SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): JULY 23, 2001

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

DELAWARE	1-11727	73-1493906
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

8801 SOUTH YALE AVENUE, SUITE 310
TULSA, OKLAHOMA 74137
(Address of principal executive offices) (Zip Code)

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

ITEM 5. OTHER EVENTS.

Heritage Propane Partners, L.P., is filing as exhibits to this current report on Form 8-K (i) Unaudited Pro Forma Combined Financial Statements for the Nine Months Ended May 31, 2001 and the Year Ended August 31, 2000 and related notes and (ii) Proflame, Inc. and Subsidiaries and Affiliates Consolidated and Combined Financial Statements for the Years Ended August 31, 2000 and 1999 and related notes and for the Nine Months Ended May 31, 2001 and 2000 (unaudited).

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

EXHIBIT NUMBER	DESCRIPTION
23	Consent of Arthur Andersen LLP.
99.1	Unaudited Pro Forma Combined Financial Statements for the Nine Months Ended May 31, 2001 and the Year Ended August 31, 2000 and related notes.
99.2	ProFlame, Inc. and Subsidiaries and Affiliates Consolidated and Combined Financial Statements for the Years Ended August 31, 2000 and 1999 and related notes and for the Nine Months Ended May 31, 2001 and 2000 (unaudited).

SIGNATURE

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

HERITAGE PROPANE PARTNERS, L.P.

By: Heritage Holdings, Inc., General Partner

Date: July 23, 2001

By: /s/ LARRY J. DAGLEY

Larry J. Dagley
Vice President, Chief Financial Officer
and officer duly authorized to sign on
behalf of the registrant

EXHIBIT INDEX

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EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 8-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
July 20, 2001

EXHIBIT 99.1

UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma combined financial statements present (i) unaudited pro forma combined balance sheet at May 31, 2001, giving effect to the acquisition of ProFlame, Inc. and subsidiaries and affiliates (ProFlame) as if the acquisition had been consummated on that date, and (ii) unaudited pro forma combined statements of operations for the nine months ended May 31, 2001 and the year ended August 31, 2000, giving effect to the acquisition of ProFlame as if the acquisition had been consummated on September 1, 1999. Please read note 3 regarding the assumptions made in the preparation of these unaudited pro forma combined financial statements. The unaudited pro forma combined balance sheet at May 31, 2001 combines balance sheets of Heritage Propane Partners, L.P. and subsidiaries (Heritage) as of May 31, 2001 and ProFlame as of May 31, 2001, after giving effect to pro forma adjustments. The unaudited pro forma combined statement of operations for the nine month period ended May 31, 2001 combines the results of operations of Heritage for the nine month period ended May 31, 2001 with the results of operations for ProFlame for the nine month period ended May 31, 2001. The unaudited pro forma combined statement of operations for the year ended August 31, 2000 combines the results of operations of Heritage (formerly Peoples Gas Company) for the eight month period ended August 31, 2000 and the results of operations of Peoples Gas Company for the three month period ended December 31, 1999 with the results of operations for ProFlame for the year ended August 31, 2000, after giving effect to pro forma adjustments. The unaudited pro forma combined statement of operations for the year ended August 31, 2000 omits the results of operations of Peoples Gas for the month ended September 30, 1999; however, such omission is not material to the unaudited pro forma combined statement of operations.

On July 5, 2001, Heritage signed definitive agreements to acquire directly and indirectly through Heritage Holdings, Inc. (Heritage's general partner) the propane operations of ProFlame, Inc. and subsidiaries and affiliates in a series of mergers and stock and asset purchases. Upon closing, Heritage will complete the asset purchases and Heritage Holdings, Inc. (HHI) will complete the stock purchases and mergers. HHI will then transfer the assets acquired and liabilities assumed to Heritage. HHI will retain any income tax liability associated with the assets transferred and will be compensated by Heritage through the issuance of common units by Heritage to HHI.

The purchases of stock and assets will be accounted for as an acquisition using the purchase method of accounting. On July 20, 2001, the Financial Accounting Standards Board approved the issuance of Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Please read "Recently Issued Accounting Standards" below. Statements No. 141 and 142 will impact the purchase allocations for the acquisition of ProFlame and the amortization of certain intangibles, including goodwill. Management has not completed an analysis or appraisal of the additional intangible assets that must be identified and valued. Accordingly, for purposes of the unaudited pro forma financial statements, management has recognized intangible assets for customer lists and covenants not-to-compete, consistent with Heritage's past application of Accounting Principles Board Opinion No. 16, Business Combinations. Accordingly, the following pro forma combined financial statements do not reflect any impact of Statements No. 141 or 142.

A final determination of purchase accounting adjustments, including the allocation of the purchase price to the assets acquired and liabilities assumed based on their respective fair values, has not been made. Accordingly, the purchase accounting adjustments made in connection with the development of the following unaudited pro forma combined financial statements are preliminary and have been made solely for purposes of developing such pro forma financial information. The pro forma adjustments are based upon currently available information and certain estimates and assumptions, and therefore, the actual adjustments may differ from the unaudited pro forma adjustments. However, management does not believe that final adjustments will be materially different from the amounts presented herein, except for the impact of Statements No. 141 and 142.

The following unaudited pro forma combined financial statements are provided for informational purposes only and should be read in conjunction with the separate audited consolidated financial statements and related notes of Heritage (which are filed with Heritage's Annual Report filed on Form 10-K with the Securities and Exchange Commission on November 29, 2000) and the consolidated and combined financial statements of ProFlame (which are included as Exhibit 99.2 to this current report on Form 8-K). The following unaudited pro forma combined financial statements are based on certain assumptions and do not purport to be indicative of the results which actually would have been achieved if the acquisition of ProFlame had been consummated on the dates indicated or which may be achieved in the future.

Recently Issued Accounting Standards

On July 20, 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement No. 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting. Under Statement 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based test. Additionally, an acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented, or exchanged, regardless of the acquirer's intent to do so. There will be more recognized intangible assets, such as unpatented technology and database content, being separated from goodwill. Those assets will be amortized over their useful lives, other than assets that have an indefinite life. Statement No. 142 is required to be applied starting with fiscal years beginning after December 15, 2001. Early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not previously been issued.

Statement No. 141 will apply to the accounting for Heritage's acquisition of ProFlame, although management has not completed an analysis or appraisal of the additional intangible assets that must be identified and valued. Accordingly, for purposes of the unaudited pro forma financial statements, management has recognized intangible assets for customer lists and covenants not-to-compete, consistent with Heritage's past application of Accounting Principles Board Opinion No. 16, Business Combinations. Management has not determined the method or timing of adopting Statement No. 142. Management has also not determined the impact of adopting Statement No. 142, although goodwill amortization for the nine months ended May 31, 2001 was $5.2 million.

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

UNAUDITED PRO FORMA COMBINED BALANCE SHEET
MAY 31, 2001
(IN THOUSANDS)

	HERITAGE PROPANE PARTNERS, L.P. HISTORICAL	PROFLAME, INC. HISTORICAL	PRO FORMA ADJUSTMENTS	AS ADJUSTED
ASSETS				
CURRENT ASSETS:				
Cash	$ 4,471	$ 914	$ (914)(a) 43,938(g) (43,938)(h) 99(f)	$ 4,570
Marketable securities	6,980	--	--	6,980
Accounts receivable	44,398	3,501	--	47,899
Inventories	45,403	1,411	--	46,814
Assets from trading activities	2,746	--	--	2,746
Current portion of notes receivable from related parties	--	2,883	(2,883)(a)	--
Prepaid expenses and other	1,594	687	(351)(a)	1,930
Total current assets	105,592	9,396	(4,049)	110,939
PROPERTY, PLANT AND EQUIPMENT, net	371,499	7,174	18,756(b)	397,429
INVESTMENT IN AFFILIATES	7,232	--	--	7,232
INTANGIBLES AND OTHER ASSETS, net	192,080	144	3,414(c) 7,020(d) 18,186(e)	220,844
Total assets	$676,403	$16,714	$ 43,327	$736,444
LIABILITIES AND PARTNERS' CAPITAL				
CURRENT LIABILITIES:				
Accounts payable	$ 37,044	$ 1,601	$ --	$ 38,645
Accounts payable to related companies	9,028	1,487	(1,487)(a)	9,028
Accrued and other current liabilities	25,729	3,574	(1,233)(a)	28,070
Liabilities from trading activities	2,438	--	--	2,438
Current maturities of long-term debt	3,577	461	(374)(a)	3,664
Total current liabilities	77,816	7,123	(3,094)	81,845
LONG-TERM DEBT, less current maturities	430,828	143	43,938(g) 7,020(d)	481,929
MINORITY INTERESTS	5,203	--	50(f)	5,253
NOTES PAYABLE TO RELATED PARTIES	--	210	(210)(a)	--
DEFERRED TAX LIABILITIES	--	281	(281)(a)	--
Total liabilities	513,847	7,757	47,423	569,027
PARTNERS' CAPITAL:				
Common unitholders	120,282	--	4,812(f)	125,094
Subordinated unitholders	25,464	--	--	25,464
Class B subordinated unitholders	18,207	--	--	18,207
General partner	1,341	--	49(f)	1,390
Accumulated other comprehensive income	(2,738)	--	--	(2,738)
Preferred stock	--	627	(627)(a)	--
Common stock	--	322	(322)(a)	--
Additional paid-in capital	--	531	(531)(a)	--
Retained earnings	--	8,103	(8,103)(a)	--
Treasury stock	--	(626)	626(a)	--
Total partners' capital	162,556	8,957	(4,096)	167,417
Total liabilities and partners' capital	$676,403	$16,714	$ 43,327	$736,444

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HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED MAY 31, 2001
(IN THOUSANDS, EXCEPT PER UNIT DATA)

	HERITAGE PROPANE PARTNERS, L.P. HISTORICAL	PROFLAME, INC. HISTORICAL	PRO FORMA ADJUSTMENTS	AS ADJUSTED
REVENUES:				
Retail fuel	$386,235	$32,641	$ --	$418,876
Wholesale fuel	52,948	10,254	--	63,202
Liquids marketing	152,155	--	--	152,155
Other	33,419	3,713	(392)(i)	36,740
Total revenues	624,757	46,608	(392)	670,973
COSTS AND EXPENSES:				
Cost of products sold	268,480	28,981	--	297,461
Trading activities	150,265	--	--	150,265
Operating expenses	96,008	7,479	--	103,487
Depreciation and amortization	30,322	959	1,437(j)	32,718
Selling, general and administrative	14,003	4,344	--	18,347
Total costs and expenses	559,078	41,763	1,437	602,278
OPERATING INCOME (LOSS)	65,679	4,845	(1,829)	68,695
OTHER INCOME (EXPENSE):				
Interest expense	(26,423)	(270)	258(k) (2,143)(l) (319)(m)	(28,897)
Interest income	--	201	(149)(n)	52
Equity in earnings (losses) of affiliates	1,568	--	--	1,568
Gain on disposal of assets	502	246	--	748
Other	(443)	--	--	(443)
INCOME (LOSS) BEFORE MINORITY INTEREST AND INCOME TAXES	40,883	5,022	(4,182)	41,723
Minority interest	(1,435)	--	(17)(o)	(1,452)
INCOME (LOSS) BEFORE INCOME TAXES	39,448	5,022	(4,199)	40,271
Income taxes	--	1,060	(1,060)(p)	--
NET INCOME (LOSS)	39,448	3,962	(3,139)	40,271
GENERAL PARTNER'S INTEREST IN NET INCOME (LOSS)	849	--	8(q)	857
LIMITED PARTNERS' INTEREST IN NET INCOME (LOSS)	$ 38,599	$ 3,962	$(3,147)	$ 39,414
BASIC NET INCOME PER LIMITED PARTNER UNIT	$ 2.97			$ 3.00
BASIC WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	12,981			13,141
DILUTED NET INCOME PER LIMITED PARTNER UNIT	$ 2.97			$ 2.99
DILUTED WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	13,012			13,172

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

UNAUDITED PRO FORMA COMBINED STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED AUGUST 31, 2000
(IN THOUSANDS, EXCEPT PER UNIT DATA)

	HERITAGE PROPANE PARTNERS, L.P. HISTORICAL	PEOPLES GAS COMPANY HISTORICAL	PROFLAME, INC. HISTORICAL	PRO FORMA ADJUSTMENTS	AS ADJUSTED
REVENUES:					
Retail fuel	$43,815	$10,133	$27,550	$ --	$ 81,498
Wholesale fuel	3,807	--	7,323	--	11,130
Liquids marketing	12,262	--	--	--	12,262
Other	3,188	--	3,018	(398)(i)	5,808
Total revenues	63,072	10,133	37,891	(398)	110,698
COSTS AND EXPENSES:					
Cost of products sold	29,962	5,198	21,629	--	56,789
Trading activities	11,538	--	--	--	11,538
Operating expenses	16,581	3,601	9,590	--	29,772
Depreciation and amortization	4,686	779	1,357	1,838 (j)	8,660
Selling, general and administrative	1,019	--	3,790	--	4,809
Total costs and expenses	63,786	9,578	36,366	1,838	111,568
OPERATING INCOME (LOSS)	(714)	555	1,525	(2,236)	(870)
OTHER INCOME (EXPENSE):					
Interest expense	(2,409)	--	(319)	303 (k) (2,858)(l) (478)(m)	(5,761)
Interest income	--	--	226	(175)(n)	51
Equity in earnings (losses) of affiliates	(67)	--	--	--	(67)
Gain on disposal of assets	121	--	266	--	387
Other	(478)	18	--	--	(460)
INCOME (LOSS) BEFORE MINORITY INTEREST AND INCOME TAXES	(3,547)	573	1,698	(5,444)	(6,720)
Minority interest	80	--	--	76 (o)	156
INCOME (LOSS) BEFORE INCOME TAXES	(3,467)	573	1,698	(5,368)	(6,564)
Income taxes	379	289	32	(32)(p)	668
NET INCOME (LOSS)	(3,846)	284	1,666	(5,336)	(7,232)
GENERAL PARTNER'S INTEREST IN NET INCOME (LOSS)	(46)	1	--	(37)(q)	(82)
LIMITED PARTNERS' INTEREST IN NET INCOME (LOSS)	$(3,800)	$ 283	$ 1,666	$(5,299)	$ (7,150)
BASIC NET INCOME (LOSS) PER LIMITED PARTNER UNIT	$ (0.37)	$ 0.16			$ (0.66)
BASIC WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	10,225	1,732			10,857
DILUTED NET INCOME (LOSS) PER LIMITED PARTNER UNIT	$ (0.37)	$ 0.16			$ (0.66)
DILUTED WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	10,225	1,732			10,857

HERITAGE PROPANE PARTNERS, L.P.

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS
NINE MONTHS ENDED MAY 31, 2001 AND YEAR ENDED AUGUST 31, 2000
(IN THOUSANDS, EXCEPT UNIT DATA)

1. Presentation:

The unaudited pro forma combined financial statements do not give any effect to any restructuring cost, potential cost savings, or other operating efficiencies that are expected to result from the acquisition. The unaudited pro forma combined financial statements are based on certain assumptions and do not purport to be indicative of the results which actually would have been achieved if the acquisition had been consummated on the dates indicated or which may be achieved in the future. The purchase accounting adjustments made in connection with the development of the unaudited pro forma combined financial statements are preliminary and have been made solely for purposes of presenting such pro forma financial information.

2. It has been assumed that for purposes of the unaudited pro forma combined balance sheet, the acquisition of ProFlame occurred on May 31, 2001 and for purposes of the unaudited pro forma combined statements of operations, the acquisition of ProFlame occurred on September 1, 1999. The unaudited pro forma combined balance sheet at May 31, 2001 combines balance sheets of Heritage Propane Partners, L.P. and subsidiaries (Heritage) as of May 31, 2001 and ProFlame, Inc. and subsidiaries and affiliates as of May 31, 2001, after giving effect to pro forma adjustments. The unaudited pro forma combined statement of operations for the nine months ended May 31, 2001 combines the results of operations of Heritage for the nine months ended May 31, 2001 with the results of operations for ProFlame for the nine months ended May 31, 2001. The unaudited pro forma combined statement of operations for the year ended August 31, 2000 combines the results of operations of Heritage (formerly Peoples Gas Company) for the eight months ended August 31, 2000 and the results of operations of Peoples Gas Company for the three months ended December 31, 1999 with the results of operations for ProFlame for the year ended August 31, 2000, after giving effect to pro forma adjustments.

On July 5, 2001, Heritage signed definitive agreements to acquire directly and indirectly through Heritage Holdings, Inc. (Heritage's general partner), the propane operations of ProFlame, Inc. and subsidiaries and affiliates in a series of mergers and stock and asset purchases. Upon closing, the asset purchases will be completed by Heritage and Heritage Holdings, Inc. (HHI) will complete the mergers and the stock purchases. HHI will then transfer the assets acquired and liabilities assumed to Heritage. HHI will retain any income tax liability associated with the assets transferred and will be reimbursed by Heritage through the payment of cash and/or the issuance of common units by Heritage to HHI. For purposes of the preparation of the unaudited pro forma combined financial statements, the reimbursement to HHI has been assumed to be in common units only.

The purchases of stock and assets will be accounted for as an acquisition using the purchase method of accounting. On July 5, 2001, the Financial Accounting Standards Board approved the issuance of Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Please read "Recently Issued Accounting Standards" above. Statements No. 141 and 142 will impact the purchase allocations for the acquisition of ProFlame and the amortization of certain intangibles, including goodwill. Management has not completed an analysis or appraisal of the additional intangible assets that must be identified and valued. Accordingly, for purposes of the unaudited pro forma financial statements, management has recognized intangible assets for customer lists and covenants not-to-compete, consistent with Heritage's past application of Accounting Principles Board Opinion No. 16, Business Combinations. Accordingly, the following pro forma combined financial statements do not reflect any impact of Statements No. 141 or 142.

Heritage has agreed to pay the sellers of ProFlame cash consideration of $39,800 at the closing of the acquisition. Heritage will also reimburse the sellers of ProFlame for working capital in an amount estimated to be $4,138. To the extent working capital is more or less than $4,138, the reimbursement will change. Heritage will also reimburse HHI $4,812 through the payment of cash and/or the issuance of Common Units in Heritage for the income tax liability retained by HHI. Heritage will enter into covenants not to compete with certain key members of management of the seller, subject to certain conditions. The discounted value of the

HERITAGE PROPANE PARTNERS, L.P.

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

covenants not to compete is $7,020. The cash consideration of $39,800 and the working capital reimbursement of $4,138 will be financed through borrowings under Heritage's Senior Revolving Acquisition Facility.

3. The pro forma adjustments are as follows:

(a) Reflects the elimination of assets not acquired and liabilities not assumed by Heritage and the elimination of ProFlame's equity accounts, including preferred stock.

(b) Reflects the pro forma allocation of the step-up to property, plant and equipment to fair value.

(c) Reflects the pro forma allocation of the purchase price to customer lists.

(d) Reflects the discounted value of the non-compete agreements entered into with the former management of ProFlame.

(e) Reflects the pro forma allocation of the residual value of the purchase price to goodwill.

(f) Reflects the issuance of 160,400 common units of Heritage, valued at $30 per unit, to HHI, and the cash contribution of $99 by HHI to maintain its general partner interest.

(g) Reflects the proceeds from borrowings under Heritage's Senior Revolving Acquisition Facility at a rate of 6.504 percent.

(h) Reflects payment of the combined purchase price of ProFlame, Inc. and subsidiaries and affiliates.

(i) Reflects the elimination of profits from employee leasing program to ProFlame related entities that discontinues after the acquisition of ProFlame.

(j) Reflects increased depreciation and amortization related to the excess purchase price over ProFlame's cost allocated to property, plant and equipment (3-30 years), customer lists (15 years) and goodwill (30 years). Also, reflects amortization of the non-compete agreements (10 years).

(k) Reflects elimination of interest expense related to debt not assumed by Heritage.

(l) Reflects interest expense related to borrowings under the Senior Revolving Acquisition Facility at a rate of 6.504 percent.

(m) Reflects imputed interest on the discounted value of the non-compete agreements.

(n) Reflects elimination of interest income related to notes receivable from related parties not acquired by Heritage.

(o) Reflects the adjustment to minority interest expense for Heritage Operating, L.P.

(p) Reflects the elimination of income tax expense, as income taxes are borne by the partners.

(q) Reflects the adjustment to the general partner's interest in the net income of Heritage.

HERITAGE PROPANE PARTNERS, L.P.

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

4. The ProFlame historical financial statements include the following nonrecurring charges which are expected to be eliminated through implementation of the Heritage business and operating strategy.

	NINE MONTHS ENDED MAY 31, 2001	YEAR ENDED AUGUST 31, 2000
Personnel costs(a)	2,950	3,250
Transaction expenses(b)	1,000	--
	$ 3,950	$ 3,250

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(a) Reflects the personnel costs for directors, officers and management of ProFlame who will resign at closing.

(b) Reflects expenses recorded by ProFlame related to the acquisition by Heritage.

EXHIBIT 99.2

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of ProFlame, Inc.:

We have audited the accompanying consolidated and combined balance sheets of ProFlame, Inc. (a Nevada corporation) and subsidiaries and affiliates identified in Note 1, as of August 31, 2000 and 1999, and the related consolidated and combined statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company'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 ProFlame, Inc. and subsidiaries and affiliates, as of August 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Tulsa, Oklahoma
June 29, 2001

PROFLAME, INC. AND SUBSIDIARIES AND AFFILIATES

CONSOLIDATED AND COMBINED BALANCE SHEETS
(IN THOUSANDS)

	MAY 31, 2001 (UNAUDITED)	AUGUST 31, 2000	AUGUST 31, 1999
ASSETS			
CURRENT ASSETS:			
Cash	$ 914	$ 3,032	$ 1,334
Accounts receivable, net	3,501	2,694	1,764
Inventories, net	1,411	988	804
Current portion of notes receivable from related parties and other	2,883	1,062	1,694
Other current assets	687	863	1,113
Total current assets	9,396	8,639	6,709
PROPERTY, PLANT AND EQUIPMENT, net	7,174	7,473	8,064
NOTES RECEIVABLE FROM RELATED PARTIES AND OTHER, less current portion	--	--	1,037
INTANGIBLES AND OTHER ASSETS, net	144	194	199
Total assets	$16,714	$16,306	$16,009
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	$ 1,601	$ 1,238	$ 824
Accounts payable to related parties	1,487	2,614	1,414
Accrued and other current liabilities	3,574	3,082	3,140
Current maturities of long-term debt	461	524	518
Total current liabilities	7,123	7,458	5,896
LONG-TERM DEBT, less current maturities	143	460	638
NOTES PAYABLE TO RELATED PARTIES	210	210	210
DEFERRED INCOME TAXES	281	334	448
COMMITMENTS AND CONTINGENCIES			
Total liabilities	7,757	8,462	7,192
STOCKHOLDERS' EQUITY:			
Preferred stock	627	627	627
Common stock	322	337	492
Additional paid-in capital	531	531	835
Retained earnings	8,103	6,349	6,863
Treasury stock (at cost)	(626)	--	--
Total stockholders' equity	8,957	7,844	8,817
Total liabilities and stockholders' equity	$16,714	$16,306	$16,009

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

PROFLAME, INC. AND SUBSIDIARIES AND AFFILIATES

CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	FOR THE NINE MONTHS ENDED MAY 31,		FOR THE YEARS ENDED AUGUST 31,	
	2001	2000	2000	1999
	(UNAUDITED)	(UNAUDITED)		
REVENUES:				
Retail fuel	$32,641	$23,035	$27,550	$26,814
Wholesale fuel	10,254	5,712	7,323	5,420
Other	3,713	2,011	3,018	3,074
Total revenues	46,608	30,758	37,891	35,308
COSTS AND EXPENSES:				
Cost of products sold	28,981	17,656	21,629	16,036
Operating expenses	7,479	7,046	9,590	10,222
Depreciation and amortization	959	1,035	1,357	1,217
Selling, general and administrative	4,344	2,839	3,790	3,182
Total costs and expenses	41,763	28,576	36,366	30,657
OPERATING INCOME	4,845	2,182	1,525	4,651
OTHER INCOME (EXPENSE):				
Interest expense	(270)	(219)	(319)	(327)
Interest income	201	170	226	236
Gain on disposal of assets	246	356	266	200
INCOME BEFORE INCOME TAXES	5,022	2,489	1,698	4,760
Income taxes	1,060	274	32	1,068
NET INCOME	$ 3,962	$ 2,215	$ 1,666	$ 3,692

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

PROFLAME, INC. AND SUBSIDIARIES AND AFFILIATES

CONSOLIDATED AND COMBINED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS)

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	TOTAL
Balance, September 1, 1998..........	$627	$ 492	$ 835	$ 4,721	$ --	$ 6,675
Net income..........................	--	--	--	3,692	--	3,692
Distributions.......................	--	--	--	(1,550)	--	(1,550)
Balance, August 31, 1999............	627	492	835	6,863	--	8,817
Repurchase and cancellation of common stock......................	--	(155)	(304)	--	--	(459)
Net income..........................	--	--	--	1,666	--	1,666
Distributions.......................	--	--	--	(2,180)	--	(2,180)
Balance, August 31, 2000............	627	337	531	6,349	--	7,844
Purchase of treasury stock -- cost method (unaudited)................	--	--	--	--	(626)	(626)
Repurchase and cancellation of common stock (unaudited)..........	--	(15)	--	(720)	--	(735)
Net income (unaudited)..............	--	--	--	3,962	--	3,962
Distributions (unaudited)...........	--	--	--	(1,488)	--	(1,488)
Balance, May 31, 2001 (unaudited)...	$627	$ 322	$ 531	$ 8,103	$(626)	$ 8,957

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

PROFLAME, INC. AND SUBSIDIARIES AND AFFILIATES

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	FOR THE NINE MONTHS ENDED MAY 31,		FOR THE YEARS ENDED AUGUST 31,	
	2001	2000	2000	1999
	(UNAUDITED)	(UNAUDITED)		
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$ 3,962	$ 2,215	$ 1,666	$ 3,692
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	959	1,035	1,357	1,217
Gain on sale of capital assets	(246)	(356)	(266)	(200)
Deferred income taxes	(51)	(153)	(156)	(71)
Change in assets and liabilities:				
Accounts receivable	(807)	(899)	(930)	751
Inventories	(423)	(200)	(184)	(90)
Other current assets	174	(541)	292	(766)
Intangibles and other assets	26	(27)	(27)	13
Accounts payable	363	738	414	191
Accrued and other current liabilities	492	(825)	(58)	649
Net cash provided by operating activities	4,449	987	2,108	5,386
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures	(691)	(583)	(906)	(825)
Proceeds from sale of property, plant and equipment	301	412	438	383
Net cash used in investing activities	(390)	(171)	(468)	(442)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Distributions to shareholders	(1,488)	(2,510)	(2,180)	(1,550)
Change in notes receivable from related parties	(1,821)	(501)	1,669	(1,393)
Change in accounts payable to related parties	(1,127)	964	1,200	(1,122)
Payments of long-term debt	(380)	(34)	(172)	(266)
Purchase of treasury stock	(626)	--	--	--
Repurchase and cancellation of common stock	(735)	--	(459)	--
Net cash provided by (used in) financing activities	(6,177)	(2,081)	58	(4,331)
NET INCREASE (DECREASE) IN CASH	(2,118)	(1,265)	1,698	613
CASH AT BEGINNING OF PERIOD	3,032	1,334	1,334	721
CASH AT END OF PERIOD	$ 914	$ 69	$ 3,032	$ 1,334
SUPPLEMENTAL DISCLOSURE:				
Interest paid	$ 242	$ 191	$ 280	$ 327
Income taxes paid	$ 248	$ 350	$ 350	$ 1,616

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

PROFLAME, INC. AND SUBSIDIARIES AND AFFILIATES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(DOLLAR AMOUNTS IN THOUSANDS)
(UNAUDITED AS TO MAY 31, 2001 AND 2000 DATA)

1. OPERATIONS AND FINANCIAL STATEMENT PRESENTATION

The consolidated and combined financial statements include the accounts of ProFlame, Inc. (a Nevada corporation, "ProFlame Nevada") and its majority-owned subsidiaries which have been consolidated -- ProFlame, Inc. (an Oklahoma corporation, "ProFlame Oklahoma"), Hesperia Liquid Gas Co. (a Nevada corporation), Coastside Gas Service (a California corporation), ProFlame Gas Company (a California corporation) and San Diego ProFlame (a California corporation). These companies are collectively referred to herein as consolidated ProFlame Nevada.

Additionally, certain affiliated companies under common control and involved in propane-related operations have been combined with consolidated ProFlame Nevada, including California Western Gas Company (a Delaware corporation), Coast Liquid Gas, Inc. (a California corporation), Growth Properties (a California corporation), L.P.G. Associates (a California subchapter S corporation) and WMJB, Inc. (a California subchapter S corporation). These companies are collectively referred to herein as the combined companies.

All of the companies referred to above are under common management and are parties to a definitive agreement whereby the businesses of each would be acquired by Heritage Holdings, Inc., the general partner of Heritage Propane Partners, L.P., or its affiliates (collectively referred to herein as Heritage). The terms of the definitive agreement are disclosed in Note 9. Other affiliated companies under common management, which are unrelated to the propane operations and are not parties to the definitive agreement, are not included in the consolidated and combined financial statements. Additionally, certain balances and transactions of the companies included in the consolidated and combined financial statements have been eliminated from the presentation herein as they are not to be acquired by Heritage.

The companies included in the consolidated and combined financial statements are collectively referred to as the Company. All significant intercompany accounts and transactions have been eliminated, except for the equity accounts of the companies being combined as no parent-subsidiary relationship exists.

The Company sells propane and propane-related products from retail outlets located principally in California and Nevada. The Company is also a wholesale propane supplier in those regions.

The accompanying unaudited consolidated and combined financial statements as of May 31, 2001, and for the nine months ended May 31, 2001 and 2000, have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information, including all adjustments of a normal and recurring nature which are, in the opinion of the Company's management, necessary for the fair presentation of interim results. Not all information and notes required for complete financial statements are included. The results of operations presented are not necessarily indicative of the results for the full year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BALANCE SHEET DETAIL

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.

PROFLAME, INC. AND SUBSIDIARIES AND AFFILIATES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

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 specific identification method. Inventories consisted of the following:

	MAY 31, 2001	AUGUST 31, 2000	AUGUST 31, 1999
Fuel	$1,200	$790	$508
Appliances, parts and fittings	211	198	296
	$1,411	$988	$804

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. Components and useful lives of property, plant and equipment were as follows:

	MAY 31, 2001	AUGUST 31, 2000	AUGUST 31, 1999
Land	$ 2,148	$ 2,207	$ 2,207
Buildings and improvements (10 to 30 years)	1,171	1,178	1,166
Plant facilities and equipment (5 to 30 years)	2,418	2,374	2,309
Tanks and other equipment (5 to 30 years)	13,460	12,910	12,606
Transportation equipment (5 to 15 years)	3,579	3,633	3,553
Furniture and fixtures (5 to 10 years)	647	626	618
	23,423	22,928	22,459
Less -- accumulated depreciation	16,249	15,455	14,395
Property, plant and equipment, net	$ 7,174	$ 7,473	$ 8,064

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 of long-lived assets was required during the period ended May 31, 2001, or the years ended August 31, 2000 and 1999.

Accrued and Other Current Liabilities

Accrued and other current liabilities consisted of the following:

	MAY 31, 2001	AUGUST 31, 2000	AUGUST 31, 1999
Interest payable	$ 67	$ 39	$ --
Wages and payroll taxes	462	1,651	1,120
Deferred tank rent	585	585	575
Customer deposits	271	254	246
Taxes other than income	124	175	142
Income taxes payable	889	26	188
Professional services	1,000	--	--
Other	176	352	869
Accrued and other current liabilities	$3,574	$3,082	$3,140

Income Taxes

The Company follows 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.

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.

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

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133" and by Statement No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities -- an amendment of FASB Statement No. 133" ("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.

The Company adopted SFAS 133 on September 1, 2000. The adoption had no impact on the Company's financial statements, as it is not currently using derivative instruments. Additional volatility in earnings and comprehensive income may occur as a result of the adoption of SFAS 133 should the Company use derivative instruments in the future.

3. INCOME TAXES

The provision for income taxes for the period ended May 31, 2001 and 2000, and the years ended August 31, 2000 and 1999, was comprised of the following:

	FOR THE NINE MONTHS ENDED MAY 31,		FOR THE YEARS ENDED AUGUST 31,	
	2001	2000	2000	1999
Income tax provision (benefit):				
Current	$1,111	$ 427	$ 188	$1,139
Deferred	(51)	(153)	(156)	(71)
Total	$1,060	$ 274	$ 32	$1,068

The income tax effect of temporary differences comprising the current deferred tax asset and long-term deferred tax liability on the accompanying balance sheets are a result of the following:

	MAY 31, 2001	AUGUST 31, 2000	AUGUST 31, 1999
Current deferred income taxes:			
Vacation accrual	$ 55	$ 29	$ 29
Deferred tank revenue	189	189	189
Other	44	72	30
Total current deferred tax asset	$ 288	$ 290	$ 248
Long-term deferred income taxes:			
Depreciation	$(417)	$(457)	$(557)
Amortization	28	24	18
Interest on subordinated notes	108	99	91
Total long-term deferred tax liability	$(281)	$(334)	$(448)

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

	FOR THE NINE MONTHS ENDED MAY 31,		FOR THE YEARS ENDED AUGUST 31,	
	2001	2000	2000	1999
Federal income taxes at statutory rate	35%	35%	35%	35%
S corporation income	(11)%	(21)%	(30)%	(10)%
State income tax, net	(3)%	(3)%	(3)%	(3)%
Provision for income taxes	21%	11%	2%	22%

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PROFLAME, INC. AND SUBSIDIARIES AND AFFILIATES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

4. LONG-TERM DEBT

Long-term debt consisted of the following at May 31, 2001, August 31, 2000 and 1999:

	MAY 31, 2001	AUGUST 31, 2000	AUGUST 31, 1999
Note payable to a Bank, due May 31, 2006; monthly payments of principal and interest (approximately $5) with the remaining balance due at maturity; interest at Bank's Prime Rate plus 0.5% (9.86% at August 31, 2000). Secured by personal property of the Company...	$ --	$331	$ 393
Note payable to a Corporation, due May 16, 2003; monthly payments of principal and interest (approximately $8) with the remaining balance due at maturity; interest at 7.0%. Secured by certain assets of the Company.......................................	198	237	313
6% subordinated notes................................	374	353	326
Other..	32	63	124
	604	984	1,156
Less -- current portion of long-term debt.............	461	524	518
	$143	$460	$ 638

The 6% subordinated notes have an original face value of $94 and are owned by various note holders unrelated to the Company. The notes were due on December 31, 1977. The Company has increased the carrying value of the notes each year to reflect the accrual of interest on the outstanding notes that will be paid when the notes are retired. The Company has recorded accrued interest of $280, $259 and $232 as of May 31, 2001, August 31, 2000 and August 31, 1999, respectively. The notes are classified as current maturities of long-term debt on the balance sheet as the notes have matured.

Future maturities of long-term debt at August 31, 2000 were as follows:

2001..	$524
2002..	173
2003..	127
2004..	58
2005..	58
Thereafter..	44
	$984

PROFLAME, INC. AND SUBSIDIARIES AND AFFILIATES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

5. COMMITMENTS AND CONTINGENCIES

Certain property and equipment is leased under non-cancelable leases, which require fixed monthly rental payments and expire at various dates through 2026. Rental expense under these leases totaled approximately $1,266 and $1,119 for the years ending August 31, 2000 and 1999 and $806 and $1,042 for the nine months ending May 31, 2001 and 2000, respectively. Future minimum lease commitments as of August 31, 2000, for such leases were as follows:

2001	$102
2002	83
2003	69
2004	40
2005	34
Thereafter	341
	$669

Subsequent to August 31, 2000, the Company purchased vehicles for approximately $1,612, which were previously being leased under month-to-month leases.

The Company has received from the Environmental Protection Agency (EPA) an information request letter with respect to property owned by the Company concerning the Newmark groundwater contamination Superfund site in San Bernadino, California. The Company has responded timely to the EPA's request for information and the inquiry is in preliminary stages. Management cannot estimate the likelihood of an outcome assigning any responsibility to the Company. However, management does not expect the ultimate outcome of this matter to have a material adverse effect on the Company's results of operations or its financial position.

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 or results of operations of the Company. The Company has entered into several purchase and supply commitments with varying terms as to quantities and prices, which expire at various dates through March 2002.

6. STOCKHOLDERS' EQUITY

The following represents the equity summaries of the combined companies as of August 31, 2000:

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	TOTAL
ProFlame Nevada (consolidated)	$ --	$ --	$531	$3,435	$--	$3,966
California Western Gas Co.	627	--	--	950	--	1,577
Coast Liquid Gas, Inc.	--	15	--	823	--	838
Growth Properties	--	322	--	554	--	876
L.P.G. Associates	--	--	--	880	--	880
WMJB, Inc.	--	--	--	(293)	--	(293)
Total	$627	$337	$531	$6,349	$--	$7,844

Each share of preferred stock is due dividends payable in arrears at a rate of $1.50 per year. The amount of dividends in arrears at August 31, 2000 related to shareholders outside of the combined group was $371, which is not reflected in the accompanying financial statements. California Western Gas Co. may redeem the outstanding preferred stock, at any time, by paying the preferred shareholder $26 per share, plus dividends in

PROFLAME, INC. AND SUBSIDIARIES AND AFFILIATES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

arrears. The preferred stock shall, with respect to dividend rights and rights upon liquidation, rank prior to any common stock.

7. PROFIT SHARING AND 401(k) SAVINGS PLAN

The Company sponsors a defined contribution 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 related to the Plan during the years ended August 31, 2000 and 1999, was approximately $135 and $133, respectively. Total expense related to the Plan during the nine months ended May 31, 2001 and 2000 was $107 and $108, respectively.

8. RELATED PARTY TRANSACTIONS

The Company enters into various transactions with related parties. These transactions include the borrowing and lending of cash. The payables and receivables derived from the borrowing and lending of cash to various related parties are classified on the balance sheet as notes receivable from related parties and other and accounts payable to related parties. Interest is charged on the balances between related parties at a rate of 5.25%. The Company recognized interest income from related parties of approximately $149, $138, $175 and $174 for the nine months ended May 31, 2001 and 2000 and the years ending August 31, 2000 and 1999, respectively. The Company recognized interest expense from related parties of approximately $182, $138, $192 and $175 for the nine months ended May 31, 2001 and 2000 and for the years ended August 31, 2000 and 1999, respectively.

The Company has notes payable to related parties. These notes are due on April 15, 2004, with interest payments of 18% due annually and principal due at maturity. The Company incurred interest expense of approximately $28, $28, $38 and $38 for the nine months ended May 31, 2001 and 2000 and for the years ended August 31, 2000 and 1999, respectively.

In addition, L.P.G. Associates leases certain employees to affiliated companies. L.P.G. Associates charges the affiliated companies an amount equal to the payroll cost of the leased employees plus a mark-up. The margin related to the employee leasing activity is included in other revenue in the consolidated and combined statements of operations. The margin recorded by L.P.G. Associates was approximately $392, $300, $398 and $268 for the nine months ended May 31, 2001 and 2000, and for the years ended August 31, 2000 and 1999, respectively.

The majority owners of the Company are also officers of the Company. Salaries and bonuses paid to these officers were approximately $2,950, $2,438, $3,250 and $2,650 for the nine months ended May 31, 2001 and 2000, and for the years ended August 31, 2000 and 1999, respectively.

9. SUBSEQUENT EVENTS

In May 2001, the Company entered into an agreement with an officer (and a shareholder) of the Company, whereby the Company would loan the officer a total of $1,454. The Company loaned the officer $442 in May 2001, which has been recorded in notes receivable from related parties and others in the May 31, 2001, consolidated and combined balance sheet. The Company loaned the remaining $1,011 in June 2001. The officer signed a promissory note with the Company at an interest rate of 7.0 percent. The note is payable on demand.

In July 2001, the Company signed a definitive agreement whereby the businesses of the Company would be acquired by Heritage.