amounts reflect the volume

of the transactions, but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure Heritage's exposure to market or credit risks.

Fair Value --

The fair value of the financial instruments related to trading activities as of August 31, 2000, was assets of \$4,133 and liabilities of \$3,684. The income related to trading activities for the period ended August 31, 2000, was \$724.

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.

3. ACQUISITIONS:

In August 2000, Heritage purchased substantially all of the assets of two companies for \$1,887 in cash and noncompete agreements with the prior owners for \$309. In January 2000, Peoples Gas purchased substantially all of the fixed assets of a company for approximately \$3,300 in cash and noncompete agreements with the prior owners for \$500. In July 1999, Peoples Gas purchased substantially all of the inventory and fixed assets of a company for approximately \$1,015 in cash and noncompete agreements with the prior owners for \$200. In January 1998, Peoples Gas purchased substantially all of the fixed assets of two companies for \$1,719 in cash and noncompete agreements with the prior owners for \$253. The results of operations of the acquired entities have been included in Heritage's or Peoples Gas' financial statements from the date of acquisition.

Effective January 1998, TECO completed its merger with Griffis, Inc. and U.S. Propane, Inc. and issued approximately 600,000 shares of its common stock for total consideration of approximately \$15,000. Concurrent with the merger, Griffis, Inc. and U.S. Propane, Inc. were merged into Peoples Gas Company. This merger was accounted for as a pooling of interests and, accordingly, Peoples Gas' statements of operations and related earnings and cash flows for the period ended December 31, 1998 and 1997 include the results of Griffis, Inc. and U.S. Propane, Inc.

4. INCOME TAXES:

Prior to the transaction with Predecessor Heritage, Peoples Gas filed a consolidated federal income tax return with TECO and included in its statements of operations, a provision for income taxes calculated on a separate return basis, based on a tax sharing agreement.

The provision for income taxes for the period ended August 31, 2000 and the years ended December 31, 1999, 1998, and 1997, was comprised of the following:

	2000	1999	1998	1997
	-----	-----	-----	-----
Federal income taxes:				
Current	\$ 326	\$ 524	\$ 830	\$ 45
Deferred	--	443	381	280
State income taxes:				
Current	53	86	138	7
Deferred	--	74	63	46
	-----	-----	-----	-----
Total provision for income taxes	\$ 379	\$ 1,127	\$ 1,412	\$ 378
	=====	=====	=====	=====

The income tax effect of temporary differences comprising the deferred tax liability on the accompanying balance sheet is a result of the following at December 31, 1999:

Depreciation and amortization	\$	8,717
Deferred revenue		(104)
Other		(157)

	\$	8,456
		=====

Income taxes differ from amounts computed by applying the statutory rates to pre-tax income as follows:

	2000	1999	1998	1997
	-----	-----	-----	-----
Federal income taxes at statutory rate of 35%	\$ (1,213)	\$ 1,013	\$ 1,219	\$ 343
Non-deductible partnership losses	1,484	--	--	--
State income tax, net	34	104	130	35
Other, net	74	10	63	--
	-----	-----	-----	-----
Provision for income taxes	\$ 379	\$ 1,127	\$ 1,412	\$ 378
	=====	=====	=====	=====

5. WORKING CAPITAL FACILITY AND LONG-TERM DEBT:

Long-term debt consists of the following:	August 31, 2000	December 31, 1999
	-----	-----
8.55% Senior Secured Notes	\$ 120,000	\$ --
Medium Term Note Program:		
7.17% Series A Senior Secured Notes	12,000	--
7.26% Series B Senior Secured Notes	20,000	--
6.50% Series C Senior Secured Notes	4,286	--
6.59% Series D Senior Secured Notes	5,000	--
6.67% Series E Senior Secured Notes	5,000	--
Senior Secured Promissory Notes:		
8.47% Series A Senior Secured Notes	16,000	--
8.55% Series B Senior Secured Notes	32,000	--
8.59% Series C Senior Secured Notes	27,000	--
8.67% Series D Senior Secured Notes	58,000	--
8.75% Series E Senior Secured Notes	7,000	--
8.87% Series F Senior Secured Notes	40,000	--
Senior Revolving Acquisition Facility	1,900	--
Notes Payable on noncompete agreements with interest imputed at rates averaging 8%, due in installments through 2010, collateralized by a first security lien on certain assets of Heritage	15,107	525
Other	1,285	--
Current maturities of long-term debt	(2,588)	--
	-----	-----
	\$ 361,990	\$ 525
	=====	=====

Maturities of the Senior Secured Notes, the Medium Term Note Program and the Senior Secured Promissory Notes are as follows:

8.55% Senior Notes: mature at the rate of \$12,000 on June 30 in each of the years 2002 to and including 2011.

Medium Term Note Program:

Series A Notes: mature at the rate of \$2,400 on November 19 in each of the years 2005 to and including 2009.

Series B Notes: mature at the rate of \$2,000 on November 19 in each of the years 2003 to and including 2012.

Series C Notes: mature at the rate of \$714 on March 13 in each of the years 2000 to and including 2003, \$357 on March 13, 2004, \$1,073 on March 13, 2005, and \$357 in each of the years 2006 and 2007.

Series D Notes: mature at the rate of \$556 on March 13 in each of the years 2002 to and including 2010.

Series E Notes: mature at the rate of \$714 on March 13 in each of the years 2007 to and including 2013.

Senior Secured Promissory Notes:

Series A Notes: mature at the rate of \$3,200 on August 15 in each of the years 2003 to and including 2007.

Series B Notes: mature at the rate of \$4,571 on August 15 in each of the years 2004 to and including 2010.

Series C Notes: mature at the rate of \$5,750 on August 15 in each of the years 2006 to and including 2007, \$4,000 on August 15, 2008 and \$5,750 on August 15, 2009 to and including 2010.

Series D Notes: mature at the rate of \$12,450 on August 15 in each of the years 2008 and 2009, \$7,700 on August 15, 2010, \$12,450 on August 15, 2011 and \$12,950 on August 15, 2012.

Series E Notes: mature at the rate of \$1,000 on August 15 in each of the years 2009 to and including 2015.

Series F Notes: mature at the rate of \$3,636 on August 15 in each of the years 2010 to and including 2020.

The Note Purchase Agreement, the Medium Term Note Program and the Senior Secured Promissory Notes contain restrictive covenants including limitations on substantial disposition of assets, changes in ownership of Heritage and additional indebtedness and require the maintenance of certain financial ratios. At August 31, 2000, Heritage was in compliance with all covenants. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the common stock of Heritage's subsidiaries secure the notes.

Effective August 31, 2000, Heritage entered into the Third Amendment to First Amended and Restated Credit Agreement, with various financial institutions that amended existing credit agreements. The terms of the Agreement as amended are as follows:

A \$50,000 Senior Revolving Working Capital Facility, expiring June 30, 2002, with \$24,200 outstanding at August 31, 2000. The interest rate and interest payment dates vary depending on the terms Heritage agrees to when the money is borrowed. The weighted average interest rate was 8.25 percent for the amount outstanding at August 31, 2000. Heritage must be free of all working capital borrowings for 30 consecutive days each fiscal year. The maximum commitment fee payable on the unused portion of the facility is .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

Heritage agrees to when the money is borrowed. The average interest rate was 8.25 percent on the \$1,900 amount outstanding at August 31, 2000. The maximum commitment fee payable on the unused portion of the facility is .375 percent.

Future maturities of long-term debt for each of the next five fiscal years and thereafter are \$2,588 in 2001; \$15,837 in 2002; \$19,169 in 2003; \$25,965 in 2004; \$25,425 in 2005 and \$275,594 thereafter.

6. COMMITMENTS AND CONTINGENCIES:

Certain property and equipment is leased under noncancelable leases, which require fixed monthly rental payments and expire at various dates through 2008. Rental expense under these leases totaled approximately \$245 and \$91 for the eight months ended August 31, 2000 and 1999, respectively, and \$184 for fiscal 1999, \$119 for fiscal 1998 and \$181 for fiscal 1997, and has been included in operating expenses in the accompanying statements of operations. Fiscal year future minimum lease commitments for such leases are \$1,946 in 2001; \$1,349 in 2002; \$1,201 in 2003; \$892 in 2004; \$737 in 2005 and \$529 thereafter.

Heritage is a party to various legal proceedings incidental to its business. Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against Heritage. In the opinion of management, all such matters are covered by insurance, are without merit or involve amounts, which, if resolved unfavorably, would not have a significant effect on the financial position or results of operations of Heritage.

Heritage has entered into several purchase and supply commitments with varying terms as to quantities and prices, which expire at various dates through March 2001.

7. PARTNERS' CAPITAL:

The Agreement of Limited Partnership of Heritage Propane Partners, L.P. ("Partnership Agreement") contains specific provisions for the allocation of net earnings and loss to each of the partners for purposes of maintaining the partner capital accounts. During the Subordination Period (as defined below), Heritage may issue up to 2,012,500 additional Common Units (excluding Common Units issued in connection with conversion of Subordinated Units into Common Units) or an equivalent number of securities ranking on a parity with the Common Units and an unlimited number of partnership interests junior to the Common Units without a Unitholder vote. Heritage may also issue additional Common Units during the Subordination Period in connection with certain acquisitions or the repayment of certain indebtedness.

QUARTERLY DISTRIBUTIONS OF AVAILABLE CASH

Heritage is expected to make quarterly cash distributions of all 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 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 will generally be 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. To the extent there is sufficient Available Cash, the holders of Common Units have the right to receive the Minimum Quarterly Distribution (\$.50 per Unit), plus any arrearages, prior to any distribution of Available Cash to the holders of Subordinated Units. Common Units will not accrue arrearages for any quarter after the Subordination Period and Subordinated Units will not accrue any arrearages with respect to distributions for any quarter.

In general, the Subordination Period will continue indefinitely until the first day of any quarter beginning after May 31, 2001, in which distributions of Available Cash equal or exceed the Minimum Quarterly Distribution ("MQD") on the Common Units and the Subordinated Units for each of the three consecutive four-quarter periods immediately preceding such date. Pursuant to the terms of the Partnership Agreement, Predecessor Heritage converted 925,736 Subordinated Units to Common Units on July 7, 1999 and an additional 925,736 on July 5, 2000. The conversion of these units was dependent on meeting certain cash performance and distribution requirements during the period that commenced with Predecessor Heritage's public offering in June 1996. The subordination

period applicable to the remaining Subordinated Units will end the first day of any quarter ending after May 31, 2001, in which certain cash performance and distribution requirements have been met. Upon expiration of the Subordination Period, all remaining Subordinated Units will convert to Common Units.

Heritage is expected to make distributions of its Available Cash within 45 days after the end of each fiscal quarter ending November, February, May and August to holders of record on the applicable record date. A pro rata MQD of \$.353 per Common and Subordinated Unit was made by Predecessor Heritage on October 15, 1996 for the two month period between Predecessor Heritage's initial public offering and the fourth quarter ended August 31, 1996. The MQD was made to the Common and Subordinated Unitholders for the quarters ended November 30, 1996 through August 31, 1998. For the quarter ended November 30, 1998 a quarterly distribution of \$.5125 was paid by Predecessor Heritage to the Common and Subordinated Unitholders. For each of the quarters ended February 28, 1999 through May 31, 2000 quarterly distributions of \$.5625 were paid by Predecessor Heritage to the Common and Subordinated Unitholders. The distribution of \$.575 per Common and Subordinated Unit for the quarter ended August 31, 2000 (based on Predecessor Heritage's fiscal year-end), was declared on September 28, 2000, payable on October 16, 2000, to Unitholders of record as of October 9, 2000. The quarterly distributions for the quarters ended February 28, 1999 through and together with August 31, 2000 included incentive distributions payable to the General Partner to the extent the quarterly distribution exceeded \$.55 per unit.

RESTRICTED UNIT PLAN

The General Partner adopted a Restricted Unit Plan (the "Restricted Unit Plan") for certain directors and key employees of the General Partner and Predecessor Heritage effective June 1996. Rights to acquire 146,000 Common Units ("Phantom Units") are available under the Restricted Unit Plan and may be granted to employees from time to time at the discretion of the Restricted Unit Plan Committee. Commencing on September 1, 1996 and on each September 1 thereafter that the Restricted Unit Plan is in effect, each director who is in office automatically receives 500 units except for directors who are employees of Heritage Holdings, Inc., Atmos, AGL, TECO and Piedmont, or their affiliates. The Phantom Units vest upon, and in the same proportions as (1) the conversion of Subordinated Units into Common Units or (2) if later, the third anniversary of their grant date, and (3) terms and conditions specified by each grant. During fiscal 2000, 21,300 of these Phantom Units were granted by Predecessor Heritage to non-employee directors and key employees of Predecessor Heritage. During fiscal 1999 and 1998, 21,300 and 20,200, respectively, of these Phantom Units were granted to non-employee directors and key employees of Predecessor Heritage. As of August 31, 2000, 80,800 Phantom Units have been awarded, of which 4,500 grants vested pursuant to the vesting rights of the Restricted Unit Plan and 71,300 vested in accordance with the change of control that occurred with the General Partner. Compensation expense of \$509 was recognized in the period ended August 31, 2000 on the units, which vested due to the change in control of the General Partner. Individuals holding the remaining 5,000 grants waived their rights to vesting under the change of control and compensation cost related to such units will be recognized over the vesting period of the related awards. Subsequent to August 31, 2000, 750 additional Phantom Units vested pursuant to the vesting rights of the Restricted Unit Plan and Common Units were issued. Heritage applies APB Opinion No. 25, "Accounting for Stock Issued to Employees". Heritage follows the disclosure only provision of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-based Compensation". Pro-forma net income and net income per limited partner unit under the fair value method of accounting for equity instruments under SFAS No. 123 would be the same as reported net income and net income per limited partner unit.

8. PROFIT SHARING AND 401(k) SAVINGS PLAN:

Heritage sponsors a defined contribution profit sharing and 401(k) savings plan (the "Plan"), which covers all employees subject to service period requirements. Contributions are made to the Plan at the discretion of the Board of Directors. Heritage did not recognize any expense under the profit sharing provision of the Plan during the period ended August 31, 2000.

9. RELATED PARTY TRANSACTIONS:

Heritage has no employees and is managed by the General Partner. Pursuant to the Partnership Agreement, the General Partner is entitled to reimbursement for all direct and indirect expenses incurred or payments it makes on behalf of Heritage, and all other necessary or appropriate expenses allocable to Heritage or otherwise reasonably incurred by the General Partner in connection with operating Heritage's business. These costs, which totaled approximately \$5,977 for the period ended August 31, 2000, include compensation and benefits paid to officers and employees of the General Partner.

The Parent Company and Related Companies of Peoples Gas performed certain services for Peoples Gas, which were billed at actual cost. In addition, common general and administrative salary and other operating costs and expenses were allocated to Peoples Gas based upon methods considered reasonable by management. Such charges for employee services amounted to \$1,836 and \$1,697 for the eight months ended August 31, 2000 and 1999, respectively, and \$2,906, \$2,160 and \$1,316 for the years ended 1999, 1998, and 1997, respectively. Accounts payable to related companies are non-interest bearing. At August 31, 2000, accounts payable to related parties included amounts payable from Heritage to the General Partner of \$2,675 and \$1,139 payable to Bi-State Partnership.

Employees of Peoples Gas participated in the non-contributory defined benefit retirement plan and postretirement benefit plan of the Parent Company, which covered substantially all full-time employees. Peoples Gas' share of the Parent Company's annual pension, postretirement benefit, and medical and dental expenses amounted to \$376 and \$588 for the eight months ended August 31, 2000 and 1999, respectively and \$1,067, \$821 and \$820 in fiscal 1999, 1998, and 1997 respectively.

10. 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 their own account. Heritage manages these segments separately as each segment involves different distribution, sale and marketing strategies. Heritage evaluates the performance of its operating segments based on operating income. The operating income below does not reflect domestic and foreign selling, general, and administrative expenses of \$1,019 for the period ended August 31, 2000. The following table presents financial information by segment for the following periods:

	For the Eight Months Ended August 31,		For Years Ended December 31,		
	2000	1999	1999	1998	1997
	(Unaudited)				
Gallons:					
Domestic retail fuel	38,268	22,118	33,608	30,921	29,077
Domestic wholesale fuel	562	--	--	--	--
Foreign wholesale fuel	--	--	--	--	--
Affiliated	5,118	--	--	--	--
Unaffiliated	6,245	--	--	--	--
Elimination	(5,118)	--	--	--	--
Total	45,075	22,118	33,608	30,921	29,077

	For the Eight Months Ended August 31,		For Years Ended December 31,		
	2000	1999	1999	1998	1997
Revenues:					
Domestic retail fuel	\$ 43,815	\$ 21,766	\$ 34,045	\$ 30,187	\$ 32,874
Domestic wholesale fuel	415	--	--	--	--
Foreign wholesale fuel	--	--	--	--	--
Affiliated	3,132	--	--	--	--
Unaffiliated	3,392	--	--	--	--
Elimination	(3,132)	--	--	--	--
Trading activities	12,262	--	--	--	--
Other domestic revenues	3,188	--	--	--	--
Total	\$ 63,072	\$ 21,766	\$ 34,045	\$ 30,187	\$ 32,874

	For the Eight Months Ended August 31,		For Years Ended December 31,		
	2000	1999	1999	1998	1997
Operating Income:					
Domestic retail	\$ (578)	\$ 2,666	\$ 2,885	\$ 3,961	\$ 1,370
Domestic wholesale fuel	17	--	--	--	--
Foreign wholesale fuel	--	--	--	--	--
Affiliated	--	--	--	--	--
Unaffiliated	142	--	--	--	--
Elimination	--	--	--	--	--
Trading activities	724	--	--	--	--
Total	\$ 305	\$ 2,666	\$ 2,885	\$ 3,961	\$ 1,370
Total Assets:					
Domestic retail	\$ 473,725	\$ 39,481	\$ 43,724	\$ 37,206	\$ 33,982
Domestic wholesale	12,790	--	--	--	--
Foreign wholesale	7,918	--	--	--	--
Trading	7,747	--	--	--	--
Corporate	113,599	--	--	--	--
Total	\$ 615,779	\$ 39,481	\$ 43,724	\$ 37,206	\$ 33,982
Depreciation and amortization:					
Domestic retail	\$ 4,673	\$ 2,037	\$ 3,088	\$ 2,855	\$ 2,514
Domestic wholesale	8	--	--	--	--
Foreign wholesale	5	--	--	--	--
Trading	--	--	--	--	--
Total	\$ 4,686	\$ 2,037	\$ 3,088	\$ 2,855	\$ 2,514

11. QUARTERLY FINANCIAL DATA (UNAUDITED):

Summarized unaudited quarterly financial data is presented below. The sum of net income (loss) per unit by quarter may not equal the net income (loss) per unit for the year due to variations in the weighted average units outstanding used in computing such amounts. Heritage's business is seasonal due to weather conditions in its service areas. For further information on its effects on quarterly results, please see the "Weather and seasonality" discussion included in the "Management's Discussions and Analysis of Financial Conditions and Results of Operations" section herein.

Eight Months ended August 31, 2000:	Quarter Ended		Two-months Ended	
	March 31	June 30	August 31	
Revenues	\$ 14,377	\$ 9,287	\$ 39,408	
Operating income (loss)	2,413	(443)	(2,684)	
Net income (loss)	1,457	(335)	(4,968)	
Basic and diluted net income (loss) per limited partner unit	\$.84	\$ (.19)	\$ (.87)	

Fiscal 1999:	Quarter Ended			
	March 31	June 30	September 30	December 31
Revenues	\$ 9,705	\$ 7,295	\$ 6,912	\$ 10,133
Operating income (loss)	2,070	272	(12)	555
Net income (loss)	1,321	170	(7)	284
Basic and diluted net income (loss) per limited partner unit	\$.76	\$.10	\$ (.00)	\$.16

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Partners of
Heritage Propane Partners, L.P.:

We have audited the accompanying consolidated balance sheet of Heritage Propane Partners, L.P. ("Predecessor Heritage", a Delaware limited partnership) and subsidiaries as of August 31, 1999 and the related consolidated statements of operations, partners' capital and cash flows for the period ended August 9, 2000, and for each of the two years in the period ended August 31, 1999. These financial statements are the responsibility of Predecessor Heritage's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heritage Propane Partners, L.P. ("Predecessor Heritage") and subsidiaries, as of August 31, 1999, and the results of their operations and their cash flows for the period ended August 9, 2000, and for each of the two years in the period ended August 31, 1999, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Tulsa, Oklahoma
October 26, 2000

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES
(PREDECESSOR)

CONSOLIDATED BALANCE SHEET
(in thousands, except unit data)

	August 31, 1999

ASSETS	
CURRENT ASSETS:	
Cash	\$ 1,679
Accounts receivable	11,635
Inventories	14,784
Prepaid expenses	1,169

Total current assets	29,267
PROPERTY, PLANT AND EQUIPMENT, net	155,219
INVESTMENT IN AFFILIATES	5,202
INTANGIBLES AND OTHER ASSETS, net	73,270

Total assets	\$ 262,958 =====
LIABILITIES AND PARTNERS' CAPITAL	
CURRENT LIABILITIES:	
Working capital facility	\$ 19,900
Accounts payable	17,268
Accrued and other current liabilities	8,302
Current maturities of long-term debt	2,022

Total current liabilities	47,492
LONG-TERM DEBT, less current maturities	196,216
MINORITY INTEREST	188
COMMITMENTS AND CONTINGENCIES	--

Total liabilities	243,896 -----
PARTNERS' CAPITAL:	
Common unitholders (5,825,674 units issued and outstanding)	17,077
Subordinated unitholders (2,777,207 units issued and outstanding)	1,809
General partner	176

Total partners' capital	19,062 -----
Total liabilities and partners' capital	\$ 262,958 =====

The accompanying notes are an integral part of this consolidated financial statement.

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES
(PREDECESSOR)

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

	For the Period Ended August 9, 2000	For the Years Ended August 31,	
		1999	1998
REVENUES:			
Retail fuel	\$ 178,906	\$ 137,403	\$ 136,301
Wholesale fuel	35,145	24,018	30,254
Trading activities	4,300	--	--
Other	24,140	22,599	19,432
Total revenues	242,491	184,020	185,987
COSTS AND EXPENSES:			
Cost of products sold	136,462	87,267	96,884
Cost of trading activities	4,283	--	--
Operating expenses	55,154	51,201	47,010
Depreciation and amortization	17,143	14,749	13,680
Selling, general and administrative	5,974	6,236	5,484
Total costs and expenses	219,016	159,453	163,058
OPERATING INCOME	23,475	24,567	22,929
OTHER INCOME (EXPENSE):			
Interest expense	(17,664)	(15,915)	(14,599)
Equity in earnings of affiliates	614	1,005	707
Gain on disposal of assets	514	722	534
Other	(3)	(263)	(305)
INCOME BEFORE MINORITY INTEREST	6,936	10,116	9,266
Minority interest	(432)	(454)	(476)
NET INCOME	6,504	9,662	8,790
GENERAL PARTNER'S INTEREST IN NET INCOME	65	97	88
LIMITED PARTNERS' INTEREST IN NET INCOME	\$ 6,439	\$ 9,565	\$ 8,702
BASIC NET INCOME PER LIMITED PARTNER UNIT	\$.66	\$ 1.11	\$ 1.04
BASIC WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	9,712,927	8,589,335	8,332,351
DILUTED NET INCOME PER LIMITED PARTNER UNIT	\$.66	\$ 1.11	\$ 1.04
DILUTED WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	9,788,093	8,645,958	8,365,334

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

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES
(PREDECESSOR)

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

	Number of Units		Common Unitholders	Subordinated Unitholders
	Common	Subordinated		
BALANCE, AUGUST 31, 1997	4,285,000	3,702,943	\$ 11,295	\$ 9,417
Unit distribution	--	--	(9,192)	(7,406)
Issuance of restricted Common Units	591,725	--	13,788	--
General Partner contribution	--	--	--	--
Other	--	--	75	137
Net income	--	--	4,809	3,893
BALANCE, AUGUST 31, 1998	4,876,725	3,702,943	20,775	6,041
Unit distribution	--	--	(12,428)	(5,924)
Issuance of restricted Common Units	23,213	--	502	--
General Partner contribution	--	--	--	--
Conversion of Subordinated Units	925,736	(925,736)	1,510	(1,510)
Other	--	--	240	115
Net income	--	--	6,478	3,087
BALANCE, AUGUST 31, 1999	5,825,674	2,777,207	17,077	1,809
Unit distribution	--	--	(15,393)	(6,248)
Issuance of restricted Common Units	184,030	--	4,064	--
Issuance of Common Units	1,200,000	--	24,054	--
General Partner contribution	--	--	--	--
Conversion of Subordinated Units	925,736	(925,736)	(1,480)	1,480
Conversion of Phantom Units	4,500	--	29	(28)
Other	--	--	283	75
Other comprehensive income - net Gain on hedging instruments	--	--	--	--
Net income	--	--	5,246	1,193
BALANCE, AUGUST 9, 2000	8,139,940	1,851,471	\$ 33,880	\$ (1,719)

	General Partner	Accumulated Other Comprehensive Income	Total Partners' Capital
BALANCE, AUGUST 31, 1997	\$ 208	\$ --	\$ 20,920
Unit distribution	(167)	--	(16,765)
Issuance of restricted Common Units	--	--	13,788
General Partner contribution	141	--	141
Other	3	--	215
Net income	88	--	8,790
BALANCE, AUGUST 31, 1998	273	--	27,089
Unit distribution	(202)	--	(18,554)
Issuance of restricted Common Units	--	--	502
General Partner contribution	5	--	5
Conversion of Subordinated Units	--	--	--
Other	3	--	358
Net income	97	--	9,662
BALANCE, AUGUST 31, 1999	176	--	19,062
Unit distribution	(256)	--	(21,897)
Issuance of restricted Common Units	--	--	4,064
Issuance of Common Units	--	--	24,054
General Partner contribution	278	--	278
Conversion of Subordinated Units	--	--	--
Conversion of Phantom Units	(1)	--	--
Other	4	--	362
Other comprehensive income - net Gain on hedging instruments	--	3,289	3,289
Net income	65	--	6,504
BALANCE, AUGUST 9, 2000	\$ 266	\$ 3,289	\$ 35,716

=====
=====
=====

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

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES
(PREDECESSOR)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Period Ended August 9, 2000	For the Years Ended August 31,	
		1999	1998
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 6,504	\$ 9,662	\$ 8,790
Reconciliation of net income to net cash provided by operating activities-			
Depreciation and amortization	17,143	14,749	13,680
Provision for losses on accounts receivable	328	338	435
Gain on disposal of assets	(514)	(722)	(534)
Deferred compensation on restricted units	363	358	215
Undistributed earnings of affiliates	(654)	(534)	(642)
Minority interest	91	(92)	(15)
Changes in assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(7,138)	(848)	1,476
Inventories	(5,627)	(1,718)	1,789
Prepaid expenses	(541)	310	149
Intangibles and other assets	(851)	883	(989)
Accounts payable	5,901	2,947	(1,025)
Accrued and other current liabilities	(861)	(1,720)	1,203
	-----	-----	-----
Net cash provided by operating activities	14,144	23,613	24,532
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash paid for acquisitions, net of cash acquired	(46,801)	(17,931)	(23,276)
Capital expenditures	(12,931)	(14,974)	(9,359)
Proceeds from asset sales	1,449	2,106	5,511
	-----	-----	-----
Net cash used in investing activities	(58,283)	(30,799)	(27,124)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings	159,070	85,250	129,147
Principal payments on debt	(116,918)	(59,673)	(110,119)
Unit distribution	(21,897)	(18,554)	(16,765)
Net proceeds from issuance of common units	24,054	--	--
Capital contribution from General Partner	278	5	141
	-----	-----	-----
Net cash provided by financing activities	44,587	7,028	2,404
	-----	-----	-----
INCREASE (DECREASE) IN CASH	448	(158)	(188)
CASH, beginning of period	1,679	1,837	2,025
	-----	-----	-----
CASH, end of period	\$ 2,127	\$ 1,679	\$ 1,837
	=====	=====	=====
NONCASH FINANCING ACTIVITIES:			
Notes payable incurred on noncompete agreements	\$ 3,575	\$ 3,332	\$ 6,393
Issuance of restricted common units in connection with certain acquisitions	\$ 4,064	\$ 502	\$ 13,788
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for interest	\$ 18,377	\$ 15,655	\$ 13,045
Other comprehensive income	\$ 3,289	\$ --	\$ --

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

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES
(PREDECESSOR)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands, except unit and per unit data)

1. OPERATIONS AND ORGANIZATION:

Heritage Propane Partners, L.P. ("Predecessor Heritage") was formed April 24, 1996, as a Delaware limited partnership, to acquire, own and operate the propane business of Heritage Holdings, Inc. In order to simplify Predecessor Heritage's obligation under the laws of several jurisdictions in which Heritage conducts business, Predecessor Heritage's activities are conducted through a subsidiary operating partnership, Heritage Operating, L.P. (the "Operating Partnership"). Predecessor Heritage holds a 98.9899 percent limited partner interest and the General Partner holds a 1.0101 percent general partner interest in the Operating Partnership.

The Operating Partnership sells propane and propane-related products to approximately 286,000 retail customers in 27 states throughout the United States. Predecessor Heritage is also a wholesale propane supplier in the southwestern 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 Predecessor Heritage owns a 60 percent interest. Predecessor Heritage grants credit to its customers for the purchase of propane and propane-related products.

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. 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) 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 partner interest in the Operating Partnership 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 the 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"). The working capital adjustment is estimated at \$5,000 and is anticipated to be settled in December 2000.

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 were 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. Although Heritage Propane Partners, L.P. is the surviving entity for legal purposes, U.S. Propane's propane operations will be the acquirer for accounting purposes. U.S. Propane retained the name Heritage Propane Partners, L.P. subsequent to the transactions ("Successor Heritage"). The assets and liabilities and results of operations of Predecessor Heritage are included in the financial statements of Successor Heritage as of August 10, 2000.

2. SIGNIFICANT ACCOUNTING POLICIES AND BALANCE SHEET DETAIL:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Predecessor Heritage, its subsidiaries, including the Operating Partnership, M-P Energy Partnership, and Heritage Energy Resources, L.L.C. ("Resources"). Predecessor Heritage accounts for its 50 percent partnership interest in Bi-State Partnership, another propane retailer, using the equity method. All significant intercompany transactions and accounts have been eliminated in consolidation. The General Partner's 1.0101 percent interest in the Operating Partnership is accounted for in the consolidated financial statements as a minority interest.

REVENUE RECOGNITION

Sales of propane, propane appliances, parts and fittings are recognized at the time of delivery of the product to the customer or at 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 average cost, while the cost of appliances, parts and fittings is determined by the first-in, first-out method. Inventories consist of the following:

	August 31, 1999

Fuel	\$ 9,341
Appliances, parts and fittings	5,443

	\$ 14,784
	=====

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost, less accumulated depreciation. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are expensed as incurred. Additionally, Predecessor Heritage capitalizes certain costs directly related to the installation of Predecessor Heritage owned tanks, including internal labor costs. Components and useful lives of property, plant and equipment are as follows:

	August 31, 1999

Land and improvements	\$ 8,778
Buildings and improvements (10 to 30 years)	16,719
Bulk storage, equipment and facilities (3 to 30 years)	19,109
Tanks and other equipment (5 to 30 years)	115,608
Vehicles (5 to 7 years)	32,421
Furniture and fixtures (5 to 10 years)	5,021
Other	1,312

	198,968
Less-accumulated depreciation	(43,749)

Property, plant, and equipment, net	\$ 155,219
	=====

INTANGIBLES AND OTHER ASSETS

Intangibles and other assets are stated at cost, net of amortization, computed on the straight-line method. Predecessor Heritage eliminates from its balance sheet any fully amortized intangibles and the related accumulated amortization. Components and useful lives of intangibles and other assets are as follows:

	August 31, 1999

Goodwill (30 years)	\$ 48,672
Noncompete agreements (10 to 15 years)	30,647
Customer lists (15 years)	15,597
Other	5,820

	100,736
Less-accumulated amortization	(27,466)

Intangibles and other assets, net	\$ 73,270
	=====

LONG-LIVED ASSETS

Predecessor Heritage reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such a review should indicate that the carrying amount of long-lived assets is not recoverable, Predecessor Heritage reduces the carrying amount of such assets to fair value. No impairment of long-lived assets was required during the period ended August 9, 2000 or the years ended August 31, 1999 and 1998.

ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities consist of the following:

	August 31, 1999

Interest payable	\$ 3,442
Wages and payroll taxes	1,116
Deferred tank rent	1,450
Customer deposits	826
Other	1,468

Accrued and other current liabilities	\$ 8,302
	=====

INCOME TAXES

Predecessor Heritage is a limited partnership. As a result, Predecessor Heritage's earnings or losses for federal income tax purposes is included in the tax returns of the individual partners. Accordingly, no recognition has been given to income taxes in the accompanying financial statements. Net earnings for financial statement purposes may differ significantly from taxable income reportable to unitholders 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 PER LIMITED PARTNER UNIT

Basic net income 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. Diluted net income 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 (see Note 6). A reconciliation of net income and weighted average units used in computing basic and diluted earnings per unit is as follows:

	Period Ended August 9, ----- 2000 -----	Years Ended August 31, ----- 1999 1998 -----	
BASIC NET INCOME PER LIMITED PARTNER UNIT:			
Limited partners' interest in net income	\$ 6,439	\$ 9,565	\$ 8,702
	=====	=====	=====
Weighted average limited partner units	9,712,927	8,589,335	8,332,351
	=====	=====	=====
Basic net income per limited partner unit	\$.66	\$ 1.11	\$ 1.04
	=====	=====	=====

DILUTED NET INCOME PER LIMITED PARTNER UNIT:

Limited partners' interest in net income	\$ 6,439	\$ 9,565	\$ 8,702
	=====	=====	=====
Weighted average limited partner units	9,712,927	8,589,335	8,332,351
Dilutive effect of Phantom Units	75,166	56,623	32,983
	-----	-----	-----
Weighted average limited partner units, assuming dilutive effect of Phantom Units	9,788,093	8,645,958	8,365,334
	=====	=====	=====
Diluted net income per limited partner unit	\$.66	\$ 1.11	\$ 1.04
	=====	=====	=====

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

FAIR VALUE

The carrying amount of accounts receivable and accounts payable approximates their fair value. Based on the estimated borrowing rates then available to Predecessor Heritage for long-term loans with similar terms and average maturities, the aggregate fair value at August 31, 1999 of Predecessor Heritage's long-term debt approximated the aggregate carrying amount.

RECLASSIFICATIONS

Certain 1999 and 1998 amounts have been reclassified to conform with the 2000 presentation. These reclassifications have no impact on net income (loss).

3. ACQUISITIONS:

During the period ended August 9, 2000, Predecessor Heritage acquired certain assets of W. T. Johnson, Inc. in Yulee, FL, J & J Propane Gas, Inc. in various locations in Alabama and Tennessee, ServiGas with operations located in Texas, New Mexico, and Arizona, Petro San Juan Leasing, Inc. and two other small companies. Heritage Holdings, Inc. purchased all of the outstanding stock of Eaves Oil Company, Inc. of New Ellenton, SC, Blue Flame Gas Co. Inc. of Charleston, SC, Lake County Gas of Lower Lake, CA, Cumberland LP Gas, Inc. of Cookeville, TN and one small company and conveyed the net assets to Predecessor Heritage. The acquisitions totaled \$54,904, which includes notes payable on noncompete agreements of \$3,575 for periods ranging from three to ten years and liabilities assumed. These acquisitions were financed primarily with the acquisition facility and the issuance of \$4,064 of Common Units.

During fiscal 1999, Predecessor Heritage acquired certain assets of Claredon Gas Company in Manning, SC, Blue Flame Gas Corporation of Richmond, VT and one other small company. Heritage Holdings, Inc. also purchased all of the outstanding stock of S.R. Young, Inc. of Springfield, VT, Pioneer LPG Corporation of Madera, CA and Foster's Gas, Inc. of Leitchfield, KY, and conveyed the net assets to Predecessor Heritage. The acquisitions totaled \$22,743, which includes notes payable on noncompete agreements of \$3,332 for periods ranging from three to ten years. These acquisitions were financed primarily with the acquisition facility and the issuance of \$502 of Common Units.

During fiscal 1998, Predecessor Heritage acquired certain assets of Gibson Propane Co. and Gibson Homegas of Memphis, TN, Fallsburg Gas Service, Inc. of Fallsburg, NY and six smaller companies. Heritage Holdings, Inc. also purchased all of the outstanding stock of Tennessee Independent Propane Co. ("TIPCO"), John E. Foster & Son, of Leitchfield, KY, and Rural Bottle Gas and Appliance, Inc. of Greenville, MI, and conveyed the net assets to Predecessor Heritage. The acquisitions totaled \$37,401, including noncompete agreements of \$6,393 for periods ranging from five to ten years. These acquisitions were financed primarily with the acquisition facility, issuance of notes under the Medium Term Note Program and with the issuance of \$13,788 of Common Units.

The acquisitions have been accounted for by the purchase method and, accordingly, the purchase prices have been allocated to assets acquired and liabilities assumed based on the fair market values at the date of acquisitions.

Predecessor Heritage capitalized as part of the purchase price allocation certain legal and other costs directly related to the acquisitions. The excess of the purchase price over the fair market values of the net assets acquired has been recorded as goodwill.

The results of operations of the acquired entities have been included in the consolidated financial statements from the date of acquisition.

4. WORKING CAPITAL FACILITY AND LONG-TERM DEBT:

Long-term debt consists of the following:

	August 31, 1999

8.55% Senior Secured Notes	\$ 120,000
Medium Term Note Program:	
7.17% Series A Senior Secured Notes	12,000
7.26% Series B Senior Secured Notes	20,000
6.50% Series C Senior Secured Notes	5,000
6.59% Series D Senior Secured Notes	5,000
6.67% Series E Senior Secured Notes	5,000
Senior Revolving Acquisition Facility	18,300
Notes Payable on noncompete agreements with interest imputed at rates averaging 8%, due in installments through 2009, collateralized by a first security lien on certain assets of Predecessor Heritage	11,486
Other	1,452

	198,238
Current maturities of long-term debt	(2,022)

	\$ 196,216
	=====

Maturities of the Senior Secured Notes and the Medium Term Note Program are as follows:

8.55% Senior Notes:	mature at the rate of \$12,000 on June 30 in each of the years 2002 to and including 2011.
Series A Notes:	mature at the rate of \$2,400 on November 19 in each of the years 2005 to and including 2009.
Series B Notes:	mature at the rate of \$2,000 on November 19 in each of the years 2003 to and including 2012.
Series C Notes:	mature at the rate of \$714 on March 13 in each of the years 2000 to and including 2003, \$357 on March 13, 2004, \$1,073 on March 13, 2005, and \$357 in each of the years 2006 and 2007.
Series D Notes:	mature at the rate of \$556 on March 13 in each of the years 2002 to and including 2010.
Series E Notes:	mature at the rate of \$714 on March 13 in each of the years 2007 to and including 2013.

The debt agreements contain restrictive covenants including limitations on substantial disposition of assets, changes in ownership of Predecessor Heritage, additional indebtedness and require the maintenance of certain financial ratios. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the common stock of Predecessor Heritage's subsidiaries secure the notes.

As of June 25, 1996, Predecessor Heritage entered into a credit agreement with various financial institutions. Subsequent to August 31, 1999, Predecessor Heritage entered into the First Amendment to the First Amended and Restated Credit Agreement. Predecessor Heritage entered the Second Amendment ("the Amendment") to the Agreement as of May 31, 2000, which added defined terms to the agreement based on the proposed U.S. Propane

series of transactions. The effectiveness of the Amendment is subject to the satisfaction of certain conditions in relation to the merger. The terms of the Agreement as amended are as follows:

A \$35,000 Senior Revolving Working Capital Facility, expiring June 30, 2002, with \$19,900 outstanding at August 31, 1999. The interest rate and interest payment dates vary depending on the terms Predecessor Heritage agrees to when the money is borrowed. The weighted average interest rate was 6.6875 percent for amounts outstanding at August 31, 1999. Predecessor Heritage must be free of all working capital borrowings for 30 consecutive days each fiscal year. The maximum commitment fee payable on the unused portion of the facility is .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 Predecessor Heritage agrees to when the money is borrowed. The average interest rate was 7.0 percent for amounts outstanding at August 31, 1999. The maximum commitment fee payable on the unused portion of the facility is .375 percent.

5. COMMITMENTS AND CONTINGENCIES:

Certain property and equipment is leased under noncancelable leases, which require fixed monthly rental payments and expire at various dates through 2008. Rental expense under these leases totaled approximately \$1,366 for the period ended August 9, 2000, \$1,554 for fiscal 1999 and \$1,593 for fiscal 1998, respectively.

Predecessor Heritage is a party to various legal proceedings incidental to its business. Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against Predecessor Heritage. In the opinion of management, all such matters are covered by insurance, are without merit or involve amounts, which, if resolved unfavorably, would not have a significant effect on the financial position or results of operations of Predecessor Heritage.

6. PARTNERS' CAPITAL:

Subsequent to August 31, 1999, Predecessor Heritage issued 76,152 Common Units under Form S-4 registration statement in connection with the purchase of other propane businesses, 4,500 Common Units in regards to the vesting rights under the Restricted Unit Plan, 107,878 to the General Partner in connection with the assumption of certain liabilities by the General Partner from Predecessor Heritage's prior acquisition of certain assets of various propane companies and 1,200,000 Common Units under Form S-3 registration statement. On July 5, 2000, 925,736 Subordinated Units held by the General Partner converted to Common Units pursuant to the terms of the Partnership Agreement.

The Agreement of Limited Partnership of Heritage Propane Partners, L.P. ("Partnership Agreement") contains specific provisions for the allocation of net earnings and loss to each of the partners for purposes of maintaining the partner capital accounts.

During the Subordination Period (as defined below), Predecessor Heritage may issue up to 2,012,500 additional Common Units (excluding Common Units issued in connection with conversion of Subordinated Units into Common Units) or an equivalent number of securities ranking on a parity with the Common Units and an unlimited number of partnership interests junior to the Common Units without a Unitholder vote. Predecessor Heritage may also issue additional Common Units during the Subordination Period in connection with certain acquisitions or the repayment of certain indebtedness. During fiscal 1999, Predecessor Heritage issued 23,213 Common Units to Heritage Holdings, Inc. These Units were issued in connection with the assumption of certain liabilities by the General Partner from Predecessor Heritage's prior acquisition of certain assets of a propane company. After the Subordination Period, the Partnership Agreement authorizes the General Partner to cause Predecessor Heritage to issue an unlimited number of limited partner interests of any type without the approval of any Unitholders. Pursuant to the terms of the Partnership Agreement, 925,736 Subordinated Units held by the General Partner converted to Common Units on July 7, 1999 and an additional 925,736 converted on July 5, 2000.

QUARTERLY DISTRIBUTIONS OF AVAILABLE CASH

Predecessor Heritage is expected to make quarterly cash distributions of all of its 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 Predecessor Heritage business, or to provide funds for distributions with respect to any one or more of the next four fiscal quarters.

Distributions by Predecessor Heritage in an amount equal to 100 percent of its Available Cash will generally be made 98 percent to the Common and Subordinated Unitholders and two 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. To the extent there is sufficient Available Cash, the holders of Common Units have the right to receive the Minimum Quarterly Distribution (\$.50 per Unit), plus any arrearages, prior to any distribution of Available Cash to the holders of Subordinated Units. Common Units will not accrue arrearages for any quarter after the Subordination Period and Subordinated Units will not accrue any arrearages with respect to distributions for any quarter.

In general, the Subordination Period will continue indefinitely until the first day of any quarter beginning after May 31, 2001, in which distributions of Available Cash equal or exceed the Minimum Quarterly Distribution ("MQD") on the Common Units and the Subordinated Units for each of the three consecutive four-quarter periods immediately preceding such date. Pursuant to the terms of the Partnership Agreement, 925,736 Subordinated Units held by the General Partner converted to Common Units on July 7, 1999 and an additional 925,736 converted on July 5, 2000. The conversion of these units was dependent on meeting certain cash performance and distribution requirements during the period that commenced with Predecessor Heritage's public offering in June of 1996. The subordination period applicable to the remaining Subordinated Units will end the first day of any quarter ending after May 31, 2001, in which certain cash performance and distribution requirements have been met. Upon expiration of the Subordination Period, all remaining Subordinated Units will convert to Common Units.

Predecessor Heritage is expected to make distributions of its Available Cash within 45 days after the end of each fiscal quarter ending November, February, May and August to holders of record on the applicable record date. A pro rata Minimum Quarterly Distribution of \$.353 per Common and Subordinated Unit was made on October 15, 1996 for the two month period between Predecessor Heritage's initial public offering and the quarter ended August 31, 1996. The Minimum Quarterly Distribution was made to the Common and Subordinated Unitholders for the quarters ended November 30, 1996 through August 31, 1998. For the quarter ended November 30, 1998, a quarterly distribution of \$.5125 was paid to the Common and Subordinated Unitholders. For each of the quarters ended February 28, 1999 through and including May 31, 2000, quarterly distributions of \$.5625, respectively, were paid to the Common and Subordinated Unitholders. The quarterly distributions for the quarters ended February 28, 1999 through May 31, 2000 included incentive distributions payable to the General Partner to the extent the quarterly distribution exceeded \$.55 per unit.

RESTRICTED UNIT PLAN

The General Partner adopted a Restricted Unit Plan (the "Restricted Unit Plan") for its non-employee directors and key employees of the General Partner and its affiliates effective June 1996. Rights to acquire 146,000 Common Units ("Phantom Units") are available under the Restricted Unit Plan and may be granted to employees from time to time at the discretion of the Restricted Unit Plan Committee. Commencing on September 1, 1996 and on each September 1 thereafter that the Restricted Unit Plan is in effect, each director who is in office automatically receives 500 units. The Phantom Units vest upon, and in the same proportions as (1) the conversion of Predecessor Heritage's Subordinated Units into Common Units or (2) if later, the third anniversary of their grant date, and (3) terms and conditions specified by each grant. During fiscal 1999, 21,300 of these Phantom Units were granted to non-employee directors and key employees. During fiscal 1998, 20,200 of these Phantom Units were granted to non-employee directors and key employees. As of August 31, 1999, Phantom Units with a value of \$1,346 have been awarded and the compensation cost related to such units will be recognized over the vesting period of the related awards. Predecessor Heritage applies APB Opinion No. 25, "Accounting for Stock Issued to Employees". Compensation cost and directors' fee expense of \$366, \$358 and \$215 was recorded for the period ended August 9, 2000 and fiscal 1999 and 1998, respectively, related to the issuance of the units. Subsequent to August 31, 1999, 4,500 of Phantom Unit grants vested pursuant to the vesting rights of the Restricted Unit Plan. Predecessor Heritage follows the disclosure only provision of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-based Compensation". Pro-forma net income and net income per limited partner unit under

the fair value method of accounting for equity instruments under SFAS No. 123 would be the same as reported net income and net income per limited partner unit.

7. REGISTRATION STATEMENTS:

Effective November 19, 1997, Predecessor Heritage registered 2,000,000 additional Common Units on Form S-4 that may be issued from time to time by Predecessor Heritage by means of a prospectus delivered in connection with its negotiations for acquisition of other businesses, properties or securities in business combination transactions. During the period ended August 9, 2000, 76,152 Common Units were issued from this registration statement in connection with acquisitions.

Effective September 13, 1999, Predecessor Heritage registered \$150,000,000 of Common Units and Debt Securities on Form S-3 that may be offered for sale in one or more offerings. On October 25, 1999, Predecessor Heritage issued a prospectus supplement offering 1,200,000 Common Units, representing limited partner interests in Predecessor Heritage. The underwriters delivered the Common Units to purchasers on October 28, 1999 at a public offering price of \$22.00 per Common Unit. Predecessor Heritage used the net proceeds of approximately \$24.0 million from this offering to repay a portion of the outstanding indebtedness under its acquisition facility that was incurred to acquire propane businesses.

8. PROFIT SHARING AND 401(k) SAVINGS PLAN:

Predecessor Heritage sponsors a defined contribution profit sharing and 401(k) savings plan (the "Plan"), which covers all employees subject to service period requirements. Contributions are made to the Plan at the discretion of the Board of Directors. Total expense under the profit sharing provision of the Plan during the period ended August 9, 2000 and the years ended August 31, 1999 and 1998 was \$0, \$425 and \$375, respectively.

9. RELATED PARTY TRANSACTIONS:

Predecessor Heritage has no employees and is managed by the General Partner. Pursuant to the Partnership Agreement, the General Partner is entitled to reimbursement for all direct and indirect expenses incurred or payments it makes on behalf of Predecessor Heritage, and all other necessary or appropriate expenses allocable to Predecessor Heritage or otherwise reasonably incurred by the General Partner in connection with operating Predecessor Heritage's business. These costs, which totaled approximately \$40,742, \$38,314 and \$33,870 for the period ended August 9, 2000 and the years ended August 31, 1999 and 1998, respectively, include compensation and benefits paid to officers and employees of the General Partner. At August 31, 1999 accounts payable included amounts payable from Predecessor Heritage to the General Partner of \$1,964.

10. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES:

Predecessor Heritage records derivative instruments (including derivative instruments embedded in other contracts) in the balance sheet as either an asset or liability measured at fair value. Changes in a derivative's fair value is 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. Companies must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

Predecessor Heritage entered into certain financial swap instruments during the period ended August 9, 2000 that have been designated as cash flow hedging instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". Financial swaps 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 set fixed price for the buyer and floating price determinants for the seller priced on certain indices. Predecessor Heritage entered into these instruments to hedge the forecasted propane volumes to be purchased during each of the one-month periods ending October 2000 through March 2001. Predecessor Heritage utilizes hedging transactions to provide price protection against significant fluctuations in propane prices. These instruments had a fair value of \$3,448 as of August 9, 2000, which was recorded as prepaids an other current assets on the balance sheet through other comprehensive income, exclusive of \$159 of minority interest.

TRADING ACTIVITIES

Predecessor Heritage has recorded its trading activities at fair value in accordance with Emerging Issues Task Force Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities", ("EITF 98-10"). EITF 98-10 requires energy trading contracts to be recorded at fair value on the balance sheet, with the changes in fair value included in earnings.

Predecessor Heritage trades financial instruments for its own account through its wholly owned subsidiary, Heritage Energy Resources ("Resources"). Financial instruments utilized in connection with trading 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 trading activities results 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 assessment of anticipated market movements.

Notional Amounts and Terms --

The notional amounts and terms of these financial instruments as of August 9, 2000 include fixed price payor for 555 barrels of propane and fixed price receiver of 608 barrels and 120 barrels of propane and butane, respectively. 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 Predecessor Heritage's exposure to market or credit risks.

Fair Value --

The fair value of the financial instruments related to trading activities as of August 9, 2000, was assets of \$224 and liabilities of \$249 related to propane and butane. The income related to trading activities for the period ended August 9, 2000, was immaterial. 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.

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. Predecessor Heritage and Resources take an active role 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.

11. REPORTABLE SEGMENTS:

Predecessor Heritage's financial statements reflect four reportable segments: the domestic retail operations of Predecessor Heritage, the domestic wholesale operations of Predecessor Heritage, the foreign wholesale operations of M-P Energy Partnership, and the trading activities of Resources. Predecessor Heritage's reportable domestic and wholesale fuel segments are strategic business units that sell products and services to different types of users; retail and wholesale customers. Intersegment sales by the foreign wholesale segment to the domestic segment are priced in accordance with the partnership agreement. Resources is a trading company that buys and sells financial instruments for their own account. Predecessor Heritage manages these segments separately as each segment involves different distribution, sale and marketing strategies. Predecessor Heritage evaluates the performance of its operating segments based on operating income. The operating income below does not reflect domestic and foreign selling, general, and administrative expenses of \$5,974, \$6,236 and \$5,484 for the period ended August 9, 2000 and for the years ended August 31, 1999 and 1998, respectively.

The following table presents financial information by segment for the period ended August 9, 2000 and the years ended August 31, 1999 and 1998:

	August 9, 2000	August 31,	
		1999	1998
Gallons:			
Domestic retail fuel	170,891	159,938	146,747
Domestic wholesale fuel	7,113	7,795	11,413
Foreign wholesale fuel			
Affiliated	63,390	56,869	44,133
Unaffiliated	75,514	73,337	74,807
Elimination	(63,390)	(56,869)	(44,133)
Total	253,518	241,070	232,967
Revenues:			
Domestic retail fuel	\$ 178,906	\$ 137,403	\$ 136,301
Domestic wholesale fuel	4,342	3,409	5,345
Foreign wholesale fuel			
Affiliated	29,038	16,903	14,696
Unaffiliated	30,803	20,628	24,929
Elimination	(29,038)	(16,903)	(14,696)
Trading activity	4,300	--	--
Other domestic revenues	24,140	22,580	19,412
Total	\$ 242,491	\$ 184,020	\$ 185,987
Operating Income:			
Domestic retail	\$ 27,670	\$ 29,659	\$ 27,242
Domestic wholesale fuel	259	162	227
Foreign wholesale fuel			
Affiliated	541	494	196
Unaffiliated	1,528	982	944
Elimination	(541)	(494)	(196)
Trading activity	(8)	--	--
Total	\$ 29,449	\$ 30,803	\$ 28,413

	August 31, 1999
Total Assets:	
Domestic retail	\$ 236,215
Domestic wholesale	2,803
Foreign wholesale	4,566
Corporate	19,374
Total	\$ 262,958

	August 9, 2000	August 31,	
		1999	1998
Depreciation and amortization:			
Domestic retail	\$ 17,105	\$ 14,691	\$ 13,603
Domestic wholesale	31	45	59
Foreign wholesale	7	13	18
Total	\$ 17,143	\$ 14,749	\$ 13,680

12. SIGNIFICANT INVESTEE:

At August 31, 1999, Predecessor Heritage held a 50 percent interest in Bi-State Partnership. Predecessor Heritage accounts for its 50 percent interest in Bi-State Partnership under the equity method. Predecessor Heritage's investment in Bi-State Partnership totaled \$5,202 at August 31, 1999. Predecessor Heritage received distributions from Bi-State Partnership in the amount of \$200, \$470 and \$100 for the period ended August 9, 2000, and for the years ended August 31, 1999 and 1998, respectively.

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

	August 31, 1999

Current assets	\$ 1,533
Noncurrent assets	14,281

	\$ 15,814
	=====
Current liabilities	\$ 2,333
Long-term debt	4,804
Partners' capital:	
Heritage	5,202
Other partner	3,475

	\$ 15,814
	=====

Bi-State Partnership's results of operations for the period ended August 9, 2000 and the fiscal years ended August 31, 1999 and 1998 are summarized below:

	2000	1999	1998
	-----	-----	-----
Revenues	\$ 12,298	\$ 12,627	\$ 10,708
Gross profit	6,008	7,356	5,944
Net income:			
Heritage	613	1,005	707
Other partner	753	1,149	878

13. QUARTERLY FINANCIAL DATA (UNAUDITED):

The retail propane distribution business is largely seasonal due to propane's use as a heating source in residential and commercial buildings. Historically, approximately two-thirds of Predecessor Heritage's retail propane volume and more than 80 percent of the EBITDA is attributable to sales during the six-month peak heating season of October through March. Consequently, sales and operating profits are concentrated in Predecessor Heritage's first and second fiscal quarters. Cash flow from operations, however, is greatest during the second and third fiscal quarters when customers pay for propane purchased during the six-month peak-heating season.

Fiscal 2000:	Quarter Ended			Period Ended August 9,
	November 30	February 28	May 31	
	-----	-----	-----	-----
Revenues	\$ 51,890	\$ 102,160	\$ 57,224	\$ 31,217
Operating income (loss)	3,430	21,253	2,732	(3,940)
Net income (loss)	(808)	16,971	(2,198)	(7,461)
Net income (loss) per unit- basic and diluted	(0.09)	1.70	(0.22)	(.72)

Fiscal 1999:

	Quarter Ended			
	November 30	February 28	May 31	August 31
	-----	-----	-----	-----
Revenues	\$ 41,558	\$ 68,498	\$ 43,150	\$ 30,814
Operating income (loss)	4,563	18,070	5,009	(3,075)
Net income (loss)	1,215	14,404	1,344	(7,301)
Net income (loss) per unit- basic and diluted	0.14	1.66	0.15	(0.84)

F-36

AMENDMENT NO. 1
TO
AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP
OF
HERITAGE OPERATING, L.P.

This Amendment (this "Amendment") to the Amended and Restated Agreement of Limited Partnership of Heritage Operating, L.P. (the "Partnership") , dated as of June 27, 1996 (the "Partnership Agreement") is entered into effect as of August 10, 2000 by Heritage Holdings, Inc., a Delaware corporation (the "General Partner"), as the general partner of the Partnership, on behalf of itself and the Limited Partner of the Partnership. Capitalized terms used but not defined herein are used as defined in the Partnership Agreement.

RECITALS

WHEREAS, Article XIII of the Partnership Agreement provides that the General Partner, without the approval of any Limited Partner, may amend the Partnership Agreement in a manner that does not adversely affect the Limited Partners; and

WHEREAS, a provision in the Partnership Agreement is necessary to accommodate additional limited partners' capital contributions and reflect that ownership in the accounts of the Partnership.

NOW, THEREFORE, the General Partner hereby amends the definition of "Percentage Interest" as set forth in Section 1.1 of the Partnership Agreement to read as follows:

"Percentage Interest" means the percentage interest in the Partnership held by each Partner upon completion of the transactions in Section 5.2 and thereafter shall mean (a) as to the General Partner (in its capacity as general partner of the Partnership), 1.010%, and (b) as to any Limited Partner from time to time, the percentage equivalent to the aggregate Capital Contributions made to the Partnership related to the Partnership Interest then held by that Limited Partner (in its capacity as a Limited Partner) divided by the aggregate Capital Contributions made to the Partnership related to the Partnership Interest then held by all Limited Partners (in their capacity as Limited Partners)."

IN WITNESS WHEREOF, this Amendment has been executed as of the date first above written.

GENERAL PARTNER:

HERITAGE HOLDINGS, INC.

By: _____

Name: _____

Title: _____

LIMITED PARTNERS:

All Limited Partners now and hereafter admitted as limited partners of the Partnership, pursuant to Powers of Attorney now and hereafter executed in favor of, and granted and delivered to, the General Partner

By: Heritage Holdings, Inc.
General partner, as
attorney-in-fact for all
Limited Partners pursuant to
Section 2.6 of the
Partnership Agreement.

By: _____

Name: _____

Title: _____

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

Heritage Holdings, Inc., a Delaware corporation (the "Company"), as General Partner of Heritage Propane Partners, L.P. (the "Partnership"), established the Heritage Propane Partners, L.P. Restricted Unit Plan (the "Plan") effective as of the effective date of the initial public offering of Units of the Partnership, which is amended and restated as of the 10th day of August, 2000 upon approval of the Board of Directors of the Company.

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

2. Definitions. As used in this Plan:

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

(b) "Board" means the Board of Directors of the Company.

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

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

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

(iii) a liquidation or dissolution of the Partnership.

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

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

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

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

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

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

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

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

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

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

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

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

3. Units Available Under Plan. Subject to adjustments as provided in Paragraph 7, the maximum number of Phantom Units that may be granted under this Plan is 146,000; provided, however, any Phantom Units that are forfeited or which expire for any reason will again be available for grant under this Plan. Units to be delivered upon the vesting of Phantom Units granted under the Plan may be Units acquired by the Company in the open market, Units already owned by the Company, Units acquired by the Company directly from the Partnership, or any other person, or any combination of the foregoing.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11. Investment Representation. Unless the Units subject to the Phantom Units granted under the Plan have been registered under the Securities Act of 1933, as amended (the "1933 Act"), and (and, in the case of any Participant who may be deemed an affiliate (for securities law purposes) of the Company or Partnership, such Units have been registered under the 1933 Act for resale by such Participant, (or the Partnership has determined that an exemption from registration is available), the Company may require prior to and as a condition of the delivery of any Units that the person vesting under a Phantom Unit hereunder furnish the Company with a written representation in a form prescribed by the Committee to the effect that such person is acquiring said Units solely

with a view to investment for his or her own account and not with a view to the resale or distribution of all or any part thereof, and that such person will not dispose of any of such Units otherwise than in accordance with the provisions of Rule 144 under the 1933 Act unless and until either the Units are registered under the 1933 Act or the Company is satisfied that an exemption from such registration is available.

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

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

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

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

14. Amendments, Termination, Etc. (a) This Plan may be amended from time to time by the Board; provided, however, during the Subordination Period (the time prior to conversion of the Partnership's Subordinated Units into Units), no amendment will be made without the approval of a majority of the Unitholders that would (i) increase the total number of Units available for grants under the Plan; (ii) change the class of individuals eligible to receive grants; (iii) extend the maximum period during which Phantom Units may be granted under the Plan; (iv) materially increase the cost of the Plan to the Partnership; or (v) result in this Plan no longer satisfying the

requirements of Rule 16b-3. Further, the provisions of Paragraph 5 may not be amended more than once every six months other than to comport with changes in the Internal Revenue Code, the Employee Retirement Income Security Act of 1974, as amended, or the rule thereunder.

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

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

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

16. Replacement. This Plan is an amendment and restatement and replacement of the Heritage Holdings, Inc. Restricted Unit Plan which is hereby replaced in its entirety as approved as of the 10th day of August, 2000, but effective as of the date specified in the initial paragraph of this Plan.

HERITAGE HOLDINGS, INC.

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into effective as of the Closing ("Effective Date") by and between Heritage Holdings, Inc., a Delaware corporation ("Company"), and James E. Bertelsmeyer ("Employee").

RECITALS

WHEREAS, Employee is currently an employee of the Company; and

WHEREAS, the Company desires for Employee to continue with the Company and Employee is willing to continue with the Company, on the terms and conditions herein set forth;

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties, and agreements contained herein, and for other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1
DEFINITIONS AND INTERPRETATIONS

1.1 DEFINITIONS

For purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following terms shall have the following respective meanings:

"Accounting Firm" shall have the meaning specified in Section 4.5(d)(iii).

"Base Salary" shall have the meaning specified in Section 3.1.

"Board" shall mean the Board of Directors of the Company.

"Change of Control" shall mean the date that (i) the Specified Entities cease to own, directly or indirectly through wholly-owned subsidiaries, in the aggregate at least 35% of the capital stock of the Company and (ii) either Designated Current Manager, at any time from the date of Closing until the earlier to occur of the third anniversary of Closing or such Designated Current Manager ceasing to be employed by the Company, ceases to own at least 50% of the common limited partner interests in Heritage Propane Partners, L.P., a Delaware limited partnership ("Heritage MLP"), owned, directly or indirectly, by such Designated Current Manager immediately after Closing.

"Closing" shall mean the closing date of the purchase of Company stock contemplated in the Stock Purchase Agreement, dated as of June 15, 2000, among U.S. Propane, L.P. and the other parties thereto.

"Code" shall have the meaning specified in Section 4.5(d)(i).

5.1(a). "Confidential Information" shall have the meaning specified in Section

4.5(a). "Continuation Period" shall have the meaning specified in Section

"Designated Current Manager" shall mean each of R.C. Mills and H. Michael Krimbill, current executive officers of the Company, together with, in the case of either such executive officer, the heirs of, and trusts for the benefit of family members controlled by, such executive officer.

"Disability" shall mean a physical or mental condition of Employee that, in the good faith judgment of not less than a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board), based upon certification by a licensed physician reasonably acceptable to Employee and the Board, (i) prevents Employee from being able to perform the services required under this Agreement, (ii) has continued for a period of at least 180 days during any 12-month period, and (iii) is expected to continue.

"Dispute" shall have the meaning specified in Article 6.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Expiration Date" shall have the meaning specified in Section 2.2.

"Good Reason" shall mean any of the following:

(i) the assignment to Employee of any duties materially inconsistent with Employee's position (including a materially adverse change in Employee's office, title and reporting requirements), authority, duties or responsibilities;

(ii) the Company's requiring Employee to be based at any location outside the greater Jacksonville, Florida area;

(iii) any termination by the Company of Employee's employment other than as expressly permitted by this Agreement;

(iv) any failure by the Company to comply with and satisfy Section 7.5 (requiring the Company to require any successor to expressly assume and agree to perform all obligations under this Agreement); or

(v) a breach or violation by the Company of any material provision of this Agreement, which breach or violation remains unremedied for more than 30 days after written notice thereof is given to the Company by Employee.

For purposes of this definition, no act or failure to act on the Company's part shall be considered a "Good Reason" unless Employee has given the Company written notice of such act or failure to act within 30 days thereof and the Company fails to remedy such act or failure to act within 15 days of its receipt of such notice.

"Gross-Up Payment" shall have the meaning specified in Section 4.5(d)(ii).

"Misconduct" shall mean one or more of the following:

(i) the willful and continued failure by Employee to perform substantially his duties hereunder (other than any such failure resulting from Employee's incapacity due to physical or mental illness) after written notice of such failure has been given to Employee by the Company and Employee has had a reasonable period (not to exceed 15 days) to correct such failure;

(ii) conviction (or plea of nolo contendere) of Employee for any felony or any other crime which is materially detrimental to the Company (monetarily or otherwise);

(iii) any act or omission by Employee which materially damages the integrity, reputation or financial viability of the Company or its affiliates;

(iv) a breach or violation by Employee of (a) any material provision of this Agreement or (b) any material Company employment policy, which (in either case), if capable of being remedied, remains unremedied for more than 15 days after written notice thereof is given to Employee by the Company; or

(v) chronic alcohol abuse or illegal drug use by Employee that is determined by the Board to impair Employee's ability to perform his duties and responsibilities hereunder.

For purposes of this definition, no act or failure to act on Employee's part shall be considered "Misconduct" if done or omitted to be done by Employee in good faith and in the reasonable belief that such act or failure to act was in the best interest the Company or in furtherance of Employee's duties and responsibilities hereunder.

"Notice of Termination" shall mean a notice purporting to terminate Employee's employment in accordance with Section 4.1(a) or 4.2. Such notice shall specify the effective date of such termination, which date shall neither be less than 30 (10 in the case of a termination by the Company for Misconduct) nor more than 60 days after the date such notice is given. If such termination is by Employee for Good Reason or by the Company for Disability or Misconduct, such notice shall set forth in reasonable detail the reason for such termination and the facts and circumstances claimed to provide a basis therefor. Any notice purporting to terminate Employee's employment which is not in compliance with the requirements of this definition shall be ineffective.

"Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and any other entity.

"Qualifying Termination" shall have the meaning specified in Section 4.5.

"Severance Plan" shall have the meaning specified in Section 4.5(a).

"Specified Entities" shall mean any one or more of the following entities: (i) Atmos Energy Corporation, a Texas and Virginia corporation, (ii) Piedmont Natural Gas Company, Inc., a North Carolina corporation, (iii) AGL Resources, Inc., a Georgia corporation, and (iv) TECO

Energy, Inc., a Florida corporation, or a successor to any entity referred to in clause (i), (ii), (iii) or (iv) of this definition.

"Successor" shall mean, with respect to a Specified Entity, any entity in which the holders of capital stock of such Specified Entity outstanding immediately prior to a consolidation, acquisition or merger involving such Specified Entity hold, directly or indirectly, through wholly-owned subsidiaries, immediately after such consolidation, acquisition or merger.

"Term" shall have the meaning specified in Section 2.2.

"Termination Date" shall mean the termination date specified in a Notice of Termination delivered in accordance with this Agreement.

"Total Payment" shall have the meaning specified in Section 4.5(d)(i).

1.2 INTERPRETATIONS

(a) In this Agreement, unless a clear contrary intention appears, (i) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision, (ii) reference to any "Article" or "Section," means such Article or Section hereof, (iii) the word "including" (and with correlative meaning "include") means including, without limiting the generality of any description preceding such term, (iv) the word "affiliate" has the meaning stated in Rule 405 promulgated under the Securities Act of 1933, as amended, and (v) where any provision of this Agreement refers to action to be taken by either party, or which such party is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such party.

(b) The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

ARTICLE 2 EMPLOYMENT; TERM; POSITION AND DUTIES; ETC.

2.1 EMPLOYMENT

The Company agrees to continue Employee's employment with the Company and Employee agrees to remain in the employment of the Company, in each case on the terms and conditions set forth in this Agreement.

2.2 TERM OF AGREEMENT

Unless sooner terminated pursuant to Article 4, the term of this Agreement (the "Term") shall commence on the Effective Date and shall continue until the second annual anniversary of the Effective Date (the "Expiration Date"). Employee's continued employment, if any, after the expiration of the Term shall be "at will" employment.

2.3 POSITION AND DUTIES

(a) While employed hereunder, Employee shall serve as the Chairman of the Board. While so employed, the Chairman of the Board shall have the powers conferred in the Bylaws of the Company and shall have and may exercise all of the powers, functions, duties and responsibilities normally attributable to such position. Employee shall have such additional duties and responsibilities commensurate with such position as from time to time may be reasonably assigned to Employee by the Board. While employed hereunder, Employee shall (i) report directly to the Board and (ii) observe and comply with all lawful policies, directions and instructions of the Board which are consistent with the foregoing provisions of this paragraph (a).

(b) While employed hereunder, Employee shall not be required to devote more than 50% of his business time, attention, skill and efforts to the faithful and efficient performance of his duties hereunder.

(c) While employed hereunder, Employee shall conduct himself in such a manner as not to intentionally and knowingly prejudice, in any material respect, the reputation of the Company or any of its affiliates, including U.S. Propane, L.P., or with the investment community or the public at large.

2.4 PLACE OF EMPLOYMENT

Employee's place of employment hereunder shall be in the greater Jacksonville, Florida area, and, to the extent practical, may be performed at his residence in such area. The location of Employee's residence shall not relieve Employee of his obligations under Section 2.3(b).

ARTICLE 3 COMPENSATION AND BENEFITS

3.1 BASE SALARY

(a) For services rendered by Employee under this Agreement, the Company shall pay to Employee an annual base salary of \$193,500.00 ("Base Salary"). The Board shall review the Base Salary at least annually and may adjust the amount of the Base Salary at any time as the Board may deem appropriate in its sole discretion; provided, however, that in no event may the Base Salary be decreased below the above stated amount without the prior written consent of Employee.

(b) The Base Salary shall be payable in accordance with the Company's payroll practice for its executives as it is earned.

3.2 BUSINESS EXPENSES

The Company shall, in accordance with the rules and policies that it may establish from time to time for executives, reimburse Employee for business expenses reasonably incurred in the performance of Employee's duties. Requests for reimbursement for such expenses must be

accompanied by appropriate documentation as required by such rules and policies. In addition, Employee shall be provided a reasonable car allowance or Company-provided car consistent with the car allowance or Company car provided Employee, as the case may be, at the Effective Date.

3.3 OTHER BENEFITS

Employee shall be entitled to receive all employee benefits, fringe benefits and other perquisites that may be offered by the Company to its executives as a group, including participation by Employee and, where applicable, Employee's dependents, in the various employee benefit plans or programs (including pension plans, profit sharing plans, stock plans, health plans, life insurance and disability insurance), subject to meeting the eligibility requirements with respect to each of such benefit plans or programs. However, nothing in this Section 3.4 shall be deemed to prohibit the Company from making any changes in any of the plans, programs or benefits described herein.

ARTICLE 4 TERMINATION OF EMPLOYMENT

4.1 TERMINATION BY EMPLOYEE; DEATH

(a) Employee may, at any time prior to the Expiration Date, terminate his employment hereunder for any reason by delivering a Notice of Termination to the Board and the Chief Executive Officer of the Company.

(b) Employee's employment hereunder shall terminate upon his death.

4.2 TERMINATION BY THE COMPANY

The Company may, at any time prior to the Expiration Date, terminate Employee's employment hereunder for any reason by delivering a Notice of Termination to Employee; provided, however, that in no event shall the Company be entitled to terminate Employee's employment prior to the Expiration Date unless the Board shall duly adopt, by the affirmative vote of at least a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board), a resolution authorizing such termination and stating that, in the opinion of the Board, sufficient reason exists therefor.

4.3 PAYMENT OF ACCRUED BASE SALARY, VACATION PAY, ETC.

(a) Promptly upon the termination of Employee's employment for any reason (including death), the Company shall pay to Employee (or his estate) a lump sum amount for (i) any unpaid Base Salary earned hereunder prior to the termination date, (ii) all unpaid benefits earned or vested, as the case may be, by Employee as of the termination date under any and all incentive or deferred compensation plans or programs of the Company and (iii) any amounts in respect of which Employee has requested, and is entitled to, reimbursement in accordance with Section 3.2.

(b) A termination of Employee's employment in accordance with this Agreement under any Section of this Article 4 shall not alter or impair, nor enhance or increase, any of Employee's rights or benefits under any employee benefit plan or program or incentive or deferred compensation plan or program maintained by the Company, in each case except as provided therein or in any written agreement entered into between the Company and Employee pursuant thereto.

(c) If Employee's employment hereunder is terminated due to his death or Disability, by Employee for a Good Reason, by the Company other than for Misconduct, or upon a Change of Control of the Company, all Company-imposed restrictions on the transferability of the Units (as defined in the Subscription Agreement dated as of June 15, 2000, by and among Heritage MLP and the other parties thereto (the "Subscription Agreement")) purchased by Employee on the Closing shall automatically lapse in full on such date. Upon Employee's request accompanied by Employee's certificate for Units, the Company shall cause a new certificate to be issued to Employee for such Units without a legend referring to such Company-imposed restrictions. A copy of such Company-imposed restrictions is attached hereto as Annex II to the Subscription Agreement.

4.4 DISABILITY PAYMENTS

If Employee incurs a Disability, the Company may terminate Employee's employment hereunder by delivering a Notice of Termination to Employee; provided, however, in such event the Company shall continue to pay the Base Salary to Employee, through the remainder of the Term (as determined without regard to its earlier termination upon Employee's termination due to Disability under this Section 4.4) until Employee's death, if earlier, at such regularly scheduled times.

4.5 OTHER BENEFITS

The following provisions shall apply (i) following a Change of Control or (ii) if Employee terminates his employment pursuant to Section 4.1 for Good Reason or (iii) if the Company terminates Employee's employment pursuant to Section 4.2 for any reason other than Misconduct (a "Qualifying Termination"):

(a) Base Salary Payments. For the remainder of the Term (as determined without regard to its earlier termination pursuant to Section 4.1(a) or 4.2 or until Employee's death, if earlier (the "Continuation Period")), the Company shall pay to Employee, at the regularly scheduled times, the Base Salary (as in effect on the date on which the relevant Notice of Termination is given in accordance with this Agreement). The amount payable to Employee under this paragraph (a) is in lieu of, and not in addition to, any severance payment due or to become due to Employee under any separate agreement or contract between Employee and the Company or pursuant to any severance payment plan, program or policy of the Company or any affiliate (collectively, "Severance Plan"). Any severance amounts received by Employee under a Severance Plan shall be applied as an offset to (reduce or eliminate, as the case may be) any future payments otherwise to be made to Employee under this paragraph (a); i.e., no additional payments shall be made under this paragraph (a) until the aggregate amount of the offsets hereunder equals the severance amounts received by Employee under the Severance Plan.

(b) Release. Notwithstanding anything in this Section 4.5 to the contrary, as a condition to the receipt of any payment or benefit under this Section 4.5, Employee must first execute and deliver to the Company a release in a form prepared by the Company, releasing the Company, its officers, the Board, employees and agents from any and all claims and from any and all causes of action of any kind or character that Employee may have arising out of Employee's employment with the Company or the termination of such employment, but excluding any claims and causes of action that Employee may have arising under or based upon this Agreement.

(c) Parachute Tax.

(i) If the payments and benefits provided to Employee under this Agreement or under any other agreement with, or plan of, the Company (the "Total Payment") (A) constitute a "parachute payment" as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and exceed three times Employee's "base amount" as defined under Code Section 280G(b)(3) by less than 10% of three times Employee's base amount, and (B) would, but for this Section 4.5(c)(i), be subject to the excise tax imposed by Code Section 4999, then Employee's payments and benefits under this Agreement shall be either (I) paid in full, or (II) reduced and payable only as to the maximum amount which would result in no portion of such payments and benefits being subject to excise tax under Code Section 4999, whichever results in the receipt by Employee on an after-tax basis of the greatest amount of Total Payment (taking into account the applicable federal, state and local income taxes, the excise tax imposed by Code Section 4999 and all other taxes (including any interest and penalties) payable by Employee). If a reduction of the Total Payment is necessary, Employee shall be entitled to select which payments or benefits will be reduced and the manner and method of any such reduction of such payments and benefits. Within 30 days after the amount of any required reduction in payments and benefits is finally determined under Section 4.5(c)(iii), Employee shall notify the Company in writing regarding which payments and benefits are to be reduced. If no notification is given by Employee, the Company will determine which payments and benefits to reduce. If, as a result of any reduction required by this Section 4.5(c)(i), amounts previously paid to Employee exceed the amount to which Employee is entitled, Employee will promptly return the excess amount to the Company.

(ii) If the Total Payment constitutes a "parachute payment" as defined in Code Section 280G and exceeds three times Employee's "base amount" as defined under Code Section 280G(b)(3) by 10% or more of three times Employee's base amount, the Company shall provide to Employee, in cash, an additional payment in an amount to cover the full excise tax due under Code Section 4999, plus Employee's state and federal income, employment, excise, and other taxes (including interest and penalties) on this additional payment (the "Gross-Up Payment"). Any amount payable under this Section 4.5(c)(ii) shall be paid as soon as possible following the date of Employee's Qualifying Termination, but in no event later than 30 days after such date.

(iii) All determinations required to be made under this Section 4.5(c), including whether reductions are necessary or whether a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be used in determining

such Gross-Up Payment, shall be made by the accounting firm used by the Company at the time of such determination (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Company and to Employee within 15 business days of the receipt of notice from the Company or Employee that there has been a Qualifying Termination, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity, or group effecting the change in control transaction, Employee may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company.

(iv) In the event Employee is entitled to a Gross-Up Payment under Section 4.5(c)(ii) and the Internal Revenue Service subsequently increases the excise tax computation described in Section 4.5(c)(ii), the Company shall reimburse Employee for the full amount necessary to make Employee whole on an after-tax basis (less any amounts received by Employee that Employee would not have received had the computations initially been computed as subsequently adjusted), including the value of any underpaid excise tax, and any related interest and/or penalties due to the Internal Revenue Service.

4.6 NON-EXCLUSIVITY OF RIGHTS

Nothing in this Agreement shall prevent or limit Employee's continuing or future participation in any plan, program, policy or practice provided by the Company for which Employee may qualify, nor shall anything herein limit or otherwise affect such rights as Employee may have under any other contract or agreement with the Company. Amounts which are vested benefits or which Employee is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company at or subsequent to the Termination Date shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. However, the Continuation Period shall not be credited as continued employment of Employee for any purpose under any such plan, policy, practice or program.

ARTICLE 5 CONFIDENTIAL INFORMATION AND NON-COMPETITION

5.1 CONFIDENTIAL INFORMATION

(a) Employee recognizes that the services to be performed by Employee hereunder are special, unique, and extraordinary and that, by reason of Employee's employment with the Company, Employee will be provided Confidential Information concerning the operation of the Company, the use or disclosure of which would cause the Company substantial loss and damages which could not be readily calculated and for which no remedy at law would be adequate. Accordingly, Employee agrees that Employee will not (directly or indirectly) at any time, whether during or after Employee's employment with the Company and its affiliates, (i) knowingly use for an improper personal benefit any Confidential Information that Employee

may learn or has learned by reason of Employee's employment with the Company or (ii) disclose any such Confidential Information to any Person except (A) in the performance of Employee's obligations to the Company hereunder, (B) as required by applicable law, (C) in connection with the enforcement of Employee's rights under this Agreement, (D) in connection with any disagreement, dispute or litigation (pending or threatened) between Employee and the Company or (E) with the prior written consent of the Board or the Chief Executive Officer of the Company. As used herein, "Confidential Information" includes, but is not limited to, information with respect to the Company's products, facilities and methods, research and development, trade secrets and other intellectual property, systems, patents and patent applications, procedures, manuals, confidential reports, product price lists, customer lists, financial information, business plans, prospects or opportunities; provided, however, that such term shall not include any information that (x) is or becomes generally known or available other than as a result of improper disclosure by Employee or (y) is or becomes known or available to Employee on a nonconfidential basis from a source (other than the Company) which, to Employee's knowledge, is not prohibited from disclosing such information to Employee by a legal, contractual, fiduciary or other obligation to the Company.

(b) Employee confirms that all Confidential Information is the exclusive property of the Company. All business records, papers and documents kept or made by Employee while employed by the Company relating to the business of the Company shall be and remain the property of the Company at all times. Upon the request of the Company at any time, Employee shall promptly deliver to the Company, and shall retain no copies of, any written materials, records and documents made by Employee or coming into his possession while employed by the Company concerning the business or affairs of the Company other than personal materials, records and documents (including notes and correspondence) of Employee not containing Confidential Information relating to such business or affairs. Notwithstanding the foregoing, Employee shall be permitted to retain copies of, or have access to, all such materials, records and documents relating to any disagreement, dispute or litigation (pending or threatened) between Employee and the Company.

5.2 NON-COMPETITION

(a) In partial consideration for the Company's agreement to provide Employee access to Confidential Information and the other benefits provided by this Agreement, Employee agrees that while employed by the Company and for three years after the termination of such employment (for any reason) (the "Restricted Period"), Employee shall not, unless Employee receives the prior written consent of the Board or the Chief Executive Officer of the Company, own an interest in, manage, operate, join, control, lend money or render financial or other assistance to or participate in or be connected with, as an officer, employee, partner, stockholder, consultant or otherwise, any Person which competes with the Company or its affiliates in the retail marketing of propane and/or butane gas or appliance sales, service and/or repair business in any city or within seventy-five (75) miles in all directions from the boundary of the city limits of any city where the Company or any affiliate conducts such business; provided, however, that following Employee's termination of employment the foregoing restriction shall apply only to (i) those areas where the Company or any affiliate was actually doing business on the date of such termination of employment and (ii) those areas in respect of which the Company or any affiliate actively and diligently conducted at any time during the 12-month period ended on such date of

termination an analysis to determine whether or not it would commence doing business in such areas but, in the case of each such area the foregoing restriction shall cease to apply when the Company or its affiliates ceases to actively conduct business (disregarding any temporary stoppages) in such area or, if applicable, abandons its intent to conduct business in such area.

(b) Employee has carefully read and considered the provisions of this Section 5.2 and, having done so, agrees that the restrictions set forth in this Section 5.2 (including the Restricted Period, scope of activity to be restrained and the geographical scope) are fair and reasonable and are reasonably required for the protection of the interests of the Company, its officers, directors, employees, creditors and shareholders. Employee understands that the restrictions contained in this Section 5.2 may limit his ability to engage in a business similar to the Company's business, but acknowledges that he will receive sufficiently high remuneration and other benefits from the Company hereunder to justify such restrictions.

(c) During the Restricted Period, Employee shall not, whether for his own account or for the account of any other Person (excluding the Company), intentionally (i) solicit, endeavor to entice or induce any employee of the Company to terminate his employment with the Company or accept employment with anyone else or (ii) interfere in a similar manner with the business of the Company.

(d) It is specifically agreed that the Restricted Period, during which the agreements and covenants of Employee made herein shall be effective, shall be computed by excluding from such computation any time which Employee is in violation of any provision of this Article 5.

(e) In the event that any provision of this Section 5.2 relating to the Restricted Period and/or the areas of restriction shall be declared by a court of competent jurisdiction to exceed the maximum time period or areas such court deems reasonable and enforceable, the Restricted Period and/or areas of restriction deemed reasonable and enforceable by the court shall become and thereafter be the maximum time period and/or areas.

5.3 STOCK OWNERSHIP

Nothing in this Agreement shall prohibit Employee from acquiring or holding any issue of stock or securities of any Person that has any securities registered under Section 12 of the Exchange Act, listed on a national securities exchange or quoted on the automated quotation system of the National Association of Securities Dealers, Inc. so long as (i) Employee is not deemed to be an "affiliate" of such Person, and (ii) Employee and members of his immediate family do not own or hold more than 3% of any class of voting securities of any such Person.

5.4 INJUNCTIVE RELIEF

Employee acknowledges that a breach of any of the covenants contained in this Article 5 may result in material irreparable injury to the Company for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach, any payments remaining under the terms of this Agreement shall cease and the Company shall be entitled to obtain a temporary restraining order and/or a preliminary or permanent injunction restraining Employee from engaging in activities prohibited by this Article 5 or such other relief as may be required to specifically enforce any of the covenants contained in

this Article 5. Employee agrees to waive any requirement for the Company's securing or posting of any bond in connection with such remedies. Employee further agrees to and hereby does submit to in personam jurisdiction before each and every such court for that purpose.

5.5 FORFEITURE FOR BREACH

A breach of this Article 5 by Employee shall cause an immediate forfeiture of all rights Employee may have under this Agreement to receive any payments or benefits after the date of such breach.

ARTICLE 6 ARBITRATION

EXCEPT WITH RESPECT TO INJUNCTIVE RELIEF AS PROVIDED IN SECTION 5.4 ABOVE, THE PARTIES AGREE TO RESOLVE ANY CLAIM OR CONTROVERSY ARISING OUT OF OR RELATING TO THIS AGREEMENT, INCLUDING THE EMPLOYMENT OF EMPLOYEE, THE TERMINATION OF EMPLOYMENT OF EMPLOYEE, OR CLAIMS UNDER TITLE VII OF THE CIVIL RIGHTS ACT, THE AMERICANS WITH DISABILITIES ACT, THE AGE DISCRIMINATION IN EMPLOYMENT ACT, AND THE FAMILY MEDICAL LEAVE ACT, BY BINDING ARBITRATION UNDER THE FEDERAL ARBITRATION ACT BEFORE ONE ARBITRATOR IN THE CITY OF TULSA, STATE OF OKLAHOMA, ADMINISTERED BY THE AMERICAN ARBITRATION ASSOCIATION UNDER ITS COMMERCIAL ARBITRATION RULES, AND JUDGMENT ON THE AWARD RENDERED BY THE ARBITRATOR MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF. THE FEES AND EXPENSES OF THE ARBITRATOR SHALL BE BORNE SOLELY BY THE NON-PREVAILING PARTY OR, IN THE EVENT THERE IS NO CLEAR PREVAILING PARTY, AS THE ARBITRATOR DEEMS APPROPRIATE. EXCEPT AS PROVIDED ABOVE, EACH PARTY SHALL PAY ITS OWN COSTS AND EXPENSES (INCLUDING ATTORNEYS' FEES) RELATING TO ANY ARBITRATION PROCEEDING CONDUCTED UNDER THIS ARTICLE 6.

ARTICLE 7 MISCELLANEOUS PROVISIONS

7.1 NO MITIGATION OR OFFSET

The provisions of this Agreement are not intended to, nor shall they be construed to, require that Employee mitigate the amount of any payment provided for in this Agreement by seeking or accepting other employment or becoming self-employed, nor shall the amount of any payment provided for in this Agreement be reduced by any compensation earned by Employee as the result of employment by another employer, self-employment or otherwise. Without limitation of the foregoing, the Company's obligations to make the payments to Employee required under this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set off (other than as provided in Section 4.5(a)), counterclaim, recoupment, defense or other claim, right or action that the Company may have against Employee (other than as provided in Section 5.5).

7.2 ASSIGNABILITY

The obligations of Employee hereunder are personal and may not be assigned or delegated by Employee or transferred in any manner whatsoever, nor are such obligations subject

to involuntary alienation, assignment or transfer. The Company shall have the right to assign this Agreement and to delegate all rights, duties and obligations hereunder as provided in Section 7.5.

7.3 NOTICES

All notices and all other communications provided for in the Agreement shall be in writing and addressed (i) if to the Company, the Board, or the Chairman of the Board, at the principal office address of the Company or such other address as it may have designated by written notice to Employee for purposes hereof, directed to the attention of the Chief Executive Officer with a copy to the Secretary of the Company and (ii) if to Employee, at his residence address on the records of the Company or to such other address as he may have designated to the Company in writing for purposes hereof. Each such notice or other communication shall be deemed to have been duly delivered, provided or given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, except that any notice of change of address shall be effective only upon receipt.

7.4 SEVERABILITY

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

7.5 SUCCESSORS; BINDING AGREEMENT

(a) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance reasonably acceptable to Employee, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used herein, the term "Company" shall include any successor to its business and/or assets as aforesaid which executes and delivers the assumption agreement provided for in this Section 7.5 or which otherwise becomes bound by all terms and provisions of this Agreement by operation of law.

(b) This Agreement and all rights of Employee hereunder shall inure to the benefit of and be enforceable by Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Employee should die while any amounts are due him hereunder, all such amounts shall be paid in accordance with the terms of this Agreement to Employee's devisee, legatee, or other designee or, if there be no such designee, to Employee's estate.

7.6 TAX WITHHOLDINGS

The Company shall withhold from all payments hereunder all applicable taxes (federal, state or other) which it is required to withhold therefrom unless Employee has otherwise paid (or made other arrangements satisfactory) to the Company the amount of such taxes.

7.7 AMENDMENTS AND WAIVERS

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by Employee and such member of the Board as may be specifically authorized by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or in compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

7.8 ENTIRE AGREEMENT; TERMINATION OF ANY OTHER AGREEMENTS

This Agreement is an integration of the parties' agreement with respect to the subject matter hereof and no agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. This Agreement hereby expressly terminates, rescinds and replaces any prior agreement (written or oral) between the parties relating to the subject matter hereof, including, without limitation, that certain Employment Agreement between the parties dated June 28, 1996.

7.9 GOVERNING LAW; SUBMISSION TO JURISDICTION

(a) THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF OKLAHOMA WITHOUT REGARD TO ITS CONFLICT OF LAWS PROVISION, OTHER THAN THE PROVISIONS OF SECTION 5.2, WHICH SHALL BE GOVERNED BY THE LAWS OF THE STATE OF ANY ALLEGED VIOLATION. IT IS THE INTENT OF THE PARTIES THAT THE PROVISIONS OF SECTION 5.2 BE INTERPRETED TO IMPOSE THE MAXIMUM PERIOD OF RESTRICTION UNDER THE GOVERNING LAW OF SUCH SECTION.

(b) EACH PARTY HERETO HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS IN TULSA COUNTY, OKLAHOMA, FOR THE PURPOSES OF ANY PROCEEDING ARISING OUT OF THIS AGREEMENT.

7.10 EMPLOYMENT WITH AFFILIATES

For purposes of this Agreement, employment with any affiliates of the Company, U.S. Propane, L.P. or with any of their respective affiliates shall be deemed to be employment with the Company.

7.11 SURVIVAL

The provisions of Articles 5 and 6 and Section 7.9, and any other provisions necessary to give full effect to the terms of this Agreement, shall survive the termination of this Agreement.

7.12 COUNTERPARTS

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

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the Effective Date.

HERITAGE HOLDINGS, INC.

By: _____
Name: _____
Title: _____

EMPLOYEE

James E. Bertelsmeyer

HERITAGE HOLDINGS, INC.

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into effective as of the Closing ("Effective Date") by and between Heritage Holdings, Inc., a Delaware corporation ("Company"), and R.C. Mills ("Employee").

RECITALS

WHEREAS, Employee is currently an employee of the Company; and

WHEREAS, the Company desires for Employee to continue with the Company and Employee is willing to continue with the Company, on the terms and conditions herein set forth;

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties, and agreements contained herein, and for other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1
DEFINITIONS AND INTERPRETATIONS

1.1 DEFINITIONS

For purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following terms shall have the following respective meanings:

"Accounting Firm" shall have the meaning specified in Section 4.5(d)(iii).

"Base Salary" shall have the meaning specified in Section 3.1.

"Board" shall mean the Board of Directors of the Company.

"Bonus Payment" shall have the meaning specified in Section 4.5(a).

"Change of Control" shall mean the date that the Specified Entities cease to own, directly or indirectly through wholly-owned subsidiaries, in the aggregate at least 65% of the capital stock of the Company.

"Closing" shall mean the closing date of the purchase of Company stock contemplated in the Stock Purchase Agreement, dated June 15, 2000, among U.S. Propane, L.P. and the other parties thereto.

"Code" shall have the meaning specified in Section 4.5(d)(i).

"Confidential Information" shall have the meaning specified in Section 5.1(a).

"Continuation Period" shall have the meaning specified in Section 4.5(a).

"Designated Current Manager" shall mean each of Employee and H. Michael Krimbill, current executive officers of the Company, together with, in the case of either such executive officer, the heirs of, and trusts for the benefit of family members controlled by, such executive officer.

"Disability" shall mean a physical or mental condition of Employee that, in the good faith judgment of not less than a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board), based upon certification by a licensed physician reasonably acceptable to Employee and the Board, (i) prevents Employee from being able to perform the services required under this Agreement, (ii) has continued for a period of at least 180 days during any 12-month period, and (iii) is expected to continue.

"Dispute" shall have the meaning specified in Article 6.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Expiration Date" shall have the meaning specified in Section 2.2.

"Good Reason" shall mean any of the following:

(i) the assignment to Employee of any duties materially inconsistent with Employee's position (including a materially adverse change in Employee's office, title and reporting requirements), authority, duties or responsibilities;

(ii) the Company's requiring Employee to be based at any location outside the greater Jacksonville, Florida area;

(iii) any termination by the Company of Employee's employment other than as expressly permitted by this Agreement;

(iv) any failure by the Company to comply with and satisfy Section 7.5 (requiring the Company to require any successor to expressly assume and agree to perform all obligations under this Agreement); or

(v) a breach or violation by the Company of any material provision of this Agreement, which breach or violation remains unremedied for more than 30 days after written notice thereof is given to the Company by Employee.

For purposes of this definition, no act or failure to act on the Company's part shall be considered a "Good Reason" unless Employee has given the Company written notice of such act or failure to act within 30 days thereof and the Company fails to remedy such act or failure to act within 15 days of its receipt of such notice.

"Gross-Up Payment" shall have the meaning specified in Section 4.5(d)(ii).

"Misconduct" shall mean one or more of the following:

(i) the willful and continued failure by Employee to perform substantially his duties hereunder (other than any such failure resulting from Employee's incapacity due to physical or mental illness) after written notice of such failure has been given to Employee by the Company and Employee has had a reasonable period (not to exceed 15 days) to correct such failure;

(ii) conviction (or plea of nolo contendere) of Employee for any felony or any other crime which is materially detrimental to the Company (monetarily or otherwise);

(iii) any act or omission by Employee which materially damages the integrity, reputation or financial viability of the Company or its affiliates;

(iv) a breach or violation by Employee of (a) any material provision of this Agreement or (b) any material Company employment policy, which (in either case), if capable of being remedied, remains unremedied for more than 15 days after written notice thereof is given to Employee by the Company; or

(v) chronic alcohol abuse or illegal drug use by Employee that is determined by the Board to impair Employee's ability to perform his duties and responsibilities hereunder.

For purposes of this definition, no act or failure to act on Employee's part shall be considered "Misconduct" if done or omitted to be done by Employee in good faith and in the reasonable belief that such act or failure to act was in the best interest the Company or in furtherance of Employee's duties and responsibilities hereunder.

"Notice of Discontinuance" shall have the meaning specified in Section 2.2.

"Notice of Termination" shall mean a notice purporting to terminate Employee's employment in accordance with Section 4.1(a) or 4.2. Such notice shall specify the effective date of such termination, which date shall neither be less than 30 (10 in the case of a termination by the Company for Misconduct) nor more than 60 days after the date such notice is given. If such termination is by Employee for Good Reason or by the Company for Disability or Misconduct, such notice shall set forth in reasonable detail the reason for such termination and the facts and circumstances claimed to provide a basis therefor. Any notice purporting to terminate Employee's employment which is not in compliance with the requirements of this definition shall be ineffective.

"Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and any other entity.

"Qualifying Termination" shall have the meaning specified in Section 4.5.

"Severance Plan" shall have the meaning specified in Section 4.5(a).

"Specified Entities" shall mean any one or more of the following entities: (i) Atmos Energy Corporation, a Texas and Virginia corporation, (ii) Piedmont Natural Gas Company, Inc., a North Carolina corporation, (iii) AGL Resources Inc., a Georgia corporation, and (iv) TECO Energy, Inc., a Florida corporation, or a successor to any entity referred to in clause (i), (ii), (iii) or (iv) of this definition.

"Successor" shall mean, with respect to a Specified Entity, any entity in which the holders of capital stock of such Specified Entity outstanding immediately prior to a consolidation, acquisition or merger involving such Specified Entity hold, directly or indirectly, through wholly-owned subsidiaries, immediately after such consolidation, acquisition or merger.

"Term" shall have the meaning specified in Section 2.2.

"Termination Date" shall mean the termination date specified in a Notice of Termination delivered in accordance with this Agreement.

"Total Payment" shall have the meaning specified in Section 4.5(d)(i).

1.2 INTERPRETATIONS

(a) In this Agreement, unless a clear contrary intention appears, (i) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision, (ii) reference to any "Article" or "Section," means such Article or Section hereof, (iii) the word "including" (and with correlative meaning "include") means including, without limiting the generality of any description preceding such term, (iv) the word "affiliate" has the meaning stated in Rule 405 promulgated under the Securities Act of 1933, as amended, and (v) where any provision of this Agreement refers to action to be taken by either party, or which such party is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such party.

(b) The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

ARTICLE 2 EMPLOYMENT; TERM; POSITION AND DUTIES; ETC.

2.1 EMPLOYMENT

The Company agrees to continue Employee's employment with the Company and Employee agrees to remain in the employment of the Company, in each case on the terms and conditions set forth in this Agreement.

2.2 TERM OF AGREEMENT

Unless sooner terminated pursuant to Article 4, the term of this Agreement (the "Term") shall commence on the Effective Date and shall continue until the third anniversary of the Effective Date (the "Expiration Date"); provided, however, that beginning on the second anniversary of the Effective Date and on each day thereafter the Expiration Date shall be automatically extended one additional day unless either party (i) shall give written notice to the other (a "Notice of Discontinuance") that the Term shall cease to be so extended beginning immediately after the date of such notice or (ii) shall give a Notice of Termination to the other party pursuant to Section 4.1(a) or 4.2, as the case may be. No Notice of Discontinuance given

by the Company shall be effective unless given pursuant to a resolution duly adopted by the affirmative vote of a least a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board). If either party gives a Notice of Discontinuance, Employee's employment hereunder shall continue until the expiration of the Term, subject to earlier termination pursuant to Article 4. Employee's continued employment, if any, after the expiration of the Term shall be "at will" employment.

2.3 POSITION AND DUTIES

(a) While employed hereunder, Employee shall serve as the Executive Vice President and Chief Operating Officer of the Company and shall have and may exercise all of the powers, functions, duties and responsibilities normally attributable to such position. Employee shall have such additional duties and responsibilities commensurate with such position as from time to time may be reasonably assigned to Employee by the Board or the Chief Executive Officer of the Company. While employed hereunder, Employee shall (i) report directly to the Chief Executive Officer of the Company and the Board and (ii) observe and comply with all lawful policies, directions and instructions of the Board and the Chief Executive Officer of the Company which are consistent with the foregoing provisions of this paragraph (a).

(b) While employed hereunder, Employee shall devote substantially all of his business time, attention, skill and efforts to the faithful and efficient performance of his duties hereunder. Notwithstanding the foregoing, Employee may engage in the following activities so long as they do not interfere in any material respect with the performance of Employee's duties and responsibilities hereunder: (i) serve on corporate, civic, religious, educational and/or charitable boards or committees and (ii) manage his personal investments.

(c) While employed hereunder, Employee shall conduct himself in such a manner as not to intentionally and knowingly prejudice, in any material respect, the reputation of the Company or any of its affiliates, including U.S. Propane, L.P., or with the investment community or the public at large.

2.4 PLACE OF EMPLOYMENT

Employee's place of employment hereunder shall be in the greater Jacksonville, Florida area, and, to the extent practical, may be performed at his residence in such area.

ARTICLE 3 COMPENSATION AND BENEFITS

3.1 BASE SALARY

(a) For services rendered by Employee under this Agreement, the Company shall pay to Employee an annual base salary of \$335,000.00 ("Base Salary"). The Board shall review the Base Salary at least annually and may adjust the amount of the Base Salary at any time as the Board may deem appropriate in its sole discretion; provided, however, that in no event may the Base Salary be decreased below the above stated amount without the prior written consent of Employee.

(b) The Base Salary shall be payable in accordance with the Company's payroll practice for its executives as it is earned.

3.2 BONUS

The Employee will participate in bonus and incentive plans with substantially equivalent economic provisions as set forth in Exhibit A hereto.

3.3 VACATION

While employed hereunder, Employee shall be entitled to vacation benefits in accordance with the vacation policy approved by the Board from time to time for the Company's executives in general. Employee shall not be entitled to accumulate and carryover unused vacation time from year to year, except to the extent permitted in accordance with the Company's vacation policy for executives in general, nor shall Employee be entitled to compensation for unused vacation time except as provided in Section 4.3(a).

3.4 BUSINESS EXPENSES

The Company shall, in accordance with the rules and policies that it may establish from time to time for executives, reimburse Employee for business expenses reasonably incurred in the performance of Employee's duties. Requests for reimbursement for such expenses must be accompanied by appropriate documentation as required by such rules and policies.

3.5 OTHER BENEFITS

Employee shall be entitled to receive all employee benefits, fringe benefits and other perquisites that may be offered by the Company to its executives as a group, including participation by Employee and, where applicable, Employee's dependents, in the various employee benefit plans or programs (including pension plans, profit sharing plans, stock plans, health plans, life insurance and disability insurance) provided to executives of the Company in general, subject to meeting the eligibility requirements with respect to each of such benefit plans or programs. However, nothing in this Section 3.5 shall be deemed to prohibit the Company from making any changes in any of the plans, programs or benefits described herein. In addition, Employee shall be entitled to a life insurance benefit that is the same or reasonably comparable to that which is provided to Employee by the Company at the Effective Date.

3.6 INDEMNIFICATION

Employee shall be entitled to (i) indemnification and advancement of expenses from the Company in accordance with the provisions of the Bylaws of the Company, and (ii) coverage under the applicable directors' and officers' insurance policy (if any) maintained by the Company or any of its affiliates regarding actions and omissions by Employee during the Term (whether on behalf of the Company or any of its Affiliates).

ARTICLE 4
TERMINATION OF EMPLOYMENT

4.1 TERMINATION BY EMPLOYEE; DEATH

(a) Employee may, at any time prior to the Expiration Date, terminate his employment hereunder for any reason by delivering a Notice of Termination to the Board and the Chief Executive Officer of the Company.

(b) Employee's employment hereunder shall terminate upon his death.

4.2 TERMINATION BY THE COMPANY

The Company may, at any time prior to the Expiration Date, terminate Employee's employment hereunder for any reason by delivering a Notice of Termination to Employee; provided, however, that in no event shall the Company be entitled to terminate Employee's employment prior to the Expiration Date unless the Board shall duly adopt, by the affirmative vote of at least a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board), a resolution authorizing such termination and stating that, in the opinion of the Board, sufficient reason exists therefor.

4.3 PAYMENT OF ACCRUED BASE SALARY, VACATION PAY, ETC.

(a) Promptly upon the termination of Employee's employment for any reason (including death), the Company shall pay to Employee (or his estate) a lump sum amount for (i) any unpaid Base Salary earned hereunder prior to the termination date and any accrued but unpaid bonus as of the termination date, but only to the extent such bonus has accrued and is payable to Employee after termination of employment pursuant to the terms of the applicable bonus plan or policy; (ii) all unused vacation time accrued by Employee as of the termination date in accordance with Section 3.3; (iii) all unpaid benefits earned or vested, as the case may be, by Employee as of the termination date under any and all incentive or deferred compensation plans or programs of the Company and (iv) any amounts in respect of which Employee has requested, and is entitled to, reimbursement in accordance with Section 3.4.

(b) A termination of Employee's employment in accordance with this Agreement under any Section of this Article 4 shall not alter or impair, nor enhance or increase, any of Employee's rights or benefits under any employee benefit plan or program or incentive or deferred compensation plan or program maintained by the Company, in each case except as provided therein or in any written agreement entered into between the Company and Employee pursuant thereto.

(c) If Employee's employment hereunder is terminated due to his death or Disability, by Employee for a Good Reason, by the Company other than for Misconduct, or upon a Change of Control of the Company, all Company-imposed restrictions on the transferability of the Units (as defined in the Subscription Agreement dated as of June 15, 2000, by and among Heritage Propane Partners, L.P., a Delaware limited partnership ("Heritage MLP") and the other parties thereto (the "Subscription Agreement")) purchased by Employee on the Closing shall automatically lapse in full on such date. Upon Employee's request accompanied by Employee's

certificate for Units, the Company shall cause a new certificate to be issued to Employee for such Units without a legend referring to such Company-imposed restrictions. A copy of such Company-imposed restrictions is attached as Annex II to the Subscription Agreement.

4.4 DISABILITY PAYMENTS

If Employee incurs a Disability, the Company may terminate Employee's employment hereunder by delivering a Notice of Termination to Employee; provided, however, in such event the Company shall continue to pay to Employee, through the remainder of the Term (as determined without regard to its earlier termination upon Employee's termination due to Disability under this Section 4.4 and, if the Termination Date is on or after the second anniversary of the Effective Date, without any extension of the Term under Section 2.2 after such Termination Date) or until Employee's death, if earlier, at such regularly scheduled times:

(A) the Base Salary in effect immediately prior to the date of such termination, minus

(B) any amount payable to Employee under any disability plan maintained by the Company for the benefit of Employee.

4.5 OTHER BENEFITS

The following provisions shall apply (i) following a Change of Control or (ii) if Employee terminates his employment pursuant to Section 4.1 for Good Reason or (iii) if the Company terminates Employee's employment pursuant to Section 4.2 for any reason other than Misconduct (each a "Qualifying Termination"):

(a) Base Salary and Bonus Payments. For the remainder of the Term (as determined without regard to its earlier termination pursuant to Section 4.1(a) or 4.2 and, if such termination date is on or after the second anniversary of the Effective Date, without any extension of the Term after such termination date) or until Employee's death, if earlier (the "Continuation Period"), the Company shall pay to Employee, at the regularly scheduled times, the sum of the Base Salary (as in effect on the date on which the relevant Notice of Termination is given in accordance with this Agreement) and pay or vest the Bonus Payment as applicable within sixty (60) days of the Qualifying Termination. The "Bonus Payment" shall be an amount (A) for the Short Term Incentive Plan, equal to the excess of the actual EBITDA compared to the budgeted EBITDA to the month end accounting period nearest to the date of the Qualifying Termination (the "Short Incentive Term") times 15% times the Employee's Percentage of Incentive as indicated on Exhibit A attached hereto and (B) for the Long Term Incentive Plan, the Employee will vest immediately in the number of Common Units equal to the Employee's Percentage of Incentive as indicated on Exhibit A hereto times the total Common Units at the Minimum Award level (250,000) to the extent not previously awarded.

The amount payable to Employee under this paragraph (a) is in lieu of, and not in addition to, any severance payment due or to become due to Employee under any separate agreement or contract between Employee and the Company or pursuant to any severance payment plan, program or policy of the Company or any affiliate (collectively, "Severance Plan"). Any severance amounts received by Employee under a Severance Plan shall be applied as an offset to (reduce or eliminate, as the case may be) any future payments otherwise to be

made to Employee under this paragraph (a); i.e., no additional payments shall be made under this paragraph (a) until the aggregate amount of the offsets hereunder equals the severance amounts received by Employee under the Severance Plan.

(b) Health Plan Benefits. The Company shall at all times during the Continuation Period cause Employee and Employee's eligible dependents to be covered by and to participate in, to the fullest extent allowable under the terms thereof, all group health insurance plans and programs that may be offered to the executives of the Company so that Employee will receive, at all times during the Continuation Period, the same benefits under such plans and programs that Employee would have been entitled to receive had he remained an executive of the Company; provided, however, (i) Employee must timely pay the "active" employee premium, if any, for such continued coverage; (ii) Employee must timely elect COBRA continuation coverage thereunder upon his termination of employment; and (iii) in the event Employee and his eligible dependents become covered during the Continuation Period by another employer's group health plan or programs which does not contain any effective exclusion or limitation with respect to any pre-existing conditions, then the Company's group health plans shall no longer be liable for any benefits under this paragraph (b).

(c) Release. Notwithstanding anything in this Section 4.5 to the contrary, as a condition to the receipt of any payment or benefit under this Section 4.5, Employee must first execute and deliver to the Company a release in a form prepared by the Company, releasing the Company, its officers, the Board, employees and agents from any and all claims and from any and all causes of action of any kind or character that Employee may have arising out of Employee's employment with the Company or the termination of such employment, but excluding any claims and causes of action that Employee may have arising under or based upon this Agreement.

(d) Parachute Tax.

(i) If the payments and benefits provided to Employee under this Agreement or under any other agreement with, or plan of, the Company (the "Total Payment") (A) constitute a "parachute payment" as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and exceed three times Employee's "base amount" as defined under Code Section 280G(b)(3) by less than 10% of three times Employee's base amount, and (B) would, but for this Section 4.5(d)(i), be subject to the excise tax imposed by Code Section 4999, then Employee's payments and benefits under this Agreement shall be either (I) paid in full, or (II) reduced and payable only as to the maximum amount which would result in no portion of such payments and benefits being subject to excise tax under Code Section 4999, whichever results in the receipt by Employee on an after-tax basis of the greatest amount of Total Payment (taking into account the applicable federal, state and local income taxes, the excise tax imposed by Code Section 4999 and all other taxes (including any interest and penalties) payable by Employee). If a reduction of the Total Payment is necessary, Employee shall be entitled to select which payments or benefits will be reduced and the manner and method of any such reduction of such payments and benefits. Within 30 days after the amount of any required reduction in payments and benefits is finally determined under Section 4.5(d)(iii), Employee shall notify the Company in writing regarding which

payments and benefits are to be reduced. If no notification is given by Employee, the Company will determine which payments and benefits to reduce. If, as a result of any reduction required by this Section 4.5(d)(i), amounts previously paid to Employee exceed the amount to which Employee is entitled, Employee will promptly return the excess amount to the Company.

(ii) If the Total Payment constitutes a "parachute payment" as defined in Code Section 280G and exceeds three times Employee's "base amount" as defined under Code Section 280G(b)(3) by 10% or more of three times Employee's base amount, the Company shall provide to Employee, in cash, an additional payment in an amount to cover the full excise tax due under Code Section 4999, plus Employee's state and federal income, employment, excise, and other taxes (including interest and penalties) on this additional payment (the "Gross-Up Payment"). Any amount payable under this Section 4.5(d)(ii) shall be paid as soon as possible following the date of Employee's Qualifying Termination, but in no event later than 30 days after such date.

(iii) All determinations required to be made under this Section 4.5(d), including whether reductions are necessary or whether a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be used in determining such Gross-Up Payment, shall be made by the accounting firm used by the Company at the time of such determination (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Company and to Employee within 15 business days of the receipt of notice from the Company or Employee that there has been a Qualifying Termination, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity, or group effecting the change in control transaction, Employee may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company.

(iv) In the event Employee is entitled to a Gross-Up Payment under Section 4.5(d)(ii) and the Internal Revenue Service subsequently increases the excise tax computation described in Section 4.5(d)(ii), the Company shall reimburse Employee for the full amount necessary to make Employee whole on an after-tax basis (less any amounts received by Employee that Employee would not have received had the computations initially been computed as subsequently adjusted), including the value of any underpaid excise tax, and any related interest and/or penalties due to the Internal Revenue Service.

4.6 NON-EXCLUSIVITY OF RIGHTS

Nothing in this Agreement shall prevent or limit Employee's continuing or future participation in any plan, program, policy or practice provided by the Company for which Employee may qualify, nor shall anything herein limit or otherwise affect such rights as Employee may have under any other contract or agreement with the Company. Amounts which are vested benefits or which Employee is otherwise entitled to receive under any plan, policy,

practice or program of or any contract or agreement with the Company at or subsequent to the Termination Date shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. However, the Continuation Period shall not be credited as continued employment of Employee for any purpose under any such plan, policy, practice or program.

ARTICLE 5
CONFIDENTIAL INFORMATION AND NON-COMPETITION

5.1 CONFIDENTIAL INFORMATION

(a) Employee recognizes that the services to be performed by Employee hereunder are special, unique, and extraordinary and that, by reason of Employee's employment with the Company, Employee will be provided Confidential Information concerning the operation of the Company, the use or disclosure of which would cause the Company substantial loss and damages which could not be readily calculated and for which no remedy at law would be adequate. Accordingly, Employee agrees that Employee will not (directly or indirectly) at any time, whether during or after Employee's employment with the Company and its affiliates, (i) knowingly use for an improper personal benefit any Confidential Information that Employee may learn or has learned by reason of Employee's employment with the Company or (ii) disclose any such Confidential Information to any Person except (A) in the performance of Employee's obligations to the Company hereunder, (B) as required by applicable law, (C) in connection with the enforcement of Employee's rights under this Agreement, (D) in connection with any disagreement, dispute or litigation (pending or threatened) between Employee and the Company or (E) with the prior written consent of the Board or the Chief Executive Officer of the Company. As used herein, "Confidential Information" includes, but is not limited to, information with respect to the Company's products, facilities and methods, research and development, trade secrets and other intellectual property, systems, patents and patent applications, procedures, manuals, confidential reports, product price lists, customer lists, financial information, business plans, prospects or opportunities; provided, however, that such term shall not include any information that (x) is or becomes generally known or available other than as a result of improper disclosure by Employee or (y) is or becomes known or available to Employee on a nonconfidential basis from a source (other than the Company) which, to Employee's knowledge, is not prohibited from disclosing such information to Employee by a legal, contractual, fiduciary or other obligation to the Company.

(b) Employee confirms that all Confidential Information is the exclusive property of the Company. All business records, papers and documents kept or made by Employee while employed by the Company relating to the business of the Company shall be and remain the property of the Company at all times. Upon the request of the Company at any time, Employee shall promptly deliver to the Company, and shall retain no copies of, any written materials, records and documents made by Employee or coming into his possession while employed by the Company concerning the business or affairs of the Company other than personal materials, records and documents (including notes and correspondence) of Employee not containing Confidential Information relating to such business or affairs. Notwithstanding the foregoing, Employee shall be permitted to retain copies of, or have access to, all such materials, records and

documents relating to any disagreement, dispute or litigation (pending or threatened) between Employee and the Company.

5.2 NON-COMPETITION

(a) In partial consideration for the Company's agreement to provide Employee access to Confidential Information and the other benefits provided by this Agreement, Employee agrees that while employed by the Company and for three years after the termination of such employment (for any reason) (the "Restricted Period"), Employee shall not, unless Employee receives the prior written consent of the Board or the Chief Executive Officer of the Company, own an interest in, manage, operate, join, control, lend money or render financial or other assistance to or participate in or be connected with, as an officer, employee, partner, stockholder, consultant or otherwise, any Person which competes with the Company or its affiliates in the retail marketing of propane and/or butane gas or appliance sales, service and/or repair business in any city or within seventy-five (75) miles in all directions from the boundary of the city limits of any city where the Company or any affiliate conducts such business; provided, however, that following Employee's termination of employment the foregoing restriction shall apply only to (i) those areas where the Company or any affiliate was actually doing business on the date of such termination of employment and (ii) those areas in respect of which the Company or any affiliate actively and diligently conducted at any time during the 12-month period ended on such date of termination an analysis to determine whether or not it would commence doing business in such areas but, in the case of each such area the foregoing restriction shall cease to apply when the Company or its affiliates ceases to actively conduct business (disregarding any temporary stoppages) in such area or, if applicable, abandons its intent to conduct business in such area.

(b) Employee has carefully read and considered the provisions of this Section 5.2 and, having done so, agrees that the restrictions set forth in this Section 5.2 (including the Restricted Period, scope of activity to be restrained and the geographical scope) are fair and reasonable and are reasonably required for the protection of the interests of the Company, its officers, directors, employees, creditors and shareholders. Employee understands that the restrictions contained in this Section 5.2 may limit his ability to engage in a business similar to the Company's business, but acknowledges that he will receive sufficiently high remuneration and other benefits from the Company hereunder to justify such restrictions.

(c) During the Restricted Period, Employee shall not, whether for his own account or for the account of any other Person (excluding the Company), intentionally (i) solicit, endeavor to entice or induce any employee of the Company to terminate his employment with the Company or accept employment with anyone else or (ii) interfere in a similar manner with the business of the Company.

(d) It is specifically agreed that the Restricted Period, during which the agreements and covenants of Employee made herein shall be effective, shall be computed by excluding from such computation any time which Employee is in violation of any provision of this Article 5.

(e) In the event that any provision of this Section 5.2 relating to the Restricted Period and/or the areas of restriction shall be declared by a court of competent jurisdiction to exceed the maximum time period or areas such court deems reasonable and enforceable, the Restricted

Period and/or areas of restriction deemed reasonable and enforceable by the court shall become and thereafter be the maximum time period and/or areas.

5.3 STOCK OWNERSHIP

Nothing in this Agreement shall prohibit Employee from acquiring or holding any issue of stock or securities of any Person that has any securities registered under Section 12 of the Exchange Act, listed on a national securities exchange or quoted on the automated quotation system of the National Association of Securities Dealers, Inc. so long as (i) Employee is not deemed to be an "affiliate" of such Person, and (ii) Employee and members of his immediate family do not own or hold more than 3% of any class of voting securities of any such Person.

5.4 INJUNCTIVE RELIEF

Employee acknowledges that a breach of any of the covenants contained in this Article 5 may result in material irreparable injury to the Company for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach, any payments remaining under the terms of this Agreement shall cease and the Company shall be entitled to obtain a temporary restraining order and/or a preliminary or permanent injunction restraining Employee from engaging in activities prohibited by this Article 5 or such other relief as may be required to specifically enforce any of the covenants contained in this Article 5. Employee agrees to waive any requirement for the Company's securing or posting of any bond in connection with such remedies. Employee further agrees to and hereby does submit to in personam jurisdiction before each and every such court for that purpose.

5.5 FORFEITURE FOR BREACH

A breach of this Article 5 by Employee shall cause an immediate forfeiture of all rights Employee may have under this Agreement to receive any payments or benefits after the date of such breach.

ARTICLE 6 ARBITRATION

EXCEPT WITH RESPECT TO INJUNCTIVE RELIEF AS PROVIDED IN SECTION 5.4 ABOVE, THE PARTIES AGREE TO RESOLVE ANY CLAIM OR CONTROVERSY ARISING OUT OF OR RELATING TO THIS AGREEMENT, INCLUDING THE EMPLOYMENT OF EMPLOYEE, THE TERMINATION OF EMPLOYMENT OF EMPLOYEE, OR CLAIMS UNDER TITLE VII OF THE CIVIL RIGHTS ACT, THE AMERICANS WITH DISABILITIES ACT, THE AGE DISCRIMINATION IN EMPLOYMENT ACT, AND THE FAMILY MEDICAL LEAVE ACT, BY BINDING ARBITRATION UNDER THE FEDERAL ARBITRATION ACT BEFORE ONE ARBITRATOR IN THE CITY OF TULSA, STATE OF OKLAHOMA, ADMINISTERED BY THE AMERICAN ARBITRATION ASSOCIATION UNDER ITS COMMERCIAL ARBITRATION RULES, AND JUDGMENT ON THE AWARD RENDERED BY THE ARBITRATOR MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF. THE FEES AND EXPENSES OF THE ARBITRATOR SHALL BE BORNE SOLELY BY THE NON-PREVAILING PARTY OR, IN THE EVENT THERE IS NO CLEAR PREVAILING PARTY, AS THE ARBITRATOR DEEMS APPROPRIATE. EXCEPT AS PROVIDED ABOVE, EACH

PARTY SHALL PAY ITS OWN COSTS AND EXPENSES (INCLUDING ATTORNEYS' FEES) RELATING TO ANY ARBITRATION PROCEEDING CONDUCTED UNDER THIS ARTICLE 6.

ARTICLE 7
MISCELLANEOUS PROVISIONS

7.1 NO MITIGATION OR OFFSET

The provisions of this Agreement are not intended to, nor shall they be construed to, require that Employee mitigate the amount of any payment provided for in this Agreement by seeking or accepting other employment or becoming self-employed, nor shall the amount of any payment provided for in this Agreement be reduced by any compensation earned by Employee as the result of employment by another employer, self-employment or otherwise. Without limitation of the foregoing, the Company's obligations to make the payments to Employee required under this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set off (other than as provided in Section 4.5(a)), counterclaim, recoupment, defense or other claim, right or action that the Company may have against Employee (other than as provided in Section 5.5).

7.2 ASSIGNABILITY

The obligations of Employee hereunder are personal and may not be assigned or delegated by Employee or transferred in any manner whatsoever, nor are such obligations subject to involuntary alienation, assignment or transfer. The Company shall have the right to assign this Agreement and to delegate all rights, duties and obligations hereunder as provided in Section 7.5.

7.3 NOTICES

All notices and all other communications provided for in the Agreement shall be in writing and addressed (i) if to the Company, the Board, or the Chairman of the Board, at the principal office address of the Company or such other address as it may have designated by written notice to Employee for purposes hereof, directed to the attention of the Chief Executive Officer with a copy to the Secretary of the Company and (ii) if to Employee, at his residence address on the records of the Company or to such other address as he may have designated to the Company in writing for purposes hereof. Each such notice or other communication shall be deemed to have been duly delivered, provided or given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, except that any notice of change of address shall be effective only upon receipt.

7.4 SEVERABILITY

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

7.5 SUCCESSORS; BINDING AGREEMENT

(a) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance reasonably acceptable to Employee, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used herein, the term "Company" shall include any successor to its business and/or assets as aforesaid which executes and delivers the assumption agreement provided for in this Section 7.5 or which otherwise becomes bound by all terms and provisions of this Agreement by operation of law.

(b) This Agreement and all rights of Employee hereunder shall inure to the benefit of and be enforceable by Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Employee should die while any amounts are due him hereunder, all such amounts shall be paid in accordance with the terms of this Agreement to Employee's devisee, legatee, or other designee or, if there be no such designee, to Employee's estate.

7.6 TAX WITHHOLDINGS

The Company shall withhold from all payments hereunder all applicable taxes (federal, state or other) which it is required to withhold therefrom unless Employee has otherwise paid (or made other arrangements satisfactory) to the Company the amount of such taxes.

7.7 AMENDMENTS AND WAIVERS

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by Employee and such member of the Board as may be specifically authorized by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or in compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

7.8 ENTIRE AGREEMENT; TERMINATION OF ANY OTHER AGREEMENTS

This Agreement is an integration of the parties' agreement with respect to the subject matter hereof and no agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. This Agreement hereby expressly terminates, rescinds and replaces any prior agreement (written or oral) between the parties relating to the subject matter hereof, including, without limitation, that certain Employment Agreement between the parties dated June 28, 1996.

7.9 GOVERNING LAW; SUBMISSION TO JURISDICTION

(a) THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF OKLAHOMA WITHOUT REGARD TO ITS CONFLICT OF LAWS PROVISION, OTHER THAN THE PROVISIONS OF SECTION 5.2, WHICH SHALL BE GOVERNED BY THE LAWS OF THE STATE OF ANY ALLEGED VIOLATION. IT IS THE INTENT OF THE PARTIES THAT THE PROVISIONS OF SECTION 5.2 BE INTERPRETED TO IMPOSE THE MAXIMUM PERIOD OF RESTRICTION UNDER THE GOVERNING LAW OF SUCH SECTION.

(b) EACH PARTY HERETO HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS IN TULSA COUNTY, OKLAHOMA, FOR THE PURPOSES OF ANY PROCEEDING ARISING OUT OF THIS AGREEMENT.

7.10 EMPLOYMENT WITH AFFILIATES

For purposes of this Agreement, employment with any affiliates of the Company, U.S. Propane, L.P. or with any of their respective affiliates shall be deemed to be employment with the Company.

7.11 SURVIVAL

The provisions of Articles 5 and 6 and Section 7.9, and any other provisions necessary to give full effect to the terms of this Agreement, shall survive the termination of this Agreement.

7.12 COUNTERPARTS

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

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the Effective Date.

HERITAGE HOLDINGS, INC.

By: _____
Name: _____
Title: _____

EMPLOYEE

R.C. Mills

EXHIBIT A

PROPOSED MANAGEMENT INCENTIVE COMPENSATION

POSITION	BASE SALARY	PERCENTAGE OF SHORT-TERM INCENTIVE	PERCENTAGE OF LONG-TERM INCENTIVE
CEO	\$ 350,000	14.00%	16.00%
COO	335,000	14.00%	16.00%
CFO	325,000	14.00%	16.00%
Acquisition	200,000	14.00%	16.00%
VP Western Operations	150,000	7.00%	8.67%
VP Northern Operations	135,000	7.00%	8.67%
VP Southern Operations	135,000	7.00%	8.67%
Discretionary (Corp. & Others)		23.00%	10.00%
	-----	-----	-----
	\$1,630,000	100.00%	100.00%
	=====	=====	=====

SHORT-TERM INCENTIVE PLAN

- For FY 2001, management will receive the following for EBITDA in excess of a Base \$76.0 million. The beginning Base is higher than \$73.2 million in order to offset the higher Base Salaries:
 - 15% of EBITDA over \$76 million up to \$80 million
 - 17.5% of EBITDA over \$80 million up to \$85 million
 - 20% of EBITDA over \$85 million
- No cap on short-term incentive, and increasing percentage to encourage outstanding performance.
- In the very unlikely event that the short-term incentive earned is over \$2.0 million, the excess bonus would be deferred to the following year. In this way, when the Board raises the "bar" the following fiscal year, there is a bonus to be paid.
- The Board sets the \$76.0 million EBITDA Base Target which remains unchanged during Fiscal YR 2001.
- Targets in subsequent fiscal years will be set by the Board at its sole discretion.

LONG-TERM INCENTIVE PLAN

- A minimum of 250,000 units and a maximum of 500,000 units will be awarded based on achieving certain targeted levels of Distributed Cash per unit.
- Awards under the program will be made starting in 2003 based upon the average of the prior three years Distributed Cash per unit. Each year, beginning after Fiscal YR 2003, units will be awarded based upon levels detailed below.

	2003	2004	2005	TOTALS
	-----	-----	-----	-----
Moving Average Period	2001-2003	2002-2004	2003-2005	
Three Year Average of Distributed Cash per Unit	\$ 2.50	\$ 2.65	\$ 2.80	
Maximum Target Level	\$ 2.80	\$ 2.95	\$ 3.10	
VALUE ASSUMING CURRENT COMMON UNIT PRICE				
Minimum Award	83,333	83,333	83,333	250,000
Value at a Common Unit Price of	\$ 18.375	\$ 1,531,250	\$ 1,531,250	\$ 4,593,750
Maximum Award	166,667	166,667	166,667	500,000
Value at a Common Unit Price of	\$ 18.375	\$ 3,062,500	\$ 3,062,500	\$ 9,187,500
HYPOTHETICAL VALUES ASSUMING A HIGHER COMMON UNIT PRICE				
Minimum Award	83,333	83,333	83,333	250,000
Value at a Common Unit Price of	\$ 25.000	\$ 2,083,333	\$ 2,083,333	\$ 6,250,000
Maximum Award	166,667	166,667	166,667	500,000
Value at a Common Unit Price of	\$ 25.000	\$ 4,166,667	\$ 4,166,667	\$12,500,000

HERITAGE HOLDINGS, INC.

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into effective as of the Closing ("Effective Date") by and between Heritage Holdings, Inc., a Delaware corporation ("Company"), and Larry J. Dagley ("Employee").

RECITALS

WHEREAS, Employee desires to be employed by the Company; and

WHEREAS, the Company desires to employ Employee on the terms and conditions herein set forth;

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties, and agreements contained herein, and for other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1

DEFINITIONS AND INTERPRETATIONS

1.1 DEFINITIONS

For purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following terms shall have the following respective meanings:

"Accounting Firm" shall have the meaning specified in Section 4.5(d)(iii).

"Base Salary" shall have the meaning specified in Section 3.1.

"Board" shall mean the Board of Directors of the Company.

"Bonus Payment" shall have the meaning specified in Section 4.5(a).

"Change of Control" shall mean the date that (i) the Specified Entities cease to own, directly or indirectly through wholly-owned subsidiaries, in the aggregate at least 35% of the capital stock of the Company and (ii) either Designated Current Manager, at any time from the date of Closing until the earlier to occur of the third anniversary of Closing or such Designated Current Manager ceasing to be employed by the Company, ceases to own at least 50% of the common limited partner interests in Heritage Propane Partners, L.P., a Delaware limited partnership ("Heritage MLP"), owned, directly or indirectly, by such Designated Current Manager immediately after Closing.

"Closing" shall mean the closing date of the purchase of Company stock contemplated in the Stock Purchase Agreement, dated June 15, 2000, among U.S. Propane, L.P. and the other parties thereto.

"Code" shall have the meaning specified in Section 4.5(d)(i).

"Confidential Information" shall have the meaning specified in Section 5.1(a).

"Continuation Period" shall have the meaning specified in Section 4.5(a).

"Designated Current Manager" shall mean each of R.C. Mills and H. Michael Krimbill, current executive officers of the Company, together with, in the case of either such executive officer, the heirs of, and trusts for the benefit of family members controlled by, such executive officer.

"Disability" shall mean a physical or mental condition of Employee that, in the good faith judgment of not less than a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board), based upon certification by a licensed physician reasonably acceptable to Employee and the Board, (i) prevents Employee from being able to perform the services required under this Agreement, (ii) has continued for a period of at least 180 days during any 12-month period, and (iii) is expected to continue.

"Dispute" shall have the meaning specified in Article 6.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Expiration Date" shall have the meaning specified in Section 2.2.

"Good Reason" shall mean any of the following:

(i) the assignment to Employee of any duties materially inconsistent with Employee's position (including a materially adverse change in Employee's office, title and reporting requirements), authority, duties or responsibilities;

(ii) the Company's requiring Employee to be based at any office other than the Company's executive offices in the greater Tulsa, Oklahoma area;

(iii) any termination by the Company of Employee's employment other than as expressly permitted by this Agreement;

(iv) any failure by the Company to comply with and satisfy Section 7.5 (requiring the Company to require any successor to expressly assume and agree to perform all obligations under this Agreement); or

(v) a breach or violation by the Company of any material provision of this Agreement, which breach or violation remains unremedied for more than 30 days after written notice thereof is given to the Company by Employee.

For purposes of this definition, no act or failure to act on the Company's part shall be considered a "Good Reason" unless Employee has given the Company written notice of such act or failure to act within 30 days thereof and the Company fails to remedy such act or failure to act within 15 days of its receipt of such notice.

"Gross-Up Payment" shall have the meaning specified in Section 4.5(d)(ii).

"Misconduct" shall mean one or more of the following:

(i) the willful and continued failure by Employee to perform substantially his duties hereunder (other than any such failure resulting from Employee's incapacity due to physical or mental illness) after written notice of such failure has been given to Employee by the Company and Employee has had a reasonable period (not to exceed 15 days) to correct such failure;

(ii) conviction (or plea of nolo contendere) of Employee for any felony or any other crime which is materially detrimental to the Company (monetarily or otherwise);

(iii) any act or omission by Employee which materially damages the integrity, reputation or financial viability of the Company or its affiliates;

(iv) a breach or violation by Employee of (a) any material provision of this Agreement or (b) any material Company employment policy, which (in either case), if capable of being remedied, remains unremedied for more than 15 days after written notice thereof is given to Employee by the Company; or

(v) chronic alcohol abuse or illegal drug use by Employee that is determined by the Board to impair Employee's ability to perform his duties and responsibilities hereunder.

For purposes of this definition, no act or failure to act on Employee's part shall be considered "Misconduct" if done or omitted to be done by Employee in good faith and in the reasonable belief that such act or failure to act was in the best interest the Company or in furtherance of Employee's duties and responsibilities hereunder.

"Notice of Discontinuance" shall have the meaning specified in Section 2.2.

"Notice of Termination" shall mean a notice purporting to terminate Employee's employment in accordance with Section 4.1(a) or 4.2. Such notice shall specify the effective date of such termination, which date shall neither be less than 30 (10 in the case of a termination by the Company for Misconduct) nor more than 60 days after the date such notice is given. If such termination is by Employee for Good Reason or by the Company for Disability or Misconduct, such notice shall set forth in reasonable detail the reason for such termination and the facts and circumstances claimed to provide a basis therefor. Any notice purporting to terminate Employee's employment which is not in compliance with the requirements of this definition shall be ineffective.

"Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, and any other entity.

"Qualifying Termination" shall have the meaning specified in Section 4.5.

"Severance Plan" shall have the meaning specified in Section 4.5(a).

"Specified Entities" shall mean any one or more of the following entities: (i) Atmos Energy Corporation, a Texas and Virginia corporation, (ii) Piedmont Natural Gas Company, Inc., a North Carolina corporation, (iii) AGL Resources, Inc., a Georgia corporation, and (iv) TECO Energy, Inc., a Florida corporation, or a successor to any entity referred to in clause (i), (ii), (iii) or (iv) of this definition.

"Successor" shall mean, with respect to a Specified Entity, any entity in which the holders of capital stock of such Specified Entity outstanding immediately prior to a consolidation, acquisition or merger involving such Specified Entity hold, directly or indirectly, through wholly-owned subsidiaries, immediately after such consolidation, acquisition or merger.

"Term" shall have the meaning specified in Section 2.2.

"Termination Date" shall mean the termination date specified in a Notice of Termination delivered in accordance with this Agreement.

"Total Payment" shall have the meaning specified in Section 4.5(d)(i).

1.2 INTERPRETATIONS

(a) In this Agreement, unless a clear contrary intention appears, (i) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision, (ii) reference to any "Article" or "Section", means such Article or Section hereof, (iii) the word "including" (and with correlative meaning "include") means including, without limiting the generality of any description preceding such term, (iv) the word "affiliate" has the meaning stated in Rule 405 promulgated under the Securities Act of 1933, as amended, and (v) where any provision of this Agreement refers to action to be taken by either party, or which such party is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such party.

(b) The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

ARTICLE 2 EMPLOYMENT; TERM; POSITION AND DUTIES; ETC.

2.1 EMPLOYMENT

The Company agrees to employ Employee and Employee agrees to remain employed by the Company, in each case on the terms and conditions set forth in this Agreement.

2.2 TERM OF AGREEMENT

Unless sooner terminated pursuant to Article 4, the term of this Agreement (the "Term") shall commence on the Effective Date and shall continue until the third anniversary of the Effective Date (the "Expiration Date"); provided, however, that beginning on the second anniversary of the Effective Date and on each day thereafter the Expiration Date shall be automatically extended one additional day unless either party (i) shall give written notice to the other (a "Notice of Discontinuance") that the Term shall cease to be so extended beginning immediately after the date of such notice or (ii) shall give a Notice of Termination to the other party pursuant to Section 4.1(a) or 4.2, as the case may be. No Notice of Discontinuance given by the Company shall be effective unless given pursuant to a resolution duly adopted by the affirmative vote of a least a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board). If either party gives a Notice of Discontinuance, Employee's employment hereunder shall continue until the expiration of the Term, subject to earlier termination pursuant to Article 4. Employee's continued employment, if any, after the expiration of the Term shall be "at will" employment.

2.3 POSITION AND DUTIES

(a) While employed hereunder, Employee shall serve as the Chief Financial Officer of the Company and shall have and may exercise all of the powers, functions, duties and responsibilities normally attributable to such position. Employee shall have such additional duties and responsibilities commensurate with such position as from time to time may be reasonably assigned to Employee by the Board or the Chief Executive Officer of the Company. While employed hereunder, Employee shall (i) report directly to the Chief Executive Officer of the Company and (ii) observe and comply with all lawful policies, directions and instructions of the Chief Executive Officer which are consistent with the foregoing provisions of this paragraph (a).

(b) While employed hereunder, Employee shall devote substantially all of his business time, attention, skill and efforts to the faithful and efficient performance of his duties hereunder. Notwithstanding the foregoing, Employee may engage in the following activities so long as they do not interfere in any material respect with the performance of Employee's duties and responsibilities hereunder: (i) serve on corporate, civic, religious, educational and/or charitable boards or committees and (ii) manage his personal investments.

(c) While employed hereunder, Employee shall conduct himself in such a manner as not to intentionally and knowingly prejudice, in any material respect, the reputation of the Company or any of its affiliates, including U.S. Propane, L.P., or with the investment community or the public at large.

2.4 PLACE OF EMPLOYMENT

Employee's place of employment hereunder shall be at the Company's principal executive offices in the greater Tulsa, Oklahoma area; provided, however, that Employee may continue to maintain his permanent residence in the State of Texas. The location of Employee's residence shall not relieve Employee of his obligations under Section 2.3(b).

ARTICLE 3
COMPENSATION AND BENEFITS

3.1 BASE SALARY

(a) For services rendered by Employee under this Agreement, the Company shall pay to Employee an annual base salary of \$ 325,000.00 ("Base Salary"). The Board shall review the Base Salary at least annually and may adjust the amount of the Base Salary at any time as the Board may deem appropriate in its sole discretion; provided, however, that in no event may the Base Salary be decreased below the above stated amount without the prior written consent of Employee.

(b) The Base Salary shall be payable in accordance with the Company's payroll practice for its executives as it is earned.

3.2 BONUS

The Employee will participate in bonus and incentive plans with substantially equivalent economic provisions as set forth in Exhibit A hereto.

3.3 VACATION

While employed hereunder, Employee shall be entitled to vacation benefits in accordance with the vacation policy approved by the Board from time to time for the Company's executives in general. Employee shall not be entitled to accumulate and carryover unused vacation time from year to year, except to the extent permitted in accordance with the Company's vacation policy for executives in general, nor shall Employee be entitled to compensation for unused vacation time except as provided in Section 4.3(a).

3.4 BUSINESS EXPENSES

The Company shall, in accordance with the rules and policies that it may establish from time to time for executives, reimburse Employee for business expenses reasonably incurred in the performance of Employee's duties. Requests for reimbursement for such expenses must be accompanied by appropriate documentation as required by such rules and policies.

3.5 OTHER BENEFITS

Employee shall be entitled to receive all employee benefits, fringe benefits and other perquisites that may be offered by the Company to its executives as a group, including participation by Employee and, where applicable, Employee's dependents, in the various employee benefit plans or programs (including pension plans, profit sharing plans, stock plans, health plans, life insurance and disability insurance) provided to executives of the Company in general, subject to meeting the eligibility requirements with respect to each of such benefit plans or programs. However, nothing in this Section 3.5 shall be deemed to prohibit the Company from making any changes in any of the plans, programs or benefits described herein. In addition, Employee shall be entitled to a life insurance benefit that is the same as or reasonably comparable to, that which is provided to Employee by the Company at the Effective Date.

3.6 INDEMNIFICATION

Employee shall be entitled to (i) indemnification and advancement of expenses from the Company in accordance with the provisions of the Bylaws of the Company, and (ii) coverage under the applicable directors' and officers' insurance policy (if any) maintained by the Company or any of its affiliates regarding actions and omissions by Employee during the Term (whether on behalf of the Company or any of its Affiliates).

3.7 RESTRICTED UNIT PLAN

Employee shall be entitled to be granted, upon Board approval, three (3) "Phantom Units" under the Company's Restricted Unit Plan for each one (1) Common Unit of Heritage Propane Partners L.P. purchased by Employee during the Term and while employed by the Company, not to exceed a total grant of 15,000 Phantom Units.

ARTICLE 4 TERMINATION OF EMPLOYMENT

4.1 TERMINATION BY EMPLOYEE; DEATH

(a) Employee may, at any time prior to the Expiration Date, terminate his employment hereunder for any reason by delivering a Notice of Termination to the Board and the Chairman of the Board of the Company.

(b) Employee's employment hereunder shall terminate upon his death.

4.2 TERMINATION BY THE COMPANY

The Company may, at any time prior to the Expiration Date, terminate Employee's employment hereunder for any reason by delivering a Notice of Termination to Employee; provided, however, that in no event shall the Company be entitled to terminate Employee's employment prior to the Expiration Date unless the Board shall duly adopt, by the affirmative vote of at least a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board), a resolution authorizing such termination and stating that, in the opinion of the Board, sufficient reason exists therefor.

4.3 PAYMENT OF ACCRUED BASE SALARY, VACATION PAY, ETC.

(a) Promptly upon the termination of Employee's employment for any reason (including death), the Company shall pay to Employee (or his estate) a lump sum amount for (i) any unpaid Base Salary earned hereunder prior to the termination date and any accrued but unpaid bonus as of the termination date, but only to the extent such bonus has accrued and is payable to Employee after termination of employment pursuant to the terms of the applicable bonus plan or policy; (ii) all unused vacation time accrued by Employee as of the termination date in accordance with Section 3.3; (iii) all unpaid benefits earned or vested, as the case may be, by Employee as of the termination date under any and all incentive or deferred compensation

plans or programs of the Company and (iv) any amounts in respect of which Employee has requested, and is entitled to, reimbursement in accordance with Section 3.4.

(b) A termination of Employee's employment in accordance with this Agreement under any Section of this Article 4 shall not alter or impair, nor enhance or increase, any of Employee's rights or benefits under any employee benefit plan or program or incentive or deferred compensation plan or program maintained by the Company, in each case except as provided therein or in any written agreement entered into between the Company and Employee pursuant thereto.

4.4 DISABILITY PAYMENTS

If Employee incurs a Disability, the Company may terminate Employee's employment hereunder by delivering a Notice of Termination to Employee; provided, however, in such event the Company shall continue to pay to Employee, through the remainder of the Term (as determined without regard to its earlier termination upon Employee's termination due to Disability under this Section 4.4 and, if the Termination Date is on or after the second anniversary of the Effective Date, without any extension of the Term under Section 2.2 after such Termination Date) or until Employee's death, if earlier, at such regularly scheduled times:

(A) the Base Salary in effect immediately prior to the date of such termination, minus

(B) any amount payable to Employee under any disability plan maintained by the Company for the benefit of Employee.

4.5 OTHER BENEFITS

The following provisions shall apply (i) following a Change of Control or (ii) if Employee terminates his employment pursuant to Section 4.1 for Good Reason or (iii) if the Company terminates Employee's employment pursuant to Section 4.2 for any reason other than Misconduct (a "Qualifying Termination"):

(a) Base Salary and Bonus Payments. For the remainder of the Term (as determined without regard to its earlier termination pursuant to Section 4.1(a) or 4.2 and, if such termination date is on or after the second anniversary of the Effective Date, without any extension of the Term after such termination date) or until Employee's death, if earlier (the "Continuation Period"), the Company shall pay to Employee, at the regularly scheduled times, the sum of the Base Salary (as in effect on the date on which the relevant Notice of Termination is given in accordance with this Agreement) and the Bonus Payment. The "Bonus Payment" shall be an amount (A) for the Short Term Incentive Plan, equal to the actual results of operations compared to the budgeted EBITDA to the month end accounting period nearest to the date of the Qualifying Termination (the "Short Incentive Term") expressed as a percentage times the excess, if any, of the actual EBITDA over the budgeted EBITDA for the same period times the appropriate percentages set forth within the plan (with the EBITDA range adjusted to numbers that correspond to the budgeted EBITDA for the Short Incentive Term rather than the annual numbers used for the range) times the Employee's percentage and (B) for the Long Term Incentive Plan, equal to the Employee's percentage portion of the bonus determined by substituting the average annual distributable cash for the 24-month period directly preceding the

date of the Qualifying Termination times three, substituted for the three-year moving average in the formula for all periods of the plan that have 12 months or less to vest. (Unvested terms of less than 24 months will not be entitled to any bonus under this computation.) The amount payable to Employee under this paragraph (a) is in lieu of, and not in addition to, any severance payment due or to become due to Employee under any separate agreement or contract between Employee and the Company or pursuant to any severance payment plan, program or policy of the Company or any affiliate (collectively, "Severance Plan"). Any severance amounts received by Employee under a Severance Plan shall be applied as an offset to (reduce or eliminate, as the case may be) any future payments otherwise to be made to Employee under this paragraph (a); i.e., no additional payments shall be made under this paragraph (a) until the aggregate amount of the offsets hereunder equals the severance amounts received by Employee under the Severance Plan.

(b) Health Plan Benefits. The Company shall at all times during the Continuation Period cause Employee and Employee's eligible dependents to be covered by and to participate in, to the fullest extent allowable under the terms thereof, all group health insurance plans and programs that may be offered to the executives of the Company so that Employee will receive, at all times during the Continuation Period, the same benefits under such plans and programs that Employee would have been entitled to receive had he remained an executive of the Company; provided, however, (i) Employee must timely pay the "active" employee premium, if any, for such continued coverage; (ii) Employee must timely elect COBRA continuation coverage thereunder upon his termination of employment; and (iii) in the event Employee and his eligible dependents become covered during the Continuation Period by another employer's group health plan or programs which does not contain any effective exclusion or limitation with respect to any pre-existing conditions, then the Company's group health plans shall no longer be liable for any benefits under this paragraph (b).

(c) Release. Notwithstanding anything in this Section 4.5 to the contrary, as a condition to the receipt of any payment or benefit under this Section 4.5, Employee must first execute and deliver to the Company a release in a form prepared by the Company, releasing the Company, its officers, the Board, employees and agents from any and all claims and from any and all causes of action of any kind or character that Employee may have arising out of Employee's employment with the Company or the termination of such employment, but excluding any claims and causes of action that Employee may have arising under or based upon this Agreement.

(d) Parachute Tax.

(i) If the payments and benefits provided to Employee under this Agreement or under any other agreement with, or plan of, the Company (the "Total Payment") (A) constitute a "parachute payment" as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and exceed three times Employee's "base amount" as defined under Code Section 280G(b)(3) by less than 10% of three times Employee's base amount, and (B) would, but for this Section 4.5(d)(i), be subject to the excise tax imposed by Code Section 4999, then Employee's payments and benefits under this Agreement shall be either (I) paid in full, or (II) reduced and payable only as to the maximum amount which would result in no portion of such payments and benefits being

subject to excise tax under Code Section 4999, whichever results in the receipt by Employee on an after-tax basis of the greatest amount of Total Payment (taking into account the applicable federal, state and local income taxes, the excise tax imposed by Code Section 4999, and all other taxes (including any interest and penalties) payable by Employee). If a reduction of the Total Payment is necessary, Employee shall be entitled to select which payments or benefits will be reduced and the manner and method of any such reduction of such payments and benefits. Within 30 days after the amount of any required reduction in payments and benefits is finally determined under Section 4.5(d)(iii), Employee shall notify the Company in writing regarding which payments and benefits are to be reduced. If no notification is given by Employee, the Company will determine which payments and benefits to reduce. If, as a result of any reduction required by this Section 4.5(d)(i), amounts previously paid to Employee exceed the amount to which Employee is entitled, Employee will promptly return the excess amount to the Company.

(ii) If the Total Payment constitutes a "parachute payment" as defined in Code Section 280G and exceeds three times Employee's "base amount" as defined under Code Section 280G(b)(3) by 10% or more of three times Employee's base amount, the Company shall provide to Employee, in cash, an additional payment in an amount to cover the full excise tax due under Code Section 4999, plus Employee's state and federal income, employment, excise, and other taxes (including any interest and penalties) on this additional payment (the "Gross-Up Payment"). Any amount payable under this Section 4.5(d)(ii) shall be paid as soon as possible following the date of Employee's Qualifying Termination, but in no event later than 30 days after such date.

(iii) All determinations required to be made under this Section 4.5(d), including whether reductions are necessary or whether a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be used in determining such Gross-Up Payment, shall be made by the accounting firm used by the Company at the time of such determination (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Company and to Employee within 15 business days of the receipt of notice from the Company or Employee that there has been a Qualifying Termination, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity, or group effecting the change in control transaction, Employee may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company.

(iv) In the event Employee is entitled to a Gross-Up Payment under Section 4.5(d)(ii) and the Internal Revenue Service subsequently increases the excise tax computation described in Section 4.5(d)(ii), the Company shall reimburse Employee for the full amount necessary to make Employee whole on an after-tax basis (less any amounts received by Employee that Employee would not have received had the computations initially been computed as subsequently adjusted), including the value of

any underpaid excise tax, and any related interest and/or penalties due to the Internal Revenue Service.

4.6 NON-EXCLUSIVITY OF RIGHTS

Nothing in this Agreement shall prevent or limit Employee's continuing or future participation in any plan, program, policy or practice provided by the Company for which Employee may qualify, nor shall anything herein limit or otherwise affect such rights as Employee may have under any other contract or agreement with the Company. Amounts which are vested benefits or which Employee is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company at or subsequent to the Termination Date shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. However, the Continuation Period shall not be credited as continued employment of Employee for any purpose under any such plan, policy, practice or program.

ARTICLE 5 CONFIDENTIAL INFORMATION AND NON-COMPETITION

5.1 CONFIDENTIAL INFORMATION

(a) Employee recognizes that the services to be performed by Employee hereunder are special, unique, and extraordinary and that, by reason of Employee's employment with the Company, Employee will be provided Confidential Information concerning the operation of the Company, the use or disclosure of which would cause the Company substantial loss and damages which could not be readily calculated and for which no remedy at law would be adequate. Accordingly, Employee agrees that Employee will not (directly or indirectly) at any time, whether during or after Employee's employment with the Company and its affiliates, (i) knowingly use for an improper personal benefit any Confidential Information that Employee may learn or has learned by reason of Employee's employment with the Company or (ii) disclose any such Confidential Information to any Person except (A) in the performance of Employee's obligations to the Company hereunder, (B) as required by applicable law, (C) in connection with the enforcement of Employee's rights under this Agreement, (D) in connection with any disagreement, dispute or litigation (pending or threatened) between Employee and the Company or (E) with the prior written consent of the Board or the Chief Executive Officer of the Company. As used herein, "Confidential Information" includes, but is not limited to, information with respect to the Company's products, facilities and methods, research and development, trade secrets and other intellectual property, systems, patents and patent applications, procedures, manuals, confidential reports, product price lists, customer lists, financial information, business plans, prospects or opportunities; provided, however, that such term shall not include any information that (x) is or becomes generally known or available other than as a result of improper disclosure by Employee or (y) is or becomes known or available to Employee on a nonconfidential basis from a source (other than the Company) which, to Employee's knowledge, is not prohibited from disclosing such information to Employee by a legal, contractual, fiduciary or other obligation to the Company.

(b) Employee confirms that all Confidential Information is the exclusive property of the Company. All business records, papers and documents kept or made by Employee while employed by the Company relating to the business of the Company shall be and remain the property of the Company at all times. Upon the request of the Company at any time, Employee shall promptly deliver to the Company, and shall retain no copies of, any written materials, records and documents made by Employee or coming into his possession while employed by the Company concerning the business or affairs of the Company other than personal materials, records and documents (including notes and correspondence) of Employee not containing Confidential Information relating to such business or affairs. Notwithstanding the foregoing, Employee shall be permitted to retain copies of, or have access to, all such materials, records and documents relating to any disagreement, dispute or litigation (pending or threatened) between Employee and the Company.

5.2 NON-COMPETITION

(a) In partial consideration for the Company's agreement to provide Employee access to Confidential Information and the other benefits provided by this Agreement, Employee agrees that while employed by the Company and for two years after the termination of such employment (for any reason) (the "Restricted Period"), Employee shall not, unless Employee receives the prior written consent of the Board or the Chief Executive Officer of the Company, own an interest in, manage, operate, join, control, lend money or render financial or other assistance to or participate in or be connected with, as an officer, employee, partner, stockholder, consultant or otherwise, any Person which competes with the Company or its affiliates in the retail marketing of propane and/or butane gas or appliance sales, service and/or repair business in any city or within seventy-five (75) miles in all directions from the boundary of the city limits of any city where the Company or any affiliate conducts such business; provided, however, that following Employee's termination of employment the foregoing restriction shall apply only to (i) those areas where the Company or any affiliate was actually doing business on the date of such termination of employment and (ii) those areas in respect of which the Company or any affiliate actively and diligently conducted at any time during the 12-month period ended on such date of termination an analysis to determine whether or not it would commence doing business in such areas but, in the case of each such area the foregoing restriction shall cease to apply when the Company or its affiliates ceases to actively conduct business (disregarding any temporary stoppages) in such area or, if applicable, abandons its intent to conduct business in such area.

(b) Employee has carefully read and considered the provisions of this Section 5.2 and, having done so, agrees that the restrictions set forth in this Section 5.2 (including the Restricted Period, scope of activity to be restrained and the geographical scope) are fair and reasonable and are reasonably required for the protection of the interests of the Company, its officers, directors, employees, creditors and shareholders. Employee understands that the restrictions contained in this Section 5.2 may limit his ability to engage in a business similar to the Company's business, but acknowledges that he will receive sufficiently high remuneration and other benefits from the Company hereunder to justify such restrictions.

(c) It is specifically agreed that the Restricted Period during which the agreements and covenants of Employee made herein shall be effective, shall be computed by excluding from such computation any time which Employee is in violation of any provision of this Article 5.

(d) In the event that any provision of this Section 5.2 relating to the Restricted Period and/or the areas of restriction shall be declared by a court of competent jurisdiction to exceed the maximum time period or areas such court deems reasonable and enforceable, the Restricted Period and/or areas of restriction deemed reasonable and enforceable by the court shall become and thereafter be the maximum time period and/or areas.

5.3 NON-SOLICITATION

(a) In consideration for the Company's agreement to provide Employee access to Confidential Information and the other benefits provided Employee by this Agreement, Employee agrees that while employed by the Company and for the Restricted Period, Employee shall not, whether for his own account or for the account of any other Person (excluding the Company), intentionally (i) solicit, endeavor to entice or induce any employee of the Company or any affiliate to terminate his or her employment with the Company or such affiliate or accept employment with anyone else, (ii) call upon any Person or entity that was during the Term a customer of the Company or an affiliate of the Company for the purpose of soliciting from such Person orders or contracts of a type that such customer has with the Company or an affiliate of the Company if such services would be performed in the same city or within seventy-five (75) miles in all directions from the boundary of the city limits where the Company or its affiliate performs such services for the customer, or (iii) interfere in a similar manner with the business of the Company or an affiliate.

(b) Employee has carefully read and considered the provisions of this Section 5.3 and, having done so, agrees that the restrictions set forth in this Section 5.3 (including the Restricted Period, scope of activity to be restrained and the geographical scope) are fair and reasonable and are reasonably required for the protection of the interests of the Company, its officers, directors, employees, creditors and shareholders. Employee understands that the restrictions contained in this Section 5.3 may limit his ability to engage in a business similar to the Company's business, but acknowledges that he will receive sufficiently high remuneration and other benefits from the Company hereunder to justify such restrictions.

(c) It is specifically agreed that the Restricted Period during which the agreements and covenants of Employee made herein shall be effective, shall be computed by excluding from such computation any time which Employee is in violation of any provision of this Article 5.

(d) In the event that any provision of this Section 5.3 relating to the Restricted Period and/or the areas of restriction shall be declared by a court of competent jurisdiction to exceed the maximum time period or areas such court deems reasonable and enforceable, the Restricted Period and/or areas of restriction deemed reasonable and enforceable by the court shall become and thereafter be the maximum time period and/or areas.

5.4 STOCK OWNERSHIP

Nothing in this Agreement shall prohibit Employee from acquiring or holding any issue of stock or securities of any Person that has any securities registered under Section 12 of the Exchange Act, listed on a national securities exchange or quoted on the automated quotation system of the National Association of Securities Dealers, Inc. so long as (i) Employee is not

deemed to be an "affiliate" of such Person, and (ii) Employee and members of his immediate family do not own or hold more than 3% of any class of voting securities of any such Person.

5.5 INJUNCTIVE RELIEF

Employee acknowledges that a breach of any of the covenants contained in this Article 5 may result in material irreparable injury to the Company for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach, any payments remaining under the terms of this Agreement shall cease and the Company shall be entitled to obtain a temporary restraining order and/or a preliminary or permanent injunction restraining Employee from engaging in activities prohibited by this Article 5 or such other relief as may be required to specifically enforce any of the covenants contained in this Article 5. Employee agrees to waive any requirement for the Company's securing or posting of any bond in connection with such remedies. Employee further agrees to and hereby does submit to in personam jurisdiction before each and every such court for that purpose.

5.6 FORFEITURE FOR BREACH

A breach of this Article 5 by Employee shall cause an immediate forfeiture of all rights Employee may have under this Agreement to receive any payments or benefits after the date of such breach.

ARTICLE 6 ARBITRATION

EXCEPT WITH RESPECT TO INJUNCTIVE RELIEF AS PROVIDED IN SECTION 5.5 ABOVE, THE PARTIES AGREE TO RESOLVE ANY CLAIM OR CONTROVERSY ARISING OUT OF OR RELATING TO THIS AGREEMENT, INCLUDING THE EMPLOYMENT OF EMPLOYEE, THE TERMINATION OF EMPLOYMENT OF EMPLOYEE, OR CLAIMS UNDER TITLE VII OF THE CIVIL RIGHTS ACT, THE AMERICANS WITH DISABILITIES ACT, THE AGE DISCRIMINATION IN EMPLOYMENT ACT, AND THE FAMILY MEDICAL LEAVE ACT, BY BINDING ARBITRATION UNDER THE FEDERAL ARBITRATION ACT BEFORE ONE ARBITRATOR IN THE CITY OF TULSA, STATE OF OKLAHOMA, ADMINISTERED BY THE AMERICAN ARBITRATION ASSOCIATION UNDER ITS COMMERCIAL ARBITRATION RULES, AND JUDGMENT ON THE AWARD RENDERED BY THE ARBITRATOR MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF. THE FEES AND EXPENSES OF THE ARBITRATOR SHALL BE BORNE SOLELY BY THE NON-PREVAILING PARTY OR, IN THE EVENT THERE IS NO CLEAR PREVAILING PARTY, AS THE ARBITRATOR DEEMS APPROPRIATE. EXCEPT AS PROVIDED ABOVE, EACH PARTY SHALL PAY ITS OWN COSTS AND EXPENSES (INCLUDING ATTORNEYS' FEES) RELATING TO ANY ARBITRATION PROCEEDING CONDUCTED UNDER THIS ARTICLE 6.

ARTICLE 7 MISCELLANEOUS PROVISIONS

7.1 NO MITIGATION OR OFFSET

The provisions of this Agreement are not intended to, nor shall they be construed to, require that Employee mitigate the amount of any payment provided for in this Agreement by seeking or accepting other employment or becoming self-employed, nor shall the amount of any

payment provided for in this Agreement be reduced by any compensation earned by Employee as the result of employment by another employer, self-employment or otherwise. Without limitation of the foregoing, the Company's obligations to make the payments to Employee required under this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set off (other than as provided in Section 4.5(a)), counterclaim, recoupment, defense or other claim, right or action that the Company may have against Employee (other than as provided in Section 5.6).

7.2 ASSIGNABILITY

The obligations of Employee hereunder are personal and may not be assigned or delegated by Employee or transferred in any manner whatsoever, nor are such obligations subject to involuntary alienation, assignment or transfer. The Company shall have the right to assign this Agreement and to delegate all rights, duties and obligations hereunder as provided in Section 7.5.

7.3 NOTICES

All notices and all other communications provided for in the Agreement shall be in writing and addressed (i) if to the Company, the Board, or the Chairman of the Board, at the principal office address of the Company or such other address as it may have designated by written notice to Employee for purposes hereof, directed to the attention of the Chief Executive Officer with a copy to the Secretary of the Company and (ii) if to Employee, at his residence address on the records of the Company or to such other address as he may have designated to the Company in writing for purposes hereof. Each such notice or other communication shall be deemed to have been duly delivered, provided or given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, except that any notice of change of address shall be effective only upon receipt.

7.4 SEVERABILITY

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

7.5 SUCCESSORS; BINDING AGREEMENT

(a) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance reasonably acceptable to Employee, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used herein, the term "Company" shall include any successor to its business and/or assets as aforesaid which executes and delivers the assumption agreement provided for in this Section 7.5 or which otherwise becomes bound by all terms and provisions of this Agreement by operation of law.

(b) This Agreement and all rights of Employee hereunder shall inure to the benefit of and be enforceable by Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Employee should die while any amounts are due him hereunder, all such amounts shall be paid in accordance with the terms of this Agreement to Employee's devisee, legatee, or other designee or, if there be no such designee, to Employee's estate.

7.6 TAX WITHHOLDINGS

The Company shall withhold from all payments hereunder all applicable taxes (federal, state or other) which it is required to withhold therefrom unless Employee has otherwise paid (or made other arrangements satisfactory) to the Company the amount of such taxes.

7.7 AMENDMENTS AND WAIVERS

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by Employee and such member of the Board as may be specifically authorized by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or in compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

7.8 ENTIRE AGREEMENT; TERMINATION OF ANY OTHER AGREEMENTS

This Agreement is an integration of the parties' agreement with respect to the subject matter hereof and no agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. This Agreement hereby expressly terminates, rescinds and replaces any prior agreement (written or oral) between the parties relating to the subject matter hereof.

7.9 GOVERNING LAW; SUBMISSION TO JURISDICTION

(a) THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF OKLAHOMA WITHOUT REGARD TO ITS CONFLICT OF LAWS PROVISION, OTHER THAN THE PROVISIONS OF SECTIONS 5.2 AND 5.3, WHICH SHALL BE GOVERNED BY THE LAWS OF THE STATE OF ANY ALLEGED VIOLATION. IT IS THE INTENT OF THE PARTIES THAT THE PROVISIONS OF SECTION 5.2 AND 5.3 BE INTERPRETED TO IMPOSE THE MAXIMUM PERIOD OF RESTRICTION UNDER THE GOVERNING LAW OF SUCH SECTIONS.

(b) EACH PARTY HERETO HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS IN TULSA COUNTY, OKLAHOMA, FOR THE PURPOSES OF ANY PROCEEDING ARISING OUT OF THIS AGREEMENT.

7.10 EMPLOYMENT WITH AFFILIATES

For purposes of this Agreement, employment with any affiliates of the Company, U.S. Propane, L.P. or with any of their respective affiliates shall be deemed to be employment with the Company.

7.11 SURVIVAL

The provisions of Articles 4, 5 and 6 and Section 7.9, and any other provisions necessary to give full effect to the terms of this Agreement, shall survive the expiration or termination of this Agreement.

7.12 COUNTERPARTS

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

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the Effective Date.

HERITAGE HOLDINGS, INC.

By: _____
Name: _____
Title: _____

EMPLOYEE

Larry J. Dagley

PROPOSED MANAGEMENT INCENTIVE COMPENSATION

POSITION	BASE SALARY	PERCENTAGE OF INCENTIVE SHORT-TERM	PERCENTAGE OF INCENTIVE LONG-TERM
CEO	\$ 350,000	14.00%	16.00%
COO	335,000	14.00%	16.00%
CFO	325,000	14.00%	16.00%
Acquisition	200,000	14.00%	16.00%
VP Western Operations	150,000	7.00%	8.67%
VP Northern Operations	135,000	7.00%	8.67%
VP Southern Operations	135,000	7.00%	8.67%
Discretionary (Corp. & Others)		23.00%	10.00%
	----- \$ 1,630,000 =====	----- 100.00% =====	----- 100.00% =====

SHORT-TERM INCENTIVE PLAN

- For FY 2001, management will receive the following for EBITDA in excess of a Base \$76.0 million. The beginning Base is higher than \$73.2 million in order to offset the higher Base Salaries:
 - 15% of EBITDA over \$76 million up to \$80 million
 - 17.5% of EBITDA over \$80 million up to \$85 million
 - 20% of EBITDA over \$85 million
- No cap on short-term incentive, and increasing percentage to encourage outstanding performance.
- In the very unlikely event that the short-term incentive earned is over \$2.0 million, the excess bonus would be deferred to the following year. In this way, when the Board raises the "bar" the following fiscal year, there is a bonus to be paid.
- The Board sets the \$76.0 million EBITDA Base Target which remains unchanged during Fiscal YR 2001.
- Targets in subsequent fiscal years will be set by the Board at its sole discretion.

LONG-TERM INCENTIVE PLAN

- A minimum of 250,000 units and a maximum of 500,000 units will be awarded based on achieving certain targeted levels of Distributed Cash per unit.
- Awards under the program will be made starting in 2003 based upon the average of the prior three years Distributed Cash per unit. Each year, beginning after Fiscal YR 2003, units will be awarded based upon levels detailed below.

	2003	2004	2005	TOTALS
	-----	-----	-----	-----
Moving Average Period	2001-2003	2002-2004	2003-2005	
Three Year Average of Distributed Cash per Unit	\$ 2.50	\$ 2.65	\$ 2.80	
Maximum Target Level	\$ 2.80	\$ 2.95	\$ 3.10	
VALUE ASSUMING CURRENT COMMON UNIT PRICE				
Minimum Award	83,333	83,333	83,333	250,000
Value at a Common Unit Price of	\$ 18.375	\$ 1,531,250	\$ 1,531,250	\$ 4,593,750
Maximum Award	166,667	166,667	166,667	500,000
Value at a Common Unit Price of	\$ 18.375	\$ 3,062,500	\$ 3,062,500	\$ 9,187,500
HYPOTHETICAL VALUES ASSUMING A HIGHER COMMON UNIT PRICE				
Minimum Award	83,333	83,333	83,333	250,000
Value at a Common Unit Price of	\$ 25.000	\$ 2,083,333	\$ 2,083,333	\$ 6,250,000
Maximum Award	166,667	166,667	166,667	500,000
Value at a Common Unit Price of	\$ 25.000	\$ 4,166,667	\$ 4,166,667	\$12,500,000

Exhibit A - Page 2

HERITAGE HOLDINGS, INC.

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into effective as of the Closing ("Effective Date") by and between Heritage Holdings, Inc., a Delaware corporation ("Company"), and H. Michael Krimbill ("Employee").

RECITALS

WHEREAS, Employee is currently an employee of the Company; and

WHEREAS, the Company desires for Employee to continue with the Company and Employee is willing to continue with the Company, on the terms and conditions herein set forth;

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties, and agreements contained herein, and for other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1

DEFINITIONS AND INTERPRETATIONS

1.1 DEFINITIONS

For purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following terms shall have the following respective meanings:

"Accounting Firm" shall have the meaning specified in Section 4.5(d)(iii).

"Base Salary" shall have the meaning specified in Section 3.1.

"Board" shall mean the Board of Directors of the Company.

"Bonus Payment" shall have the meaning specified in Section 4.5(a).

"Change of Control" shall mean the date that the Specified Entities cease to own, directly or indirectly through wholly-owned subsidiaries, in the aggregate at least 65% of the capital stock of the Company.

"Closing" shall mean the closing date of the purchase of Company stock contemplated in the Stock Purchase Agreement, dated June 15, 2000, among U.S. Propane, L.P. and the other parties thereto.

"Code" shall have the meaning specified in Section 4.5(d)(i).

"Confidential Information" shall have the meaning specified in Section 5.1(a).

"Continuation Period" shall have the meaning specified in Section 4.5(a).

"Designated Current Manager" shall mean each of R.C. Mills and Employee, current executive officers of the Company, together with, in the case of either such executive officer, the heirs of, and trusts for the benefit of family members controlled by, such executive officer.

"Disability" shall mean a physical or mental condition of Employee that, in the good faith judgment of not less than a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board), based upon certification by a licensed physician reasonably acceptable to Employee and the Board, (i) prevents Employee from being able to perform the services required under this Agreement, (ii) has continued for a period of at least 180 days during any 12-month period, and (iii) is expected to continue.

"Dispute" shall have the meaning specified in Article 6.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Expiration Date" shall have the meaning specified in Section 2.2.

"Good Reason" shall mean any of the following:

(i) the assignment to Employee of any duties materially inconsistent with Employee's position (including a materially adverse change in Employee's office, title and reporting requirements), authority, duties or responsibilities;

(ii) the Company's requiring Employee to be based at any office other than the Company's executive offices in the greater Tulsa, Oklahoma area;

(iii) any termination by the Company of Employee's employment other than as expressly permitted by this Agreement;

(iv) any failure by the Company to comply with and satisfy Section 7.5 (requiring the Company to require any successor to expressly assume and agree to perform all obligations under this Agreement); or

(v) a breach or violation by the Company of any material provision of this Agreement, which breach or violation remains unremedied for more than 30 days after written notice thereof is given to the Company by Employee.

For purposes of this definition, no act or failure to act on the Company's part shall be considered a "Good Reason" unless Employee has given the Company written notice of such act or failure to act within 30 days thereof and the Company fails to remedy such act or failure to act within 15 days of its receipt of such notice.

"Gross-Up Payment" shall have the meaning specified in Section 4.5(d)(ii).

"Misconduct" shall mean one or more of the following:

(i) the willful and continued failure by Employee to perform substantially his duties hereunder (other than any such failure resulting from Employee's incapacity due to physical or mental illness) after written notice of such failure has been given to Employee by the Company and Employee has had a reasonable period (not to exceed 15 days) to correct such failure;

(ii) conviction (or plea of nolo contendere) of Employee for any felony or any other crime which is materially detrimental to the Company (monetarily or otherwise);

(iii) any act or omission by Employee which materially damages the integrity, reputation or financial viability of the Company or its affiliates;

(iv) a breach or violation by Employee of (a) any material provision of this Agreement or (b) any material Company employment policy, which (in either case), if capable of being remedied, remains unremedied for more than 15 days after written notice thereof is given to Employee by the Company; or

(v) chronic alcohol abuse or illegal drug use by Employee that is determined by the Board to impair Employee's ability to perform his duties and responsibilities hereunder.

For purposes of this definition, no act or failure to act on Employee's part shall be considered "Misconduct" if done or omitted to be done by Employee in good faith and in the reasonable belief that such act or failure to act was in the best interest the Company or in furtherance of Employee's duties and responsibilities hereunder.

"Notice of Discontinuance" shall have the meaning specified in Section 2.2.

"Notice of Termination" shall mean a notice purporting to terminate Employee's employment in accordance with Section 4.1(a) or 4.2. Such notice shall specify the effective date of such termination, which date shall neither be less than 30 (10 in the case of a termination by the Company for Misconduct) nor more than 60 days after the date such notice is given. If such termination is by Employee for Good Reason or by the Company for Disability or Misconduct, such notice shall set forth in reasonable detail the reason for such termination and the facts and circumstances claimed to provide a basis therefor. Any notice purporting to terminate Employee's employment which is not in compliance with the requirements of this definition shall be ineffective.

"Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and any other entity.

"Qualifying Termination" shall have the meaning specified in Section 4.5.

"Severance Plan" shall have the meaning specified in Section 4.5(a).

"Specified Entities" shall mean any one or more of the following entities: (i) Atmos Energy Corporation, a Texas and Virginia corporation, (ii) Piedmont Natural Gas Company, Inc., a North Carolina corporation, (iii) AGL Resources, Inc., a Georgia corporation, and (iv) TECO Energy, Inc., a Florida corporation, or a successor to any entity referred to in clause (i), (ii), (iii) or (iv) of this definition.

"Successor" shall mean, with respect to a Specified Entity, any entity in which the holders of capital stock of such Specified Entity outstanding immediately prior to a consolidation, acquisition or merger involving such Specified Entity hold, directly or indirectly, through wholly-owned subsidiaries, immediately after such consolidation, acquisition or merger.

"Term" shall have the meaning specified in Section 2.2.

"Termination Date" shall mean the termination date specified in a Notice of Termination delivered in accordance with this Agreement.

"Total Payment" shall have the meaning specified in Section 4.5(d)(i).

1.2 INTERPRETATIONS

(a) In this Agreement, unless a clear contrary intention appears, (i) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision, (ii) reference to any "Article" or "Section", means such Article or Section hereof, (iii) the word "including" (and with correlative meaning "include") means including, without limiting the generality of any description preceding such term, (iv) the word "affiliate" has the meaning stated in Rule 405 promulgated under the Securities Act of 1933, as amended, and (v) where any provision of this Agreement refers to action to be taken by either party, or which such party is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such party.

(b) The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

ARTICLE 2 EMPLOYMENT; TERM; POSITION AND DUTIES; ETC.

2.1 EMPLOYMENT

The Company agrees to continue Employee's employment with the Company and Employee agrees to remain in the employment of the Company, in each case on the terms and conditions set forth in this Agreement.

2.2 TERM OF AGREEMENT

Unless sooner terminated pursuant to Article 4, the term of this Agreement (the "Term") shall commence on the Effective Date and shall continue until the third anniversary of the Effective Date (the "Expiration Date"); provided, however, that beginning on the second anniversary of the Effective Date and on each day thereafter the Expiration Date shall be automatically extended one additional day unless either party (i) shall give written notice to the other (a "Notice of Discontinuance") that the Term shall cease to be so extended beginning immediately after the date of such notice or (ii) shall give a Notice of Termination to the other party pursuant to Section 4.1(a) or 4.2, as the case may be. No Notice of Discontinuance given

by the Company shall be effective unless given pursuant to a resolution duly adopted by the affirmative vote of a least a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board). If either party gives a Notice of Discontinuance, Employee's employment hereunder shall continue until the expiration of the Term, subject to earlier termination pursuant to Article 4. Employee's continued employment, if any, after the expiration of the Term shall be "at will" employment.

2.3 POSITION AND DUTIES

(a) While employed hereunder, Employee shall serve as the Chief Executive Officer of the Company and shall have and may exercise all of the powers, functions, duties and responsibilities normally attributable to such position. Employee shall have such additional duties and responsibilities commensurate with such position as from time to time may be reasonably assigned to Employee by the Board or the Chairman of the Board of the Company. While employed hereunder, Employee shall (i) report directly to the Chairman of the Board of the Company and the Board and (ii) observe and comply with all lawful policies, directions and instructions of the Board and the Chairman of the Board of the Company which are consistent with the foregoing provisions of this paragraph (a).

(b) While employed hereunder, Employee shall devote substantially all of his business time, attention, skill and efforts to the faithful and efficient performance of his duties hereunder. Notwithstanding the foregoing, Employee may engage in the following activities so long as they do not interfere in any material respect with the performance of Employee's duties and responsibilities hereunder: (i) serve on corporate, civic, religious, educational and/or charitable boards or committees and (ii) manage his personal investments.

(c) While employed hereunder, Employee shall conduct himself in such a manner as not to intentionally and knowingly prejudice, in any material respect, the reputation of the Company or any of its affiliates, including U.S. Propane, L.P., or with the investment community or the public at large.

2.4 PLACE OF EMPLOYMENT

Employee's place of employment hereunder shall be at the Company's principal executive offices in the greater Tulsa, Oklahoma area.

ARTICLE 3 COMPENSATION AND BENEFITS

3.1 BASE SALARY

(a) For services rendered by Employee under this Agreement, the Company shall pay to Employee an annual base salary of \$350,000.00 ("Base Salary"). The Board shall review the Base Salary at least annually and may adjust the amount of the Base Salary at any time as the Board may deem appropriate in its sole discretion; provided, however, that in no event may the Base Salary be decreased below the above stated amount without the prior written consent of Employee.

(b) The Base Salary shall be payable in accordance with the Company's payroll practice for its executives as it is earned.

3.2 BONUS

The Employee will participate in bonus and incentive plans with substantially equivalent economic provisions as set forth in Exhibit A hereto.

3.3 VACATION

While employed hereunder, Employee shall be entitled to vacation benefits in accordance with the vacation policy approved by the Board from time to time for the Company's executives in general. Employee shall not be entitled to accumulate and carryover unused vacation time from year to year, except to the extent permitted in accordance with the Company's vacation policy for executives in general, nor shall Employee be entitled to compensation for unused vacation time except as provided in Section 4.3(a).

3.4 BUSINESS EXPENSES

The Company shall, in accordance with the rules and policies that it may establish from time to time for executives, reimburse Employee for business expenses reasonably incurred in the performance of Employee's duties. Requests for reimbursement for such expenses must be accompanied by appropriate documentation as required by such rules and policies.

3.5 OTHER BENEFITS

Employee shall be entitled to receive all employee benefits, fringe benefits and other perquisites that may be offered by the Company to its executives as a group, including participation by Employee and, where applicable, Employee's dependents, in the various employee benefit plans or programs (including pension plans, profit sharing plans, stock plans, health plans, life insurance and disability insurance) provided to executives of the Company in general, subject to meeting the eligibility requirements with respect to each of such benefit plans or programs. However, nothing in this Section 3.5 shall be deemed to prohibit the Company from making any changes in any of the plans, programs or benefits described herein. In addition, Employee shall be entitled to a life insurance benefit that is the same or reasonably comparable to that which is provided to Employee by the Company at the Effective Date.

3.6 INDEMNIFICATION

Employee shall be entitled to (i) indemnification and advancement of expenses from the Company in accordance with the provisions of the Bylaws of the Company, and (ii) coverage under the applicable directors' and officers' insurance policy (if any) maintained by the Company or any of its affiliates regarding actions and omissions by Employee during the Term (whether on behalf of the Company or any of its Affiliates).

ARTICLE 4
TERMINATION OF EMPLOYMENT

4.1 TERMINATION BY EMPLOYEE; DEATH

(a) Employee may, at any time prior to the Expiration Date, terminate his employment hereunder for any reason by delivering a Notice of Termination to the Board and the Chairman of the Board of the Company.

(b) Employee's employment hereunder shall terminate upon his death.

4.2 TERMINATION BY THE COMPANY

The Company may, at any time prior to the Expiration Date, terminate Employee's employment hereunder for any reason by delivering a Notice of Termination to Employee; provided, however, that in no event shall the Company be entitled to terminate Employee's employment prior to the Expiration Date unless the Board shall duly adopt, by the affirmative vote of at least a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board), a resolution authorizing such termination and stating that, in the opinion of the Board, sufficient reason exists therefor.

4.3 PAYMENT OF ACCRUED BASE SALARY, VACATION PAY, ETC.

(a) Promptly upon the termination of Employee's employment for any reason (including death), the Company shall pay to Employee (or his estate) a lump sum amount for (i) any unpaid Base Salary earned hereunder prior to the termination date and any accrued but unpaid bonus for any fiscal year previously completed as of the termination date, but only to the extent such bonus has accrued and is payable to Employee after termination of employment pursuant to the terms of the applicable bonus plan or policy; (ii) all unused vacation time accrued by Employee as of the termination date in accordance with Section 3.3; (iii) all unpaid benefits earned or vested, as the case may be, by Employee as of the termination date under any and all incentive or deferred compensation plans or programs of the Company and (iv) any amounts in respect of which Employee has requested, and is entitled to, reimbursement in accordance with Section 3.4.

(b) A termination of Employee's employment in accordance with this Agreement under any Section of this Article 4 shall not alter or impair, nor enhance or increase, any of Employee's rights or benefits under any employee benefit plan or program or incentive or deferred compensation plan or program maintained by the Company, in each case except as provided therein or in any written agreement entered into between the Company and Employee pursuant thereto.

(c) If Employee's employment hereunder is terminated due to his death or Disability, by Employee for a Good Reason, by the Company other than for Misconduct, or upon a Change of Control of the Company, all Company-imposed restrictions on the transferability of the Units (as defined in the Subscription Agreement dated as of June 15, 2000, by and among Heritage Propane Partners, L.P., a Delaware limited partnership ("Heritage MLP") and the other parties thereto (the "Subscription Agreement")) purchased by Employee on the Closing shall

automatically lapse in full on such date. Upon Employee's request accompanied by Employee's certificate for Units, the Company shall cause a new certificate to be issued to Employee for such Units without a legend referring to such Company-imposed restrictions. A copy of such Company-imposed restrictions is attached as Annex II to the Subscription Agreement.

4.4 DISABILITY PAYMENTS

If Employee incurs a Disability, the Company may terminate Employee's employment hereunder by delivering a Notice of Termination to Employee; provided, however, in such event the Company shall continue to pay to Employee, through the remainder of the Term (as determined without regard to its earlier termination upon Employee's termination due to Disability under this Section 4.4 and, if the Termination Date is on or after the second anniversary of the Effective Date, without any extension of the Term under Section 2.2 after such Termination Date) or until Employee's death, if earlier, at such regularly scheduled times:

(A) the Base Salary in effect immediately prior to the date of such termination, minus

(B) any amount payable to Employee under any disability plan maintained by the Company for the benefit of Employee.

4.5 OTHER BENEFITS

The following provisions shall apply (i) following a Change of Control or (ii) if Employee terminates his employment pursuant to Section 4.1 for Good Reason or (iii) if the Company terminates Employee's employment pursuant to Section 4.2 for any reason other than Misconduct (each a "Qualifying Termination"):

(a) Base Salary and Bonus Payments. For the remainder of the Term (as determined without regard to its earlier termination pursuant to Section 4.1(a) or 4.2 and, if such termination date is on or after the second anniversary of the Effective Date, without any extension of the Term after such termination date) or until Employee's death, if earlier (the "Continuation Period"), the Company shall pay to Employee, at the regularly scheduled times, the sum of the Base Salary (as in effect on the date on which the relevant Notice of Termination is given in accordance with this Agreement) and pay or vest the Bonus Payment as applicable within sixty (60) days of the Qualifying Termination. The "Bonus Payment" shall be an amount (A) for the Short Term Incentive Plan, equal to the excess of the actual EBITDA compared to the budgeted EBITDA to the month end accounting period nearest to the date of the Qualifying Termination (the "Short Incentive Term") times 15% times the Employee's Percentage of Incentive as indicated on Exhibit A attached hereto and (B) for the Long Term Incentive Plan, the Employee will vest immediately in the number of Common Units equal to the Employee's Percentage of Incentive as indicated on Exhibit A hereto times the total Common Units at the Minimum Award level (250,000) to the extent not previously awarded.

The amount payable to Employee under this paragraph (a) is in lieu of, and not in addition to, any severance payment due or to become due to Employee under any separate agreement or contract between Employee and the Company or pursuant to any severance payment plan, program or policy of the Company or any affiliate (collectively, "Severance Plan"). Any severance amounts received by Employee under a Severance Plan shall be applied

as an offset to (reduce or eliminate, as the case may be) any future payments otherwise to be made to Employee under this paragraph (a); i.e., no additional payments shall be made under this paragraph (a) until the aggregate amount of the offsets hereunder equals the severance amounts received by Employee under the Severance Plan.

(b) Health Plan Benefits. The Company shall at all times during the Continuation Period cause Employee and Employee's eligible dependents to be covered by and to participate in, to the fullest extent allowable under the terms thereof, all group health insurance plans and programs that may be offered to the executives of the Company so that Employee will receive, at all times during the Continuation Period, the same benefits under such plans and programs that Employee would have been entitled to receive had he remained an executive of the Company; provided, however, (i) Employee must timely pay the "active" employee premium, if any, for such continued coverage; (ii) Employee must timely elect COBRA continuation coverage thereunder upon his termination of employment; and (iii) in the event Employee and his eligible dependents become covered during the Continuation Period by another employer's group health plan or programs which does not contain any effective exclusion or limitation with respect to any pre-existing conditions, then the Company's group health plans shall no longer be liable for any benefits under this paragraph (b).

(c) Release. Notwithstanding anything in this Section 4.5 to the contrary, as a condition to the receipt of any payment or benefit under this Section 4.5, Employee must first execute and deliver to the Company a release in a form prepared by the Company, releasing the Company, its officers, the Board, employees and agents from any and all claims and from any and all causes of action of any kind or character that Employee may have arising out of Employee's employment with the Company or the termination of such employment, but excluding any claims and causes of action that Employee may have arising under or based upon this Agreement.

(d) Parachute Tax.

(i) If the payments and benefits provided to Employee under this Agreement or under any other agreement with, or plan of, the Company (the "Total Payment") (A) constitute a "parachute payment" as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and exceed three times Employee's "base amount" as defined under Code Section 280G(b)(3) by less than 10% of three times Employee's base amount, and (B) would, but for this Section 4.5(d)(i), be subject to the excise tax imposed by Code Section 4999, then Employee's payments and benefits under this Agreement shall be either (I) paid in full, or (II) reduced and payable only as to the maximum amount which would result in no portion of such payments and benefits being subject to excise tax under Code Section 4999, whichever results in the receipt by Employee on an after-tax basis of the greatest amount of Total Payment (taking into account the applicable federal, state and local income taxes, the excise tax imposed by Code Section 4999 and all other taxes (including any interest and penalties) payable by Employee). If a reduction of the Total Payment is necessary, Employee shall be entitled to select which payments or benefits will be reduced and the manner and method of any such reduction of such payments and benefits. Within 30 days after the amount of any required reduction in payments and benefits is finally determined under Section

4.5(d)(iii), Employee shall notify the Company in writing regarding which payments and benefits are to be reduced. If no notification is given by Employee, the Company will determine which payments and benefits to reduce. If, as a result of any reduction required by this Section 4.5(d)(i), amounts previously paid to Employee exceed the amount to which Employee is entitled, Employee will promptly return the excess amount to the Company.

(ii) If the Total Payment constitutes a "parachute payment" as defined in Code Section 280G and exceeds three times Employee's "base amount" as defined under Code Section 280G(b)(3) by 10% or more of three times Employee's base amount, the Company shall provide to Employee, in cash, an additional payment in an amount to cover the full excise tax due under Code Section 4999, plus Employee's state and federal income, employment, excise, and other taxes (including interest and penalties) on this additional payment (the "Gross-Up Payment"). Any amount payable under this Section 4.5(d)(ii) shall be paid as soon as possible following the date of Employee's Qualifying Termination, but in no event later than 30 days after such date.

(iii) All determinations required to be made under this Section 4.5(d), including whether reductions are necessary or whether a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be used in determining such Gross-Up Payment, shall be made by the accounting firm used by the Company at the time of such determination (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Company and to Employee within 15 business days of the receipt of notice from the Company or Employee that there has been a Qualifying Termination, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity, or group effecting the change in control transaction, Employee may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company.

(iv) In the event Employee is entitled to a Gross-Up Payment under Section 4.5(d)(ii) and the Internal Revenue Service subsequently increases the excise tax computation described in Section 4.5(d)(ii), the Company shall reimburse Employee for the full amount necessary to make Employee whole on an after-tax basis (less any amounts received by Employee that Employee would not have received had the computations initially been computed as subsequently adjusted), including the value of any underpaid excise tax, and any related interest and/or penalties due to the Internal Revenue Service.

4.6 NON-EXCLUSIVITY OF RIGHTS

Nothing in this Agreement shall prevent or limit Employee's continuing or future participation in any plan, program, policy or practice provided by the Company for which Employee may qualify, nor shall anything herein limit or otherwise affect such rights as Employee may have under any other contract or agreement with the Company. Amounts which

are vested benefits or which Employee is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company at or subsequent to the Termination Date shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. However, the Continuation Period shall not be credited as continued employment of Employee for any purpose under any such plan, policy, practice or program.

ARTICLE 5

CONFIDENTIAL INFORMATION AND NON-COMPETITION

5.1 CONFIDENTIAL INFORMATION

(a) Employee recognizes that the services to be performed by Employee hereunder are special, unique, and extraordinary and that, by reason of Employee's employment with the Company, Employee will be provided Confidential Information concerning the operation of the Company, the use or disclosure of which would cause the Company substantial loss and damages which could not be readily calculated and for which no remedy at law would be adequate. Accordingly, Employee agrees that Employee will not (directly or indirectly) at any time, whether during or after Employee's employment with the Company and its affiliates, (i) knowingly use for an improper personal benefit any Confidential Information that Employee may learn or has learned by reason of Employee's employment with the Company or (ii) disclose any such Confidential Information to any Person except (A) in the performance of Employee's obligations to the Company hereunder, (B) as required by applicable law, (C) in connection with the enforcement of Employee's rights under this Agreement, (D) in connection with any disagreement, dispute or litigation (pending or threatened) between Employee and the Company or (E) with the prior written consent of the Board. As used herein, "Confidential Information" includes, but is not limited to, information with respect to the Company's products, facilities and methods, research and development, trade secrets and other intellectual property, systems, patents and patent applications, procedures, manuals, confidential reports, product price lists, customer lists, financial information, business plans, prospects or opportunities; provided, however, that such term shall not include any information that (x) is or becomes generally known or available other than as a result of improper disclosure by Employee or (y) is or becomes known or available to Employee on a nonconfidential basis from a source (other than the Company) which, to Employee's knowledge, is not prohibited from disclosing such information to Employee by a legal, contractual, fiduciary or other obligation to the Company.

(b) Employee confirms that all Confidential Information is the exclusive property of the Company. All business records, papers and documents kept or made by Employee while employed by the Company relating to the business of the Company shall be and remain the property of the Company at all times. Upon the request of the Company at any time, Employee shall promptly deliver to the Company, and shall retain no copies of, any written materials, records and documents made by Employee or coming into his possession while employed by the Company concerning the business or affairs of the Company other than personal materials, records and documents (including notes and correspondence) of Employee not containing Confidential Information relating to such business or affairs. Notwithstanding the foregoing, Employee shall be permitted to retain copies of, or have access to, all such materials, records and

documents relating to any disagreement, dispute or litigation (pending or threatened) between Employee and the Company.

5.2 NON-COMPETITION

(a) In partial consideration for the Company's agreement to provide Employee access to Confidential Information and the other benefits provided by this Agreement, Employee agrees that while employed by the Company and for three years after the termination of such employment (for any reason) (the "Restricted Period"), Employee shall not, unless Employee receives the prior written consent of the Board, own an interest in, manage, operate, join, control, lend money or render financial or other assistance to or participate in or be connected with, as an officer, employee, partner, stockholder, consultant or otherwise, any Person which competes with the Company or its affiliates in the retail marketing of propane and/or butane gas or appliance sales, service and/or repair business in any city or within seventy-five (75) miles in all directions from the boundary of the city limits of any city where the Company or any affiliate conducts such business; provided, however, that following Employee's termination of employment the foregoing restriction shall apply only to (i) those areas where the Company or any affiliate was actually doing business on the date of such termination of employment and (ii) those areas in respect of which the Company or any affiliate actively and diligently conducted at any time during the 12-month period ended on such date of termination an analysis to determine whether or not it would commence doing business in such areas but, in the case of each such area the foregoing restriction shall cease to apply when the Company or its affiliates ceases to actively conduct business (disregarding any temporary stoppages) in such area or, if applicable, abandons its intent to conduct business in such area.

(b) Employee has carefully read and considered the provisions of this Section 5.2 and, having done so, agrees that the restrictions set forth in this Section 5.2 (including the Restricted Period, scope of activity to be restrained and the geographical scope) are fair and reasonable and are reasonably required for the protection of the interests of the Company, its officers, directors, employees, creditors and shareholders. Employee understands that the restrictions contained in this Section 5.2 may limit his ability to engage in a business similar to the Company's business, but acknowledges that he will receive sufficiently high remuneration and other benefits from the Company hereunder to justify such restrictions.

(c) During the Restricted Period, Employee shall not, whether for his own account or for the account of any other Person (excluding the Company), intentionally (i) solicit, endeavor to entice or induce any employee of the Company to terminate his employment with the Company or accept employment with anyone else or (ii) interfere in a similar manner with the business of the Company.

(d) It is specifically agreed that the Restricted Period, during which the agreements and covenants of Employee made herein shall be effective, shall be computed by excluding from such computation any time which Employee is in violation of any provision of this Article 5.

(e) In the event that any provision of this Section 5.2 relating to the Restricted Period and/or the areas of restriction shall be declared by a court of competent jurisdiction to exceed the maximum time period or areas such court deems reasonable and enforceable, the Restricted

Period and/or areas of restriction deemed reasonable and enforceable by the court shall become and thereafter be the maximum time period and/or areas.

5.3 STOCK OWNERSHIP

Nothing in this Agreement shall prohibit Employee from acquiring or holding any issue of stock or securities of any Person that has any securities registered under Section 12 of the Exchange Act, listed on a national securities exchange or quoted on the automated quotation system of the National Association of Securities Dealers, Inc. so long as (i) Employee is not deemed to be an "affiliate" of such Person, and (ii) Employee and members of his immediate family do not own or hold more than 3% of any class of voting securities of any such Person.

5.4 INJUNCTIVE RELIEF

Employee acknowledges that a breach of any of the covenants contained in this Article 5 may result in material irreparable injury to the Company for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach, any payments remaining under the terms of this Agreement shall cease and the Company shall be entitled to obtain a temporary restraining order and/or a preliminary or permanent injunction restraining Employee from engaging in activities prohibited by this Article 5 or such other relief as may be required to specifically enforce any of the covenants contained in this Article 5. Employee agrees to waive any requirement for the Company's securing or posting of any bond in connection with such remedies. Employee further agrees to and hereby does submit to in personam jurisdiction before each and every such court for that purpose.

5.5 FORFEITURE FOR BREACH

A breach of this Article 5 by Employee shall cause an immediate forfeiture of all rights Employee may have under this Agreement to receive any payments or benefits after the date of such breach.

ARTICLE 6 ARBITRATION

EXCEPT WITH RESPECT TO INJUNCTIVE RELIEF AS PROVIDED IN SECTION 5.4 ABOVE, THE PARTIES AGREE TO RESOLVE ANY CLAIM OR CONTROVERSY ARISING OUT OF OR RELATING TO THIS AGREEMENT, INCLUDING THE EMPLOYMENT OF EMPLOYEE, THE TERMINATION OF EMPLOYMENT OF EMPLOYEE, OR CLAIMS UNDER TITLE VII OF THE CIVIL RIGHTS ACT, THE AMERICANS WITH DISABILITIES ACT, THE AGE DISCRIMINATION IN EMPLOYMENT ACT, AND THE FAMILY MEDICAL LEAVE ACT, BY BINDING ARBITRATION UNDER THE FEDERAL ARBITRATION ACT BEFORE ONE ARBITRATOR IN THE CITY OF TULSA, STATE OF OKLAHOMA, ADMINISTERED BY THE AMERICAN ARBITRATION ASSOCIATION UNDER ITS COMMERCIAL ARBITRATION RULES, AND JUDGMENT ON THE AWARD RENDERED BY THE ARBITRATOR MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF. THE FEES AND EXPENSES OF THE ARBITRATOR SHALL BE BORNE SOLELY BY THE NON-PREVAILING PARTY OR, IN THE EVENT THERE IS NO CLEAR PREVAILING PARTY, AS THE ARBITRATOR DEEMS APPROPRIATE. EXCEPT AS PROVIDED ABOVE, EACH PARTY SHALL PAY ITS OWN COSTS AND EXPENSES (INCLUDING ATTORNEYS' FEES) RELATING TO ANY ARBITRATION PROCEEDING CONDUCTED UNDER THIS ARTICLE 6.

ARTICLE 7
MISCELLANEOUS PROVISIONS

7.1 NO MITIGATION OR OFFSET

The provisions of this Agreement are not intended to, nor shall they be construed to, require that Employee mitigate the amount of any payment provided for in this Agreement by seeking or accepting other employment or becoming self-employed, nor shall the amount of any payment provided for in this Agreement be reduced by any compensation earned by Employee as the result of employment by another employer, self-employment or otherwise. Without limitation of the foregoing, the Company's obligations to make the payments to Employee required under this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set off (other than as provided in Section 4.5(a)), counterclaim, recoupment, defense or other claim, right or action that the Company may have against Employee (other than as provided in Section 5.5).

7.2 ASSIGNABILITY

The obligations of Employee hereunder are personal and may not be assigned or delegated by Employee or transferred in any manner whatsoever, nor are such obligations subject to involuntary alienation, assignment or transfer. The Company shall have the right to assign this Agreement and to delegate all rights, duties and obligations hereunder as provided in Section 7.5.

7.3 NOTICES

All notices and all other communications provided for in the Agreement shall be in writing and addressed (i) if to the Company, the Board, or the Chairman of the Board at the principal office address of the Company or such other address as it may have designated by written notice to Employee for purposes hereof, directed to the attention of the Chief Executive Officer with a copy to the Secretary of the Company and (ii) if to Employee, at his residence address on the records of the Company or to such other address as he may have designated to the Company in writing for purposes hereof. Each such notice or other communication shall be deemed to have been duly delivered, provided or given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, except that any notice of change of address shall be effective only upon receipt.

7.4 SEVERABILITY

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

7.5 SUCCESSORS; BINDING AGREEMENT

(a) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance reasonably acceptable to Employee, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the

Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used herein, the term "Company" shall include any successor to its business and/or assets as aforesaid which executes and delivers the assumption agreement provided for in this Section 7.5 or which otherwise becomes bound by all terms and provisions of this Agreement by operation of law.

(b) This Agreement and all rights of Employee hereunder shall inure to the benefit of and be enforceable by Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Employee should die while any amounts are due him hereunder, all such amounts shall be paid in accordance with the terms of this Agreement to Employee's devisee, legatee, or other designee or, if there be no such designee, to Employee's estate.

7.6 TAX WITHHOLDINGS

The Company shall withhold from all payments hereunder all applicable taxes (federal, state or other) which it is required to withhold therefrom unless Employee has otherwise paid (or made other arrangements satisfactory) to the Company the amount of such taxes.

7.7 AMENDMENTS AND WAIVERS

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by Employee and such member of the Board as may be specifically authorized by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or in compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

7.8 ENTIRE AGREEMENT; TERMINATION OF ANY OTHER AGREEMENTS

This Agreement is an integration of the parties' agreement with respect to the subject matter hereof and no agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. This Agreement hereby expressly terminates, rescinds and replaces any prior agreement (written or oral) between the parties relating to the subject matter hereof, including, without limitation, that certain Employment Agreement between the parties dated June 28, 1996.

7.9 GOVERNING LAW; SUBMISSION TO JURISDICTION

(a) THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF OKLAHOMA WITHOUT REGARD TO ITS CONFLICT OF LAWS PROVISION, OTHER THAN THE PROVISIONS OF SECTION 5.2, WHICH SHALL BE GOVERNED BY THE LAWS OF THE STATE OF ANY ALLEGED VIOLATION. IT IS THE INTENT OF THE PARTIES THAT THE PROVISIONS OF SECTION 5.2 BE

INTERPRETED TO IMPOSE THE MAXIMUM PERIOD OF RESTRICTION UNDER THE GOVERNING LAW OF SUCH SECTION.

(b) EACH PARTY HERETO HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS IN TULSA COUNTY, OKLAHOMA, FOR THE PURPOSES OF ANY PROCEEDING ARISING OUT OF THIS AGREEMENT.

7.10 EMPLOYMENT WITH AFFILIATES

For purposes of this Agreement, employment with any affiliates of the Company, U.S. Propane, L.P. or with any of their respective affiliates shall be deemed to be employment with the Company.

7.11 SURVIVAL

The provisions of Articles 5 and 6 and Section 7.9 and any other provisions necessary to give full effect to the terms of this Agreement, shall survive the termination of this Agreement.

7.12 COUNTERPARTS

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

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the Effective Date.

HERITAGE HOLDINGS, INC.

By: _____
Name: _____
Title: _____

EMPLOYEE

H. Michael Krimbill

EXHIBIT A

PROPOSED MANAGEMENT INCENTIVE COMPENSATION

POSITION	BASE SALARY	PERCENTAGE OF INCENTIVE	
		SHORT-TERM	LONG-TERM
CEO	\$ 350,000	14.00%	16.00%
COO	335,000	14.00%	16.00%
CFO	325,000	14.00%	16.00%
Acquisition	200,000	14.00%	16.00%
VP Western Operations	150,000	7.00%	8.67%
VP Northern Operations	135,000	7.00%	8.67%
VP Southern Operations	135,000	7.00%	8.67%
Discretionary (Corp. & Others)		23.00%	10.00%
	\$ 1,630,000	100.00%	100.00%

SHORT-TERM INCENTIVE PLAN

- For FY 2001, management will receive the following for EBITDA in excess of a Base \$76.0 million. The beginning Base is higher than \$73.2 million in order to offset the higher Base Salaries:
 - 15% of EBITDA over \$76 million up to \$80 million
 - 17.5% of EBITDA over \$80 million up to \$85 million
 - 20% of EBITDA over \$85 million
- No cap on short-term incentive, and increasing percentage to encourage outstanding performance.
- In the very unlikely event that the short-term incentive earned is over \$2.0 million, the excess bonus would be deferred to the following year. In this way, when the Board raises the "bar" the following fiscal year, there is a bonus to be paid.
- The Board sets the \$76.0 million EBITDA Base Target which remains unchanged during Fiscal YR 2001.
- Targets in subsequent fiscal years will be set by the Board at its sole discretion.

LONG-TERM INCENTIVE PLAN

- A minimum of 250,000 units and a maximum of 500,000 units will be awarded based on achieving certain targeted levels of Distributed Cash per unit.
- Awards under the program will be made starting in 2003 based upon the average of the prior three years Distributed Cash per unit. Each year, beginning after Fiscal YR 2003, units will be awarded based upon levels detailed below.

	2003	2004	2005	TOTALS
	-----	-----	-----	-----
Moving Average Period	2001-2003	2002-2004	2003-2005	
Three Year Average of Distributed Cash per Unit	\$ 2.50	\$ 2.65	\$ 2.80	
Maximum Target Level	\$ 2.80	\$ 2.95	\$ 3.10	
VALUE ASSUMING CURRENT COMMON UNIT PRICE				
Minimum Award	83,333	83,333	83,333	250,000
Value at a Common Unit Price of	\$ 18.375	\$ 1,531,250	\$ 1,531,250	\$ 4,593,750
Maximum Award	166,667	166,667	166,667	500,000
Value at a Common Unit Price of	\$ 18.375	\$ 3,062,500	\$ 3,062,500	\$ 9,187,500
HYPOTHETICAL VALUES ASSUMING A HIGHER COMMON UNIT PRICE				
Minimum Award	83,333	83,333	83,333	250,000
Value at a Common Unit Price of	\$ 25.000	\$ 2,083,333	\$ 2,083,333	\$ 6,250,000
Maximum Award	166,667	166,667	166,667	500,000
Value at a Common Unit Price of	\$ 25.000	\$ 4,166,667	\$ 4,166,667	\$12,500,000

HERITAGE HOLDINGS, INC.

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into effective as of the Closing ("Effective Date") by and between Heritage Holdings, Inc., a Delaware corporation ("Company"), and Bradley K. Atkinson ("Employee").

RECITALS

WHEREAS, Employee is currently an employee of the Company; and

WHEREAS, the Company desires for Employee to continue with the Company and Employee is willing to continue with the Company, on the terms and conditions herein set forth;

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties, and agreements contained herein, and for other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1

DEFINITIONS AND INTERPRETATIONS

1.1 DEFINITIONS

For purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following terms shall have the following respective meanings:

"Accounting Firm" shall have the meaning specified in Section 4.5(d)(iii).

"Base Salary" shall have the meaning specified in Section 3.1.

"Board" shall mean the Board of Directors of the Company.

"Bonus Payment" shall have the meaning specified in Section 4.5(a).

"Change of Control" shall mean the date that (i) the Specified Entities cease to own, directly or indirectly through wholly-owned subsidiaries, in the aggregate at least 35% of the capital stock of the Company and (ii) either Designated Current Manager, at any time from the date of Closing until the earlier to occur of the third anniversary of Closing or such Designated Current Manager ceasing to be employed by the Company, ceases to own at least 50% of the common limited partner interests in Heritage Propane Partners, L.P., a Delaware limited partnership ("Heritage MLP"), owned, directly or indirectly, by such Designated Current Manager immediately after Closing.

"Closing" shall mean the closing date of the purchase of Company stock contemplated in the Stock Purchase Agreement, dated June 15, 2000, among U.S. Propane, L.P. and the other parties thereto.

"Code" shall have the meaning specified in Section 4.5(d)(i).

"Confidential Information" shall have the meaning specified in Section 5.1(a).

"Continuation Period" shall have the meaning specified in Section 4.5(a).

"Designated Current Manager" shall mean each of R.C. Mills and H. Michael Krimbill, current executive officers of the Company, together with, in the case of either such executive officer, the heirs of, and trusts for the benefit of family members controlled by, such executive officer.

"Disability" shall mean a physical or mental condition of Employee that, in the good faith judgment of not less than a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board), based upon certification by a licensed physician reasonably acceptable to Employee and the Board, (i) prevents Employee from being able to perform the services required under this Agreement, (ii) has continued for a period of at least 180 days during any 12-month period, and (iii) is expected to continue.

"Dispute" shall have the meaning specified in Article 6.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Expiration Date" shall have the meaning specified in Section 2.2.

"Good Reason" shall mean any of the following:

(i) the assignment to Employee of any duties materially inconsistent with Employee's position (including a materially adverse change in Employee's office, title and reporting requirements), authority, duties or responsibilities;

(ii) the Company's requiring Employee to be based at any office other than the Company's executive offices in the greater Tulsa, Oklahoma area;

(iii) any termination by the Company of Employee's employment other than as expressly permitted by this Agreement;

(iv) any failure by the Company to comply with and satisfy Section 7.5 (requiring the Company to require any successor to expressly assume and agree to perform all obligations under this Agreement); or

(v) a breach or violation by the Company of any material provision of this Agreement, which breach or violation remains unremedied for more than 30 days after written notice thereof is given to the Company by Employee.

For purposes of this definition, no act or failure to act on the Company's part shall be considered a "Good Reason" unless Employee has given the Company written notice of such act or failure to act within 30 days thereof and the Company fails to remedy such act or failure to act within 15 days of its receipt of such notice.

"Gross-Up Payment" shall have the meaning specified in Section 4.5(d)(ii).

"Misconduct" shall mean one or more of the following:

(i) the willful and continued failure by Employee to perform substantially his duties hereunder (other than any such failure resulting from Employee's incapacity due to physical or mental illness) after written notice of such failure has been given to Employee by the Company and Employee has had a reasonable period (not to exceed 15 days) to correct such failure;

(ii) conviction (or plea of nolo contendere) of Employee for any felony or any other crime which is materially detrimental to the Company (monetarily or otherwise);

(iii) any act or omission by Employee which materially damages the integrity, reputation or financial viability of the Company or its affiliates;

(iv) a breach or violation by Employee of (a) any material provision of this Agreement or (b) any material Company employment policy, which (in either case), if capable of being remedied, remains unremedied for more than 15 days after written notice thereof is given to Employee by the Company; or

(v) chronic alcohol abuse or illegal drug use by Employee that is determined by the Board to impair Employee's ability to perform his duties and responsibilities hereunder.

For purposes of this definition, no act or failure to act on Employee's part shall be considered "Misconduct" if done or omitted to be done by Employee in good faith and in the reasonable belief that such act or failure to act was in the best interest the Company or in furtherance of Employee's duties and responsibilities hereunder.

"Notice of Discontinuance" shall have the meaning specified in Section 2.2.

"Notice of Termination" shall mean a notice purporting to terminate Employee's employment in accordance with Section 4.1(a) or 4.2. Such notice shall specify the effective date of such termination, which date shall neither be less than 30 (10 in the case of a termination by the Company for Misconduct) nor more than 60 days after the date such notice is given. If such termination is by Employee for Good Reason or by the Company for Disability or Misconduct, such notice shall set forth in reasonable detail the reason for such termination and the facts and circumstances claimed to provide a basis therefor. Any notice purporting to terminate Employee's employment which is not in compliance with the requirements of this definition shall be ineffective.

"Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and any other entity.

"Qualifying Termination" shall have the meaning specified in Section 4.5.

"Severance Plan" shall have the meaning specified in Section 4.5(a).

"Specified Entities" shall mean any one or more of the following entities: (i) Atmos Energy Corporation, a Texas and Virginia corporation, (ii) Piedmont Natural Gas Company, Inc., a North Carolina corporation, (iii) AGL Resources Inc., a Georgia corporation, and (iv) TECO Energy, Inc., a Florida corporation, or a successor to any entity referred to in clause (i), (ii), (iii) or (iv) of this definition.

"Successor" shall mean, with respect to a Specified Entity, any entity in which the holders of capital stock of such Specified Entity outstanding immediately prior to a consolidation, acquisition or merger involving such Specified Entity hold, directly or indirectly, through wholly-owned subsidiaries, immediately after such consolidation, acquisition or merger.

"Term" shall have the meaning specified in Section 2.2.

"Termination Date" shall mean the termination date specified in a Notice of Termination delivered in accordance with this Agreement.

"Total Payment" shall have the meaning specified in Section 4.5(d)(i).

1.2 INTERPRETATIONS

(a) In this Agreement, unless a clear contrary intention appears, (i) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision, (ii) reference to any "Article" or "Section", means such Article or Section hereof, (iii) the word "including" (and with correlative meaning "include") means including, without limiting the generality of any description preceding such term, (iv) the word "affiliate" has the meaning stated in Rule 405 promulgated under the Securities Act of 1933, as amended, and (v) where any provision of this Agreement refers to action to be taken by either party, or which such party is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such party.

(b) The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

ARTICLE 2 EMPLOYMENT; TERM; POSITION AND DUTIES; ETC.

2.1 EMPLOYMENT

The Company agrees to continue Employee's employment with the Company and Employee agrees to remain in the employment of the Company, in each case on the terms and conditions set forth in this Agreement.

2.2 TERM OF AGREEMENT

Unless sooner terminated pursuant to Article 4, the term of this Agreement (the "Term") shall commence on the Effective Date and shall continue until the third anniversary of the Effective Date (the "Expiration Date"); provided, however, that beginning on the second anniversary of the Effective Date and on each day thereafter the Expiration Date shall be automatically extended one additional day unless either party (i) shall give written notice to the other (a "Notice of Discontinuance") that the Term shall cease to be so extended beginning immediately after the date of such notice or (ii) shall give a Notice of Termination to the other party pursuant to Section 4.1(a) or 4.2, as the case may be. No Notice of Discontinuance given by the Company shall be effective unless given pursuant to a resolution duly adopted by the affirmative vote of a least a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board). If either party gives a Notice of Discontinuance, Employee's employment hereunder shall continue until the expiration of the Term, subject to earlier termination pursuant to Article 4. Employee's continued employment, if any, after the expiration of the Term shall be "at will" employment.

2.3 POSITION AND DUTIES

(a) While employed hereunder, Employee shall serve as the Vice President Corporate Development of the Company and shall have and may exercise all of the powers, functions, duties and responsibilities normally attributable to such position. Employee shall have such additional duties and responsibilities commensurate with such position as from time to time may be reasonably assigned to Employee by the Board or the Chief Executive Officer of the Company. While employed hereunder, Employee shall (i) report directly to the Chief Executive Officer of the Company and the Board and (ii) observe and comply with all lawful policies, directions and instructions of the Board and the Chief Executive Officer of the Company which are consistent with the foregoing provisions of this paragraph (a).

(b) While employed hereunder, Employee shall devote substantially all of his business time, attention, skill and efforts to the faithful and efficient performance of his duties hereunder. Notwithstanding the foregoing, Employee may engage in the following activities so long as they do not interfere in any material respect with the performance of Employee's duties and responsibilities hereunder: (i) serve on corporate, civic, religious, educational and/or charitable boards or committees and (ii) manage his personal investments.

(c) While employed hereunder, Employee shall conduct himself in such a manner as not to intentionally and knowingly prejudice, in any material respect, the reputation of the Company or any of its affiliates, including U.S. Propane, L.P., or with the investment community or the public at large.

2.4 PLACE OF EMPLOYMENT

Employee's place of employment hereunder shall be at the Company's principal executive offices in the greater Tulsa, Oklahoma area.

ARTICLE 3
COMPENSATION AND BENEFITS

3.1 BASE SALARY

(a) For services rendered by Employee under this Agreement, the Company shall pay to Employee an annual base salary of \$200,000.00 ("Base Salary"). The Board shall review the Base Salary at least annually and may adjust the amount of the Base Salary at any time as the Board may deem appropriate in its sole discretion; provided, however, that in no event may the Base Salary be decreased below the above stated amount without the prior written consent of Employee.

(b) The Base Salary shall be payable in accordance with the Company's payroll practice for its executives as it is earned.

3.2 BONUS

(a) Employee shall be entitled to receive a bonus for the fiscal year ending August 31, 2000 of \$100,000, payable on or before December 1, 2000, provided (i) Employee is employed by the Company at the time of payment, (ii) the pre-established criteria for earning such bonus are satisfied and (iii) such bonus has not already been paid prior to the Effective Date.

(b) On or as soon as reasonably practical following the Effective Time, the Company shall pay Employee a bonus in an amount equal to the product of (x) the sum of the maximum federal and state individual income tax rates applicable to Employee and (y) the taxable compensation recognized by Employee, if any, due to the vesting of his units granted under the Heritage Propane Partners, L.P. Restricted Unit Plan upon the change of control of the Company occurring upon the Closing, less all applicable taxes the Company is required to withhold therefrom by applicable law.

(c) The Employee will participate in bonus and incentive plans with substantially equivalent economic provisions as set forth in Exhibit A hereto.

3.3 VACATION

While employed hereunder, Employee shall be entitled to vacation benefits in accordance with the vacation policy approved by the Board from time to time for the Company's executives in general. Employee shall not be entitled to accumulate and carryover unused vacation time from year to year, except to the extent permitted in accordance with the Company's vacation policy for executives in general, nor shall Employee be entitled to compensation for unused vacation time except as provided in Section 4.3(a).

3.4 BUSINESS EXPENSES

The Company shall, in accordance with the rules and policies that it may establish from time to time for executives, reimburse Employee for business expenses reasonably incurred in

the performance of Employee's duties. Requests for reimbursement for such expenses must be accompanied by appropriate documentation as required by such rules and policies.

3.5 OTHER BENEFITS

Employee shall be entitled to receive all employee benefits, fringe benefits and other perquisites that may be offered by the Company to its executives as a group, including participation by Employee and, where applicable, Employee's dependents, in the various employee benefit plans or programs (including pension plans, profit sharing plans, stock plans, health plans, life insurance and disability insurance) provided to executives of the Company in general, subject to meeting the eligibility requirements with respect to each of such benefit plans or programs. However, nothing in this Section 3.5 shall be deemed to prohibit the Company from making any changes in any of the plans, programs or benefits described herein.

3.6 INDEMNIFICATION

Employee shall be entitled to (i) indemnification and advancement of expenses from the Company in accordance with the provisions of the Bylaws of the Company, and (ii) coverage under the applicable directors' and officers' insurance policy (if any) maintained by the Company or any of its affiliates regarding actions and omissions by Employee during the Term (whether on behalf of the Company or any of its Affiliates).

ARTICLE 4 TERMINATION OF EMPLOYMENT

4.1 TERMINATION BY EMPLOYEE; DEATH

(a) Employee may, at any time prior to the Expiration Date, terminate his employment hereunder for any reason by delivering a Notice of Termination to the Board and the Chief Executive Officer of the Company.

(b) Employee's employment hereunder shall terminate upon his death.

4.2 TERMINATION BY THE COMPANY

The Company may, at any time prior to the Expiration Date, terminate Employee's employment hereunder for any reason by delivering a Notice of Termination to Employee; provided, however, that in no event shall the Company be entitled to terminate Employee's employment prior to the Expiration Date unless the Board shall duly adopt, by the affirmative vote of at least a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board), a resolution authorizing such termination and stating that, in the opinion of the Board, sufficient reason exists therefor.

4.3 PAYMENT OF ACCRUED BASE SALARY, VACATION PAY, ETC.

(a) Promptly upon the termination of Employee's employment for any reason (including death), the Company shall pay to Employee (or his estate) a lump sum amount for (i) any unpaid Base Salary earned hereunder prior to the termination date and any accrued but

unpaid bonus as of the termination date, but only to the extent such bonus has accrued and is payable to Employee after termination of employment pursuant to the terms of the applicable bonus plan or policy; (ii) all unused vacation time accrued by Employee as of the termination date in accordance with Section 3.3; (iii) all unpaid benefits earned or vested, as the case may be, by Employee as of the termination date under any and all incentive or deferred compensation plans or programs of the Company and (iv) any amounts in respect of which Employee has requested, and is entitled to, reimbursement in accordance with Section 3.4.

(b) A termination of Employee's employment in accordance with this Agreement under any Section of this Article 4 shall not alter or impair, nor enhance or increase, any of Employee's rights or benefits under any employee benefit plan or program or incentive or deferred compensation plan or program maintained by the Company, in each case except as provided therein or in any written agreement entered into between the Company and Employee pursuant thereto.

(c) If Employee's employment hereunder is terminated due to his death or Disability, by Employee for a Good Reason, by the Company other than for Misconduct, or upon a Change of Control of the Company, all Company-imposed restrictions on the transferability of the Units (as defined in the Subscription Agreement dated as of June 15, 2000, by and among Heritage MLP and the other parties thereto (the "Subscription Agreement")) purchased by Employee on the Closing shall automatically lapse in full on such date. Upon Employee's request accompanied by Employee's certificate for Units, the Company shall cause a new certificate to be issued to Employee for such Units without a legend referring to such Company-imposed restrictions. A copy of such Company-imposed restrictions is attached as Annex II to the Subscription Agreement.

4.4 DISABILITY PAYMENTS

If Employee incurs a Disability, the Company may terminate Employee's employment hereunder by delivering a Notice of Termination to Employee; provided, however, in such event the Company shall continue to pay to Employee, through the remainder of the Term (as determined without regard to its earlier termination upon Employee's termination due to Disability under this Section 4.4 and, if the Termination Date is on or after the second anniversary of the Effective Date, without any extension of the Term under Section 2.2 after such Termination Date) or until Employee's death, if earlier, at such regularly scheduled times:

(A) the Base Salary in effect immediately prior to the date of such termination, minus

(B) any amount payable to Employee under any disability plan maintained by the Company for the benefit of Employee.

4.5 OTHER BENEFITS

The following provisions shall apply (i) following a Change of Control or (ii) if Employee terminates his employment pursuant to Section 4.1 for Good Reason or (iii) if the Company terminates Employee's employment pursuant to Section 4.2 for any reason other than Misconduct (a "Qualifying Termination"):

(a) Base Salary and Bonus Payments. For the remainder of the Term (as determined without regard to its earlier termination pursuant to Section 4.1(a) or 4.2 and, if such termination date is on or after the second anniversary of the Effective Date, without any extension of the Term after such termination date) or until Employee's death, if earlier (the "Continuation Period"), the Company shall pay to Employee, at the regularly scheduled times, the sum of the Base Salary (as in effect on the date on which the relevant Notice of Termination is given in accordance with this Agreement) and the Bonus Payment. The "Bonus Payment" shall be an amount (A) for the Short Term Incentive Plan, equal to the actual results of operations compared to the budgeted EBITDA to the month end accounting period nearest to the date of the Qualifying Termination (the "Short Incentive Term") expressed as a percentage times the excess, if any, of the actual EBITDA over the budgeted EBITDA for the same period times the appropriate percentages set forth within the plan (with the EBITDA range adjusted to numbers that correspond to the budgeted EBITDA for the Short Incentive Term rather than the annual numbers used for the range) times the Employee's percentage and (B) for the Long Term Incentive Plan, equal to the Employee's percentage portion of the bonus determined by substituting the average annual distributable cash for the 24-month period directly preceding the date of the Qualifying Termination times three, substituted for the three-year moving average in the formula for all periods of the plan that have 12 months or less to vest. (Unvested terms of less than 24 months will not be entitled to any bonus under this computation.) The amount payable to Employee under this paragraph (a) is in lieu of, and not in addition to, any severance payment due or to become due to Employee under any separate agreement or contract between Employee and the Company or pursuant to any severance payment plan, program or policy of the Company or any affiliate (collectively, "Severance Plan"). Any severance amounts received by Employee under a Severance Plan shall be applied as an offset to (reduce or eliminate, as the case may be) any future payments otherwise to be made to Employee under this paragraph (a); i.e., no additional payments shall be made under this paragraph (a) until the aggregate amount of the offsets hereunder equals the severance amounts received by Employee under the Severance Plan.

(b) Health Plan Benefits. The Company shall at all times during the Continuation Period cause Employee and Employee's eligible dependents to be covered by and to participate in, to the fullest extent allowable under the terms thereof, all group health insurance plans and programs that may be offered to the executives of the Company so that Employee will receive, at all times during the Continuation Period, the same benefits under such plans and programs that Employee would have been entitled to receive had he remained an executive of the Company; provided, however, (i) Employee must timely pay the "active" employee premium, if any, for such continued coverage; (ii) Employee must timely elect COBRA continuation coverage thereunder upon his termination of employment; and (iii) in the event Employee and his eligible dependents become covered during the Continuation Period by another employer's group health plan or programs which does not contain any effective exclusion or limitation with respect to any pre-existing conditions, then the Company's group health plans shall no longer be liable for any benefits under this paragraph (b).

(c) Release. Notwithstanding anything in this Section 4.5 to the contrary, as a condition to the receipt of any payment or benefit under this Section 4.5, Employee must first execute and deliver to the Company a release in a form prepared by the Company, releasing the Company, its officers, the Board, employees and agents from any and all claims and from any

and all causes of action of any kind or character that Employee may have arising out of Employee's employment with the Company or the termination of such employment, but excluding any claims and causes of action that Employee may have arising under or based upon this Agreement.

(d) Parachute Tax.

(i) If the payments and benefits provided to Employee under this Agreement or under any other agreement with, or plan of, the Company (the "Total Payment") (A) constitute a "parachute payment" as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and exceed three times Employee's "base amount" as defined under Code Section 280G(b)(3) by less than 10% of three times Employee's base amount, and (B) would, but for this Section 4.5(d)(i), be subject to the excise tax imposed by Code Section 4999, then Employee's payments and benefits under this Agreement shall be either (I) paid in full, or (II) reduced and payable only as to the maximum amount which would result in no portion of such payments and benefits being subject to excise tax under Code Section 4999, whichever results in the receipt by Employee on an after-tax basis of the greatest amount of Total Payment (taking into account the applicable federal, state and local income taxes, the excise tax imposed by Code Section 4999 and all other taxes (including any interest and penalties) payable by Employee). If a reduction of the Total Payment is necessary, Employee shall be entitled to select which payments or benefits will be reduced and the manner and method of any such reduction of such payments and benefits. Within 30 days after the amount of any required reduction in payments and benefits is finally determined under Section 4.5(d)(iii), Employee shall notify the Company in writing regarding which payments and benefits are to be reduced. If no notification is given by Employee, the Company will determine which payments and benefits to reduce. If, as a result of any reduction required by this Section 4.5(d)(i), amounts previously paid to Employee exceed the amount to which Employee is entitled, Employee will promptly return the excess amount to the Company.

(ii) If the Total Payment constitutes a "parachute payment" as defined in Code Section 280G and exceeds three times Employee's "base amount" as defined under Code Section 280G(b)(3) by 10% or more of three times Employee's base amount, the Company shall provide to Employee, in cash, an additional payment in an amount to cover the full excise tax due under Code Section 4999, plus Employee's state and federal income, employment, excise, and other taxes (including interest and penalties) on this additional payment (the "Gross-Up Payment"). Any amount payable under this Section 4.5(d)(ii) shall be paid as soon as possible following the date of Employee's Qualifying Termination, but in no event later than 30 days after such date.

(iii) All determinations required to be made under this Section 4.5(d), including whether reductions are necessary or whether a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be used in determining such Gross-Up Payment, shall be made by the accounting firm used by the Company at the time of such determination (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Company and to Employee within 15

business days of the receipt of notice from the Company or Employee that there has been a Qualifying Termination, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity, or group effecting the change in control transaction, Employee may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company.

(iv) In the event Employee is entitled to a Gross-Up Payment under Section 4.5(d)(ii) and the Internal Revenue Service subsequently increases the excise tax computation described in Section 4.5(d)(ii), the Company shall reimburse Employee for the full amount necessary to make Employee whole on an after-tax basis (less any amounts received by Employee that Employee would not have received had the computations initially been computed as subsequently adjusted), including the value of any underpaid excise tax, and any related interest and/or penalties due to the Internal Revenue Service.

4.6 NON-EXCLUSIVITY OF RIGHTS

Nothing in this Agreement shall prevent or limit Employee's continuing or future participation in any plan, program, policy or practice provided by the Company for which Employee may qualify, nor shall anything herein limit or otherwise affect such rights as Employee may have under any other contract or agreement with the Company. Amounts which are vested benefits or which Employee is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company at or subsequent to the Termination Date shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. However, the Continuation Period shall not be credited as continued employment of Employee for any purpose under any such plan, policy, practice or program.

ARTICLE 5 CONFIDENTIAL INFORMATION AND NON-SOLICITATION

5.1 CONFIDENTIAL INFORMATION

(a) Employee recognizes that the services to be performed by Employee hereunder are special, unique, and extraordinary and that, by reason of Employee's employment with the Company, Employee will be provided Confidential Information concerning the operation of the Company, the use or disclosure of which would cause the Company substantial loss and damages which could not be readily calculated and for which no remedy at law would be adequate. Accordingly, Employee agrees that Employee will not (directly or indirectly) at any time, whether during or after Employee's employment with the Company and its affiliates, (i) knowingly use for an improper personal benefit any Confidential Information that Employee may learn or has learned by reason of Employee's employment with the Company or (ii) disclose any such Confidential Information to any Person except (A) in the performance of Employee's obligations to the Company hereunder, (B) as required by applicable law, (C) in connection with

the enforcement of Employee's rights under this Agreement, (D) in connection with any disagreement, dispute or litigation (pending or threatened) between Employee and the Company or (E) with the prior written consent of the Board or the Chief Executive Officer of the Company. As used herein, "Confidential Information" includes, but is not limited to, information with respect to the Company's products, facilities and methods, research and development, trade secrets and other intellectual property, systems, patents and patent applications, procedures, manuals, confidential reports, product price lists, customer lists, financial information, business plans, prospects or opportunities; provided, however, that such term shall not include any information that (x) is or becomes generally known or available other than as a result of improper disclosure by Employee or (y) is or becomes known or available to Employee on a nonconfidential basis from a source (other than the Company) which, to Employee's knowledge, is not prohibited from disclosing such information to Employee by a legal, contractual, fiduciary or other obligation to the Company.

(b) Employee confirms that all Confidential Information is the exclusive property of the Company. All business records, papers and documents kept or made by Employee while employed by the Company relating to the business of the Company shall be and remain the property of the Company at all times. Upon the request of the Company at any time, Employee shall promptly deliver to the Company, and shall retain no copies of, any written materials, records and documents made by Employee or coming into his possession while employed by the Company concerning the business or affairs of the Company other than personal materials, records and documents (including notes and correspondence) of Employee not containing Confidential Information relating to such business or affairs. Notwithstanding the foregoing, Employee shall be permitted to retain copies of, or have access to, all such materials, records and documents relating to any disagreement, dispute or litigation (pending or threatened) between Employee and the Company.

5.2 NON-SOLICITATION

(a) In consideration for the Company's agreement to provide Employee access to Confidential Information and the other benefits provided Employee by this Agreement, Employee agrees that while employed by the Company and for two years after the termination of such employment (for any reason) (the "Restricted Period"), Employee shall not, whether for his own account or for the account of any other Person (excluding the Company), intentionally (i) solicit, endeavor to entice or induce any employee of the Company or any affiliate to terminate his or her employment with the Company or such affiliate or accept employment with anyone else, (ii) call upon any Person or entity that was during the Term a customer of the Company or an affiliate of the Company for the purpose of soliciting orders or contracts from such Person of a type that such customer has with the Company or an affiliate of the Company if such services would be performed in the same city or within seventy-five (75) miles in all directions from the boundary of the city limits where the Company or its affiliate performs such services for the customer, or (iii) interfere in a similar manner with the business of the Company or an affiliate.

(b) Employee has carefully read and considered the provisions of this Section 5.2 and, having done so, agrees that the restrictions set forth in this Section 5.2 (including the Restricted Period, scope of activity to be restrained and the geographical scope) are fair and

reasonable and are reasonably required for the protection of the interests of the Company, its officers, directors, employees, creditors and shareholders. Employee understands that the restrictions contained in this Section 5.2 may limit his ability to engage in a business similar to the Company's business, but acknowledges that he will receive sufficiently high remuneration and other benefits from the Company hereunder to justify such restrictions.

(c) It is specifically agreed that the Restricted Period, during which the agreements and covenants of Employee made herein shall be effective, shall be computed by excluding from such computation any time which Employee is in violation of any provision of this Article 5.

(d) In the event that any provision of this Section 5.2 relating to the Restricted Period and/or the areas of restriction shall be declared by a court of competent jurisdiction to exceed the maximum time period or areas such court deems reasonable and enforceable, the Restricted Period and/or areas of restriction deemed reasonable and enforceable by the court shall become and thereafter be the maximum time period and/or areas.

5.3 STOCK OWNERSHIP

Nothing in this Agreement shall prohibit Employee from acquiring or holding any issue of stock or securities of any Person that has any securities registered under Section 12 of the Exchange Act, listed on a national securities exchange or quoted on the automated quotation system of the National Association of Securities Dealers, Inc. so long as (i) Employee is not deemed to be an "affiliate" of such Person, and (ii) Employee and members of his immediate family do not own or hold more than 3% of any class of voting securities of any such Person.

5.4 INJUNCTIVE RELIEF

Employee acknowledges that a breach of any of the covenants contained in this Article 5 may result in material irreparable injury to the Company for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach, any payments remaining under the terms of this Agreement shall cease and the Company shall be entitled to obtain a temporary restraining order and/or a preliminary or permanent injunction restraining Employee from engaging in activities prohibited by this Article 5 or such other relief as may be required to specifically enforce any of the covenants contained in this Article 5. Employee agrees to waive any requirement for the Company's securing or posting of any bond in connection with such remedies. Employee further agrees to and hereby does submit to in personam jurisdiction before each and every such court for that purpose.

5.5 FORFEITURE FOR BREACH

A breach of this Article 5 by Employee shall cause an immediate forfeiture of all rights Employee may have under this Agreement to receive any payments or benefits after the date of such breach.

ARTICLE 6
ARBITRATION

EXCEPT WITH RESPECT TO INJUNCTIVE RELIEF AS PROVIDED IN SECTION 5.4 ABOVE, THE PARTIES AGREE TO RESOLVE ANY CLAIM OR CONTROVERSY ARISING OUT OF OR RELATING TO THIS AGREEMENT, INCLUDING THE EMPLOYMENT OF EMPLOYEE, THE TERMINATION OF EMPLOYMENT OF EMPLOYEE, OR CLAIMS UNDER TITLE VII OF THE CIVIL RIGHTS ACT, THE AMERICANS WITH DISABILITIES ACT, THE AGE DISCRIMINATION IN EMPLOYMENT ACT, AND THE FAMILY MEDICAL LEAVE ACT, BY BINDING ARBITRATION UNDER THE FEDERAL ARBITRATION ACT BEFORE ONE ARBITRATOR IN THE CITY OF TULSA, STATE OF OKLAHOMA, ADMINISTERED BY THE AMERICAN ARBITRATION ASSOCIATION UNDER ITS COMMERCIAL ARBITRATION RULES, AND JUDGMENT ON THE AWARD RENDERED BY THE ARBITRATOR MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF. THE FEES AND EXPENSES OF THE ARBITRATOR SHALL BE BORNE SOLELY BY THE NON-PREVAILING PARTY OR, IN THE EVENT THERE IS NO CLEAR PREVAILING PARTY, AS THE ARBITRATOR DEEMS APPROPRIATE. EXCEPT AS PROVIDED ABOVE, EACH PARTY SHALL PAY ITS OWN COSTS AND EXPENSES (INCLUDING ATTORNEYS' FEES) RELATING TO ANY ARBITRATION PROCEEDING CONDUCTED UNDER THIS ARTICLE 6.

ARTICLE 7
MISCELLANEOUS PROVISIONS

7.1 NO MITIGATION OR OFFSET

The provisions of this Agreement are not intended to, nor shall they be construed to, require that Employee mitigate the amount of any payment provided for in this Agreement by seeking or accepting other employment or becoming self-employed, nor shall the amount of any payment provided for in this Agreement be reduced by any compensation earned by Employee as the result of employment by another employer, self-employment or otherwise. Without limitation of the foregoing, the Company's obligations to make the payments to Employee required under this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set off (other than as provided in Section 4.5(a)), counterclaim, recoupment, defense or other claim, right or action that the Company may have against Employee (other than as provided in Section 5.5).

7.2 ASSIGNABILITY

The obligations of Employee hereunder are personal and may not be assigned or delegated by Employee or transferred in any manner whatsoever, nor are such obligations subject to involuntary alienation, assignment or transfer. The Company shall have the right to assign this Agreement and to delegate all rights, duties and obligations hereunder as provided in Section 7.5.

7.3 NOTICES

All notices and all other communications provided for in the Agreement shall be in writing and addressed (i) if to the Company, the Board, or the Chairman of the Board, at the principal office address of the Company or such other address as it may have designated by written notice to Employee for purposes hereof, directed to the attention of the Chief Executive Officer with a copy to the Secretary of the Company and (ii) if to Employee, at his residence

address on the records of the Company or to such other address as he may have designated to the Company in writing for purposes hereof. Each such notice or other communication shall be deemed to have been duly delivered, provided or given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, except that any notice of change of address shall be effective only upon receipt.

7.4 SEVERABILITY

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

7.5 SUCCESSORS; BINDING AGREEMENT

(a) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance reasonably acceptable to Employee, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used herein, the term "Company" shall include any successor to its business and/or assets as aforesaid which executes and delivers the assumption agreement provided for in this Section 7.5 or which otherwise becomes bound by all terms and provisions of this Agreement by operation of law.

(b) This Agreement and all rights of Employee hereunder shall inure to the benefit of and be enforceable by Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Employee should die while any amounts are due him hereunder, all such amounts shall be paid in accordance with the terms of this Agreement to Employee's devisee, legatee, or other designee or, if there be no such designee, to Employee's estate.

7.6 TAX WITHHOLDINGS

The Company shall withhold from all payments hereunder all applicable taxes (federal, state or other) which it is required to withhold therefrom unless Employee has otherwise paid (or made other arrangements satisfactory) to the Company the amount of such taxes.

7.7 AMENDMENTS AND WAIVERS

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by Employee and such member of the Board as may be specifically authorized by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or in compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

7.8 ENTIRE AGREEMENT; TERMINATION OF ANY OTHER AGREEMENTS

This Agreement is an integration of the parties' agreement with respect to the subject matter hereof and no agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. This Agreement hereby expressly terminates, rescinds and replaces any prior agreement (written or oral) between the parties relating to the subject matter hereof, including, without limitation, that certain Employment Agreement between the parties dated April 15, 1998.

7.9 GOVERNING LAW; SUBMISSION TO JURISDICTION

(a) THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF OKLAHOMA WITHOUT REGARD TO ITS CONFLICT OF LAWS PROVISION, OTHER THAN THE PROVISIONS OF SECTION 5.2, WHICH SHALL BE GOVERNED BY THE LAWS OF THE STATE OF ANY ALLEGED VIOLATION. IT IS THE INTENT OF THE PARTIES THAT THE PROVISIONS OF SECTION 5.2 BE INTERPRETED TO IMPOSE THE MAXIMUM PERIOD OF RESTRICTION UNDER THE GOVERNING LAW OF SUCH SECTION.

(b) EACH PARTY HERETO HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS IN TULSA COUNTY, OKLAHOMA, FOR THE PURPOSES OF ANY PROCEEDING ARISING OUT OF THIS AGREEMENT.

7.10 EMPLOYMENT WITH AFFILIATES

For purposes of this Agreement, employment with any affiliates of the Company, U.S. Propane, L.P. or with any of their respective affiliates shall be deemed to be employment with the Company.

7.11 SURVIVAL

The provisions of Articles 5 and 6 and Section 7.9, and any other provisions necessary to give full effect to the terms of this Agreement, shall survive the termination of this Agreement.

7.12 COUNTERPARTS

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

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the Effective Date.

HERITAGE HOLDINGS, INC.

By: _____

Name: _____

Title: _____

EMPLOYEE

Bradley K. Atkinson

EXHIBIT A

PROPOSED MANAGEMENT INCENTIVE COMPENSATION

POSITION	BASE SALARY	PERCENTAGE OF INCENTIVE	
		SHORT-TERM	LONG-TERM
CEO	\$ 350,000	14.00%	16.00%
COO	335,000	14.00%	16.00%
CFO	325,000	14.00%	16.00%
Acquisition	200,000	14.00%	16.00%
VP Western Operations	150,000	7.00%	8.67%
VP Northern Operations	135,000	7.00%	8.67%
VP Southern Operations	135,000	7.00%	8.67%
Discretionary (Corp. & Others)		23.00%	10.00%
	\$ 1,630,000	100.00%	100.00%

SHORT-TERM INCENTIVE PLAN

- For FY 2001, management will receive the following for EBITDA in excess of a Base \$76.0 million. The beginning Base is higher than \$73.2 million in order to offset the higher Base Salaries:
 - 15% of EBITDA over \$76 million up to \$80 million
 - 17.5% of EBITDA over \$80 million up to \$85 million
 - 20% of EBITDA over \$85 million
- No cap on short-term incentive, and increasing percentage to encourage outstanding performance.
- In the very unlikely event that the short-term incentive earned is over \$2.0 million, the excess bonus would be deferred to the following year. In this way, when the Board raises the "bar" the following fiscal year, there is a bonus to be paid.
- The Board sets the \$76.0 million EBITDA Base Target which remains unchanged during Fiscal YR 2001.
- Targets in subsequent fiscal years will be set by the Board at its sole discretion.

LONG-TERM INCENTIVE PLAN

- A minimum of 250,000 units and a maximum of 500,000 units will be awarded based on achieving certain targeted levels of Distributed Cash per unit.
- Awards under the program will be made starting in 2003 based upon the average of the prior three years Distributed Cash per unit. Each year, beginning after Fiscal YR 2003, units will be awarded based upon levels detailed below.

	2003	2004	2005	TOTALS
	-----	-----	-----	-----
Moving Average Period	2001-2003	2002-2004	2003-2005	
Three Year Average of Distributed Cash per Unit	\$ 2.50	\$ 2.65	\$ 2.80	
Maximum Target Level	\$ 2.80	\$ 2.95	\$ 3.10	
VALUE ASSUMING CURRENT COMMON UNIT PRICE				
Minimum Award	83,333	83,333	83,333	250,000
Value at a Common Unit Price of	\$ 18.375 \$ 1,531,250	\$ 1,531,250	\$ 1,531,250	\$ 4,593,750
Maximum Award	166,667	166,667	166,667	500,000
Value at a Common Unit Price of	\$ 18.375 \$ 3,062,500	\$ 3,062,500	\$ 3,062,500	\$ 9,187,500
HYPOTHETICAL VALUES ASSUMING A HIGHER COMMON UNIT PRICE				
Minimum Award	83,333	83,333	83,333	250,000
Value at a Common Unit Price of	\$ 25.000 \$ 2,083,333	\$ 2,083,333	\$ 2,083,333	\$ 6,250,000
Maximum Award	166,667	166,667	166,667	500,000
Value at a Common Unit Price of	\$ 25.000 \$ 4,166,667	\$ 4,166,667	\$ 4,166,667	\$12,500,000

HERITAGE HOLDINGS, INC.

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into effective as of the Closing ("Effective Date") by and between Heritage Holdings, Inc., a Delaware corporation ("Company"), and Mark A. Darr ("Employee").

RECITALS

WHEREAS, Employee is currently an employee of the Company; and

WHEREAS, the Company desires for Employee to continue with the Company and Employee is willing to continue with the Company, on the terms and conditions herein set forth;

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties, and agreements contained herein, and for other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1
DEFINITIONS AND INTERPRETATIONS

1.1 DEFINITIONS

For purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following terms shall have the following respective meanings:

"Accounting Firm" shall have the meaning specified in Section 4.5(d)(iii).

"Base Salary" shall have the meaning specified in Section 3.1.

"Board" shall mean the Board of Directors of the Company.

"Bonus Payment" shall have the meaning specified in Section 4.5(a).

"Change of Control" shall mean the date that the Specified Entities cease to own, directly or indirectly through wholly-owned subsidiaries, in the aggregate at least 65% of the capital stock of the Company.

"Closing" shall mean the closing date of the purchase of Company stock contemplated in the Stock Purchase Agreement, dated June 15, 2000, among U.S. Propane, L.P. and the other parties thereto.

"Code" shall have the meaning specified in Section 4.5(d)(i).

"Confidential Information" shall have the meaning specified in Section 5.1(a).

"Continuation Period" shall have the meaning specified in Section 4.5(a).

"Designated Current Manager" shall mean each of R.C. Mills and Employee, current executive officers of the Company, together with, in the case of either such executive officer, the heirs of, and trusts for the benefit of family members controlled by, such executive officer.

"Disability" shall mean a physical or mental condition of Employee that, in the good faith judgment of not less than a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board), based upon certification by a licensed physician reasonably acceptable to Employee and the Board, (i) prevents Employee from being able to perform the services required under this Agreement, (ii) has continued for a period of at least 180 days during any 12-month period, and (iii) is expected to continue.

"Dispute" shall have the meaning specified in Article 6.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Expiration Date" shall have the meaning specified in Section 2.2.

"Good Reason" shall mean any of the following:

(i) the assignment to Employee of any duties materially inconsistent with Employee's position (including a materially adverse change in Employee's office, title and reporting requirements), authority, duties or responsibilities;

(ii) any termination by the Company of Employee's employment other than as expressly permitted by this Agreement;

(iii) any failure by the Company to comply with and satisfy Section 7.5 (requiring the Company to require any successor to expressly assume and agree to perform all obligations under this Agreement); or

(iv) a breach or violation by the Company of any material provision of this Agreement, which breach or violation remains unremedied for more than 30 days after written notice thereof is given to the Company by Employee.

For purposes of this definition, no act or failure to act on the Company's part shall be considered a "Good Reason" unless Employee has given the Company written notice of such act or failure to act within 30 days thereof and the Company fails to remedy such act or failure to act within 15 days of its receipt of such notice.

"Gross-Up Payment" shall have the meaning specified in Section 4.5(d)(ii).

"Misconduct" shall mean one or more of the following:

(i) the willful and continued failure by Employee to perform substantially his duties hereunder (other than any such failure resulting from Employee's incapacity due to physical or

mental illness) after written notice of such failure has been given to Employee by the Company and Employee has had a reasonable period (not to exceed 15 days) to correct such failure;

(ii) conviction (or plea of nolo contendere) of Employee for any felony or any other crime which is materially detrimental to the Company (monetarily or otherwise);

(iii) any act or omission by Employee which materially damages the integrity, reputation or financial viability of the Company or its affiliates;

(iv) a breach or violation by Employee of (a) any material provision of this Agreement or (b) any material Company employment policy, which (in either case), if capable of being remedied, remains unremedied for more than 15 days after written notice thereof is given to Employee by the Company; or

(v) chronic alcohol abuse or illegal drug use by Employee that is determined by the Board to impair Employee's ability to perform his duties and responsibilities hereunder.

For purposes of this definition, no act or failure to act on Employee's part shall be considered "Misconduct" if done or omitted to be done by Employee in good faith and in the reasonable belief that such act or failure to act was in the best interest of the Company or in furtherance of Employee's duties and responsibilities hereunder.

"Notice of Discontinuance" shall have the meaning specified in Section 2.2.

"Notice of Termination" shall mean a notice purporting to terminate Employee's employment in accordance with Section 4.1(a) or 4.2. Such notice shall specify the effective date of such termination, which date shall neither be less than 30 (10 in the case of a termination by the Company for Misconduct) nor more than 60 days after the date such notice is given. If such termination is by Employee for Good Reason or by the Company for Disability or Misconduct, such notice shall set forth in reasonable detail the reason for such termination and the facts and circumstances claimed to provide a basis therefor. Any notice purporting to terminate Employee's employment which is not in compliance with the requirements of this definition shall be ineffective.

"Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and any other entity.

"Qualifying Termination" shall have the meaning specified in Section 4.5.

"Severance Plan" shall have the meaning specified in Section 4.5(a).

"Specified Entities" shall mean any one or more of the following entities: (i) Atmos Energy Corporation, a Texas and Virginia corporation, (ii) Piedmont Natural Gas Company, Inc., a North Carolina corporation, (iii) AGL Resources, Inc., a Georgia corporation, and (iv) TECO Energy, Inc., a Florida corporation, or a successor to any entity referred to in clause (i), (ii), (iii) or (iv) of this definition.

"Successor" shall mean, with respect to a Specified Entity, any entity in which the holders of capital stock of such Specified Entity outstanding immediately prior to a consolidation, acquisition or merger involving such Specified Entity hold, directly or indirectly, through wholly-owned subsidiaries, immediately after such consolidation, acquisition or merger.

"Term" shall have the meaning specified in Section 2.2.

"Termination Date" shall mean the termination date specified in a Notice of Termination delivered in accordance with this Agreement.

"Total Payment" shall have the meaning specified in Section 4.5(d)(i).

1.2 INTERPRETATIONS

(a) In this Agreement, unless a clear contrary intention appears, (i) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision, (ii) reference to any "Article" or "Section", means such Article or Section hereof, (iii) the word "including" (and with correlative meaning "include") means including, without limiting the generality of any description preceding such term, (iv) the word "affiliate" has the meaning stated in Rule 405 promulgated under the Securities Act of 1933, as amended, and (v) where any provision of this Agreement refers to action to be taken by either party, or which such party is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such party.

(b) The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

ARTICLE 2 EMPLOYMENT; TERM; POSITION AND DUTIES; ETC.

2.1 EMPLOYMENT

The Company agrees to continue Employee's employment with the Company and Employee agrees to remain in the employment of the Company, in each case on the terms and conditions set forth in this Agreement.

2.2 TERM OF AGREEMENT

Unless sooner terminated pursuant to Article 4, the term of this Agreement (the "Term") shall commence on the Effective Date and shall continue until the third anniversary of the Effective Date (the "Expiration Date"); provided, however, that beginning on the second anniversary of the Effective Date and on each day thereafter the Expiration Date shall be automatically extended one additional day unless either party (i) shall give written notice to the other (a "Notice of Discontinuance") that the Term shall cease to be so extended beginning immediately after the date of such notice or (ii) shall give a Notice of Termination to the other party pursuant to Section 4.1(a) or 4.2, as the case may be. No Notice of Discontinuance given

by the Company shall be effective unless given pursuant to a resolution duly adopted by the affirmative vote of a least a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board). If either party gives a Notice of Discontinuance, Employee's employment hereunder shall continue until the expiration of the Term, subject to earlier termination pursuant to Article 4. Employee's continued employment, if any, after the expiration of the Term shall be "at will" employment.

2.3 POSITION AND DUTIES

(a) While employed hereunder, Employee shall serve as the Vice President-Southern Operations of the Company and shall have and may exercise all of the powers, functions, duties and responsibilities normally attributable to such position. Employee shall have such additional duties and responsibilities commensurate with such position as from time to time may be reasonably assigned to Employee by the Board or the Chief Executive Officer of the Company. While employed hereunder, Employee shall (i) report directly to the Chief Executive Officer of the Company and (ii) observe and comply with all lawful policies, directions and instructions of the Board and the Chief Executive Officer of the Company which are consistent with the foregoing provisions of this paragraph (a).

(b) While employed hereunder, Employee shall devote substantially all of his business time, attention, skill and efforts to the faithful and efficient performance of his duties hereunder. Notwithstanding the foregoing, Employee may engage in the following activities so long as they do not interfere in any material respect with the performance of Employee's duties and responsibilities hereunder: (i) serve on corporate, civic, religious, educational and/or charitable boards or committees and (ii) manage his personal investments.

(c) While employed hereunder, Employee shall conduct himself in such a manner as not to intentionally and knowingly prejudice, in any material respect, the reputation of the Company or any of its affiliates, including U.S. Propane, L.P., or with the investment community or the public at large.

2.4 PLACE OF EMPLOYMENT

Employee's place of employment hereunder shall be at the Company's principal executive offices in the greater Jacksonville, Florida area or such other areas as the Chief Executive Officer shall assign.

ARTICLE 3 COMPENSATION AND BENEFITS

3.1 BASE SALARY

(a) For services rendered by Employee under this Agreement, the Company shall pay to Employee an annual base salary of \$135,000.00 ("Base Salary"). The Board shall review the Base Salary at least annually and may adjust the amount of the Base Salary at any time as the Board may deem appropriate in its sole discretion; provided, however, that in no event may the Base Salary be decreased below the above stated amount without the prior written consent of Employee.

(b) The Base Salary shall be payable in accordance with the Company's payroll practice for its executives as it is earned.

3.2 BONUS

The Employee will participate in bonus and incentive plans with substantially equivalent economic provisions as set forth in Exhibit A hereto.

3.3 VACATION

While employed hereunder, Employee shall be entitled to vacation benefits in accordance with the vacation policy approved by the Board from time to time for the Company's executives in general. Employee shall not be entitled to accumulate and carryover unused vacation time from year to year, except to the extent permitted in accordance with the Company's vacation policy for executives in general, nor shall Employee be entitled to compensation for unused vacation time except as provided in Section 4.3(a).

3.4 BUSINESS EXPENSES

The Company shall, in accordance with the rules and policies that it may establish from time to time for executives, reimburse Employee for business expenses reasonably incurred in the performance of Employee's duties. Requests for reimbursement for such expenses must be accompanied by appropriate documentation as required by such rules and policies.

3.5 OTHER BENEFITS

Employee shall be entitled to receive all employee benefits, fringe benefits and other perquisites that may be offered by the Company to its executives as a group, including participation by Employee and, where applicable, Employee's dependents, in the various employee benefit plans or programs (including pension plans, profit sharing plans, stock plans, health plans, life insurance and disability insurance) provided to executives of the Company in general, subject to meeting the eligibility requirements with respect to each of such benefit plans or programs. However, nothing in this Section 3.5 shall be deemed to prohibit the Company from making any changes in any of the plans, programs or benefits described herein. In addition, Employee shall be entitled to a life insurance benefit that is the same or reasonably comparable to that which is provided to Employee by the Company at the Effective Date.

3.6 INDEMNIFICATION

Employee shall be entitled to (i) indemnification and advancement of expenses from the Company in accordance with the provisions of the Bylaws of the Company, and (ii) coverage under the applicable directors' and officers' insurance policy (if any) maintained by the Company or any of its affiliates regarding actions and omissions by Employee during the Term (whether on behalf of the Company or any of its Affiliates).

ARTICLE 4
TERMINATION OF EMPLOYMENT

4.1 TERMINATION BY EMPLOYEE; DEATH

(a) Employee may, at any time prior to the Expiration Date, terminate his employment hereunder for any reason by delivering a Notice of Termination to the Board and the Chairman of the Board of the Company.

(b) Employee's employment hereunder shall terminate upon his death.

4.2 TERMINATION BY THE COMPANY

The Company may, at any time prior to the Expiration Date, terminate Employee's employment hereunder for any reason by delivering a Notice of Termination to Employee; provided, however, that in no event shall the Company be entitled to terminate Employee's employment prior to the Expiration Date unless the Board shall duly adopt, by the affirmative vote of at least a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board), a resolution authorizing such termination and stating that, in the opinion of the Board, sufficient reason exists therefor.

4.3 PAYMENT OF ACCRUED BASE SALARY, VACATION PAY, ETC.

(a) Promptly upon the termination of Employee's employment for any reason (including death), the Company shall pay to Employee (or his estate) a lump sum amount for (i) any unpaid Base Salary earned hereunder prior to the termination date and any accrued but unpaid bonus for any fiscal year previously completed as of the termination date, but only to the extent such bonus has accrued and is payable to Employee after termination of employment pursuant to the terms of the applicable bonus plan or policy; (ii) all unused vacation time accrued by Employee as of the termination date in accordance with Section 3.3; (iii) all unpaid benefits earned or vested, as the case may be, by Employee as of the termination date under any and all incentive or deferred compensation plans or programs of the Company and (iv) any amounts in respect of which Employee has requested, and is entitled to, reimbursement in accordance with Section 3.4.

(b) A termination of Employee's employment in accordance with this Agreement under any Section of this Article 4 shall not alter or impair, nor enhance or increase, any of Employee's rights or benefits under any employee benefit plan or program or incentive or deferred compensation plan or program maintained by the Company, in each case except as provided therein or in any written agreement entered into between the Company and Employee pursuant thereto.

(c) If Employee's employment hereunder is terminated due to his death or Disability, by Employee for a Good Reason, by the Company other than for Misconduct, or upon a Change of Control of the Company, all Company-imposed restrictions on the transferability of the Units (as defined in the Subscription Agreement dated as of June 15, 2000, by and among Heritage Propane Partners, L.P., a Delaware limited partnership ("Heritage MLP") and the other parties thereto (the "Subscription Agreement")) purchased by Employee on the Closing shall

automatically lapse in full on such date. Upon Employee's request accompanied by Employee's certificate for Units, the Company shall cause a new certificate to be issued to Employee for such Units without a legend referring to such Company-imposed restrictions. A copy of such Company-imposed restrictions is attached as Annex II to the Subscription Agreement.

4.4 DISABILITY PAYMENTS

If Employee incurs a Disability, the Company may terminate Employee's employment hereunder by delivering a Notice of Termination to Employee; provided, however, in such event the Company shall continue to pay to Employee, through the remainder of the Term (as determined without regard to its earlier termination upon Employee's termination due to Disability under this Section 4.4 and, if the Termination Date is on or after the second anniversary of the Effective Date, without any extension of the Term under Section 2.2 after such Termination Date) or until Employee's death, if earlier, at such regularly scheduled times:

(A) the Base Salary in effect immediately prior to the date of such termination, minus

(B) any amount payable to Employee under any disability plan maintained by the Company for the benefit of Employee.

4.5 OTHER BENEFITS

The following provisions shall apply (i) following a Change of Control or (ii) if Employee terminates his employment pursuant to Section 4.1 for Good Reason or (iii) if the Company terminates Employee's employment pursuant to Section 4.2 for any reason other than Misconduct (each a "Qualifying Termination"):

(a) Base Salary and Bonus Payments. For the remainder of the Term (as determined without regard to its earlier termination pursuant to Section 4.1(a) or 4.2 and, if such termination date is on or after the second anniversary of the Effective Date, without any extension of the Term after such termination date) or until Employee's death, if earlier (the "Continuation Period"), the Company shall pay to Employee, at the regularly scheduled times, the sum of the Base Salary (as in effect on the date on which the relevant Notice of Termination is given in accordance with this Agreement) and pay or vest the Bonus Payment as applicable within sixty (60) days of the Qualifying Termination. The "Bonus Payment" shall be an amount (A) for the Short Term Incentive Plan, equal to the excess of the actual EBITDA compared to the budgeted EBITDA to the month end accounting period nearest to the date of the Qualifying Termination (the "Short Incentive Term") times 15% times the Employee's Percentage of Incentive as indicated on Exhibit A attached hereto and (B) for the Long Term Incentive Plan, the Employee will vest immediately in the number of Common Units equal to the Employee's Percentage of Incentive as indicated on Exhibit A hereto times the total Common Units at the Minimum Award level (250,000) to the extent not previously awarded.

The amount payable to Employee under this paragraph (a) is in lieu of, and not in addition to, any severance payment due or to become due to Employee under any separate agreement or contract between Employee and the Company or pursuant to any severance payment plan, program or policy of the Company or any affiliate (collectively, "Severance Plan"). Any severance amounts received by Employee under a Severance Plan shall be applied

as an offset to (reduce or eliminate, as the case may be) any future payments otherwise to be made to Employee under this paragraph (a); i.e., no additional payments shall be made under this paragraph (a) until the aggregate amount of the offsets hereunder equals the severance amounts received by Employee under the Severance Plan.

(b) Health Plan Benefits. The Company shall at all times during the Continuation Period cause Employee and Employee's eligible dependents to be covered by and to participate in, to the fullest extent allowable under the terms thereof, all group health insurance plans and programs that may be offered to the executives of the Company so that Employee will receive, at all times during the Continuation Period, the same benefits under such plans and programs that Employee would have been entitled to receive had he remained an executive of the Company; provided, however, (i) Employee must timely pay the "active" employee premium, if any, for such continued coverage; (ii) Employee must timely elect COBRA continuation coverage thereunder upon his termination of employment; and (iii) in the event Employee and his eligible dependents become covered during the Continuation Period by another employer's group health plan or programs which does not contain any effective exclusion or limitation with respect to any pre-existing conditions, then the Company's group health plans shall no longer be liable for any benefits under this paragraph (b).

(c) Release. Notwithstanding anything in this Section 4.5 to the contrary, as a condition to the receipt of any payment or benefit under this Section 4.5, Employee must first execute and deliver to the Company a release in a form prepared by the Company, releasing the Company, its officers, the Board, employees and agents from any and all claims and from any and all causes of action of any kind or character that Employee may have arising out of Employee's employment with the Company or the termination of such employment, but excluding any claims and causes of action that Employee may have arising under or based upon this Agreement.

(d) Parachute Tax.

(i) If the payments and benefits provided to Employee under this Agreement or under any other agreement with, or plan of, the Company (the "Total Payment") (A) constitute a "parachute payment" as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and exceed three times Employee's "base amount" as defined under Code Section 280G(b)(3) by less than 10% of three times Employee's base amount, and (B) would, but for this Section 4.5(d)(i), be subject to the excise tax imposed by Code Section 4999, then Employee's payments and benefits under this Agreement shall be either (I) paid in full, or (II) reduced and payable only as to the maximum amount which would result in no portion of such payments and benefits being subject to excise tax under Code Section 4999, whichever results in the receipt by Employee on an after-tax basis of the greatest amount of Total Payment (taking into account the applicable federal, state and local income taxes, the excise tax imposed by Code Section 4999 and all other taxes (including any interest and penalties) payable by Employee). If a reduction of the Total Payment is necessary, Employee shall be entitled to select which payments or benefits will be reduced and the manner and method of any such reduction of such payments and benefits. Within 30 days after the amount of any required reduction in payments and benefits is finally determined under Section

4.5(d)(iii), Employee shall notify the Company in writing regarding which payments and benefits are to be reduced. If no notification is given by Employee, the Company will determine which payments and benefits to reduce. If, as a result of any reduction required by this Section 4.5(d)(i), amounts previously paid to Employee exceed the amount to which Employee is entitled, Employee will promptly return the excess amount to the Company.

(ii) If the Total Payment constitutes a "parachute payment" as defined in Code Section 280G and exceeds three times Employee's "base amount" as defined under Code Section 280G(b)(3) by 10% or more of three times Employee's base amount, the Company shall provide to Employee, in cash, an additional payment in an amount to cover the full excise tax due under Code Section 4999, plus Employee's state and federal income, employment, excise, and other taxes (including interest and penalties) on this additional payment (the "Gross-Up Payment"). Any amount payable under this Section 4.5(d)(ii) shall be paid as soon as possible following the date of Employee's Qualifying Termination, but in no event later than 30 days after such date.

(iii) All determinations required to be made under this Section 4.5(d), including whether reductions are necessary or whether a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be used in determining such Gross-Up Payment, shall be made by the accounting firm used by the Company at the time of such determination (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Company and to Employee within 15 business days of the receipt of notice from the Company or Employee that there has been a Qualifying Termination, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity, or group effecting the change in control transaction, Employee may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company.

(iv) In the event Employee is entitled to a Gross-Up Payment under Section 4.5(d)(ii) and the Internal Revenue Service subsequently increases the excise tax computation described in Section 4.5(d)(ii), the Company shall reimburse Employee for the full amount necessary to make Employee whole on an after-tax basis (less any amounts received by Employee that Employee would not have received had the computations initially been computed as subsequently adjusted), including the value of any underpaid excise tax, and any related interest and/or penalties due to the Internal Revenue Service.

4.6 NON-EXCLUSIVITY OF RIGHTS

Nothing in this Agreement shall prevent or limit Employee's continuing or future participation in any plan, program, policy or practice provided by the Company for which Employee may qualify, nor shall anything herein limit or otherwise affect such rights as Employee may have under any other contract or agreement with the Company. Amounts which

are vested benefits or which Employee is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company at or subsequent to the Termination Date shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. However, the Continuation Period shall not be credited as continued employment of Employee for any purpose under any such plan, policy, practice or program.

ARTICLE 5
CONFIDENTIAL INFORMATION AND NON-COMPETITION

5.1 CONFIDENTIAL INFORMATION

(a) Employee recognizes that the services to be performed by Employee hereunder are special, unique, and extraordinary and that, by reason of Employee's employment with the Company, Employee will be provided Confidential Information concerning the operation of the Company, the use or disclosure of which would cause the Company substantial loss and damages which could not be readily calculated and for which no remedy at law would be adequate. Accordingly, Employee agrees that Employee will not (directly or indirectly) at any time, whether during or after Employee's employment with the Company and its affiliates, (i) knowingly use for an improper personal benefit any Confidential Information that Employee may learn or has learned by reason of Employee's employment with the Company or (ii) disclose any such Confidential Information to any Person except (A) in the performance of Employee's obligations to the Company hereunder, (B) as required by applicable law, (C) in connection with the enforcement of Employee's rights under this Agreement, (D) in connection with any disagreement, dispute or litigation (pending or threatened) between Employee and the Company or (E) with the prior written consent of the Board. As used herein, "Confidential Information" includes, but is not limited to, information with respect to the Company's products, facilities and methods, research and development, trade secrets and other intellectual property, systems, patents and patent applications, procedures, manuals, confidential reports, product price lists, customer lists, financial information, business plans, prospects or opportunities; provided, however, that such term shall not include any information that (x) is or becomes generally known or available other than as a result of improper disclosure by Employee or (y) is or becomes known or available to Employee on a nonconfidential basis from a source (other than the Company) which, to Employee's knowledge, is not prohibited from disclosing such information to Employee by a legal, contractual, fiduciary or other obligation to the Company.

(b) Employee confirms that all Confidential Information is the exclusive property of the Company. All business records, papers and documents kept or made by Employee while employed by the Company relating to the business of the Company shall be and remain the property of the Company at all times. Upon the request of the Company at any time, Employee shall promptly deliver to the Company, and shall retain no copies of, any written materials, records and documents made by Employee or coming into his possession while employed by the Company concerning the business or affairs of the Company other than personal materials, records and documents (including notes and correspondence) of Employee not containing Confidential Information relating to such business or affairs. Notwithstanding the foregoing, Employee shall be permitted to retain copies of, or have access to, all such materials, records and documents relating to any disagreement, dispute or litigation (pending or threatened) between Employee and the Company.

5.2 NON-COMPETITION

(a) In partial consideration for the Company's agreement to provide Employee access to Confidential Information and the other benefits provided by this Agreement, Employee agrees that while employed by the Company and for three years after the termination of such employment (for any reason) (the "Restricted Period"), Employee shall not, unless Employee receives the prior written consent of the Board, own an interest in, manage, operate, join, control, lend money or render financial or other assistance to or participate in or be connected with, as an officer, employee, partner, stockholder, consultant or otherwise, any Person which competes with the Company or its affiliates in the retail marketing of propane and/or butane gas or appliance sales, service and/or repair business in any city or within seventy-five (75) miles in all directions from the boundary of the city limits of any city where the Company or any affiliate conducts such business; provided, however, that following Employee's termination of employment the foregoing restriction shall apply only to (i) those areas where the Company or any affiliate was actually doing business on the date of such termination of employment and (ii) those areas in respect of which the Company or any affiliate actively and diligently conducted at any time during the 12-month period ended on such date of termination an analysis to determine whether or not it would commence doing business in such areas but, in the case of each such area the foregoing restriction shall cease to apply when the Company or its affiliates ceases to actively conduct business (disregarding any temporary stoppages) in such area or, if applicable, abandons its intent to conduct business in such area.

(b) Employee has carefully read and considered the provisions of this Section 5.2 and, having done so, agrees that the restrictions set forth in this Section 5.2 (including the Restricted Period, scope of activity to be restrained and the geographical scope) are fair and reasonable and are reasonably required for the protection of the interests of the Company, its officers, directors, employees, creditors and shareholders. Employee understands that the restrictions contained in this Section 5.2 may limit his ability to engage in a business similar to the Company's business, but acknowledges that he will receive sufficiently high remuneration and other benefits from the Company hereunder to justify such restrictions.

(c) During the Restricted Period, Employee shall not, whether for his own account or for the account of any other Person (excluding the Company), intentionally (i) solicit, endeavor to entice or induce any employee of the Company to terminate his employment with the Company or accept employment with anyone else or (ii) interfere in a similar manner with the business of the Company.

(d) It is specifically agreed that the Restricted Period, during which the agreements and covenants of Employee made herein shall be effective, shall be computed by excluding from such computation any time which Employee is in violation of any provision of this Article 5.

(e) In the event that any provision of this Section 5.2 relating to the Restricted Period and/or the areas of restriction shall be declared by a court of competent jurisdiction to exceed the maximum time period or areas such court deems reasonable and enforceable, the Restricted

Period and/or areas of restriction deemed reasonable and enforceable by the court shall become and thereafter be the maximum time period and/or areas.

5.3 STOCK OWNERSHIP

Nothing in this Agreement shall prohibit Employee from acquiring or holding any issue of stock or securities of any Person that has any securities registered under Section 12 of the Exchange Act, listed on a national securities exchange or quoted on the automated quotation system of the National Association of Securities Dealers, Inc. so long as (i) Employee is not deemed to be an "affiliate" of such Person, and (ii) Employee and members of his immediate family do not own or hold more than 3% of any class of voting securities of any such Person.

5.4 INJUNCTIVE RELIEF

Employee acknowledges that a breach of any of the covenants contained in this Article 5 may result in material irreparable injury to the Company for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach, any payments remaining under the terms of this Agreement shall cease and the Company shall be entitled to obtain a temporary restraining order and/or a preliminary or permanent injunction restraining Employee from engaging in activities prohibited by this Article 5 or such other relief as may be required to specifically enforce any of the covenants contained in this Article 5. Employee agrees to waive any requirement for the Company's securing or posting of any bond in connection with such remedies. Employee further agrees to and hereby does submit to in personam jurisdiction before each and every such court for that purpose.

5.5 FORFEITURE FOR BREACH

A breach of this Article 5 by Employee shall cause an immediate forfeiture of all rights Employee may have under this Agreement to receive any payments or benefits after the date of such breach.

ARTICLE 6 ARBITRATION

EXCEPT WITH RESPECT TO INJUNCTIVE RELIEF AS PROVIDED IN SECTION 5.4 ABOVE, THE PARTIES AGREE TO RESOLVE ANY CLAIM OR CONTROVERSY ARISING OUT OF OR RELATING TO THIS AGREEMENT, INCLUDING THE EMPLOYMENT OF EMPLOYEE, THE TERMINATION OF EMPLOYMENT OF EMPLOYEE, OR CLAIMS UNDER TITLE VII OF THE CIVIL RIGHTS ACT, THE AMERICANS WITH DISABILITIES ACT, THE AGE DISCRIMINATION IN EMPLOYMENT ACT, AND THE FAMILY MEDICAL LEAVE ACT, BY BINDING ARBITRATION UNDER THE FEDERAL ARBITRATION ACT BEFORE ONE ARBITRATOR IN THE CITY OF TULSA, STATE OF OKLAHOMA, ADMINISTERED BY THE AMERICAN ARBITRATION ASSOCIATION UNDER ITS COMMERCIAL ARBITRATION RULES, AND JUDGMENT ON THE AWARD RENDERED BY THE ARBITRATOR MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF. THE FEES AND EXPENSES OF THE ARBITRATOR SHALL BE BORNE SOLELY BY THE NON-PREVAILING PARTY OR, IN THE EVENT THERE IS NO CLEAR PREVAILING PARTY, AS THE ARBITRATOR DEEMS APPROPRIATE. EXCEPT AS PROVIDED ABOVE, EACH PARTY SHALL PAY ITS OWN COSTS AND EXPENSES (INCLUDING ATTORNEYS' FEES) RELATING TO ANY ARBITRATION PROCEEDING CONDUCTED UNDER THIS ARTICLE 6.

ARTICLE 7
MISCELLANEOUS PROVISIONS

7.1 NO MITIGATION OR OFFSET

The provisions of this Agreement are not intended to, nor shall they be construed to, require that Employee mitigate the amount of any payment provided for in this Agreement by seeking or accepting other employment or becoming self-employed, nor shall the amount of any payment provided for in this Agreement be reduced by any compensation earned by Employee as the result of employment by another employer, self-employment or otherwise. Without limitation of the foregoing, the Company's obligations to make the payments to Employee required under this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set off (other than as provided in Section 4.5(a)), counterclaim, recoupment, defense or other claim, right or action that the Company may have against Employee (other than as provided in Section 5.5).

7.2 ASSIGNABILITY

The obligations of Employee hereunder are personal and may not be assigned or delegated by Employee or transferred in any manner whatsoever, nor are such obligations subject to involuntary alienation, assignment or transfer. The Company shall have the right to assign this Agreement and to delegate all rights, duties and obligations hereunder as provided in Section 7.5.

7.3 NOTICES

All notices and all other communications provided for in the Agreement shall be in writing and addressed (i) if to the Company, the Board, or the Chairman of the Board at the principal office address of the Company or such other address as it may have designated by written notice to Employee for purposes hereof, directed to the attention of the Chief Executive Officer with a copy to the Secretary of the Company and (ii) if to Employee, at his residence address on the records of the Company or to such other address as he may have designated to the Company in writing for purposes hereof. Each such notice or other communication shall be deemed to have been duly delivered, provided or given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, except that any notice of change of address shall be effective only upon receipt.

7.4 SEVERABILITY

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

7.5 SUCCESSORS; BINDING AGREEMENT

(a) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance reasonably acceptable to Employee, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the

Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used herein, the term "Company" shall include any successor to its business and/or assets as aforesaid which executes and delivers the assumption agreement provided for in this Section 7.5 or which otherwise becomes bound by all terms and provisions of this Agreement by operation of law.

(b) This Agreement and all rights of Employee hereunder shall inure to the benefit of and be enforceable by Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Employee should die while any amounts are due him hereunder, all such amounts shall be paid in accordance with the terms of this Agreement to Employee's devisee, legatee, or other designee or, if there be no such designee, to Employee's estate.

7.6 TAX WITHHOLDINGS

The Company shall withhold from all payments hereunder all applicable taxes (federal, state or other) which it is required to withhold therefrom unless Employee has otherwise paid (or made other arrangements satisfactory) to the Company the amount of such taxes.

7.7 AMENDMENTS AND WAIVERS

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by Employee and such member of the Board as may be specifically authorized by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or in compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

7.8 ENTIRE AGREEMENT; TERMINATION OF ANY OTHER AGREEMENTS

This Agreement is an integration of the parties' agreement with respect to the subject matter hereof and no agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. This Agreement hereby expressly terminates, rescinds and replaces any prior agreement (written or oral) between the parties relating to the subject matter hereof, including, without limitation, that certain Employment Agreement between the parties dated June 28, 1996.

7.9 GOVERNING LAW; SUBMISSION TO JURISDICTION

(a) THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF OKLAHOMA WITHOUT REGARD TO ITS CONFLICT OF LAWS PROVISION, OTHER THAN THE PROVISIONS OF SECTION 5.2, WHICH SHALL BE GOVERNED BY THE LAWS OF THE STATE OF ANY ALLEGED VIOLATION. IT IS THE INTENT OF THE PARTIES THAT THE PROVISIONS OF SECTION 5.2 BE INTERPRETED TO IMPOSE THE MAXIMUM PERIOD OF RESTRICTION UNDER THE GOVERNING LAW OF SUCH SECTION.

(b) EACH PARTY HERETO HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS IN TULSA COUNTY, OKLAHOMA, FOR THE PURPOSES OF ANY PROCEEDING ARISING OUT OF THIS AGREEMENT.

7.10 EMPLOYMENT WITH AFFILIATES

For purposes of this Agreement, employment with any affiliates of the Company, U.S. Propane, L.P. or with any of their respective affiliates shall be deemed to be employment with the Company.

7.11 SURVIVAL

The provisions of Articles 5 and 6 and Section 7.9 and any other provisions necessary to give full effect to the terms of this Agreement, shall survive the termination of this Agreement.

7.12 COUNTERPARTS

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

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the Effective Date.

HERITAGE HOLDINGS, INC.

By: _____

Name: _____

Title: _____

EMPLOYEE

Mark A. Darr

EXHIBIT A

PROPOSED MANAGEMENT INCENTIVE COMPENSATION

POSITION	BASE SALARY	PERCENTAGE OF INCENTIVE	
		SHORT-TERM	LONG-TERM
CEO	\$ 350,000	14.00%	16.00%
COO	335,000	14.00%	16.00%
CFO	325,000	14.00%	16.00%
Acquisition	200,000	14.00%	16.00%
VP Western Operations	150,000	7.00%	8.67%
VP Northern Operations	135,000	7.00%	8.67%
VP Southern Operations	135,000	7.00%	8.67%
Discretionary (Corp. & Others)		23.00%	10.00%
	\$1,630,000	100.00%	100.00%

SHORT-TERM INCENTIVE PLAN

- For FY 2001, management will receive the following for EBITDA in excess of a Base \$76.0 million. The beginning Base is higher than \$73.2 million in order to offset the higher Base Salaries:
 - 15% of EBITDA over \$76 million up to \$80 million
 - 17.5% of EBITDA over \$80 million up to \$85 million
 - 20% of EBITDA over \$85 million
- No cap on short-term incentive, and increasing percentage to encourage outstanding performance.
- In the very unlikely event that the short-term incentive earned is over \$2.0 million, the excess bonus would be deferred to the following year. In this way, when the Board raises the "bar" the following fiscal year, there is a bonus to be paid.
- The Board sets the \$76.0 million EBITDA Base Target which remains unchanged during Fiscal YR 2001.
- Targets in subsequent fiscal years will be set by the Board at its sole discretion.

LONG-TERM INCENTIVE PLAN

- A minimum of 250,000 units and a maximum of 500,000 units will be awarded based on achieving certain targeted levels of Distributed Cash per unit.
- Awards under the program will be made starting in 2003 based upon the average of the prior three years Distributed Cash per unit. Each year, beginning after Fiscal YR 2003, units will be awarded based upon levels detailed below.

	2003	2004	2005	TOTALS
	-----	-----	-----	-----
Moving Average Period	2001-2003	2002-2004	2003-2005	
Three Year Average of Distributed Cash per Unit	\$ 2.50	\$ 2.65	\$ 2.80	
Maximum Target Level	\$ 2.80	\$ 2.95	\$ 3.10	
 VALUE ASSUMING CURRENT COMMON UNIT PRICE				
Minimum Award	83,333	83,333	83,333	250,000
Value at a Common Unit Price of	\$ 18.375	\$ 1,531,250	\$ 1,531,250	\$ 4,593,750
Maximum Award	166,667	166,667	166,667	500,000
Value at a Common Unit Price of	\$ 18.375	\$ 3,062,500	\$ 3,062,500	\$ 9,187,500
 HYPOTHETICAL VALUES ASSUMING A HIGHER COMMON UNIT PRICE				
Minimum Award	83,333	83,333	83,333	250,000
Value at a Common Unit Price of	\$ 25.000	\$ 2,083,333	\$ 2,083,333	\$ 6,250,000
Maximum Award	166,667	166,667	166,667	500,000
Value at a Common Unit Price of	\$ 25.000	\$ 4,166,667	\$ 4,166,667	\$12,500,000

HERITAGE HOLDINGS, INC.

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into effective as of the Closing ("Effective Date") by and between Heritage Holdings, Inc., a Delaware corporation ("Company"), and Thomas H. Rose ("Employee").

RECITALS

WHEREAS, Employee is currently an employee of the Company; and

WHEREAS, the Company desires for Employee to continue with the Company and Employee is willing to continue with the Company, on the terms and conditions herein set forth;

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties, and agreements contained herein, and for other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1

DEFINITIONS AND INTERPRETATIONS

1.1 DEFINITIONS

For purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following terms shall have the following respective meanings:

"Accounting Firm" shall have the meaning specified in Section 4.5(d)(iii).

"Base Salary" shall have the meaning specified in Section 3.1.

"Board" shall mean the Board of Directors of the Company.

"Bonus Payment" shall have the meaning specified in Section 4.5(a).

"Change of Control" shall mean the date that the Specified Entities cease to own, directly or indirectly through wholly-owned subsidiaries, in the aggregate at least 65% of the capital stock of the Company.

"Closing" shall mean the closing date of the purchase of Company stock contemplated in the Stock Purchase Agreement, dated June 15, 2000, among U.S. Propane, L.P. and the other parties thereto.

"Code" shall have the meaning specified in Section 4.5(d)(i).

"Confidential Information" shall have the meaning specified in Section 5.1(a).

"Continuation Period" shall have the meaning specified in Section 4.5(a).

"Designated Current Manager" shall mean each of R.C. Mills and Employee, current executive officers of the Company, together with, in the case of either such executive officer, the heirs of, and trusts for the benefit of family members controlled by, such executive officer.

"Disability" shall mean a physical or mental condition of Employee that, in the good faith judgment of not less than a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board), based upon certification by a licensed physician reasonably acceptable to Employee and the Board, (i) prevents Employee from being able to perform the services required under this Agreement, (ii) has continued for a period of at least 180 days during any 12-month period, and (iii) is expected to continue.

"Dispute" shall have the meaning specified in Article 6.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Expiration Date" shall have the meaning specified in Section 2.2.

"Good Reason" shall mean any of the following:

(i) the assignment to Employee of any duties materially inconsistent with Employee's position (including a materially adverse change in Employee's office, title and reporting requirements), authority, duties or responsibilities;

(ii) any termination by the Company of Employee's employment other than as expressly permitted by this Agreement;

(iii) any failure by the Company to comply with and satisfy Section 7.5 (requiring the Company to require any successor to expressly assume and agree to perform all obligations under this Agreement); or

(iv) a breach or violation by the Company of any material provision of this Agreement, which breach or violation remains unremedied for more than 30 days after written notice thereof is given to the Company by Employee.

For purposes of this definition, no act or failure to act on the Company's part shall be considered a "Good Reason" unless Employee has given the Company written notice of such act or failure to act within 30 days thereof and the Company fails to remedy such act or failure to act within 15 days of its receipt of such notice.

"Gross-Up Payment" shall have the meaning specified in Section 4.5(d)(ii).

"Misconduct" shall mean one or more of the following:

(i) the willful and continued failure by Employee to perform substantially his duties hereunder (other than any such failure resulting from Employee's incapacity due to physical or

mental illness) after written notice of such failure has been given to Employee by the Company and Employee has had a reasonable period (not to exceed 15 days) to correct such failure;

(ii) conviction (or plea of nolo contendere) of Employee for any felony or any other crime which is materially detrimental to the Company (monetarily or otherwise);

(iii) any act or omission by Employee which materially damages the integrity, reputation or financial viability of the Company or its affiliates;

(iv) a breach or violation by Employee of (a) any material provision of this Agreement or (b) any material Company employment policy, which (in either case), if capable of being remedied, remains unremedied for more than 15 days after written notice thereof is given to Employee by the Company; or

(v) chronic alcohol abuse or illegal drug use by Employee that is determined by the Board to impair Employee's ability to perform his duties and responsibilities hereunder.

For purposes of this definition, no act or failure to act on Employee's part shall be considered "Misconduct" if done or omitted to be done by Employee in good faith and in the reasonable belief that such act or failure to act was in the best interest the Company or in furtherance of Employee's duties and responsibilities hereunder.

"Notice of Discontinuance" shall have the meaning specified in Section 2.2.

"Notice of Termination" shall mean a notice purporting to terminate Employee's employment in accordance with Section 4.1(a) or 4.2. Such notice shall specify the effective date of such termination, which date shall neither be less than 30 (10 in the case of a termination by the Company for Misconduct) nor more than 60 days after the date such notice is given. If such termination is by Employee for Good Reason or by the Company for Disability or Misconduct, such notice shall set forth in reasonable detail the reason for such termination and the facts and circumstances claimed to provide a basis therefor. Any notice purporting to terminate Employee's employment which is not in compliance with the requirements of this definition shall be ineffective.

"Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and any other entity.

"Qualifying Termination" shall have the meaning specified in Section 4.5.

"Severance Plan" shall have the meaning specified in Section 4.5(a).

"Specified Entities" shall mean any one or more of the following entities: (i) Atmos Energy Corporation, a Texas and Virginia corporation, (ii) Piedmont Natural Gas Company, Inc., a North Carolina corporation, (iii) AGL Resources, Inc., a Georgia corporation, and (iv) TECO Energy, Inc., a Florida corporation, or a successor to any entity referred to in clause (i), (ii), (iii) or (iv) of this definition.

"Successor" shall mean, with respect to a Specified Entity, any entity in which the holders of capital stock of such Specified Entity outstanding immediately prior to a consolidation, acquisition or merger involving such Specified Entity hold, directly or indirectly, through wholly-owned subsidiaries, immediately after such consolidation, acquisition or merger.

"Term" shall have the meaning specified in Section 2.2.

"Termination Date" shall mean the termination date specified in a Notice of Termination delivered in accordance with this Agreement.

"Total Payment" shall have the meaning specified in Section 4.5(d)(i).

1.2 INTERPRETATIONS

(a) In this Agreement, unless a clear contrary intention appears, (i) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision, (ii) reference to any "Article" or "Section", means such Article or Section hereof, (iii) the word "including" (and with correlative meaning "include") means including, without limiting the generality of any description preceding such term, (iv) the word "affiliate" has the meaning stated in Rule 405 promulgated under the Securities Act of 1933, as amended, and (v) where any provision of this Agreement refers to action to be taken by either party, or which such party is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such party.

(b) The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

ARTICLE 2 EMPLOYMENT; TERM; POSITION AND DUTIES; ETC.

2.1 EMPLOYMENT

The Company agrees to continue Employee's employment with the Company and Employee agrees to remain in the employment of the Company, in each case on the terms and conditions set forth in this Agreement.

2.2 TERM OF AGREEMENT

Unless sooner terminated pursuant to Article 4, the term of this Agreement (the "Term") shall commence on the Effective Date and shall continue until the third anniversary of the Effective Date (the "Expiration Date"); provided, however, that beginning on the second anniversary of the Effective Date and on each day thereafter the Expiration Date shall be automatically extended one additional day unless either party (i) shall give written notice to the other (a "Notice of Discontinuance") that the Term shall cease to be so extended beginning immediately after the date of such notice or (ii) shall give a Notice of Termination to the other party pursuant to Section 4.1(a) or 4.2, as the case may be. No Notice of Discontinuance given

by the Company shall be effective unless given pursuant to a resolution duly adopted by the affirmative vote of a least a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board). If either party gives a Notice of Discontinuance, Employee's employment hereunder shall continue until the expiration of the Term, subject to earlier termination pursuant to Article 4. Employee's continued employment, if any, after the expiration of the Term shall be "at will" employment.

2.3 POSITION AND DUTIES

(a) While employed hereunder, Employee shall serve as the Vice President-Northern Operations of the Company and shall have and may exercise all of the powers, functions, duties and responsibilities normally attributable to such position. Employee shall have such additional duties and responsibilities commensurate with such position as from time to time may be reasonably assigned to Employee by the Board or the Chief Executive Officer of the Company. While employed hereunder, Employee shall (i) report directly to the Chief Executive Officer of the Company and (ii) observe and comply with all lawful policies, directions and instructions of the Board and the Chief Executive Officer of the Company which are consistent with the foregoing provisions of this paragraph (a).

(b) While employed hereunder, Employee shall devote substantially all of his business time, attention, skill and efforts to the faithful and efficient performance of his duties hereunder. Notwithstanding the foregoing, Employee may engage in the following activities so long as they do not interfere in any material respect with the performance of Employee's duties and responsibilities hereunder: (i) serve on corporate, civic, religious, educational and/or charitable boards or committees and (ii) manage his personal investments.

(c) While employed hereunder, Employee shall conduct himself in such a manner as not to intentionally and knowingly prejudice, in any material respect, the reputation of the Company or any of its affiliates, including U.S. Propane, L.P., or with the investment community or the public at large.

2.4 PLACE OF EMPLOYMENT

Employee's place of employment hereunder shall be at the Company's principal executive offices in the greater Jacksonville, Florida area or such other areas as the Chief Executive Officer shall assign.

ARTICLE 3 COMPENSATION AND BENEFITS

3.1 BASE SALARY

(a) For services rendered by Employee under this Agreement, the Company shall pay to Employee an annual base salary of \$135,000.00 ("Base Salary"). The Board shall review the Base Salary at least annually and may adjust the amount of the Base Salary at any time as the Board may deem appropriate in its sole discretion; provided, however, that in no event may the

Base Salary be decreased below the above stated amount without the prior written consent of Employee.

(b) The Base Salary shall be payable in accordance with the Company's payroll practice for its executives as it is earned.

3.2 BONUS

The Employee will participate in bonus and incentive plans with substantially equivalent economic provisions as set forth in Exhibit A hereto.

3.3 VACATION

While employed hereunder, Employee shall be entitled to vacation benefits in accordance with the vacation policy approved by the Board from time to time for the Company's executives in general. Employee shall not be entitled to accumulate and carryover unused vacation time from year to year, except to the extent permitted in accordance with the Company's vacation policy for executives in general, nor shall Employee be entitled to compensation for unused vacation time except as provided in Section 4.3(a).

3.4 BUSINESS EXPENSES

The Company shall, in accordance with the rules and policies that it may establish from time to time for executives, reimburse Employee for business expenses reasonably incurred in the performance of Employee's duties. Requests for reimbursement for such expenses must be accompanied by appropriate documentation as required by such rules and policies.

3.5 OTHER BENEFITS

Employee shall be entitled to receive all employee benefits, fringe benefits and other perquisites that may be offered by the Company to its executives as a group, including participation by Employee and, where applicable, Employee's dependents, in the various employee benefit plans or programs (including pension plans, profit sharing plans, stock plans, health plans, life insurance and disability insurance) provided to executives of the Company in general, subject to meeting the eligibility requirements with respect to each of such benefit plans or programs. However, nothing in this Section 3.5 shall be deemed to prohibit the Company from making any changes in any of the plans, programs or benefits described herein. In addition, Employee shall be entitled to a life insurance benefit that is the same or reasonably comparable to that which is provided to Employee by the Company at the Effective Date.

3.6 INDEMNIFICATION

Employee shall be entitled to (i) indemnification and advancement of expenses from the Company in accordance with the provisions of the Bylaws of the Company, and (ii) coverage under the applicable directors' and officers' insurance policy (if any) maintained by the Company or any of its affiliates regarding actions and omissions by Employee during the Term (whether on behalf of the Company or any of its Affiliates).

ARTICLE 4
TERMINATION OF EMPLOYMENT

4.1 TERMINATION BY EMPLOYEE; DEATH

(a) Employee may, at any time prior to the Expiration Date, terminate his employment hereunder for any reason by delivering a Notice of Termination to the Board and the Chairman of the Board of the Company.

(b) Employee's employment hereunder shall terminate upon his death.

4.2 TERMINATION BY THE COMPANY

The Company may, at any time prior to the Expiration Date, terminate Employee's employment hereunder for any reason by delivering a Notice of Termination to Employee; provided, however, that in no event shall the Company be entitled to terminate Employee's employment prior to the Expiration Date unless the Board shall duly adopt, by the affirmative vote of at least a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board), a resolution authorizing such termination and stating that, in the opinion of the Board, sufficient reason exists therefor.

4.3 PAYMENT OF ACCRUED BASE SALARY, VACATION PAY, ETC.

(a) Promptly upon the termination of Employee's employment for any reason (including death), the Company shall pay to Employee (or his estate) a lump sum amount for (i) any unpaid Base Salary earned hereunder prior to the termination date and any accrued but unpaid bonus for any fiscal year previously completed as of the termination date, but only to the extent such bonus has accrued and is payable to Employee after termination of employment pursuant to the terms of the applicable bonus plan or policy; (ii) all unused vacation time accrued by Employee as of the termination date in accordance with Section 3.3; (iii) all unpaid benefits earned or vested, as the case may be, by Employee as of the termination date under any and all incentive or deferred compensation plans or programs of the Company and (iv) any amounts in respect of which Employee has requested, and is entitled to, reimbursement in accordance with Section 3.4.

(b) A termination of Employee's employment in accordance with this Agreement under any Section of this Article 4 shall not alter or impair, nor enhance or increase, any of Employee's rights or benefits under any employee benefit plan or program or incentive or deferred compensation plan or program maintained by the Company, in each case except as provided therein or in any written agreement entered into between the Company and Employee pursuant thereto.

(c) If Employee's employment hereunder is terminated due to his death or Disability, by Employee for a Good Reason, by the Company other than for Misconduct, or upon a Change of Control of the Company, all Company-imposed restrictions on the transferability of the Units (as defined in the Subscription Agreement dated as of June 15, 2000, by and among Heritage Propane Partners, L.P., a Delaware limited partnership ("Heritage MLP") and the other parties thereto (the "Subscription Agreement")) purchased by Employee on the Closing shall

automatically lapse in full on such date. Upon Employee's request accompanied by Employee's certificate for Units, the Company shall cause a new certificate to be issued to Employee for such Units without a legend referring to such Company-imposed restrictions. A copy of such Company-imposed restrictions is attached as Annex II to the Subscription Agreement.

4.4 DISABILITY PAYMENTS

If Employee incurs a Disability, the Company may terminate Employee's employment hereunder by delivering a Notice of Termination to Employee; provided, however, in such event the Company shall continue to pay to Employee, through the remainder of the Term (as determined without regard to its earlier termination upon Employee's termination due to Disability under this Section 4.4 and, if the Termination Date is on or after the second anniversary of the Effective Date, without any extension of the Term under Section 2.2 after such Termination Date) or until Employee's death, if earlier, at such regularly scheduled times:

(A) the Base Salary in effect immediately prior to the date of such termination, minus

(B) any amount payable to Employee under any disability plan maintained by the Company for the benefit of Employee.

4.5 OTHER BENEFITS

The following provisions shall apply (i) following a Change of Control or (ii) if Employee terminates his employment pursuant to Section 4.1 for Good Reason or (iii) if the Company terminates Employee's employment pursuant to Section 4.2 for any reason other than Misconduct (each a "Qualifying Termination"):

(a) Base Salary and Bonus Payments. For the remainder of the Term (as determined without regard to its earlier termination pursuant to Section 4.1(a) or 4.2 and, if such termination date is on or after the second anniversary of the Effective Date, without any extension of the Term after such termination date) or until Employee's death, if earlier (the "Continuation Period"), the Company shall pay to Employee, at the regularly scheduled times, the sum of the Base Salary (as in effect on the date on which the relevant Notice of Termination is given in accordance with this Agreement) and pay or vest the Bonus Payment as applicable within sixty (60) days of the Qualifying Termination. The "Bonus Payment" shall be an amount (A) for the Short Term Incentive Plan, equal to the excess of the actual EBITDA compared to the budgeted EBITDA to the month end accounting period nearest to the date of the Qualifying Termination (the "Short Incentive Term") times 15% times the Employee's Percentage of Incentive as indicated on Exhibit A attached hereto and (B) for the Long Term Incentive Plan, the Employee will vest immediately in the number of Common Units equal to the Employee's Percentage of Incentive as indicated on Exhibit A hereto times the total Common Units at the Minimum Award level (250,000) to the extent not previously awarded.

The amount payable to Employee under this paragraph (a) is in lieu of, and not in addition to, any severance payment due or to become due to Employee under any separate agreement or contract between Employee and the Company or pursuant to any severance payment plan, program or policy of the Company or any affiliate (collectively, "Severance Plan"). Any severance amounts received by Employee under a Severance Plan shall be applied

as an offset to (reduce or eliminate, as the case may be) any future payments otherwise to be made to Employee under this paragraph (a); i.e., no additional payments shall be made under this paragraph (a) until the aggregate amount of the offsets hereunder equals the severance amounts received by Employee under the Severance Plan.

(b) Health Plan Benefits. The Company shall at all times during the Continuation Period cause Employee and Employee's eligible dependents to be covered by and to participate in, to the fullest extent allowable under the terms thereof, all group health insurance plans and programs that may be offered to the executives of the Company so that Employee will receive, at all times during the Continuation Period, the same benefits under such plans and programs that Employee would have been entitled to receive had he remained an executive of the Company; provided, however, (i) Employee must timely pay the "active" employee premium, if any, for such continued coverage; (ii) Employee must timely elect COBRA continuation coverage thereunder upon his termination of employment; and (iii) in the event Employee and his eligible dependents become covered during the Continuation Period by another employer's group health plan or programs which does not contain any effective exclusion or limitation with respect to any pre-existing conditions, then the Company's group health plans shall no longer be liable for any benefits under this paragraph (b).

(c) Release. Notwithstanding anything in this Section 4.5 to the contrary, as a condition to the receipt of any payment or benefit under this Section 4.5, Employee must first execute and deliver to the Company a release in a form prepared by the Company, releasing the Company, its officers, the Board, employees and agents from any and all claims and from any and all causes of action of any kind or character that Employee may have arising out of Employee's employment with the Company or the termination of such employment, but excluding any claims and causes of action that Employee may have arising under or based upon this Agreement.

(d) Parachute Tax.

(i) If the payments and benefits provided to Employee under this Agreement or under any other agreement with, or plan of, the Company (the "Total Payment") (A) constitute a "parachute payment" as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and exceed three times Employee's "base amount" as defined under Code Section 280G(b)(3) by less than 10% of three times Employee's base amount, and (B) would, but for this Section 4.5(d)(i), be subject to the excise tax imposed by Code Section 4999, then Employee's payments and benefits under this Agreement shall be either (I) paid in full, or (II) reduced and payable only as to the maximum amount which would result in no portion of such payments and benefits being subject to excise tax under Code Section 4999, whichever results in the receipt by Employee on an after-tax basis of the greatest amount of Total Payment (taking into account the applicable federal, state and local income taxes, the excise tax imposed by Code Section 4999 and all other taxes (including any interest and penalties) payable by Employee). If a reduction of the Total Payment is necessary, Employee shall be entitled to select which payments or benefits will be reduced and the manner and method of any such reduction of such payments and benefits. Within 30 days after the amount of any required reduction in payments and benefits is finally determined under Section

4.5(d)(iii), Employee shall notify the Company in writing regarding which payments and benefits are to be reduced. If no notification is given by Employee, the Company will determine which payments and benefits to reduce. If, as a result of any reduction required by this Section 4.5(d)(i), amounts previously paid to Employee exceed the amount to which Employee is entitled, Employee will promptly return the excess amount to the Company.

(ii) If the Total Payment constitutes a "parachute payment" as defined in Code Section 280G and exceeds three times Employee's "base amount" as defined under Code Section 280G(b)(3) by 10% or more of three times Employee's base amount, the Company shall provide to Employee, in cash, an additional payment in an amount to cover the full excise tax due under Code Section 4999, plus Employee's state and federal income, employment, excise, and other taxes (including interest and penalties) on this additional payment (the "Gross-Up Payment"). Any amount payable under this Section 4.5(d)(ii) shall be paid as soon as possible following the date of Employee's Qualifying Termination, but in no event later than 30 days after such date.

(iii) All determinations required to be made under this Section 4.5(d), including whether reductions are necessary or whether a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be used in determining such Gross-Up Payment, shall be made by the accounting firm used by the Company at the time of such determination (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Company and to Employee within 15 business days of the receipt of notice from the Company or Employee that there has been a Qualifying Termination, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity, or group effecting the change in control transaction, Employee may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company.

(iv) In the event Employee is entitled to a Gross-Up Payment under Section 4.5(d)(ii) and the Internal Revenue Service subsequently increases the excise tax computation described in Section 4.5(d)(ii), the Company shall reimburse Employee for the full amount necessary to make Employee whole on an after-tax basis (less any amounts received by Employee that Employee would not have received had the computations initially been computed as subsequently adjusted), including the value of any underpaid excise tax, and any related interest and/or penalties due to the Internal Revenue Service.

4.6 NON-EXCLUSIVITY OF RIGHTS

Nothing in this Agreement shall prevent or limit Employee's continuing or future participation in any plan, program, policy or practice provided by the Company for which Employee may qualify, nor shall anything herein limit or otherwise affect such rights as Employee may have under any other contract or agreement with the Company. Amounts which

are vested benefits or which Employee is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company at or subsequent to the Termination Date shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. However, the Continuation Period shall not be credited as continued employment of Employee for any purpose under any such plan, policy, practice or program.

ARTICLE 5

CONFIDENTIAL INFORMATION AND NON-COMPETITION

5.1 CONFIDENTIAL INFORMATION

(a) Employee recognizes that the services to be performed by Employee hereunder are special, unique, and extraordinary and that, by reason of Employee's employment with the Company, Employee will be provided Confidential Information concerning the operation of the Company, the use or disclosure of which would cause the Company substantial loss and damages which could not be readily calculated and for which no remedy at law would be adequate. Accordingly, Employee agrees that Employee will not (directly or indirectly) at any time, whether during or after Employee's employment with the Company and its affiliates, (i) knowingly use for an improper personal benefit any Confidential Information that Employee may learn or has learned by reason of Employee's employment with the Company or (ii) disclose any such Confidential Information to any Person except (A) in the performance of Employee's obligations to the Company hereunder, (B) as required by applicable law, (C) in connection with the enforcement of Employee's rights under this Agreement, (D) in connection with any disagreement, dispute or litigation (pending or threatened) between Employee and the Company or (E) with the prior written consent of the Board. As used herein, "Confidential Information" includes, but is not limited to, information with respect to the Company's products, facilities and methods, research and development, trade secrets and other intellectual property, systems, patents and patent applications, procedures, manuals, confidential reports, product price lists, customer lists, financial information, business plans, prospects or opportunities; provided, however, that such term shall not include any information that (x) is or becomes generally known or available other than as a result of improper disclosure by Employee or (y) is or becomes known or available to Employee on a nonconfidential basis from a source (other than the Company) which, to Employee's knowledge, is not prohibited from disclosing such information to Employee by a legal, contractual, fiduciary or other obligation to the Company.

(b) Employee confirms that all Confidential Information is the exclusive property of the Company. All business records, papers and documents kept or made by Employee while employed by the Company relating to the business of the Company shall be and remain the property of the Company at all times. Upon the request of the Company at any time, Employee shall promptly deliver to the Company, and shall retain no copies of, any written materials, records and documents made by Employee or coming into his possession while employed by the Company concerning the business or affairs of the Company other than personal materials, records and documents (including notes and correspondence) of Employee not containing Confidential Information relating to such business or affairs. Notwithstanding the foregoing, Employee shall be permitted to retain copies of, or have access to, all such materials, records and

documents relating to any disagreement, dispute or litigation (pending or threatened) between Employee and the Company.

5.2 NON-COMPETITION

(a) In partial consideration for the Company's agreement to provide Employee access to Confidential Information and the other benefits provided by this Agreement, Employee agrees that while employed by the Company and for three years after the termination of such employment (for any reason) (the "Restricted Period"), Employee shall not, unless Employee receives the prior written consent of the Board, own an interest in, manage, operate, join, control, lend money or render financial or other assistance to or participate in or be connected with, as an officer, employee, partner, stockholder, consultant or otherwise, any Person which competes with the Company or its affiliates in the retail marketing of propane and/or butane gas or appliance sales, service and/or repair business in any city or within seventy-five (75) miles in all directions from the boundary of the city limits of any city where the Company or any affiliate conducts such business; provided, however, that following Employee's termination of employment the foregoing restriction shall apply only to (i) those areas where the Company or any affiliate was actually doing business on the date of such termination of employment and (ii) those areas in respect of which the Company or any affiliate actively and diligently conducted at any time during the 12-month period ended on such date of termination an analysis to determine whether or not it would commence doing business in such areas but, in the case of each such area the foregoing restriction shall cease to apply when the Company or its affiliates ceases to actively conduct business (disregarding any temporary stoppages) in such area or, if applicable, abandons its intent to conduct business in such area.

(b) Employee has carefully read and considered the provisions of this Section 5.2 and, having done so, agrees that the restrictions set forth in this Section 5.2 (including the Restricted Period, scope of activity to be restrained and the geographical scope) are fair and reasonable and are reasonably required for the protection of the interests of the Company, its officers, directors, employees, creditors and shareholders. Employee understands that the restrictions contained in this Section 5.2 may limit his ability to engage in a business similar to the Company's business, but acknowledges that he will receive sufficiently high remuneration and other benefits from the Company hereunder to justify such restrictions.

(c) During the Restricted Period, Employee shall not, whether for his own account or for the account of any other Person (excluding the Company), intentionally (i) solicit, endeavor to entice or induce any employee of the Company to terminate his employment with the Company or accept employment with anyone else or (ii) interfere in a similar manner with the business of the Company.

(d) It is specifically agreed that the Restricted Period, during which the agreements and covenants of Employee made herein shall be effective, shall be computed by excluding from such computation any time which Employee is in violation of any provision of this Article 5.

(e) In the event that any provision of this Section 5.2 relating to the Restricted Period and/or the areas of restriction shall be declared by a court of competent jurisdiction to exceed the maximum time period or areas such court deems reasonable and enforceable, the Restricted

Period and/or areas of restriction deemed reasonable and enforceable by the court shall become and thereafter be the maximum time period and/or areas.

5.3 STOCK OWNERSHIP

Nothing in this Agreement shall prohibit Employee from acquiring or holding any issue of stock or securities of any Person that has any securities registered under Section 12 of the Exchange Act, listed on a national securities exchange or quoted on the automated quotation system of the National Association of Securities Dealers, Inc. so long as (i) Employee is not deemed to be an "affiliate" of such Person, and (ii) Employee and members of his immediate family do not own or hold more than 3% of any class of voting securities of any such Person.

5.4 INJUNCTIVE RELIEF

Employee acknowledges that a breach of any of the covenants contained in this Article 5 may result in material irreparable injury to the Company for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach, any payments remaining under the terms of this Agreement shall cease and the Company shall be entitled to obtain a temporary restraining order and/or a preliminary or permanent injunction restraining Employee from engaging in activities prohibited by this Article 5 or such other relief as may be required to specifically enforce any of the covenants contained in this Article 5. Employee agrees to waive any requirement for the Company's securing or posting of any bond in connection with such remedies. Employee further agrees to and hereby does submit to in personam jurisdiction before each and every such court for that purpose.

5.5 FORFEITURE FOR BREACH

A breach of this Article 5 by Employee shall cause an immediate forfeiture of all rights Employee may have under this Agreement to receive any payments or benefits after the date of such breach.

ARTICLE 6 ARBITRATION

EXCEPT WITH RESPECT TO INJUNCTIVE RELIEF AS PROVIDED IN SECTION 5.4 ABOVE, THE PARTIES AGREE TO RESOLVE ANY CLAIM OR CONTROVERSY ARISING OUT OF OR RELATING TO THIS AGREEMENT, INCLUDING THE EMPLOYMENT OF EMPLOYEE, THE TERMINATION OF EMPLOYMENT OF EMPLOYEE, OR CLAIMS UNDER TITLE VII OF THE CIVIL RIGHTS ACT, THE AMERICANS WITH DISABILITIES ACT, THE AGE DISCRIMINATION IN EMPLOYMENT ACT, AND THE FAMILY MEDICAL LEAVE ACT, BY BINDING ARBITRATION UNDER THE FEDERAL ARBITRATION ACT BEFORE ONE ARBITRATOR IN THE CITY OF TULSA, STATE OF OKLAHOMA, ADMINISTERED BY THE AMERICAN ARBITRATION ASSOCIATION UNDER ITS COMMERCIAL ARBITRATION RULES, AND JUDGMENT ON THE AWARD RENDERED BY THE ARBITRATOR MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF. THE FEES AND EXPENSES OF THE ARBITRATOR SHALL BE BORNE SOLELY BY THE NON-PREVAILING PARTY OR, IN THE EVENT THERE IS NO CLEAR PREVAILING PARTY, AS THE ARBITRATOR DEEMS APPROPRIATE. EXCEPT AS PROVIDED ABOVE, EACH PARTY SHALL PAY ITS OWN COSTS AND EXPENSES (INCLUDING ATTORNEYS' FEES) RELATING TO ANY ARBITRATION PROCEEDING CONDUCTED UNDER THIS ARTICLE 6.

ARTICLE 7
MISCELLANEOUS PROVISIONS

7.1 NO MITIGATION OR OFFSET

The provisions of this Agreement are not intended to, nor shall they be construed to, require that Employee mitigate the amount of any payment provided for in this Agreement by seeking or accepting other employment or becoming self-employed, nor shall the amount of any payment provided for in this Agreement be reduced by any compensation earned by Employee as the result of employment by another employer, self-employment or otherwise. Without limitation of the foregoing, the Company's obligations to make the payments to Employee required under this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set off (other than as provided in Section 4.5(a)), counterclaim, recoupment, defense or other claim, right or action that the Company may have against Employee (other than as provided in Section 5.5).

7.2 ASSIGNABILITY

The obligations of Employee hereunder are personal and may not be assigned or delegated by Employee or transferred in any manner whatsoever, nor are such obligations subject to involuntary alienation, assignment or transfer. The Company shall have the right to assign this Agreement and to delegate all rights, duties and obligations hereunder as provided in Section 7.5.

7.3 NOTICES

All notices and all other communications provided for in the Agreement shall be in writing and addressed (i) if to the Company, the Board, or the Chairman of the Board at the principal office address of the Company or such other address as it may have designated by written notice to Employee for purposes hereof, directed to the attention of the Chief Executive Officer with a copy to the Secretary of the Company and (ii) if to Employee, at his residence address on the records of the Company or to such other address as he may have designated to the Company in writing for purposes hereof. Each such notice or other communication shall be deemed to have been duly delivered, provided or given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, except that any notice of change of address shall be effective only upon receipt.

7.4 SEVERABILITY

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

7.5 SUCCESSORS; BINDING AGREEMENT

(a) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance reasonably acceptable to Employee, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the

Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used herein, the term "Company" shall include any successor to its business and/or assets as aforesaid which executes and delivers the assumption agreement provided for in this Section 7.5 or which otherwise becomes bound by all terms and provisions of this Agreement by operation of law.

(b) This Agreement and all rights of Employee hereunder shall inure to the benefit of and be enforceable by Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Employee should die while any amounts are due him hereunder, all such amounts shall be paid in accordance with the terms of this Agreement to Employee's devisee, legatee, or other designee or, if there be no such designee, to Employee's estate.

7.6 TAX WITHHOLDINGS

The Company shall withhold from all payments hereunder all applicable taxes (federal, state or other) which it is required to withhold therefrom unless Employee has otherwise paid (or made other arrangements satisfactory) to the Company the amount of such taxes.

7.7 AMENDMENTS AND WAIVERS

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by Employee and such member of the Board as may be specifically authorized by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or in compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

7.8 ENTIRE AGREEMENT; TERMINATION OF ANY OTHER AGREEMENTS

This Agreement is an integration of the parties' agreement with respect to the subject matter hereof and no agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. This Agreement hereby expressly terminates, rescinds and replaces any prior agreement (written or oral) between the parties relating to the subject matter hereof, including, without limitation, that certain Employment Agreement between the parties dated June 28, 1996.

7.9 GOVERNING LAW; SUBMISSION TO JURISDICTION

(a) THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF OKLAHOMA WITHOUT REGARD TO ITS CONFLICT OF LAWS PROVISION, OTHER THAN THE PROVISIONS OF SECTION 5.2, WHICH SHALL BE GOVERNED BY THE LAWS OF THE STATE OF ANY ALLEGED VIOLATION. IT IS THE INTENT OF THE PARTIES THAT THE PROVISIONS OF SECTION 5.2 BE

INTERPRETED TO IMPOSE THE MAXIMUM PERIOD OF RESTRICTION UNDER THE GOVERNING LAW OF SUCH SECTION.

(b) EACH PARTY HERETO HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS IN TULSA COUNTY, OKLAHOMA, FOR THE PURPOSES OF ANY PROCEEDING ARISING OUT OF THIS AGREEMENT.

7.10 EMPLOYMENT WITH AFFILIATES

For purposes of this Agreement, employment with any affiliates of the Company, U.S. Propane, L.P. or with any of their respective affiliates shall be deemed to be employment with the Company.

7.11 SURVIVAL

The provisions of Articles 5 and 6 and Section 7.9 and any other provisions necessary to give full effect to the terms of this Agreement, shall survive the termination of this Agreement.

7.12 COUNTERPARTS

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

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the Effective Date.

HERITAGE HOLDINGS, INC.

By: _____
Name: _____
Title: _____

EMPLOYEE

Thomas H. Rose

EXHIBIT A

PROPOSED MANAGEMENT INCENTIVE COMPENSATION

POSITION	BASE SALARY	PERCENTAGE OF INCENTIVE	
		SHORT-TERM	LONG-TERM
CEO	\$ 350,000	14.00%	16.00%
COO	335,000	14.00%	16.00%
CFO	325,000	14.00%	16.00%
Acquisition	200,000	14.00%	16.00%
VP Western Operations	150,000	7.00%	8.67%
VP Northern Operations	135,000	7.00%	8.67%
VP Southern Operations	135,000	7.00%	8.67%
Discretionary (Corp. & Others)		23.00%	10.00%
	<u>\$1,630,000</u>	<u>100.00%</u>	<u>100.00%</u>

SHORT-TERM INCENTIVE PLAN

- For FY 2001, management will receive the following for EBITDA in excess of a Base \$76.0 million. The beginning Base is higher than \$73.2 million in order to offset the higher Base Salaries:
 - 15% of EBITDA over \$76 million up to \$80 million
 - 17.5% of EBITDA over \$80 million up to \$85 million
 - 20% of EBITDA over \$85 million
- No cap on short-term incentive, and increasing percentage to encourage outstanding performance.
- In the very unlikely event that the short-term incentive earned is over \$2.0 million, the excess bonus would be deferred to the following year. In this way, when the Board raises the "bar" the following fiscal year, there is a bonus to be paid.
- The Board sets the \$76.0 million EBITDA Base Target which remains unchanged during Fiscal YR 2001.
- Targets in subsequent fiscal years will be set by the Board at its sole discretion.

LONG-TERM INCENTIVE PLAN

- A minimum of 250,000 units and a maximum of 500,000 units will be awarded based on achieving certain targeted levels of Distributed Cash per unit.
- Awards under the program will be made starting in 2003 based upon the average of the prior three years Distributed Cash per unit. Each year, beginning after Fiscal YR 2003, units will be awarded based upon levels detailed below.

	2003	2004	2005	TOTALS
	-----	-----	-----	-----
Moving Average Period	2001-2003	2002-2004	2003-2005	
Three Year Average of Distributed Cash per Unit	\$ 2.50	\$ 2.65	\$ 2.80	
Maximum Target Level	\$ 2.80	\$ 2.95	\$ 3.10	
VALUE ASSUMING CURRENT COMMON UNIT PRICE				
Minimum Award	83,333	83,333	83,333	250,000
Value at a Common Unit Price of	\$ 18.375	\$ 1,531,250	\$ 1,531,250	\$ 4,593,750
Maximum Award	166,667	166,667	166,667	500,000
Value at a Common Unit Price of	\$ 18.375	\$ 3,062,500	\$ 3,062,500	\$ 9,187,500
HYPOTHETICAL VALUES ASSUMING A HIGHER COMMON UNIT PRICE				
Minimum Award	83,333	83,333	83,333	250,000
Value at a Common Unit Price of	\$ 25.000	\$ 2,083,333	\$ 2,083,333	\$ 6,250,000
Maximum Award	166,667	166,667	166,667	500,000
Value at a Common Unit Price of	\$ 25.000	\$ 4,166,667	\$ 4,166,667	\$ 12,500,000

HERITAGE HOLDINGS, INC.

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into effective as of the Closing ("Effective Date") by and between Heritage Holdings, Inc., a Delaware corporation ("Company"), and Curtis L. Weishahn ("Employee").

RECITALS

WHEREAS, Employee is currently an employee of the Company; and

WHEREAS, the Company desires for Employee to continue with the Company and Employee is willing to continue with the Company, on the terms and conditions herein set forth;

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties, and agreements contained herein, and for other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1

DEFINITIONS AND INTERPRETATIONS

1.1 DEFINITIONS

For purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following terms shall have the following respective meanings:

"Accounting Firm" shall have the meaning specified in Section 4.5(d)(iii).

"Base Salary" shall have the meaning specified in Section 3.1.

"Board" shall mean the Board of Directors of the Company.

"Bonus Payment" shall have the meaning specified in Section 4.5(a).

"Change of Control" shall mean the date that the Specified Entities cease to own, directly or indirectly through wholly-owned subsidiaries, in the aggregate at least 65% of the capital stock of the Company.

"Closing" shall mean the closing date of the purchase of Company stock contemplated in the Stock Purchase Agreement, dated June 15, 2000, among U.S. Propane, L.P. and the other parties thereto.

"Code" shall have the meaning specified in Section 4.5(d)(i).

"Confidential Information" shall have the meaning specified in Section 5.1(a).

"Continuation Period" shall have the meaning specified in Section 4.5(a).

"Designated Current Manager" shall mean each of R.C. Mills and Employee, current executive officers of the Company, together with, in the case of either such executive officer, the heirs of, and trusts for the benefit of family members controlled by, such executive officer.

"Disability" shall mean a physical or mental condition of Employee that, in the good faith judgment of not less than a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board), based upon certification by a licensed physician reasonably acceptable to Employee and the Board, (i) prevents Employee from being able to perform the services required under this Agreement, (ii) has continued for a period of at least 180 days during any 12-month period, and (iii) is expected to continue.

"Dispute" shall have the meaning specified in Article 6.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Expiration Date" shall have the meaning specified in Section 2.2.

"Good Reason" shall mean any of the following:

(i) the assignment to Employee of any duties materially inconsistent with Employee's position (including a materially adverse change in Employee's office, title and reporting requirements), authority, duties or responsibilities;

(ii) any termination by the Company of Employee's employment other than as expressly permitted by this Agreement;

(iii) any failure by the Company to comply with and satisfy Section 7.5 (requiring the Company to require any successor to expressly assume and agree to perform all obligations under this Agreement); or

(iv) a breach or violation by the Company of any material provision of this Agreement, which breach or violation remains unremedied for more than 30 days after written notice thereof is given to the Company by Employee.

For purposes of this definition, no act or failure to act on the Company's part shall be considered a "Good Reason" unless Employee has given the Company written notice of such act or failure to act within 30 days thereof and the Company fails to remedy such act or failure to act within 15 days of its receipt of such notice.

"Gross-Up Payment" shall have the meaning specified in Section 4.5(d)(ii).

"Misconduct" shall mean one or more of the following:

(i) the willful and continued failure by Employee to perform substantially his duties hereunder (other than any such failure resulting from Employee's incapacity due to physical or

mental illness) after written notice of such failure has been given to Employee by the Company and Employee has had a reasonable period (not to exceed 15 days) to correct such failure;

(ii) conviction (or plea of nolo contendere) of Employee for any felony or any other crime which is materially detrimental to the Company (monetarily or otherwise);

(iii) any act or omission by Employee which materially damages the integrity, reputation or financial viability of the Company or its affiliates;

(iv) a breach or violation by Employee of (a) any material provision of this Agreement or (b) any material Company employment policy, which (in either case), if capable of being remedied, remains unremedied for more than 15 days after written notice thereof is given to Employee by the Company; or

(v) chronic alcohol abuse or illegal drug use by Employee that is determined by the Board to impair Employee's ability to perform his duties and responsibilities hereunder.

For purposes of this definition, no act or failure to act on Employee's part shall be considered "Misconduct" if done or omitted to be done by Employee in good faith and in the reasonable belief that such act or failure to act was in the best interest the Company or in furtherance of Employee's duties and responsibilities hereunder.

"Notice of Discontinuance" shall have the meaning specified in Section 2.2.

"Notice of Termination" shall mean a notice purporting to terminate Employee's employment in accordance with Section 4.1(a) or 4.2. Such notice shall specify the effective date of such termination, which date shall neither be less than 30 (10 in the case of a termination by the Company for Misconduct) nor more than 60 days after the date such notice is given. If such termination is by Employee for Good Reason or by the Company for Disability or Misconduct, such notice shall set forth in reasonable detail the reason for such termination and the facts and circumstances claimed to provide a basis therefor. Any notice purporting to terminate Employee's employment which is not in compliance with the requirements of this definition shall be ineffective.

"Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and any other entity.

"Qualifying Termination" shall have the meaning specified in Section 4.5.

"Severance Plan" shall have the meaning specified in Section 4.5(a).

"Specified Entities" shall mean any one or more of the following entities: (i) Atmos Energy Corporation, a Texas and Virginia corporation, (ii) Piedmont Natural Gas Company, Inc., a North Carolina corporation, (iii) AGL Resources, Inc., a Georgia corporation, and (iv) TECO Energy, Inc., a Florida corporation, or a successor to any entity referred to in clause (i), (ii), (iii) or (iv) of this definition.

"Successor" shall mean, with respect to a Specified Entity, any entity in which the holders of capital stock of such Specified Entity outstanding immediately prior to a consolidation, acquisition or merger involving such Specified Entity hold, directly or indirectly, through wholly-owned subsidiaries, immediately after such consolidation, acquisition or merger.

"Term" shall have the meaning specified in Section 2.2.

"Termination Date" shall mean the termination date specified in a Notice of Termination delivered in accordance with this Agreement.

"Total Payment" shall have the meaning specified in Section 4.5(d)(i).

1.2 INTERPRETATIONS

(a) In this Agreement, unless a clear contrary intention appears, (i) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision, (ii) reference to any "Article" or "Section", means such Article or Section hereof, (iii) the word "including" (and with correlative meaning "include") means including, without limiting the generality of any description preceding such term, (iv) the word "affiliate" has the meaning stated in Rule 405 promulgated under the Securities Act of 1933, as amended, and (v) where any provision of this Agreement refers to action to be taken by either party, or which such party is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such party.

(b) The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

ARTICLE 2 EMPLOYMENT; TERM; POSITION AND DUTIES; ETC.

2.1 EMPLOYMENT

The Company agrees to continue Employee's employment with the Company and Employee agrees to remain in the employment of the Company, in each case on the terms and conditions set forth in this Agreement.

2.2 TERM OF AGREEMENT

Unless sooner terminated pursuant to Article 4, the term of this Agreement (the "Term") shall commence on the Effective Date and shall continue until the third anniversary of the Effective Date (the "Expiration Date"); provided, however, that beginning on the second anniversary of the Effective Date and on each day thereafter the Expiration Date shall be automatically extended one additional day unless either party (i) shall give written notice to the other (a "Notice of Discontinuance") that the Term shall cease to be so extended beginning immediately after the date of such notice or (ii) shall give a Notice of Termination to the other party pursuant to Section 4.1(a) or 4.2, as the case may be. No Notice of Discontinuance given

by the Company shall be effective unless given pursuant to a resolution duly adopted by the affirmative vote of a least a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board). If either party gives a Notice of Discontinuance, Employee's employment hereunder shall continue until the expiration of the Term, subject to earlier termination pursuant to Article 4. Employee's continued employment, if any, after the expiration of the Term shall be "at will" employment.

2.3 POSITION AND DUTIES

(a) While employed hereunder, Employee shall serve as the Vice President-Western Operations of the Company and shall have and may exercise all of the powers, functions, duties and responsibilities normally attributable to such position. Employee shall have such additional duties and responsibilities commensurate with such position as from time to time may be reasonably assigned to Employee by the Board or the Chief Executive Officer of the Company. While employed hereunder, Employee shall (i) report directly to the Chief Executive Officer of the Company and (ii) observe and comply with all lawful policies, directions and instructions of the Board and the Chief Executive Officer of the Company which are consistent with the foregoing provisions of this paragraph (a).

(b) While employed hereunder, Employee shall devote substantially all of his business time, attention, skill and efforts to the faithful and efficient performance of his duties hereunder. Notwithstanding the foregoing, Employee may engage in the following activities so long as they do not interfere in any material respect with the performance of Employee's duties and responsibilities hereunder: (i) serve on corporate, civic, religious, educational and/or charitable boards or committees and (ii) manage his personal investments.

(c) While employed hereunder, Employee shall conduct himself in such a manner as not to intentionally and knowingly prejudice, in any material respect, the reputation of the Company or any of its affiliates, including U.S. Propane, L.P., or with the investment community or the public at large.

2.4 PLACE OF EMPLOYMENT

Employee's place of employment hereunder shall be at the Company's principal executive offices in the greater Reno, Nevada area or such other areas as the Chief Executive Officer shall assign.

ARTICLE 3 COMPENSATION AND BENEFITS

3.1 BASE SALARY

(a) For services rendered by Employee under this Agreement, the Company shall pay to Employee an annual base salary of \$150,000.00 ("Base Salary"). The Board shall review the Base Salary at least annually and may adjust the amount of the Base Salary at any time as the Board may deem appropriate in its sole discretion; provided, however, that in no event may the

Base Salary be decreased below the above stated amount without the prior written consent of Employee.

(b) The Base Salary shall be payable in accordance with the Company's payroll practice for its executives as it is earned.

3.2 BONUS

The Employee will participate in bonus and incentive plans with substantially equivalent economic provisions as set forth in Exhibit A hereto.

3.3 VACATION

While employed hereunder, Employee shall be entitled to vacation benefits in accordance with the vacation policy approved by the Board from time to time for the Company's executives in general. Employee shall not be entitled to accumulate and carryover unused vacation time from year to year, except to the extent permitted in accordance with the Company's vacation policy for executives in general, nor shall Employee be entitled to compensation for unused vacation time except as provided in Section 4.3(a).

3.4 BUSINESS EXPENSES

The Company shall, in accordance with the rules and policies that it may establish from time to time for executives, reimburse Employee for business expenses reasonably incurred in the performance of Employee's duties. Requests for reimbursement for such expenses must be accompanied by appropriate documentation as required by such rules and policies.

3.5 OTHER BENEFITS

Employee shall be entitled to receive all employee benefits, fringe benefits and other perquisites that may be offered by the Company to its executives as a group, including participation by Employee and, where applicable, Employee's dependents, in the various employee benefit plans or programs (including pension plans, profit sharing plans, stock plans, health plans, life insurance and disability insurance) provided to executives of the Company in general, subject to meeting the eligibility requirements with respect to each of such benefit plans or programs. However, nothing in this Section 3.5 shall be deemed to prohibit the Company from making any changes in any of the plans, programs or benefits described herein. In addition, Employee shall be entitled to a life insurance benefit that is the same or reasonably comparable to that which is provided to Employee by the Company at the Effective Date.

3.6 INDEMNIFICATION

Employee shall be entitled to (i) indemnification and advancement of expenses from the Company in accordance with the provisions of the Bylaws of the Company, and (ii) coverage under the applicable directors' and officers' insurance policy (if any) maintained by the Company or any of its affiliates regarding actions and omissions by Employee during the Term (whether on behalf of the Company or any of its Affiliates).

ARTICLE 4
TERMINATION OF EMPLOYMENT

4.1 TERMINATION BY EMPLOYEE; DEATH

(a) Employee may, at any time prior to the Expiration Date, terminate his employment hereunder for any reason by delivering a Notice of Termination to the Board and the Chairman of the Board of the Company.

(b) Employee's employment hereunder shall terminate upon his death.

4.2 TERMINATION BY THE COMPANY

The Company may, at any time prior to the Expiration Date, terminate Employee's employment hereunder for any reason by delivering a Notice of Termination to Employee; provided, however, that in no event shall the Company be entitled to terminate Employee's employment prior to the Expiration Date unless the Board shall duly adopt, by the affirmative vote of at least a majority of the entire membership of the Board (excluding Employee, if Employee is then a member of the Board), a resolution authorizing such termination and stating that, in the opinion of the Board, sufficient reason exists therefor.

4.3 PAYMENT OF ACCRUED BASE SALARY, VACATION PAY, ETC.

(a) Promptly upon the termination of Employee's employment for any reason (including death), the Company shall pay to Employee (or his estate) a lump sum amount for (i) any unpaid Base Salary earned hereunder prior to the termination date and any accrued but unpaid bonus for any fiscal year previously completed as of the termination date, but only to the extent such bonus has accrued and is payable to Employee after termination of employment pursuant to the terms of the applicable bonus plan or policy; (ii) all unused vacation time accrued by Employee as of the termination date in accordance with Section 3.3; (iii) all unpaid benefits earned or vested, as the case may be, by Employee as of the termination date under any and all incentive or deferred compensation plans or programs of the Company and (iv) any amounts in respect of which Employee has requested, and is entitled to, reimbursement in accordance with Section 3.4.

(b) A termination of Employee's employment in accordance with this Agreement under any Section of this Article 4 shall not alter or impair, nor enhance or increase, any of Employee's rights or benefits under any employee benefit plan or program or incentive or deferred compensation plan or program maintained by the Company, in each case except as provided therein or in any written agreement entered into between the Company and Employee pursuant thereto.

(c) If Employee's employment hereunder is terminated due to his death or Disability, by Employee for a Good Reason, by the Company other than for Misconduct, or upon a Change of Control of the Company, all Company-imposed restrictions on the transferability of the Units (as defined in the Subscription Agreement dated as of June 15, 2000, by and among Heritage Propane Partners, L.P., a Delaware limited partnership ("Heritage MLP") and the other parties thereto (the "Subscription Agreement")) purchased by Employee on the Closing shall

automatically lapse in full on such date. Upon Employee's request accompanied by Employee's certificate for Units, the Company shall cause a new certificate to be issued to Employee for such Units without a legend referring to such Company-imposed restrictions. A copy of such Company-imposed restrictions is attached as Annex II to the Subscription Agreement.

4.4 DISABILITY PAYMENTS

If Employee incurs a Disability, the Company may terminate Employee's employment hereunder by delivering a Notice of Termination to Employee; provided, however, in such event the Company shall continue to pay to Employee, through the remainder of the Term (as determined without regard to its earlier termination upon Employee's termination due to Disability under this Section 4.4 and, if the Termination Date is on or after the second anniversary of the Effective Date, without any extension of the Term under Section 2.2 after such Termination Date) or until Employee's death, if earlier, at such regularly scheduled times:

(A) the Base Salary in effect immediately prior to the date of such termination, minus

(B) any amount payable to Employee under any disability plan maintained by the Company for the benefit of Employee.

4.5 OTHER BENEFITS

The following provisions shall apply (i) following a Change of Control or (ii) if Employee terminates his employment pursuant to Section 4.1 for Good Reason or (iii) if the Company terminates Employee's employment pursuant to Section 4.2 for any reason other than Misconduct (each a "Qualifying Termination"):

(a) Base Salary and Bonus Payments. For the remainder of the Term (as determined without regard to its earlier termination pursuant to Section 4.1(a) or 4.2 and, if such termination date is on or after the second anniversary of the Effective Date, without any extension of the Term after such termination date) or until Employee's death, if earlier (the "Continuation Period"), the Company shall pay to Employee, at the regularly scheduled times, the sum of the Base Salary (as in effect on the date on which the relevant Notice of Termination is given in accordance with this Agreement) and pay or vest the Bonus Payment as applicable within sixty (60) days of the Qualifying Termination. The "Bonus Payment" shall be an amount (A) for the Short Term Incentive Plan, equal to the excess of the actual EBITDA compared to the budgeted EBITDA to the month end accounting period nearest to the date of the Qualifying Termination (the "Short Incentive Term") times 15% times the Employee's Percentage of Incentive as indicated on Exhibit A attached hereto and (B) for the Long Term Incentive Plan, the Employee will vest immediately in the number of Common Units equal to the Employee's Percentage of Incentive as indicated on Exhibit A hereto times the total Common Units at the Minimum Award level (250,000) to the extent not previously awarded.

The amount payable to Employee under this paragraph (a) is in lieu of, and not in addition to, any severance payment due or to become due to Employee under any separate agreement or contract between Employee and the Company or pursuant to any severance payment plan, program or policy of the Company or any affiliate (collectively, "Severance Plan"). Any severance amounts received by Employee under a Severance Plan shall be applied

as an offset to (reduce or eliminate, as the case may be) any future payments otherwise to be made to Employee under this paragraph (a); i.e., no additional payments shall be made under this paragraph (a) until the aggregate amount of the offsets hereunder equals the severance amounts received by Employee under the Severance Plan.

(b) Health Plan Benefits. The Company shall at all times during the Continuation Period cause Employee and Employee's eligible dependents to be covered by and to participate in, to the fullest extent allowable under the terms thereof, all group health insurance plans and programs that may be offered to the executives of the Company so that Employee will receive, at all times during the Continuation Period, the same benefits under such plans and programs that Employee would have been entitled to receive had he remained an executive of the Company; provided, however, (i) Employee must timely pay the "active" employee premium, if any, for such continued coverage; (ii) Employee must timely elect COBRA continuation coverage thereunder upon his termination of employment; and (iii) in the event Employee and his eligible dependents become covered during the Continuation Period by another employer's group health plan or programs which does not contain any effective exclusion or limitation with respect to any pre-existing conditions, then the Company's group health plans shall no longer be liable for any benefits under this paragraph (b).

(c) Release. Notwithstanding anything in this Section 4.5 to the contrary, as a condition to the receipt of any payment or benefit under this Section 4.5, Employee must first execute and deliver to the Company a release in a form prepared by the Company, releasing the Company, its officers, the Board, employees and agents from any and all claims and from any and all causes of action of any kind or character that Employee may have arising out of Employee's employment with the Company or the termination of such employment, but excluding any claims and causes of action that Employee may have arising under or based upon this Agreement.

(d) Parachute Tax.

(i) If the payments and benefits provided to Employee under this Agreement or under any other agreement with, or plan of, the Company (the "Total Payment") (A) constitute a "parachute payment" as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and exceed three times Employee's "base amount" as defined under Code Section 280G(b)(3) by less than 10% of three times Employee's base amount, and (B) would, but for this Section 4.5(d)(i), be subject to the excise tax imposed by Code Section 4999, then Employee's payments and benefits under this Agreement shall be either (I) paid in full, or (II) reduced and payable only as to the maximum amount which would result in no portion of such payments and benefits being subject to excise tax under Code Section 4999, whichever results in the receipt by Employee on an after-tax basis of the greatest amount of Total Payment (taking into account the applicable federal, state and local income taxes, the excise tax imposed by Code Section 4999 and all other taxes (including any interest and penalties) payable by Employee). If a reduction of the Total Payment is necessary, Employee shall be entitled to select which payments or benefits will be reduced and the manner and method of any such reduction of such payments and benefits. Within 30 days after the amount of any required reduction in payments and benefits is finally determined under Section 4.5(d)(iii),

Employee shall notify the Company in writing regarding which payments and benefits are to be reduced. If no notification is given by Employee, the Company will determine which payments and benefits to reduce. If, as a result of any reduction required by this Section 4.5(d)(i), amounts previously paid to Employee exceed the amount to which Employee is entitled, Employee will promptly return the excess amount to the Company.

(ii) If the Total Payment constitutes a "parachute payment" as defined in Code Section 280G and exceeds three times Employee's "base amount" as defined under Code Section 280G(b)(3) by 10% or more of three times Employee's base amount, the Company shall provide to Employee, in cash, an additional payment in an amount to cover the full excise tax due under Code Section 4999, plus Employee's state and federal income, employment, excise, and other taxes (including interest and penalties) on this additional payment (the "Gross-Up Payment"). Any amount payable under this Section 4.5(d)(ii) shall be paid as soon as possible following the date of Employee's Qualifying Termination, but in no event later than 30 days after such date.

(iii) All determinations required to be made under this Section 4.5(d), including whether reductions are necessary or whether a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be used in determining such Gross-Up Payment, shall be made by the accounting firm used by the Company at the time of such determination (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Company and to Employee within 15 business days of the receipt of notice from the Company or Employee that there has been a Qualifying Termination, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity, or group effecting the change in control transaction, Employee may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company.

(iv) In the event Employee is entitled to a Gross-Up Payment under Section 4.5(d)(ii) and the Internal Revenue Service subsequently increases the excise tax computation described in Section 4.5(d)(ii), the Company shall reimburse Employee for the full amount necessary to make Employee whole on an after-tax basis (less any amounts received by Employee that Employee would not have received had the computations initially been computed as subsequently adjusted), including the value of any underpaid excise tax, and any related interest and/or penalties due to the Internal Revenue Service.

4.6 NON-EXCLUSIVITY OF RIGHTS

Nothing in this Agreement shall prevent or limit Employee's continuing or future participation in any plan, program, policy or practice provided by the Company for which Employee may qualify, nor shall anything herein limit or otherwise affect such rights as Employee may have under any other contract or agreement with the Company. Amounts which

are vested benefits or which Employee is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company at or subsequent to the Termination Date shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. However, the Continuation Period shall not be credited as continued employment of Employee for any purpose under any such plan, policy, practice or program.

ARTICLE 5

CONFIDENTIAL INFORMATION AND NON-COMPETITION

5.1 CONFIDENTIAL INFORMATION

(a) Employee recognizes that the services to be performed by Employee hereunder are special, unique, and extraordinary and that, by reason of Employee's employment with the Company, Employee will be provided Confidential Information concerning the operation of the Company, the use or disclosure of which would cause the Company substantial loss and damages which could not be readily calculated and for which no remedy at law would be adequate. Accordingly, Employee agrees that Employee will not (directly or indirectly) at any time, whether during or after Employee's employment with the Company and its affiliates, (i) knowingly use for an improper personal benefit any Confidential Information that Employee may learn or has learned by reason of Employee's employment with the Company or (ii) disclose any such Confidential Information to any Person except (A) in the performance of Employee's obligations to the Company hereunder, (B) as required by applicable law, (C) in connection with the enforcement of Employee's rights under this Agreement, (D) in connection with any disagreement, dispute or litigation (pending or threatened) between Employee and the Company or (E) with the prior written consent of the Board. As used herein, "Confidential Information" includes, but is not limited to, information with respect to the Company's products, facilities and methods, research and development, trade secrets and other intellectual property, systems, patents and patent applications, procedures, manuals, confidential reports, product price lists, customer lists, financial information, business plans, prospects or opportunities; provided, however, that such term shall not include any information that (x) is or becomes generally known or available other than as a result of improper disclosure by Employee or (y) is or becomes known or available to Employee on a nonconfidential basis from a source (other than the Company) which, to Employee's knowledge, is not prohibited from disclosing such information to Employee by a legal, contractual, fiduciary or other obligation to the Company.

(b) Employee confirms that all Confidential Information is the exclusive property of the Company. All business records, papers and documents kept or made by Employee while employed by the Company relating to the business of the Company shall be and remain the property of the Company at all times. Upon the request of the Company at any time, Employee shall promptly deliver to the Company, and shall retain no copies of, any written materials, records and documents made by Employee or coming into his possession while employed by the Company concerning the business or affairs of the Company other than personal materials, records and documents (including notes and correspondence) of Employee not containing Confidential Information relating to such business or affairs. Notwithstanding the foregoing, Employee shall be permitted to retain copies of, or have access to, all such materials, records and

documents relating to any disagreement, dispute or litigation (pending or threatened) between Employee and the Company.

5.2 NON-COMPETITION

(a) In partial consideration for the Company's agreement to provide Employee access to Confidential Information and the other benefits provided by this Agreement, Employee agrees that while employed by the Company and for three years after the termination of such employment (for any reason) (the "Restricted Period"), Employee shall not, unless Employee receives the prior written consent of the Board, own an interest in, manage, operate, join, control, lend money or render financial or other assistance to or participate in or be connected with, as an officer, employee, partner, stockholder, consultant or otherwise, any Person which competes with the Company or its affiliates in the retail marketing of propane and/or butane gas or appliance sales, service and/or repair business in any city or within seventy-five (75) miles in all directions from the boundary of the city limits of any city where the Company or any affiliate conducts such business; provided, however, that following Employee's termination of employment the foregoing restriction shall apply only to (i) those areas where the Company or any affiliate was actually doing business on the date of such termination of employment and (ii) those areas in respect of which the Company or any affiliate actively and diligently conducted at any time during the 12-month period ended on such date of termination an analysis to determine whether or not it would commence doing business in such areas but, in the case of each such area the foregoing restriction shall cease to apply when the Company or its affiliates ceases to actively conduct business (disregarding any temporary stoppages) in such area or, if applicable, abandons its intent to conduct business in such area.

(b) Employee has carefully read and considered the provisions of this Section 5.2 and, having done so, agrees that the restrictions set forth in this Section 5.2 (including the Restricted Period, scope of activity to be restrained and the geographical scope) are fair and reasonable and are reasonably required for the protection of the interests of the Company, its officers, directors, employees, creditors and shareholders. Employee understands that the restrictions contained in this Section 5.2 may limit his ability to engage in a business similar to the Company's business, but acknowledges that he will receive sufficiently high remuneration and other benefits from the Company hereunder to justify such restrictions.

(c) During the Restricted Period, Employee shall not, whether for his own account or for the account of any other Person (excluding the Company), intentionally (i) solicit, endeavor to entice or induce any employee of the Company to terminate his employment with the Company or accept employment with anyone else or (ii) interfere in a similar manner with the business of the Company.

(d) It is specifically agreed that the Restricted Period, during which the agreements and covenants of Employee made herein shall be effective, shall be computed by excluding from such computation any time which Employee is in violation of any provision of this Article 5.

(e) In the event that any provision of this Section 5.2 relating to the Restricted Period and/or the areas of restriction shall be declared by a court of competent jurisdiction to exceed the maximum time period or areas such court deems reasonable and enforceable, the Restricted

Period and/or areas of restriction deemed reasonable and enforceable by the court shall become and thereafter be the maximum time period and/or areas.

5.3 STOCK OWNERSHIP

Nothing in this Agreement shall prohibit Employee from acquiring or holding any issue of stock or securities of any Person that has any securities registered under Section 12 of the Exchange Act, listed on a national securities exchange or quoted on the automated quotation system of the National Association of Securities Dealers, Inc. so long as (i) Employee is not deemed to be an "affiliate" of such Person, and (ii) Employee and members of his immediate family do not own or hold more than 3% of any class of voting securities of any such Person.

5.4 INJUNCTIVE RELIEF

Employee acknowledges that a breach of any of the covenants contained in this Article 5 may result in material irreparable injury to the Company for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach, any payments remaining under the terms of this Agreement shall cease and the Company shall be entitled to obtain a temporary restraining order and/or a preliminary or permanent injunction restraining Employee from engaging in activities prohibited by this Article 5 or such other relief as may be required to specifically enforce any of the covenants contained in this Article 5. Employee agrees to waive any requirement for the Company's securing or posting of any bond in connection with such remedies. Employee further agrees to and hereby does submit to in personam jurisdiction before each and every such court for that purpose.

5.5 FORFEITURE FOR BREACH

A breach of this Article 5 by Employee shall cause an immediate forfeiture of all rights Employee may have under this Agreement to receive any payments or benefits after the date of such breach.

ARTICLE 6 ARBITRATION

EXCEPT WITH RESPECT TO INJUNCTIVE RELIEF AS PROVIDED IN SECTION 5.4 ABOVE, THE PARTIES AGREE TO RESOLVE ANY CLAIM OR CONTROVERSY ARISING OUT OF OR RELATING TO THIS AGREEMENT, INCLUDING THE EMPLOYMENT OF EMPLOYEE, THE TERMINATION OF EMPLOYMENT OF EMPLOYEE, OR CLAIMS UNDER TITLE VII OF THE CIVIL RIGHTS ACT, THE AMERICANS WITH DISABILITIES ACT, THE AGE DISCRIMINATION IN EMPLOYMENT ACT, AND THE FAMILY MEDICAL LEAVE ACT, BY BINDING ARBITRATION UNDER THE FEDERAL ARBITRATION ACT BEFORE ONE ARBITRATOR IN THE CITY OF TULSA, STATE OF OKLAHOMA, ADMINISTERED BY THE AMERICAN ARBITRATION ASSOCIATION UNDER ITS COMMERCIAL ARBITRATION RULES, AND JUDGMENT ON THE AWARD RENDERED BY THE ARBITRATOR MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF. THE FEES AND EXPENSES OF THE ARBITRATOR SHALL BE BORNE SOLELY BY THE NON-PREVAILING PARTY OR, IN THE EVENT THERE IS NO CLEAR PREVAILING PARTY, AS THE ARBITRATOR DEEMS APPROPRIATE. EXCEPT AS PROVIDED ABOVE, EACH PARTY SHALL PAY ITS OWN COSTS AND EXPENSES (INCLUDING ATTORNEYS' FEES) RELATING TO ANY ARBITRATION PROCEEDING CONDUCTED UNDER THIS ARTICLE 6.

ARTICLE 7
MISCELLANEOUS PROVISIONS

7.1 NO MITIGATION OR OFFSET

The provisions of this Agreement are not intended to, nor shall they be construed to, require that Employee mitigate the amount of any payment provided for in this Agreement by seeking or accepting other employment or becoming self-employed, nor shall the amount of any payment provided for in this Agreement be reduced by any compensation earned by Employee as the result of employment by another employer, self-employment or otherwise. Without limitation of the foregoing, the Company's obligations to make the payments to Employee required under this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set off (other than as provided in Section 4.5(a)), counterclaim, recoupment, defense or other claim, right or action that the Company may have against Employee (other than as provided in Section 5.5).

7.2 ASSIGNABILITY

The obligations of Employee hereunder are personal and may not be assigned or delegated by Employee or transferred in any manner whatsoever, nor are such obligations subject to involuntary alienation, assignment or transfer. The Company shall have the right to assign this Agreement and to delegate all rights, duties and obligations hereunder as provided in Section 7.5.

7.3 NOTICES

All notices and all other communications provided for in the Agreement shall be in writing and addressed (i) if to the Company, the Board, or the Chairman of the Board at the principal office address of the Company or such other address as it may have designated by written notice to Employee for purposes hereof, directed to the attention of the Chief Executive Officer with a copy to the Secretary of the Company and (ii) if to Employee, at his residence address on the records of the Company or to such other address as he may have designated to the Company in writing for purposes hereof. Each such notice or other communication shall be deemed to have been duly delivered, provided or given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, except that any notice of change of address shall be effective only upon receipt.

7.4 SEVERABILITY

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

7.5 SUCCESSORS; BINDING AGREEMENT

(a) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance reasonably acceptable to Employee, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the

Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used herein, the term "Company" shall include any successor to its business and/or assets as aforesaid which executes and delivers the assumption agreement provided for in this Section 7.5 or which otherwise becomes bound by all terms and provisions of this Agreement by operation of law.

(b) This Agreement and all rights of Employee hereunder shall inure to the benefit of and be enforceable by Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Employee should die while any amounts are due him hereunder, all such amounts shall be paid in accordance with the terms of this Agreement to Employee's devisee, legatee, or other designee or, if there be no such designee, to Employee's estate.

7.6 TAX WITHHOLDINGS

The Company shall withhold from all payments hereunder all applicable taxes (federal, state or other) which it is required to withhold therefrom unless Employee has otherwise paid (or made other arrangements satisfactory) to the Company the amount of such taxes.

7.7 AMENDMENTS AND WAIVERS

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by Employee and such member of the Board as may be specifically authorized by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or in compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

7.8 ENTIRE AGREEMENT; TERMINATION OF ANY OTHER AGREEMENTS

This Agreement is an integration of the parties' agreement with respect to the subject matter hereof and no agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. This Agreement hereby expressly terminates, rescinds and replaces any prior agreement (written or oral) between the parties relating to the subject matter hereof, including, without limitation, that certain Employment Agreement between the parties dated June 28, 1996.

7.9 GOVERNING LAW; SUBMISSION TO JURISDICTION

(a) THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF OKLAHOMA WITHOUT REGARD TO ITS CONFLICT OF LAWS PROVISION, OTHER THAN THE PROVISIONS OF SECTION 5.2, WHICH SHALL BE GOVERNED BY THE LAWS OF THE STATE OF ANY ALLEGED VIOLATION. IT IS THE INTENT OF THE PARTIES THAT THE PROVISIONS OF SECTION 5.2 BE

INTERPRETED TO IMPOSE THE MAXIMUM PERIOD OF RESTRICTION UNDER THE GOVERNING LAW OF SUCH SECTION.

(b) EACH PARTY HERETO HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS IN TULSA COUNTY, OKLAHOMA, FOR THE PURPOSES OF ANY PROCEEDING ARISING OUT OF THIS AGREEMENT.

7.10 EMPLOYMENT WITH AFFILIATES

For purposes of this Agreement, employment with any affiliates of the Company, U.S. Propane, L.P. or with any of their respective affiliates shall be deemed to be employment with the Company.

7.11 SURVIVAL

The provisions of Articles 5 and 6 and Section 7.9 and any other provisions necessary to give full effect to the terms of this Agreement, shall survive the termination of this Agreement.

7.12 COUNTERPARTS

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

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the Effective Date.

HERITAGE HOLDINGS, INC.

By: _____
Name: _____
Title: _____

EMPLOYEE

Curtis L. Weishahn

EXHIBIT A

PROPOSED MANAGEMENT INCENTIVE COMPENSATION

POSITION	BASE SALARY	PERCENTAGE OF INCENTIVE	
		SHORT-TERM	LONG-TERM
CEO	\$ 350,000	14.00%	16.00%
COO	335,000	14.00%	16.00%
CFO	325,000	14.00%	16.00%
Acquisition	200,000	14.00%	16.00%
VP Western Operations	150,000	7.00%	8.67%
VP Northern Operations	135,000	7.00%	8.67%
VP Southern Operations	135,000	7.00%	8.67%
Discretionary (Corp. & Others)		23.00%	10.00%
	\$ 1,630,000	100.00%	100.00%

SHORT-TERM INCENTIVE PLAN

- For FY 2001, management will receive the following for EBITDA in excess of a Base \$76.0 million. The beginning Base is higher than \$73.2 million in order to offset the higher Base Salaries:
 - 15% of EBITDA over \$76 million up to \$80 million
 - 17.5% of EBITDA over \$80 million up to \$85 million
 - 20% of EBITDA over \$85 million
- No cap on short-term incentive, and increasing percentage to encourage outstanding performance.
- In the very unlikely event that the short-term incentive earned is over \$2.0 million, the excess bonus would be deferred to the following year. In this way, when the Board raises the "bar" the following fiscal year, there is a bonus to be paid.
- The Board sets the \$76.0 million EBITDA Base Target which remains unchanged during Fiscal YR 2001.
- Targets in subsequent fiscal years will be set by the Board at its sole discretion.

LONG-TERM INCENTIVE PLAN

- A minimum of 250,000 units and a maximum of 500,000 units will be awarded based on achieving certain targeted levels of Distributed Cash per unit.
- Awards under the program will be made starting in 2003 based upon the average of the prior three years Distributed Cash per unit. Each year, beginning after Fiscal YR 2003, units will be awarded based upon levels detailed below.

	2003	2004	2005	TOTALS
	-----	-----	-----	-----
Moving Average Period	2001-2003	2002-2004	2003-2005	
Three Year Average of Distributed Cash per Unit	\$ 2.50	\$ 2.65	\$ 2.80	
Maximum Target Level	\$ 2.80	\$ 2.95	\$ 3.10	
VALUE ASSUMING CURRENT COMMON UNIT PRICE				
Minimum Award	83,333	83,333	83,333	250,000
Value at a Common Unit Price of	\$ 18.375	\$ 1,531,250	\$ 1,531,250	\$ 4,593,750
Maximum Award	166,667	166,667	166,667	500,000
Value at a Common Unit Price of	\$ 18.375	\$ 3,062,500	\$ 3,062,500	\$ 9,187,500
HYPOTHETICAL VALUES ASSUMING A HIGHER COMMON UNIT PRICE				
Minimum Award	83,333	83,333	83,333	250,000
Value at a Common Unit Price of	\$ 25.000	\$ 2,083,333	\$ 2,083,333	\$ 6,250,000
Maximum Award	166,667	166,667	166,667	500,000
Value at a Common Unit Price of	\$ 25.000	\$ 4,166,667	\$ 4,166,667	\$12,500,000

Exhibit A - Page 2

SUBSIDIARIES

1. Heritage Operating L.P., a Delaware limited partnership, which does business under the following names:
 - o Adams LP Gas of Lake City
 - o Balgas
 - o Blue Flame Gas of Charleston
 - o Blue Flame Gas of Mt. Pleasant
 - o Blue Flame Gas of Vermont
 - o C & D Propane
 - o Carolane Propane Gas
 - o Claredon Gas
 - o Covington Propane
 - o Cumberland LP Gas
 - o Duncan Propane
 - o Eaves Oil
 - o Fallsburg Gas
 - o Foster Gas
 - o Gas Service Co.
 - o Gibson Propane
 - o Greer Gas Co.
 - o Grenier Gas Company
 - o Harris Propane Gas
 - o Heritage Propane
 - o Holton's L.P. Gas
 - o Horizon Gas
 - o Horizon Gas of Palm Bay
 - o Hydratane of Athens
 - o Ikard & Newsom
 - o J & J Propane Gas
 - o Jerry's Propane Service
 - o John E. Foster & Son
 - o Johnson Gas
 - o Keen Propane
 - o Kingston Propane
 - o Lewis Gas Company
 - o Liberty Propane Gas
 - o Lake County Gas
 - o Lyons Propane
 - o Modern Propane
 - o Myers Propane Service
 - o New Mexico Propane
 - o Northern Energy
 - o Northwestern Propane
 - o Paradee Gas
 - o Pioneer Gas
 - o Propane Gas Ind.
 - o Rasnick Gas
 - o Rural Bottled Gas and Appliance

- o Sandwich Gas
- o Sawyer Gas
- o ServiGas
- o Spring Lake Super Flame
- o TriGas Company
- o Tri-Gas of Benzie
- o Truett's Propane Service
- o Wakulla L.P.G.
- o Wurtsboro Propane Gas
- o Waynesville Gas Service
- o Young's Propane

2. Heritage-Bi State, L.L.C., a Delaware limited liability company, holding a partnership interest in the following:

- o Bi-State Propane (Bi-State Propane also transacts business under the name Turner Propane)

3. Heritage Service Corp., a Delaware corporation, holding a direct or indirect interest in the following:

- o M-P Oils Ltd.
- o M-P Energy Partnership

4. Guilford Gas Service, Inc.

5. Heritage Energy Resources, L.L.C.

6. AGL Propane, L.L.C.

7. Peoples Gas Company, L.L.C.

8. United Cities Propane Gas, L.L.C.

9. Retail Propane Company, L.L.C.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into Heritage Propane Partners, L.P.'s previously filed Registration Statements File No. 333-40407 and File No. 333-86057.

/s/ Arthur Andersen LLP

Tulsa, Oklahoma
November 29, 2000

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES (FORMERLY PEOPLES GAS COMPANY) FOR THE EIGHT MONTHS ENDED AUGUST 31, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FORM 10-K FOR THE FISCAL YEAR ENDED AUGUST 31, 2000 FOR HERITAGE PROPANE PARTNERS, L.P. FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON NOVEMBER 29, 2000.

8-MOS		
	AUG-31-2000	
	JAN-01-2000	
	AUG-31-2000	
		4,845
		0
		32,284
		429
		39,045
	84,869	363,314
		23,948
		615,779
	102,212	361,990
		0
		0
		146,756
615,779		63,072
	63,072	41,500
		58,081
		0
		0
	2,409	
	(3,547)	
		379
	(3,846)	
		0
		0
		0
		(3,846)
		(.37)
		(.37)

The Financial Data Schedule for the eight months ended August 31, 2000 represents Peoples Gas for the seven months ended July 31, 2000 and the combined operations of Predecessor Heritage and U.S. Propane for the period from August 10, 2000 through August 31, 2000. Please refer to Heritage Propane Partners, L.P. Form 10-K for the fiscal year ended August 31, 2000 and the Financial Statements and Related Notes filed therewith for a complete description of the accounting of the transaction.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES (FORMERLY PEOPLES GAS COMPANY) FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998 AND THE BALANCE SHEET OF PEOPLES GAS COMPANY FOR THE YEAR ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FORM 10-K FOR THE FISCAL YEAR ENDED AUGUST 31, 2000 FOR HERITAGE PROPANE PARTNERS, L.P. FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON NOVEMBER 29, 2000 AND THE FORM 8-K/A DATED AUGUST 10, 2000 FOR HERITAGE PROPANE PARTNERS, L.P. FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON OCTOBER 24, 2000.

YEAR		
DEC-31-1998		
JAN-01-1998		
DEC-31-1998		116
	0	
	3,223	
	50	
	956	
	4,310	
		50,717
	18,622	
	37,206	
	13,671	
	0	0
		0
		0
		15,596
37,206		
		30,187
	30,187	
		12,283
	23,371	
	0	
	0	
	0	
	3,483	
	1,412	
2,071		
	0	
	0	
		0
	2,071	
	1.19	
	1.19	

The Financial Data Schedule for the fiscal year ended December 31, 1998 have been presented on a carve-out basis and reflect the historical results of operations, financial position and cash flows of Peoples Gas Company. Please refer to Heritage Propane Partners, L.P. Form 10-K for the fiscal year ended August 31, 2000 and the Financial Statements and related notes filed therewith for a complete description of the transactions between Peoples Gas Company, U.S. Propane and Predecessor Heritage.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES (FORMERLY PEOPLES GAS COMPANY) FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999 AND THE BALANCE SHEET OF PEOPLES GAS COMPANY FOR THE YEAR ENDED DECEMBER 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FORM 10-K FOR THE FISCAL YEAR ENDED AUGUST 31, 2000 FOR HERITAGE PROPANE PARTNERS, L.P. FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON NOVEMBER 29, 2000 AND THE FORM 8-K/A DATED AUGUST 10, 2000 FOR HERITAGE PROPANE PARTNERS, L.P. FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON OCTOBER 24, 2000.

YEAR		
	DEC-31-1999	
	JAN-01-1999	
	DEC-31-1999	21
		0
		5,299
		75
		1,384
		6,643
		56,720
		20,657
		43,724
	20,161	
		0
	0	
		0
		0
		15,107
43,724		34,045
	34,045	
		14,849
		28,072
		0
		0
		0
		2,895
		1,127
	1,768	
		0
		0
		0
		1,768
		1.02
		1.02

The Financial Data Schedule for the fiscal year ended December 31, 1999 have been presented on a carve-out basis and reflect the historical results of operations, financial position and cash flows of Peoples Gas Company. Please refer to Heritage Propane Partners, L.P. Form 10-K for the fiscal year ended August 31, 2000 and the Financial Statements and related notes filed therewith for a complete description of the transactions between Peoples Gas Company, U.S. Propane and Predecessor Heritage.

To the Board of Directors of
Heritage Holdings, Inc.:

We have audited the accompanying consolidated balance sheet of Heritage Holdings, Inc. (a Delaware corporation and wholly-owned subsidiary of U.S. Propane, L.P.) and subsidiaries prepared on the pushdown method of accounting (see Note 1) as of August 31, 2000. This balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated balance sheet referred to above presents fairly, in all material respects, the consolidated financial position of Heritage Holdings, Inc. and subsidiaries as of August 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Tulsa, Oklahoma
October 26, 2000

HERITAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

AUGUST 31, 2000

(Pushdown method of accounting, see Note 1)

(in thousands, except share and per share amounts)

ASSETS	
CURRENT ASSETS:	
Cash	\$ 5,324
Accounts receivable	31,855
Inventories	39,045
Assets from trading activities	4,133
Prepaid expenses and other	5,016
Assets held in trust	493

Total current assets	85,866
PROPERTY, PLANT AND EQUIPMENT, net	339,366
ASSETS HELD IN TRUST	1,848
INVESTMENT IN AFFILIATE	5,795
INTANGIBLES AND OTHER ASSETS, net	214,912

Total assets	\$ 647,787
	=====
LIABILITIES AND STOCKHOLDER'S EQUITY	
CURRENT LIABILITIES:	
Working capital facility	\$ 24,200
Accounts payable	43,269
Accounts payable to affiliate	1,139
Accrued and other current liabilities	28,830
Liabilities from trading activities	3,684
Current maturities of long-term debt	2,954

Total current liabilities	104,076
LONG-TERM DEBT, less current maturities	363,391
MINORITY INTEREST	32,609
DEFERRED TAXES	28,760

	528,836

COMMITMENTS AND CONTINGENCIES	
STOCKHOLDER'S EQUITY:	
Common stock, \$.01 par value, 600,000 shares authorized, 534,788 shares issued and outstanding	5
Additional paid-in capital	119,995
Accumulated deficit	(1,049)

Total stockholder's equity	118,951

Total liabilities and stockholder's equity	\$ 647,787
	=====

The accompanying notes are an integral part of this consolidated balance sheet.

HERITAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED BALANCE SHEET

AUGUST 31, 2000

(Dollars in thousands, except per share/unit amounts)

1. OPERATIONS AND ORGANIZATION:

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. ("the Company"), the General Partner of Heritage Propane Partners, L.P., for \$120,000. By virtue of the Company'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), 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 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 the Company. 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"). The working capital adjustment is anticipated to be settled in December 2000. An additional payment of \$5,000 has been accrued at August 31, 2000, for the working capital adjustment. To the extent the final payment is more or less than \$5,000, goodwill recorded in the transaction will be adjusted.

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 the Company based on the Formula Price resulting in net proceeds of \$50,203. The total of these proceeds were 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 operation is 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."

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 prices 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 consolidated balance sheet has been prepared on the pushdown method of accounting under which stockholder's equity was determined based on the purchase price paid by U.S. Propane. Goodwill of \$29,163 was recorded in connection with U.S. Propane's acquisition of the Company, which will be amortized over 30 years. The fair value of the deferred tax liability assumed was based on preliminary estimates and may be revised at a later date.

Heritage sells propane and propane-related products to more than 485,000 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 a Canadian partnership. Heritage grants credit to its customers for the purchase of propane and propane-related products.

2. SIGNIFICANT ACCOUNTING POLICIES AND BALANCE SHEET DETAIL:

Principles of Consolidation

The accompanying consolidated balance sheet includes the accounts of the Company and its subsidiaries, including Heritage Propane Partners, L.P., Heritage Operating, L.P. ("Operating Partnership"), Heritage Energy Resources ("Resources") and M-P Energy Partnership. The Company 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.

Inventories

Inventories are valued at the lower of cost or market. The cost of fuel inventories is determined using the average cost method, while the cost of appliances, parts and fittings is determined by the first-in, first-out method. Inventories consist of the following at August 31, 2000:

Fuel	\$ 30,882
Appliances, parts and fittings	8,163

	\$ 39,045
	=====

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are expensed as incurred. Additionally, the Company capitalizes certain costs directly related to the installation of Company owned tanks, including internal labor costs. Components and useful lives of property, plant and equipment are as follows at August 31, 2000:

Land and improvements	\$ 16,648
Buildings and improvements (10 to 30 years)	22,483
Bulk storage, equipment and facilities (3 to 30 years)	28,210
Tanks and other equipment (5 to 30 years)	241,934
Vehicles (5 to 10 years)	41,125
Furniture and fixtures (5 to 10 years)	5,262
Other	2,995

	358,657
Less- Accumulated depreciation	(23,948)

	334,709
Plus- Construction work-in-process	4,657

	\$ 339,366
	=====

Intangibles and Other Assets

Intangibles and other assets are stated at cost net of amortization computed on the straight-line method. The Company eliminates from its balance sheet any fully amortized intangibles and the related accumulated amortization. Components and useful lives of intangibles and other assets are as follows at August 31, 2000:

Goodwill (30 years)	\$ 148,751
Noncompete agreements (10 to 15 years)	30,665
Customer lists (15 years)	32,678
Other	4,808

	216,902
Less- Accumulated amortization	(1,990)

	\$ 214,912
	=====

Long-lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such a review should indicate that the carrying amount of long-lived assets is not recoverable, the Company reduces the carrying amount of such assets to fair value. No impairment was required as of August 31, 2000.

Accrued and Other Current Liabilities

Accrued and other current liabilities consist of the following at August 31, 2000:

Interest payable	\$ 4,743
Wages and benefits	6,176
Deferred tank rent	2,568
Customer deposits	2,220
Taxes other than income	2,523
U.S. Propane working capital payable	5,000
Other	5,600

	\$ 28,830
	=====

Income Taxes

Concurrent with the series of transactions with U.S. Propane, the Company converted to a taxable corporation from a subchapter "S" corporation for tax reporting purposes. The Company follows the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards 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 bases 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 settled.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Fair Value

The carrying amount of accounts receivable and accounts payable approximates their fair value. Based on the estimated borrowing rates currently available to the Company for long-term loans with similar terms and average maturities, the aggregate fair value at August 31, 2000, of the Company's long-term debt approximates the aggregate carrying amount.

Recently Issued Accounting Standard Not Yet Adopted

At the date of acquisition of Predecessor Heritage, TECO Energy, Inc. and Peoples Gas had not yet adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, and for hedging activities, be recorded on the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. Predecessor Heritage previously applied the provisions of SFAS 133. Accordingly, since Peoples Gas is the accounting acquirer, Predecessor Heritage discontinued applying the provisions of SFAS 133 as of August 10, 2000.

SFAS 133 is effective for fiscal years beginning after June 15, 2000, which would be Heritage's fiscal year 2001 beginning September 1, 2000. The Company has evaluated the impact of adopting SFAS 133 and does not expect it to have a significant impact on its reported financial condition. Heritage entered into certain financial swap instruments during the period ended August 31, 2000 that have been designated as cash flow hedging instruments in accordance with SFAS 133. Financial swaps 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 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 2000 through March 2001. Heritage utilizes hedging transactions to provide price protection against significant fluctuations in propane prices. These instruments had an unrecorded fair value of \$5,659 as of August 31, 2000. Upon adoption of SFAS 133, Heritage will recognize the fair value of these instruments on the balance sheet through other comprehensive income. Heritage will then reclassify into earnings the gain or loss that is reported in accumulated other comprehensive income as the related physical transactions occur.

Trading Activities

Heritage trades financial instruments for its own account through Resources. Financial instruments utilized in connection with trading 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. Changes in the assets and liabilities from trading activities 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 assessment of anticipated market movements.

The Company has recorded its trading activities at fair value in accordance with Emerging Issues Task Force Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" ("EITF 98-10"). EITF 98-10 requires energy trading contracts to be recorded at fair value on the balance sheet.

Notional Amounts and Terms -

The notional amounts and terms of these financial instruments as of August 31, 2000 include fixed price payor for 898 barrels and 285 barrels of propane and butane, respectively, and fixed price receiver of 858 barrels and 285 barrels of propane and butane, respectively. 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 the Company's exposure to market or credit risks.

Fair Value -

The fair value of the financial instruments related to trading activities as of August 31, 2000, was assets of \$4,133 and liabilities of \$3,684.

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.

3. ASSETS HELD IN TRUST:

In connection with the initial public offering ("IPO") by Predecessor Heritage in June 1996, the Company retained proceeds which were placed in various trusts to be paid to the noteholders of noncompete agreements entered into by the Company prior to the IPO. The proceeds are disbursed monthly from the trust in accordance with the noncompete agreements. The Company retains all earnings from the trust assets.

4. WORKING CAPITAL FACILITY AND LONG-TERM DEBT:

Long-term debt consists of the following at August 31, 2000:

8.55% Senior Secured Notes	\$ 120,000
Medium Term Note Program:	
7.17% Series A Senior Secured Notes	12,000
7.26% Series B Senior Secured Notes	20,000
6.50% Series C Senior Secured Notes	4,286
6.59% Series D Senior Secured Notes	5,000
6.67% Series E Senior Secured Notes	5,000
Senior Secured Promissory Notes:	
8.47% Series A Senior Secured Notes	16,000
8.55% Series B Senior Secured Notes	32,000
8.59% Series C Senior Secured Notes	27,000
8.67% Series D Senior Secured Notes	58,000
8.75% Series E Senior Secured Notes	7,000
8.87% Series F Senior Secured Notes	40,000
Senior Revolving Acquisition Facility	1,900
Notes Payable on noncompete agreements with interest imputed at rates averaging 8%, due in installments through 2010, collateralized by a first security lien on certain assets of Heritage	16,874
Other	1,285
Current maturities of long-term debt	(2,954)

	\$ 363,391
	=====

Maturities of the Senior Secured Notes, the Medium Term Note Program and the Senior Secured Promissory Notes are as follows:

8.55% Senior Notes: mature at the rate of \$12,000 on June 30 in each of the years 2002 to and including 2011.

Medium Term Note Program:

Series A Notes: mature at the rate of \$2,400 on November 19 in each of the years 2005 to and including 2009.
 Series B Notes: mature at the rate of \$2,000 on November 19 in each of the years 2003 to and including 2012.
 Series C Notes: mature at the rate of \$714 on March 13 in each of the years 2000 to and including 2003, \$357 on March 13, 2004, \$1,073 on March 13, 2005, and \$357 in each of the years 2006 and 2007.
 Series D Notes: mature at the rate of \$556 on March 13 in each of the years 2002 to and including 2010.
 Series E Notes: mature at the rate of \$714 on March 13 in each of the years 2007 to and including 2013.

Senior Secured Promissory Notes:

Series A Notes: mature at the rate of \$3,200 on August 15 in each of the years 2003 to and including 2007.
 Series B Notes: mature at the rate of \$4,571 on August 15 in each of the years 2004 to and including 2010.
 Series C Notes: mature at the rate of \$5,750 on August 15 in each of the years 2006 to and including 2007, \$4,000 on August 15, 2008 and \$5,750 on August 15, 2009 to and including 2010.
 Series D Notes: mature at the rate of \$12,450 on August 15 in each of the years 2008 and 2009, \$7,700 on August 15, 2010, \$12,450 on August 15, 2011 and \$12,950 on August 15, 2012.
 Series E Notes: mature at the rate of \$1,000 on August 15 in each of the years 2009 to and including 2015.
 Series F Notes: mature at the rate of \$3,636 on August 15 in each of the years 2010 to and including 2020.

The Note Purchase Agreement, the Medium Term Note Program and the Senior Secured Promissory Notes contain restrictive covenants including limitations on substantial disposition of assets, changes in ownership of Heritage and additional indebtedness and require the maintenance of certain financial ratios. At August 31, 2000, Heritage was in compliance with all covenants. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the common stock of Heritage's subsidiaries secure the notes. The noteholders have recourse against the Company.

Effective August 31, 2000, Heritage entered into the Third Amendment to the First Amended and Restated Credit Agreement with various financial institutions that amended existing credit agreements. The terms of the Agreement, as amended, are as follows:

A \$50,000 Senior Revolving Working Capital Facility, expiring June 30, 2002, with \$24,200 outstanding at August 31, 2000. The interest rate and interest payment dates vary depending on the terms Heritage agrees to when the money is borrowed.

The weighted average interest rate was 8.25 percent at August 31, 2000. Heritage must be free of all working capital borrowings for 30 consecutive days each fiscal year. The maximum commitment fee payable on the unused portion of the facility is .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 Heritage agrees to when the money is borrowed. The average interest rate was 8.25 percent on the \$1,900 amount outstanding at August 31, 2000. The maximum commitment fee payable on the unused portion of the facility is .375 percent.

Future maturities of long-term debt for each of the next five fiscal years and thereafter are \$2,954 in 2001; \$16,111 in 2002; \$19,436 in 2003; \$26,196 in 2004; \$25,677 in 2005 and \$275,971 thereafter.

5. INCOME TAXES:

The components of the deferred tax liability are as follows:

Deferred tax assets-	
Net operating loss carryforwards (NOLs)	\$ 5,343
Reserves	244
Alternative minimum tax carryforwards	155

	\$ 5,742
	=====
Deferred tax liabilities-	
Property basis	\$ 34,502
	=====
Net deferred tax liabilities	\$ 28,760
	=====

The Company's NOLs generally begin to expire in 2010 through 2015.

6. COMMITMENTS AND CONTINGENCIES:

Certain property and equipment is leased under noncancelable leases which require fixed monthly rental payments and expire at various dates through 2008. Fiscal year future minimum lease commitments for such leases are \$1,946 in 2001; \$1,349 in 2002; \$1,201 in 2003; \$892 in 2004; \$737 in 2005 and \$529 thereafter.

The Company is a party to various legal proceedings incidental to its business. Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Company. In the opinion of management, all such matters are covered by insurance, are without merit or involve amounts, which, if resolved unfavorably, would not have a significant effect on the financial position of the Company.

Heritage has entered into several purchase and supply commitments with varying terms as to quantities and prices, which expire at various dates through March 2001.

7. PARTNERSHIP UNITS:

Heritage is expected to make quarterly cash distributions of all 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 Company 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 will generally be 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 Company, 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. To the extent there is sufficient Available Cash, the holders of Common Units have the right to receive the Minimum Quarterly Distribution (\$.50 per Unit), plus any arrearages, prior to any distribution of Available Cash to the holders of Subordinated Units. Common Units will not accrue arrearages for any quarter after the Subordination Period and Subordinated Units will not accrue any arrearages with respect to distributions for any quarter.

In general, the Subordination Period will continue indefinitely until the first day of any quarter beginning after May 31, 2001, in which distributions of Available Cash equal or exceed the Minimum Quarterly Distribution ("MQD") on the Common Units and the Subordinated Units for each of the three consecutive four-quarter periods immediately preceding such date. Pursuant to the terms of the Partnership Agreement 925,736 Subordinated Units held by the Company converted to Common Units on July 7, 1999 and an additional 925,736 on July 5, 2000. The conversion of these units was dependent on meeting certain cash performance and distribution requirements during the period that commenced with Predecessor Heritage's IPO in June 1996. The subordination period applicable to the remaining Subordinated Units will end the first day of any quarter ending after May 31, 2001, in which certain cash performance and distribution requirements have been met. Upon expiration of the Subordination Period, all remaining Subordinated Units will convert to Common Units.

Heritage is expected to make distributions of its Available Cash within 45 days after the end of each fiscal quarter ending November, February, May and August to holders of record on the applicable record date. A prorata MQD of \$.353 per Common and Subordinated Unit was made by Predecessor Heritage on October 15, 1996 for the two month period between the IPO and the fourth quarter ended August 31, 1996. The MQD was made by Predecessor Heritage to the Common and Subordinated Unitholders for the quarters ended November 30, 1996 through August 31, 1998. For the quarter ended November 30, 1998, a quarterly distribution of \$.5125 was paid by Predecessor Heritage to the Common and Subordinated Unitholders. For each of the quarters ended February 28, 1999 through May 31, 2000, quarterly distributions of \$.5625 were paid by Predecessor Heritage to Common and Subordinated Unitholders. A distribution of \$.575 per Common and Subordinated Unit for the quarter ended August 31, 2000, was declared on September 28, 2000, payable on October 16, 2000, to Unitholders of record on October 9, 2000. The quarterly distributions for the quarters ended February 28, 1999 through August 31, 2000, included incentive distributions payable to the Company to the extent the quarterly distribution exceeded \$.55 per unit.

Restricted Unit Plan

The Company adopted a restricted unit plan (the "Restricted Unit Plan") for certain directors and key employees of the Company and its affiliates effective June 1996. Rights to acquire 146,000 Common Units ("Phantom Units") are available under the Restricted Unit Plan and may be granted to employees from time to time at the discretion of the Restricted Unit Plan Committee. Commencing on September 1, 1996, and on each September 1 thereafter that the Restricted Unit Plan is in effect, certain director who is in office automatically receives 500 units. The Phantom Units vest upon, and in the same proportions as (1) the conversion of Heritage's Subordinated Units into Common Units, or (2) if later, the third anniversary of their grant date, and (3) terms and conditions specified by each grant. As of August 31, 2000, 80,800 Phantom Units have been awarded, of which 4,500 grants vested pursuant to the vesting rights of the Restricted Plan and 71,300 vested in accordance with the change of control that occurred with the Company. Individuals holding the remaining 5,000 grants waived their rights to vesting under the change of control. Subsequent to August 31, 2000, 750 additional Phantom Units vested pursuant to the vesting rights of the Restricted Unit Plan and Common Units were issued.

8. SUPPLEMENTAL INFORMATION:

The following balance sheet of the Company includes its investment in Heritage on an equity basis. Such presentation is included to provide additional information with respect to the Company's financial position on a stand-alone basis at August 31, 2000:

ASSETS

CURRENT ASSETS:

Cash	\$ 479
Receivable from Heritage	2,675
Prepaid expenses and other	25
Assets held in trust	493

Total current assets	3,672

ASSETS HELD IN TRUST

INVESTMENT IN HERITAGE	1,848
INTANGIBLES AND OTHER ASSETS, net	118,968
	29,163

Total assets	\$ 153,651
	=====

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 4,173
Current maturities of long-term debt	366

Total current liabilities	4,539

LONG-TERM DEBT, less current maturities

DEFERRED TAXES	1,401
	28,760

	34,700

STOCKHOLDER'S EQUITY:

Common stock \$.01 par value, 600,000 shares authorized, 534,788 shares issued and outstanding	5
Additional paid-in capital	119,995
Accumulated deficit	(1,049)

Total stockholder's equity	118,951

Total liabilities and stockholder's equity	\$ 153,651
	=====