

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2002

OR

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 1-11727

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

DELAWARE  
(state or other jurisdiction or  
incorporation or organization)

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

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

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

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

Yes  No

At January 13, 2003, the registrant had units outstanding as follows:  
Heritage Propane Partners, L.P. 16,367,803 Common Units

HERITAGE PROPANE PARTNERS, L.P.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(in thousands, except unit data)  
(unaudited)

November 30,  
August 31,  
2002 2002 --  
-----

-----  
ASSETS  
CURRENT  
ASSETS: Cash  
and cash  
equivalents  
\$ 5,223 \$  
4,596  
Marketable  
securities  
2,559 2,559  
Accounts  
receivable,  
net of  
allowance  
for doubtful  
accounts  
57,619  
30,898  
Inventories  
53,267  
48,187  
Assets from  
liquids  
marketing  
813 2,301  
Prepaid  
expenses and  
other 8,451  
6,846 -----

-----  
- Total  
current  
assets  
127,932  
95,387  
PROPERTY,  
PLANT AND  
EQUIPMENT,  
net 402,567  
400,044  
INVESTMENT  
IN  
AFFILIATES  
8,072 7,858  
GOODWILL,  
net of  
amortization  
prior to  
adoption of  
SFAS No. 142  
156,258  
155,735  
INTANGIBLES  
AND OTHER  
ASSETS, net  
56,491  
58,240 -----  
-----  
-- Total  
assets \$

751,320 \$  
717,264

=====  
=====

LIABILITIES  
AND  
PARTNERS'  
CAPITAL  
CURRENT

LIABILITIES:

Working capital facility \$ 52,800 \$ 30,200  
Accounts payable 56,903 40,929  
Accounts payable to related companies 4,558 5,002  
Accrued and other current liabilities 28,505 23,962  
Liabilities from liquids marketing 772 1,818  
Current maturities of long-term debt 22,628 20,158 -----

-----  
-- Total current liabilities 166,166 122,069

LONG-TERM DEBT, less current maturities 418,607 420,021

MINORITY INTERESTS 3,524 3,564  
-----

-----  
Total liabilities 588,297 545,654 -----

---  
COMMITMENTS  
AND

CONTINGENCIES  
PARTNERS'  
CAPITAL:

Common Unitholders (15,816,347 and 15,815,847 units issued and outstanding at November 30, 2002 and August 31, 2002, respectively) 165,183

173,677  
 Class C  
 Unitholders  
 (1,000,000  
 units issued  
 and  
 outstanding  
 at November  
 30, 2002 and  
 August 31,  
 2002) -- --  
 General  
 Partner  
 1,492 1,585  
 Accumulated  
 other  
 comprehensive  
 loss (3,652)  
 (3,652) ----  
 -----  
 --- Total  
 partners'  
 capital  
 163,023  
 171,610 ----  
 -----  
 --- Total  
 liabilities  
 and  
 partners'  
 capital \$  
 751,320 \$  
 717,264  
 =====  
 =====

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

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

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

Three Months  
Ended  
November 30,

-----  
-----  
---- 2002  
2001 -----  
-----

REVENUES:

Retail fuel \$  
84,050 \$

83,200

Wholesale  
fuel 11,348

12,593

Liquids  
marketing

60,730 50,820

Other 17,355

15,490 -----

-----

----- Total

revenues

173,483

162,103 -----

-----

----- COSTS

AND EXPENSES:

Cost of

products sold

57,020 60,235

Liquids

marketing

60,023 54,145

Operating

expenses

33,425 31,844

Depreciation

and

amortization

9,266 9,058

Selling,

general and

administrative

3,192 2,951 -

-----

-----

Total costs

and expenses

162,926

158,233 -----

-----

-----

OPERATING

INCOME 10,557

3,870 OTHER

INCOME

(EXPENSE):

Interest

expense

(9,297)

(9,216)

Equity in

earnings of

affiliates

213 129 Gain

on disposal

of assets 67

467 Other

(278) (98) --

-----

```

-----
INCOME (LOSS)
  BEFORE
  MINORITY
  INTERESTS
1,262 (4,848)
  Minority
  interests
(123) 69 -----
-----
----- NET
INCOME (LOSS)
1,139 (4,779)
  GENERAL
  PARTNER'S
  INTEREST IN
  NET INCOME
  (LOSS) 229
168 -----
-----
--- LIMITED
PARTNERS'
INTEREST IN
NET INCOME
(LOSS) $ 910
$ (4,947)
=====
=====
BASIC NET
INCOME (LOSS)
PER LIMITED
PARTNER UNIT
$ 0.06 $
(0.32)
=====
=====
BASIC AVERAGE
NUMBER OF
UNITS
OUTSTANDING
15,816,347
15,644,580
=====
=====
DILUTED NET
INCOME (LOSS)
PER LIMITED
PARTNER UNIT
$ 0.06 $
(0.32)
=====
=====
DILUTED
AVERAGE
NUMBER OF
UNITS
OUTSTANDING
15,848,698
15,644,580
=====
=====

```

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

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

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

Three Months	
Ended November	
30, -----	
----- 2002	
2001 -----	--
----- Net	
income (loss) \$	
1,139 \$(4,779)	
Other	
comprehensive	
income (loss)	
Reclassification	
adjustment for	
losses or gains	
on derivative	
instruments	
included in net	
income --	
(2,755) Change	
in value of	
available-for-	
sale securities	
-- 377 -----	
-----	
Comprehensive	
income (loss) \$	
1,139 \$(7,157)	
=====	=====
RECONCILIATION	
OF ACCUMULATED	
OTHER	
COMPREHENSIVE	
LOSS Balance,	
beginning of	
period \$(3,652)	
\$(6,541)	
Current period	
reclassification	
to earnings --	
1,590 Current	
period change -	
- (2,378) -----	
-- -----	
Balance, end of	
period \$(3,652)	
\$(7,329)	
=====	=====

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



HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

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

Accumulated  
 Number of  
 Units Other

-----  
 -----  
 General  
 Comprehensive  
 Common Class  
 C Common  
 Class C  
 Partner Loss  
 Total -----  
 -----  
 -----  
 -----  
 -----  
 -----

BALANCE,  
 AUGUST 31,  
 2002  
 15,815,847  
 1,000,000 \$  
 173,677 \$ --  
 \$ 1,585 \$  
 (3,652) \$  
 171,610 Unit  
 distribution

-- --  
 (10,082) --  
 (322) --  
 (10,404)  
 Conversion  
 of phantom  
 units 500 --  
 -- -- -- --  
 -- Other --  
 -- 678 -- --  
 -- 678 Net  
 change in  
 accumulated  
 other  
 comprehensive  
 income per  
 accompanying  
 statements -  
 - - - - -  
 - - - - Net  
 income -- --  
 910 -- 229 -  
 - 1,139 -----  
 -----  
 -----  
 -----  
 -----

BALANCE,  
 NOVEMBER 30,  
 2002  
 15,816,347  
 1,000,000 \$  
 165,183 \$ --  
 \$ 1,492 \$  
 (3,652) \$  
 163,023

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

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

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

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

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

Three Months Ended November 30,	
-----	-----
2002	2001
---	---
-----	-----
- CASH FLOWS FROM	
OPERATING	
ACTIVITIES:	
Net income	
(loss) \$	
1,139	\$
(4,779)	
Reconciliation	
of net income	
(loss) to net	
cash provided	
by (used in)	
operating	
activities-	
Depreciation	
and	
amortization	
9,266	9,058
Provision for	
loss on	
accounts	
receivable	
234	350
Gain	
on disposal	
of assets	
(67)	(467)
Deferred	
compensation	
on restricted	
units and	
long-term	
incentive	
plan	678 487
Undistributed	
earnings of	
affiliates	
(213)	(146)
Minority	
interests	
(40)	(213)
Changes in	
assets and	
liabilities,	
net of effect	
of	
acquisitions:	
Accounts	
receivable	
(26,887)	
(17,508)	
Inventories	
(4,938)	
(13,297)	
Assets from	
liquids	
marketing	
1,488	(347)
Prepaid and	
other	
expenses	
(1,558)	8,801
Intangibles	
and other	
assets	(64)

(182)	
Accounts payable	
15,830	17,083
Accounts payable to related companies	
(444)	1,663
Accrued and other current liabilities	
4,280	(2,621)
Liabilities from liquids marketing	
(1,046)	2,206
-----	-----
---- Net cash provided by (used in) operating activities	
(2,342)	88
-----	-----
-- CASH FLOWS FROM INVESTING ACTIVITIES:	
Cash paid for acquisitions, net of cash acquired	
(1,603)	
(7,344)	
Capital expenditures	
(9,652)	
(9,792)	
Proceeds from the sale of assets	
1,491	
1,116	-----
-----	-----
Net cash used in investing activities	
(9,764)	
(16,020)	----
-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from borrowings	
48,750	56,265
Principal payments on debt	
(25,613)	
(27,672)	
Unit distributions	
(10,404)	
(10,059)	
Other	-- (49)
-----	-----
---- Net cash provided by financing activities	
12,733	18,485
-----	-----
---- INCREASE IN CASH AND CASH EQUIVALENTS	
627	2,553
CASH AND CASH EQUIVALENTS, beginning of period	
4,596	

5,620 -----  
 - -----  
 CASH AND CASH  
 EQUIVALENTS,  
 end of period  
 \$ 5,223 \$  
 8,173  
 =====  
 =====  
 NONCASH  
 FINANCING  
 ACTIVITIES:  
 Notes payable  
 incurred on  
 noncompete  
 agreements \$  
 519 \$ 165  
 =====  
 =====  
 SUPPLEMENTAL  
 DISCLOSURE OF  
 CASH FLOW  
 INFORMATION:  
 Cash paid  
 during the  
 period for  
 interest \$  
 7,247 \$ 7,741  
 =====  
 =====

The accompanying notes are an integral part of these financial statements

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

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

#### 1. OPERATIONS AND ORGANIZATION:

The accompanying financial statements should be read in conjunction with the consolidated financial statements of Heritage Propane Partners, L.P. and subsidiaries (the "Partnership") as of August 31, 2002, and the notes thereto included in the Partnership's consolidated financial statements included in Form 10-K as filed with the Securities and Exchange Commission on November 27, 2002. The accompanying financial statements include only normal recurring accruals and all adjustments that the Partnership considers necessary for a fair presentation. Due to the seasonal nature of the Partnership's business, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

In order to simplify the Partnership's obligations under the laws of several jurisdictions in which it conducts business, the Partnership's activities are conducted through a subsidiary operating partnership, Heritage Operating, L.P. (the "Operating Partnership"). The Partnership and the Operating Partnership are collectively referred to in this report as "Heritage." At November 30, 2002, the Operating Partnership sold propane and propane-related products to more than 600,000 active residential, commercial, industrial, and agricultural customers in 28 states. Heritage is also a wholesale propane supplier in the southwestern and southeastern United States and in Canada, the latter through participation in MP Energy Partnership. MP Energy Partnership is a Canadian partnership, in which Heritage owns a 60% interest, engaged in supplying Heritage's northern U.S. locations and lower-margin wholesale distribution. Heritage buys and sells financial instruments for its own account through its wholly owned subsidiary, Heritage Energy Resources L.L.C. ("Resources").

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

##### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of the Partnership include the accounts of its subsidiaries, including the Operating Partnership, MP Energy Partnership, Heritage Service Corp., Guilford Gas Service, Inc., and Resources. Heritage accounts for its 50% partnership interest in Bi-State Propane, a propane retailer in the states of Nevada and California, under the equity method. All significant intercompany transactions and accounts have been eliminated in consolidation. For purposes of maintaining partner capital accounts, the Partnership Agreement of Heritage Propane Partners, L.P. specifies that items of income and loss shall be allocated among the partners in accordance with their percentage interests. Normal allocations according to percentage interests are made, however, only after giving effect to any priority income allocations in an amount equal to the incentive distributions that are allocated 100% to the General Partner. On February 4, 2002, at a special meeting of the Partnership's Common Unitholders, the Common Unitholders approved the substitution of U.S. Propane, L.P. ("U.S. Propane") as the successor General Partner of the Partnership and the Operating Partnership, replacing Heritage Holdings, Inc. ("Heritage Holdings"). At November 30, 2002, U.S. Propane's 1.0101% general partner interest in the Operating Partnership was accounted for in the consolidated financial statements as a minority interest. For the three months ended November 30, 2001, the 1.0101% general partner interest of the former General Partner, Heritage Holdings, and U.S. Propane's 1.0101% limited partner interest in the Operating Partnership were accounted for in the consolidated financial statements as minority interests.

##### ACCOUNTS RECEIVABLE

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

November  
 30, August  
 31, 2002  
 2002 -----  
 -----  
 Accounts  
 receivable  
 \$60,129  
 \$33,402  
 Less -  
 allowance  
 for  
 doubtful  
 accounts  
 2,510  
 2,504 -----  
 -----  
 - Total,  
 net  
 \$57,619  
 \$30,898  
 =====  
 =====

The activity in the allowance for doubtful accounts consisted of the following:

For the  
 three  
 months  
 ended ----  
 -----  
 -----  
 ---  
 November  
 30,  
 November  
 30, 2002  
 2001 -----  
 -----  
 Balance,  
 beginning  
 of the  
 period \$  
 2,504 \$  
 3,576  
 Provision  
 for loss  
 on  
 accounts  
 receivable  
 234 350  
 Accounts  
 receivable  
 written  
 off, net  
 of  
 recoveries  
 (228)  
 (359) ----  
 -----  
 - Balance,  
 end of  
 period \$  
 2,510 \$  
 3,567  
 =====  
 =====

INVENTORIES

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

following:

November  
30, August  
31, 2002  
2002 -----  
-----  
-----  
Fuel  
\$43,751  
\$38,523  
Appliances,  
parts and  
fittings  
9,516  
9,664 -----  
-----  
- Total  
inventories  
\$53,267  
\$48,187  
=====  
=====

#### RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform with the November 30, 2002 presentation. These reclassifications have no impact on net income or net assets.

#### INCOME (LOSS) PER LIMITED PARTNER UNIT

Basic net income (loss) per limited partner unit is computed by dividing net income (loss), after considering the General Partner's interest, by the weighted average number of Common Units outstanding. Diluted net income (loss) per limited partner unit is computed by dividing net income, after considering the General Partner's interest, by the weighted average number of Common Units outstanding and the weighted average number of restricted units ("Phantom Units") granted under the Restricted Unit Plan. A reconciliation of net income (loss) and weighted average units used in computing basic and diluted net income (loss) per unit is as follows:

Three Months  
Ended November  
30, -----  
-----  
----- 2002  
2001 -----  
-----  
--- BASIC NET  
INCOME (LOSS)  
PER LIMITED  
PARTNER UNIT:  
Limited  
Partners'  
interest in net  
income (loss) \$  
910 \$ (4,947)  
=====  
=====  
Weighted  
average limited  
partner units  
15,816,347  
15,644,580  
=====  
=====  
Basic net  
income (loss)  
per limited  
partner unit \$  
0.06 \$ (0.32)  
=====  
=====



Three  
 Months  
 Ended  
 November  
 30, -----  
 -----  
 -----  
 ---- 2002  
 2001 -----  
 -----  
 -----  
 DILUTED NET  
 INCOME  
 (LOSS) PER  
 LIMITED  
 PARTNER  
 UNIT:  
 Limited  
 partners'  
 interest in  
 net income  
 (loss) \$  
 910 \$  
 (4,947)

=====  
 =====

Weighted  
 average  
 limited  
 partner  
 units  
 15,816,347  
 15,644,580  
 Dilutive  
 effect of  
 phantom  
 units (a)  
 32,351 -- -  
 -----  
 -----

- Weighted  
 average  
 limited  
 partner  
 units,  
 assuming  
 dilutive  
 effect of  
 phantom  
 units  
 15,848,698  
 15,644,580

=====  
 =====

Diluted net  
 income  
 (loss) per  
 limited  
 partner  
 unit \$ 0.06  
 \$ (0.32)

=====  
 =====

(a) For the three months ended November 30, 2001, 41,900 phantom units were excluded from the calculation of diluted net loss as such units were anti-dilutive due to the net loss for the period.

#### QUARTERLY DISTRIBUTIONS OF AVAILABLE CASH

The Partnership Agreement requires that the Partnership will distribute all of its Available Cash to its Unitholders and its General Partner within 45 days following the end of each fiscal quarter, subject to the payment of incentive distributions to the holders of Incentive Distribution Rights to the extent that certain target levels of cash distributions are achieved. The term Available Cash generally means, with respect to any fiscal quarter of the Partnership, all

cash on hand at the end of such quarter, plus working capital borrowings after the end of the quarter, less reserves established by the General Partner in its sole discretion to provide for the proper conduct of the Partnership's business, to comply with applicable laws or any debt instrument or other agreement, or to provide funds for future distributions to partners with respect to any one or more of the next four quarters. Available Cash is more fully defined in the Partnership Agreement.

Prior to the Special Meeting on February 4, 2002, distributions by the Partnership in an amount equal to 100% of Available Cash were made 97% to the Common Unitholders, 1.0101% to U.S. Propane for its limited partner interest in the Operating Partnership, and 1.9899% to the former General Partner, Heritage Holdings. After the approval by the Common Unitholders of the substitution of U.S. Propane as the General Partner, distributions by the Partnership in an amount equal to 100% of Available Cash will generally be made 98% to the Common Unitholders and 2% to the General Partner, subject to the payment of incentive distributions to the holders of Incentive Distribution Rights to the extent that certain target levels of cash distributions are achieved.

On October 15, 2002, a quarterly distribution of \$0.6375 per unit, or \$2.55 annually, was paid to Unitholders of record at the close of business on October 8, 2002 and to the General Partner for its general partner interest in the Partnership, its minority interest, and its Incentive Distribution Rights. On December 18, 2002, the Partnership declared a cash distribution for the first quarter ended November 30, 2002 of \$0.6375 per unit, or \$2.55 per unit annually, payable on January 14, 2003 to Unitholders of record at the close of business on December 30, 2002. These quarterly distributions include incentive distributions payable to the General Partner to the extent the quarterly distribution exceeds \$0.55 per unit.

#### ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Heritage applies Financial Accounting Standards Board ("FASB") Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). SFAS 133 requires that all derivatives be recognized in the balance sheet as either an asset or liability measured at fair value. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the statement of operations. During the three months ended November 30, 2001, Heritage reclassified into earnings a loss of \$1,590 that was previously reported in accumulated other comprehensive loss. There were no such financial instruments outstanding as of November 30, 2002.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2001, the FASB issued Statement No. 143, Accounting for Asset Retirement Obligations (SFAS 143). SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible

long-lived assets and the associated asset retirement costs. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. Heritage adopted the provisions of SFAS 143 on September 1, 2002. The adoption of SFAS 143 did not have a material impact on the Partnership's consolidated financial position or results of operations.

In August 2001, the FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). SFAS 144 supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of (SFAS 121), and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. SFAS 144 retains the fundamental provisions of SFAS 121 for recognition and measurement of the impairment of long-lived assets to be held and used, and measurement of long-lived assets to be disposed of by sale. Heritage adopted the provisions of SFAS 144 on September 1, 2002. The adoption of SFAS 144 did not have a material impact on the Partnership's consolidated financial position or results of operations.

In April 2002, the FASB issued Statement No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS 145). SFAS 145 rescinds FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that Statement, FASB Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. SFAS 145 also rescinds FASB Statement No. 44, Accounting for Intangible Assets of Motor Carriers, amends FASB Statement No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions and also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Heritage adopted the provisions of SFAS 145 on September 1, 2002. The adoption did not have a material impact on the Partnership's consolidated financial position or results of operations.

#### RECENTLY ISSUED ACCOUNTING STANDARDS NOT YET ADOPTED

In October 2002, the Emerging Issues Task Force ("EITF") of the FASB discussed EITF Issue No. 02-3, Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities (EITF 02-3). The EITF reached a consensus to rescind EITF Issue No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities (EITF 98-10), the impact of which is to preclude mark-to-market accounting for energy trading contracts not within the scope of SFAS 133. The EITF also reached a consensus that gains and losses on derivative instruments within the scope of SFAS 133 should be shown net in the statement of operations if the derivative instruments are held for trading purposes. The consensus regarding the rescission of EITF 98-10 is applicable for fiscal periods beginning after December 15, 2002. Energy trading contracts not within the scope of SFAS 133 purchased after October 25, 2002, but prior to the implementation of the consensus are not permitted to apply mark-to-market accounting. Heritage will adopt the provisions of EITF 02-3 as of September 1, 2003. Management has not yet determined the impact the adoption of EITF 02-3 will have on the Partnership's financial position or results of operations.

In June 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. Management does not believe that the adoption will have a material impact on the Partnership's consolidated financial position or results of operations.

#### 3. WORKING CAPITAL FACILITY AND LONG-TERM DEBT:

Effective July 16, 2001, the Operating Partnership entered into the Fifth Amendment to the First Amended and Restated Credit Agreement. The terms of the Agreement as amended are as follows:

A \$65,000 Senior Revolving Working Capital Facility, is available through June 30, 2004. The interest rate and interest payment dates vary depending on the terms Heritage agrees to when the money is borrowed. Heritage must be free of all working capital borrowings for



days each fiscal year. The weighted average interest rate was 3.255% for the amount outstanding at November 30, 2002. The maximum commitment fee payable on the unused portion of the facility is 0.50%. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the capital stock of Heritage's subsidiaries secure the Senior Revolving Working Capital Facility. As of November 30, 2002, the Senior Revolving Working Capital Facility had a balance outstanding of \$52,800.

A \$50,000 Senior Revolving Acquisition Facility is available through December 31, 2003, at which time the outstanding amount must be paid in ten equal quarterly installments beginning March 31, 2004. The interest rate and interest payment dates vary depending on the terms Heritage agrees to when the money is borrowed. The weighted average interest rate was 3.255% for the amount outstanding at November 30, 2002. The maximum commitment fee payable on the unused portion of the facility is 0.50%. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the capital stock of Heritage's subsidiaries secure the Senior Revolving Acquisition Facility. As of November 30, 2002, the Senior Revolving Acquisition Facility had a balance outstanding of \$15,300.

4. REPORTABLE SEGMENTS:

The Partnership's financial statements reflect four reportable segments: the domestic retail operations of Heritage, the domestic wholesale operations of Heritage, the foreign wholesale operations of MP Energy Partnership, and the liquids marketing activities of Resources. Heritage's reportable domestic and wholesale fuel segments are strategic business units that sell products and services to retail and wholesale customers. Intersegment sales by the foreign wholesale segment to the domestic segment are priced in accordance with the partnership agreement of MP Energy Partnership. Heritage manages these segments separately as each segment involves different distribution, sale, and marketing strategies. Heritage evaluates the performance of its operating segments based on operating income. The operating income below does not reflect selling, general, and administrative expenses of \$3,192 and \$2,951 for the three months ended November 30, 2002 and 2001, respectively. The following table presents the unaudited financial information by segment for the following periods:

For the Three Months ended November 30, ----- ----- ----- 2002 2001 - ----- -- -----	
	Gallons:
	Domestic
	retail fuel
	76,721
	74,790
	Domestic
	wholesale
	fuel 4,890
	4,997
	Foreign
	wholesale
	fuel
	Affiliated
	20,380
	15,071
	Unaffiliated
	17,195
	18,264
	Elimination
	(20,380)
	(15,071) -- ----- -----
	Total
	98,806
	98,051
	=====
	=====

Revenues:	
Domestic	
retail fuel	
\$ 84,050	\$
83,200	
Domestic	
wholesale	
fuel 2,411	
3,071	
Foreign	
wholesale	
fuel	
Affiliated	
10,408	
8,940	
Unaffiliated	
8,937	9,522
Elimination	
(10,408)	
(8,940)	
Liquids	
marketing	
60,730	
50,820	
Other	
17,355	
15,490	----
-----	
---- Total	
\$ 173,483	\$
162,103	
=====	
=====	

Operating Income (Loss):		
Domestic retail	\$ 13,404	\$ 10,523
Domestic wholesale fuel	(484)	(635)
Foreign wholesale fuel		
Affiliated	110	--
Unaffiliated	506	338
Elimination	(110)	--
Liquids marketing	323	(3,405)
	-----	-----
Total	\$ 13,749	\$ 6,821
	=====	=====

As of As  
of  
November  
30,  
August  
31, 2002  
2002 ---  
-----  
- -----  
-----

Total  
Assets:  
Domestic  
retail \$  
694,665  
\$  
667,978  
Domestic  
wholesale  
14,891  
14,372  
Foreign  
wholesale  
10,135  
10,564  
Liquids  
Marketing  
16,169  
6,919  
Corporate  
15,460  
17,431 -  
-----  
-----  
- Total  
\$  
751,320  
\$  
717,264  
=====

For the  
Three Months  
ended  
November 30,  
-----  
-----  
-- 2002 2001  
-----  
-

Depreciation  
and  
amortization:  
Domestic  
retail  
\$9,132  
\$8,989  
Domestic  
wholesale  
129 64  
Foreign

wholesale 5  
5 -----  
--- Total  
\$9,266  
\$9,058  
=====  
=====

5. SUBSEQUENT EVENT:

On January 2, 2003, the Partnership completed the acquisition of the propane assets of V-1 Oil Co. ("V-1") of Idaho Falls, Idaho. Under the terms of the acquisition, the Operating Partnership acquired all of the propane distribution assets of V-1 for a total consideration of approximately \$32.3 million, after adjustments. The acquisition price was payable \$17.3 million in cash, financed by the Acquisition Facility, and by the issuance of 551,456 Common Units of the Registrant valued at \$15.0 million. The exchange price for the Common Units was \$27.20, determined under a formula based upon the average closing price of the Registrant's Common Units for the twenty (20) consecutive trading days commencing on the tenth trading day prior to the public announcement of the transaction on December 10, 2002.

6. SIGNIFICANT INVESTEE:

Heritage holds a 50% interest in Bi-State Propane. Heritage accounts for this 50% interest in Bi-State Propane under the equity method. Heritage's investment in Bi-State Propane totaled \$7,691 and \$7,485 at November 30, 2002 and August 31, 2002 respectively. Heritage did not receive any distributions from Bi-State Propane for the three months ended November 30, 2002 or 2001. On March 1, 2002, the Operating Partnership sold certain assets acquired in the ProFlame acquisition to Bi-State Propane for approximately \$9,730 plus working capital. This sale was made pursuant to the provision in the Bi-State Propane partnership agreement that requires each partner to offer to sell any newly acquired businesses within Bi-State Propane's area of operations to Bi-State Propane. In conjunction with this sale, the Operating Partnership guaranteed \$5 million of debt incurred by Bi-State Propane to a financial institution. Based on the current financial condition of Bi-State Propane, management considers the



likelihood of Heritage incurring a liability resulting from the guarantee to be remote. Bi-State Propane's financial position is summarized below:

November  
30, August  
31, 2002  
2002 -----

-----  
Current  
assets \$  
3,776 \$  
3,321  
Noncurrent  
assets  
22,701  
23,105 ---

-----  
-- \$26,477  
\$26,426  
=====

Current  
liabilities  
\$ 2,974 \$  
3,344

Long-term  
debt 9,450  
9,450

Partners'  
capital:  
Heritage  
7,691  
7,485  
Other  
partner  
6,362

6,147 ----  
-----  
- \$26,477  
\$26,426  
=====

Bi-State Propane's results of operations for the three months ended November 30, 2002 and 2001, respectively are summarized below:

For the  
Three  
Months  
Ended

November  
30, ---

-----  
-----  
-----  
----

2002  
2001 --

-----  
-- ----  
-----

Revenues  
\$ 4,641  
\$ 2,860

Gross  
profit  
2,285  
1,455

Net  
income:  
Heritage  
206 126  
Other  
Partner  
215 143

7. FOOTNOTES INCORPORATED BY REFERENCE:

Certain footnotes are applicable to the consolidated financial statements but would be substantially unchanged from those presented on Form 10-K filed with the Securities and Exchange Commission on November 27, 2002. Accordingly, reference should be made to the Company's Annual Report filed with the Securities and Exchange Commission on Form 10-K for the following:

NOTE	DESCRIPTION
2.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BALANCE SHEET DETAIL
4.	WORKING CAPITAL FACILITY AND LONG-TERM DEBT
5.	COMMITMENTS AND CONTINGENCIES
6.	PARTNERS' CAPITAL
7.	PROFIT SHARING AND 401(K) SAVINGS PLAN
8.	RELATED PARTY TRANSACTIONS

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Heritage Propane Partners, L.P. (the "Registrant" or "Partnership"), is a Delaware limited partnership. The Partnership's common units are listed on the New York Stock Exchange. The Partnership's business activities are primarily conducted through its subsidiary, Heritage Operating, L.P. (the "Operating Partnership"), a Delaware limited partnership. The Partnership is the sole limited partner of the Operating Partnership, with a 98.9899%

limited partner interest. The Partnership and the Operating Partnership are sometimes referred to collectively in this report as "Heritage."

The following is a discussion of the historical financial condition and results of operations of the Partnership and its subsidiaries, and should be read in conjunction with the Partnership's historical consolidated financial statements and accompanying notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

#### FORWARD-LOOKING STATEMENTS

CERTAIN MATTERS DISCUSSED IN THIS REPORT, EXCLUDING HISTORICAL INFORMATION, AS WELL AS SOME STATEMENTS BY HERITAGE IN PERIODIC PRESS RELEASES AND SOME ORAL STATEMENTS OF HERITAGE OFFICIALS DURING PRESENTATIONS ABOUT THE PARTNERSHIP, INCLUDE CERTAIN "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934. STATEMENTS USING WORDS SUCH AS "ANTICIPATE," "BELIEVE," "INTEND," "PROJECT," "PLAN," "CONTINUE," "ESTIMATE," "FORECAST," "MAY," "WILL," OR SIMILAR EXPRESSIONS HELP IDENTIFY 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.

ACTUAL RESULTS MAY DIFFER MATERIALLY FROM ANY RESULTS PROJECTED, FORECASTED, ESTIMATED, OR EXPRESSED IN FORWARD-LOOKING STATEMENTS SINCE MANY OF THE FACTORS THAT DETERMINE THESE RESULTS ARE DIFFICULT TO PREDICT AND ARE BEYOND MANAGEMENT'S CONTROL. SUCH FACTORS INCLUDE:

- o CHANGES IN GENERAL ECONOMIC CONDITIONS IN THE UNITED STATES OF AMERICA AS WELL AS CHANGES IN GENERAL ECONOMIC CONDITIONS AND CURRENCIES IN FOREIGN COUNTRIES;
- o WEATHER CONDITIONS THAT VARY SIGNIFICANTLY FROM HISTORICALLY NORMAL CONDITIONS WHICH MAY ADVERSELY AFFECT THE DEMAND FOR PROPANE AND HERITAGE'S FINANCIAL CONDITION;
- o HERITAGE'S SUCCESS IN HEDGING ITS PRODUCT SUPPLY POSITIONS;
- o THE EFFECTIVENESS OF RISK-MANAGEMENT POLICIES AND PROCEDURES AND THE ABILITY OF HERITAGE'S LIQUIDS MARKETING COUNTER PARTIES TO SATISFY THEIR FINANCIAL COMMITMENTS;
- o THE GENERAL LEVEL OF PETROLEUM PRODUCT DEMAND AND THE AVAILABILITY AND PRICE OF PROPANE SUPPLIES;
- o SUDDEN AND SHARP PROPANE PRICE INCREASES AND MARKET VOLATILITY MAY ADVERSELY AFFECT HERITAGE'S OPERATING RESULTS;
- o THE POLITICAL AND ECONOMIC STABILITY OF PETROLEUM PRODUCING NATIONS;
- o HERITAGE'S ABILITY TO CONDUCT BUSINESS IN FOREIGN COUNTRIES;
- o HERITAGE'S ABILITY TO OBTAIN ADEQUATE SUPPLIES OF PROPANE FOR RETAIL SALE IN THE EVENT OF AN INTERRUPTION IN SUPPLY OR TRANSPORTATION;
- o ENERGY PRICES GENERALLY AND SPECIFICALLY, THE PRICE OF PROPANE TO THE CONSUMER COMPARED TO THE PRICE OF ALTERNATIVE AND COMPETING FUELS;
- o THE MATURITY OF THE PROPANE INDUSTRY AND COMPETITION FROM OTHER PROPANE DISTRIBUTORS AND OTHER ENERGY SOURCES;
- o ENERGY EFFICIENCIES AND TECHNOLOGICAL TRENDS MAY AFFECT DEMAND FOR PROPANE;
- o THE AVAILABILITY AND COST OF CAPITAL;
- o HERITAGE'S ABILITY TO ACCESS CERTAIN CAPITAL SOURCES MAY REQUIRE IT TO OBTAIN A DEBT RATING;

- o CHANGES IN LAWS AND REGULATIONS TO WHICH HERITAGE IS SUBJECT, INCLUDING TAX, ENVIRONMENTAL, TRANSPORTATION, AND EMPLOYMENT REGULATIONS;
- o OPERATING RISKS INCIDENTAL TO TRANSPORTING, STORING, AND DISTRIBUTING PROPANE, INCLUDING LITIGATION RISKS WHICH MAY NOT BE COVERED BY INSURANCE;
- o HERITAGE'S ABILITY TO GENERATE AVAILABLE CASH FOR DISTRIBUTIONS TO UNITHOLDERS;
- o THE COSTS AND EFFECTS OF LEGAL AND ADMINISTRATIVE PROCEEDINGS AGAINST HERITAGE OR WHICH MAY BE BROUGHT AGAINST IT;
- o HERITAGE'S ABILITY TO SUSTAIN HISTORICAL LEVELS OF INTERNAL GROWTH;
- o HERITAGE'S ABILITY TO CONTINUE TO LOCATE AND ACQUIRE OTHER PROPANE COMPANIES AT PURCHASE PRICES THAT ARE ACCRETIVE TO ITS FINANCIAL RESULTS;
- o CASH DISTRIBUTIONS TO UNITHOLDERS ARE NOT GUARANTEED AND MAY FLUCTUATE WITH HERITAGE'S PERFORMANCE AND OTHER EXTERNAL FACTORS, INCLUDING RESTRICTIONS IN HERITAGE'S DEBT AGREEMENTS; AND
- o HERITAGE MAY SELL ADDITIONAL LIMITED PARTNER INTERESTS, THUS DILUTING THE EXISTING INTEREST OF UNITHOLDERS.

#### GENERAL

The retail propane business is a margin-based business in which gross profits depend on the excess of sales price over propane supply cost. The market price of propane is often subject to volatile changes as a result of supply or other market conditions over which Heritage will have no control. Product supply contracts are one-year agreements subject to annual renewal and generally permit suppliers to charge posted prices (plus transportation costs) at the time of delivery or the current prices established at major delivery points. Since rapid increases in the wholesale cost of propane may not be immediately passed on to retail customers, such increases could reduce gross profits. Heritage generally has attempted to reduce price risk by purchasing propane on a short-term basis. Heritage has 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 customer service locations and in major storage facilities for future resale.

The retail propane business of Heritage consists principally of transporting propane purchased in the contract and spot markets, primarily from major fuel suppliers, to its customer service locations and then to tanks located on the customers' premises, as well as to portable propane cylinders. In the residential and commercial markets, propane is primarily used for space heating, water heating, and cooking. In the agricultural market, propane is primarily used for crop drying, tobacco curing, poultry brooding, and weed control. In addition, propane is used for certain industrial applications, including use as an engine fuel that burns in internal combustion engines that power vehicles and forklifts and as a heating source in manufacturing and mining processes.

Since its formation in 1989, Heritage has grown primarily through acquisitions of retail propane operations and, to a lesser extent, through internal growth. Since its inception through August 31, 2002, Heritage completed 91 acquisitions for an aggregate purchase price approximating \$633 million, including the transfer by U.S. Propane of its propane operations to Heritage for \$181.4 million, plus working capital of approximately \$12.9 million. During the three months ended November 30, 2002, Heritage completed two acquisitions for an aggregate purchase price of \$2.5 million, which includes \$1.6 million in cash and \$0.9 million in notes payable on non-compete agreements and liabilities assumed. Subsequent to November 30, 2002, Heritage purchased the propane assets of V-1 Oil Co, which was one of the largest privately held propane marketers in the northwest. Management believes that Heritage is the fourth largest retail marketer of propane in the United States, based on retail gallons sold. Heritage now serves more than 650,000 customers from nearly 300 customer service locations in 29 states, following the acquisition of the propane assets of V-1.

Heritage's propane distribution business is largely seasonal and dependent upon weather conditions in its service areas. Propane sales to residential and commercial customers are affected by winter heating season requirements. Historically, approximately two-thirds of Heritage's retail propane volume and in excess of 80% of Heritage's EBITDA is attributable to sales during the six-month peak-heating season of October through March. This generally results in higher operating revenues and net income during the period from October through March of each year and lower operating revenues and either net losses or lower net income during the period from April through September of each year. Consequently, sales and operating profits are concentrated in the first and second fiscal quarters, however, cash flow from operations is generally greatest during the second and third fiscal quarters when customers pay for propane purchased during the six-month peak-heating season. Sales to industrial and agricultural customers are much less weather sensitive.

A substantial portion of Heritage's propane is used in the heating-sensitive residential and commercial markets causing the temperatures realized in Heritage's areas of operations, particularly during the six-month peak-heating season, to have a significant effect on its financial performance. In any given area, sustained warmer-than-normal temperatures will tend to result in reduced propane use, while sustained colder-than-normal temperatures will tend to result in greater propane use. Heritage 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.

Gross profit margins are not only affected by weather patterns, but also vary according to customer mix. For example, sales to residential customers generate higher margins than sales to certain other customer groups, such as commercial or agricultural customers. Wholesale margins are substantially lower than retail margins. In addition, gross profit margins vary by geographical region. Accordingly, a change in customer or geographic mix can affect gross profit without necessarily affecting total revenues.

Amounts discussed below reflect 100% of the results of MP Energy Partnership. MP Energy Partnership is a general partnership in which Heritage owns a 60% interest. Because MP Energy Partnership is primarily engaged in lower-margin wholesale distribution, its contribution to Heritage's net income is not significant and the minority interest of this partnership is excluded from the EBITDA calculation.

#### THREE MONTHS ENDED NOVEMBER 30, 2002 COMPARED TO THE THREE MONTHS ENDED NOVEMBER 30, 2001

**Volume.** Total retail gallons sold in the three months ended November 30, 2002 were 76.7 million, an increase of 1.9 million over the 74.8 million gallons sold in the three months ended November 30, 2001. The increase in volume reflects the benefits of the volume added through acquisitions and from more favorable weather conditions in some of Heritage's areas of operations, offset by warmer than normal weather conditions in other areas of operations. Heritage also sold approximately 22.1 million wholesale gallons in this first quarter of fiscal 2003, a decrease of 1.2 million gallons from the 23.3 million wholesale gallons sold in the first quarter of fiscal 2002. U.S. wholesale gallons decreased 0.1 million gallons to 4.9 million gallons and the foreign volumes of MP Energy Partnership decreased 1.1 million gallons to 17.2 million for the first quarter.

**Revenues.** Total revenues for the three months ended November 30, 2002 were \$173.5 million, an increase of \$11.4 million, as compared to \$162.1 million in the three months ended November 30, 2001. The current period's domestic retail propane revenues increased \$0.8 million to \$84.0 million versus the prior year's revenues of \$83.2 million primarily due to slightly increased retail volumes offset by slightly lower selling prices in the current period. The U.S. wholesale revenues decreased to \$2.4 million, as compared to \$3.1 million for the period ended November 30, 2001, primarily due to lower selling prices. Foreign revenues decreased \$0.6 million for the three months ended November 30, 2002 to \$8.9 million as compared to \$9.5 million for the three months ended November 30, 2001, as a result of decreased volumes described above. The liquids marketing activity conducted through Resources increased \$9.9 million to \$60.7 million versus the prior year's revenues of \$50.8 million due to an increase in the volume of contracts sold, more favorable market conditions related to colder winter temperatures and higher propane selling prices in the current period. Other domestic revenues increased by \$1.9 million, to \$17.4 million as compared to \$15.5 million in the prior year as a result of acquisitions.

**Cost of Products Sold.** Total cost of products sold and liquids marketing activities increased to \$117.0 million for the three months ended November 30, 2002 as compared to \$114.4 million for the three months ended

November 30, 2001. The current period's domestic retail cost of sales decreased \$2.8 million to \$41.6 million as compared to \$44.4 million in the prior year due to a lower cost of fuel per gallon this period offset by slightly increased volumes compared to the same period last fiscal year. The U.S. wholesale cost of sales decreased to \$2.1

million as compared to \$2.9 million for the period ended November 30, 2001, primarily due to lower wholesale fuel costs and slightly lower volumes than those incurred during the same period last fiscal year. Foreign cost of sales decreased \$0.8 million to \$8.4 million as compared to \$9.2 million in the prior year primarily due to a decrease in wholesale fuel costs and lower volumes. Other cost of sales increased \$1.0 million to \$4.8 million as compared to \$3.8 million for the three months ended November 30, 2001. Liquids marketing cost of sales increased \$5.9 million during the three months ended November 30, 2002 to \$60.0 million as compared to the prior year's cost of sales of \$54.1 million. This increase is primarily due to an increase in contracts sold due to the reasons stated above.

**Gross Profit.** Total gross profit for the three months ended November 30, 2002 increased by \$8.7 million to \$56.4 million as compared to \$47.7 million for the three months ended November 30, 2001. For the three months ended November 30, 2002, retail fuel gross profit was \$42.4 million, U.S. wholesale was \$0.3 million, and other gross profit was \$12.5 million. Foreign wholesale gross profit was \$0.5 million and liquids marketing gross profit was \$0.7 million. As a comparison, for the three months ended November 30, 2001, Heritage recorded retail fuel gross profit of \$38.9 million, U.S. wholesale was \$0.2 million, and other gross profit was \$11.6 million. Foreign wholesale gross profit was \$0.3 million and liquids marketing was a loss of \$3.3 million for the three months ended November 30, 2001. The increase in gross profit is primarily attributable to lower fuel costs and slightly increased volumes, offset by slightly lower selling prices.

**Operating Expenses.** Operating expenses were \$33.4 million for the three months ended November 30, 2002 as compared to \$31.8 million for the three months ended November 30, 2001. The increase of \$1.6 million is primarily the result of an increase in employee-related costs, and industry-wide increases in business insurance costs.

**Selling, General and Administrative.** Selling, general and administrative expenses were \$3.2 million for the three months ended November 30, 2002, a \$0.3 million increase from the \$2.9 million for the same three month period last year.

**Depreciation and Amortization.** Depreciation and amortization was \$9.3 million in the three months ended November 30, 2002 as compared to \$9.1 million in the three months ended November 30, 2001. This increase is due to additional depreciation and amortization of property, plant and equipment, and other intangible assets from acquisitions.

**Operating Income.** For the three months ended November 30, 2002, Heritage had operating income of \$10.6 million as compared to operating income of \$3.9 million for the three months ended November 30, 2001. This increase is a combination of increased gross profit offset by increased operating expenses described above.

**Net Income(Loss).** For the three month period ended November 30, 2002, Heritage had net income of \$1.1 million, an increase of \$5.9 million as compared to a net loss for the three months ended November 30, 2001 of \$4.8 million. The increase is primarily the result of the operating income decrease described above.

**EBITDA.** Earnings before interest, taxes, depreciation and amortization increased \$7.1 million to \$20.8 million for the three months ended November 30, 2002, as compared to EBITDA of \$13.7 million for the period ended November 30, 2001. This increase is due to the operating conditions described above, and is a record level EBITDA for the first quarter results of Heritage. Heritage's EBITDA includes the EBITDA of investees, but does not include the EBITDA of the minority interest of MP Energy Partnership. EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations), but provides additional information for evaluating Heritage's ability to make the Minimum Quarterly Distribution.

#### LIQUIDITY AND CAPITAL RESOURCES

The ability of Heritage to satisfy its obligations will depend on its future performance, which will be subject to prevailing economic, financial, business and weather conditions, and other factors, many of which are beyond management's 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 expenditures, mainly for customer tanks, will be financed by the revolving acquisition bank line of credit; and
- c) acquisition capital expenditures will be financed by the revolving acquisition bank line of credit; other lines of credit, long term debt, issuance of additional Common Units or a combination thereof.

Operating Activities. Cash used in operating activities during the three months ended November 30, 2002, was \$2.3 million as compared to cash provided by operating activities of \$0.1 million for the same three-month period ended November 30, 2001. The net cash used in operations for the three months ended November 30, 2002 consisted of net income of \$1.1 million and noncash charges of \$9.9 million, principally depreciation and amortization, offset by the impact of an increase in working capital of \$13.3 million. The increase in working capital for the quarter ended November 30, 2002 as compared to the quarter ended November 30, 2001 is primarily due to the effect of timing of collection of the high accounts receivable related to the cold winter of fiscal 2001 and the timing of the purchase of inventory between the two periods.

Investing Activities. Heritage completed two acquisitions during the three months ended November 30, 2002 spending a net of \$1.6 million, after deducting cash received in such acquisitions. This capital expenditure amount is reflected in the cash used in investing activities of \$9.8 million along with \$9.7 million invested for maintenance needed to sustain operations at current levels and for customer tanks to support growth of operations. Cash used in investing activities also includes proceeds from the sale of idle property of \$1.5 million.

Financing Activities. Cash provided by financing activities during the three months ended November 30, 2002 of \$12.7 million resulted mainly from a net increase in the Working Capital Facility of \$22.6 million and a net increase in the Acquisition Facility of \$1.3 million used to acquire other propane businesses. These increases were offset by cash distributions to Unitholders of \$10.4 million and payments on other long-term debt of \$0.8 million.

#### Financing and Sources of Liquidity

During the quarter ended November 30, 2002, the Operating Partnership utilized its Bank Credit Facility, which includes a Working Capital Facility, providing for up to \$65.0 million of borrowings for working capital and other general partnership purposes, and an Acquisition Facility providing for up to \$50.0 million of borrowings for acquisitions and improvements. As of November 30, 2002, the Working Capital Facility had \$12.2 million available for borrowings and the Acquisition Facility had \$34.7 million available to fund future acquisitions. Subsequent to November 30, 2002, approximately \$17.3 million was drawn on the Acquisition Facility to fund the acquisition of V-1. Management believes that its Bank Credit Facility is adequate to fund the future operating and capital needs of the Partnership.

Heritage uses its cash provided by operating and financing activities to provide distributions to the Partnership's 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 \$1.6 million for the three months ended November 30, 2002. In addition to the \$1.6 million of cash expended for acquisitions, \$0.5 million for notes payable on non-compete agreements were issued and liabilities of \$0.4 million were assumed in connection with certain acquisitions.

Under the Partnership Agreement, the Partnership will distribute to its partners within 45 days after the end of each fiscal quarter, an amount equal to all of its Available Cash for such quarter. Available cash generally means, with respect to any quarter of the Partnership, all cash on hand at the end of such quarter less the amount of cash reserves established by the General Partner in its reasonable discretion that is necessary or appropriate to provide for future cash requirements. The Partnership's commitment to its Unitholders is to distribute the increase in its cash flow while maintaining prudent reserves for the Partnership's operations. The Partnership paid a quarterly distribution of \$0.6375 (or \$2.55 annually) on October 15, 2002 for the fourth quarter ended August 31, 2002, and declared a distribution of \$0.6375 (or \$2.55 annually) on December 18, 2002 payable on January 14, 2003. The current distribution level includes incentive distributions payable to the General Partner to the extent the quarterly distribution exceeds \$0.55 per unit (\$2.20 annually).

The assets utilized in the propane business do not typically require lengthy manufacturing process time or complicated, high technology components. Accordingly, the Partnership does not have any significant financial



commitments for capital expenditures. In addition, the Partnership has not experienced any significant increases attributable to inflation in the cost of these assets or in its operations.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Heritage has little cash flow exposure due to rate changes for long-term debt obligations. The Operating Partnership had \$68.1 million of variable rate debt outstanding as of November 30, 2002 through its Bank Credit Facility described elsewhere in this report. The balance outstanding in the Bank Credit Facility generally fluctuates throughout the year. A theoretical change of 1% in the interest rate on the balance outstanding at November 30, 2002 would result in an approximate \$681 thousand change in annual net income. Heritage primarily enters debt obligations to support general corporate purposes including capital expenditures and working capital needs. The Operating Partnership'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 market conditions over which management will have no control. In the past, price changes have generally been passed along to Heritage's customers to maintain gross margins, mitigating the commodity price risk. In order to help ensure that adequate supply sources are available to Heritage during periods of high demand, Heritage will, from time to time, purchase significant volumes of propane during periods of low demand, which generally occur during the summer months, at the then current market price, for storage both at its customer service centers and in major storage facilities and for future delivery.

Heritage also attempts to minimize the effects of market price fluctuations for its propane supply by entering into certain financial contracts. In order to manage a portion of its propane price market risk, Heritage uses contracts for the forward purchase of propane, propane fixed-price supply agreements, and derivative commodity instruments such as price swap and option contracts. 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. 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 has entered into these swap instruments in the past to hedge the projected propane volumes to be purchased during each of the one-month periods during the projected heating season.

At November 30, 2002, Heritage had no outstanding propane hedges. Heritage continues to monitor propane prices and may enter into additional propane hedges in the future. Inherent in the portfolio from the liquids marketing activities 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 counter parties to a contract. Heritage takes an active role in managing and controlling market and credit risk and has established control procedures which are reviewed on an ongoing basis. Heritage monitors market risk through a variety of techniques, including routine reporting to senior management. Heritage attempts to minimize credit risk exposure through credit policies and periodic monitoring procedures.

### LIQUIDS MARKETING

Heritage buys and sells financial instruments for its own account through its wholly owned subsidiary, Heritage Energy Resources, L.L.C. ("Resources"). In accordance with the provisions of SFAS 133, financial instruments utilized in connection with Resources' liquids marketing activity are accounted for using the mark-to-market method. Under the mark-to-market method of accounting, forwards, swaps, options, and storage contracts are reflected at fair value, and are shown in the consolidated balance sheet as assets and liabilities from liquids marketing activities. Unrealized gains and losses from the financial contracts and the impact of price movements are recognized in the income statement, as other income (expense). Changes in the assets and liabilities from the liquids marketing activities result primarily from changes in the market prices, newly originated transactions, and the timing of settlement related to the receipt of cash for certain contracts. Resources attempts to balance its contractual portfolio in terms of notional amounts and timing of performance and delivery obligations. However, net unbalanced positions can exist or are established based on assessment of anticipated market movements.



Notional Amounts and Terms. The notional amounts and terms of these financial instruments as of November 30, 2002 and 2001 include fixed price payor for 586,000 and 1,592,500 barrels of propane and butane, and fixed price receiver of 440,000 and 1,221,964 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 liquids marketing activities as of November 30, 2002 and August 31, 2002, was assets of \$0.8 and \$2.3 million respectively, and liabilities of \$0.8 and \$1.8 million, respectively, related to propane. The unrealized gain (loss) related to liquids marketing activities for the period ended November 30, 2002 and 2001, was \$102 and (\$2,139) respectively and is recorded through the income statement as other income (loss).

The market prices used to value these transactions reflect management's best estimate considering various factors including closing average spot prices for the current and outer months plus a differential to consider time value and storage costs.

#### SENSITIVITY ANALYSIS

A theoretical change of 10% in the underlying commodity value of the liquids marketing contracts would result in an approximate \$273 change in the market value of the contracts as there were approximately 6.1 million gallons of net unbalanced positions at November 30, 2002.

#### ITEM 4. CONTROLS AND PROCEDURES

The Partnership maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Partnership files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Within 90 days prior to the filing date of this report, an evaluation was performed under the supervision and with the participation of the Partnership's management, including the Chief Executive Officer and the Chief Financial Officer of the General Partner of the Partnership, of the effectiveness of the design and operation of the Partnership's disclosure controls and procedures (as such terms are defined in Rule 13a-14(c) and 15d-14(c) of the Exchange Act). Based upon that evaluation, management, including the Chief Executive Officer and the Chief Financial Officer of the General Partner of the Partnership, concluded that the Partnership's disclosure controls and procedures were adequate and effective as of November 30, 2002. There have been no significant changes in the Partnership's internal controls or in other factors subsequent to such evaluation, and there have been no corrective actions with respect to significant deficiencies and material weaknesses in our internal controls.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) 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.
(16)	3.1.2	Amendment No. 2 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P.
(19)	3.1.3	Amendment No. 3 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P.
(19)	3.1.4	Amendment No. 4 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P.
(1)	3.2	Agreement of Limited Partnership of Heritage Operating, L.P.
(12)	3.2.1	Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Heritage Operating, L.P.
(19)	3.2.2	Amendment No. 2 to Amended and Restated Agreement of Limited Partnership of Heritage Operating, L.P.
(18)	3.3	Amended Certificate of Limited Partnership of Heritage Propane Partners, L.P.
(18)	3.4	Amended Certificate of Limited Partnership of Heritage Operating, L.P.
(7)	10.1	First Amended and Restated Credit Agreement with Banks Dated May 31, 1999
(8)	10.1.1	First Amendment to the First Amended and Restated Credit Agreement dated as of October 15, 1999
(9)	10.1.2	Second Amendment to First Amended and Restated Credit Agreement dated as of May 31, 2000
(10)	10.1.3	Third Amendment dated as of August 10, 2000 to First Amended and Restated Credit Agreement
(13)	10.1.4	Fourth Amendment to First Amended and Restated Credit Agreement dated as of December 28, 2000
(16)	10.1.5	Fifth Amendment to First Amended and Restated Credit Agreement dated as of July 16, 2001

Exhibit Number	Description
(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
(13) 10.2.7	Fifth Amendment Agreement dated as of December 28, 2000 to June 25, 1996 Note Purchase Agreement, November 19, 1997 Note Purchase Agreement and August 10, 2000 Note Purchase Agreement
(1) 10.3	Form of Contribution, Conveyance and Assumption Agreement among Heritage Holdings, Inc., Heritage Propane Partners, L.P. and Heritage Operating, L.P.
(1) 10.6	Restricted Unit Plan
(4) 10.6.1	Amendment of Restricted Unit Plan dated as of October 17, 1996
(12) 10.6.2	Amended and Restated Restricted Unit Plan dated as of August 10, 2000
(18) 10.6.3	Second Amended and Restated Restricted Unit Plan dated as of February 4, 2002
(12) 10.7	Employment Agreement for James E. Bertelsmeyer dated as of August 10, 2000
(18) 10.7.1	Consent to Assignment of Employment Agreement for James E. Bertelsmeyer dated February 3, 2002
(20) 10.7.2	Amendment 1 of Employment Agreement for James E. Bertelsmeyer dated August 10, 2002
(12) 10.8	Employment Agreement for R. C. Mills dated as of August 10, 2000
(18) 10.8.1	Consent to Assignment of Employment Agreement for R.C. Mills dated February 3, 2002
(12) 10.9	Employment Agreement for Larry J. Dagley dated as of August 10, 2000
(18) 10.9.1	Consent to Assignment of Employment Agreement for Larry J. Dagley dated February 3, 2002
(12) 10.10	Employment Agreement for H. Michael Krimbill dated as of August 10, 2000
(18) 10.10.1	Consent to Assignment of Employment Agreement for H. Michael Krimbill dated February 3, 2002
(12) 10.11	Employment Agreement for Bradley K. Atkinson dated as of August 10, 2000

Exhibit Number	Description
(18) 10.11.1	Consent to Assignment of Employment Agreement for Bradley K. Atkinson dated February 3, 2002
(7) 10.12	First Amended and Restated Revolving Credit Agreement between Heritage Service Corp. and Banks Dated May 31, 1999
(16) 10.12.1	First Amendment to First Amended and Restated Revolving Credit Agreement, dated October 15, 1999
(16) 10.12.2	Second Amendment to First Amended and Restated Revolving Credit Agreement, dated August 10, 2000
(16) 10.12.3	Third Amendment to First Amended and Restated Revolving Credit Agreement, dated December 28, 2000
(16) 10.12.4	Fourth Amendment to First Amended and Restated Revolving Credit Agreement, dated July 16, 2001
(12) 10.13	Employment Agreement for Mark A. Darr dated as of August 10, 2000
(18) 10.13.1	Consent to Assignment of Employment Agreement for Mark A. Darr dated February 3, 2002
(12) 10.14	Employment Agreement for Thomas H. Rose dated as of August 10, 2000
(18) 10.14.1	Consent to Assignment of Employment Agreement for Thomas H. Rose dated February 3, 2002
(12) 10.15	Employment Agreement for Curtis L. Weishahn dated as of August 10, 2000
(18) 10.15.1	Consent to Assignment of Employment Agreement for Curtis L. Weishahn dated February 3, 2002
(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
(13) 10.16.5	Fifth Amendment Agreement dated as of December 28, 2000 to June 25, 1996 Note Purchase Agreement, November 19, 1997 Note Purchase Agreement and August 10, 2000 Note Purchase Agreement
(10) 10.17	Contribution Agreement dated June 15, 2000 among U.S. Propane, L.P., Heritage Operating, L.P. and Heritage Propane Partners, L.P.
(10) 10.17.1	Amendment dated August 10, 2000 to June 15, 2000 Contribution Agreement



	Exhibit Number	Description
(10)	10.18	Subscription Agreement dated June 15, 2000 between Heritage Propane Partners, L.P. and individual investors
(10)	10.18.1	Amendment dated August 10, 2000 to June 15, 2000 Subscription Agreement
(16)	10.18.2	Amendment Agreement dated January 3, 2001 to the June 15, 2000 Subscription Agreement.
(17)	10.18.3	Amendment Agreement dated October 5, 2001 to the June 15, 2000 Subscription Agreement.
(10)	10.19	Note Purchase Agreement dated as of August 10, 2000
(13)	10.19.1	Fifth Amendment Agreement dated as of December 28, 2000 to June 25, 1996 Note Purchase Agreement, November 19, 1997 Note Purchase Agreement and August 10, 2000 Note Purchase Agreement
(14)	10.19.2	First Supplemental Note Purchase Agreement dated as of May 24, 2001 to the August 10, 2000 Note Purchase Agreement
(15)	10.20	Stock Purchase Agreement dated as of July 5, 2001 among the shareholders of ProFlame, Inc. and Heritage Holdings, Inc.
(15)	10.21	Stock Purchase Agreement dated as of July 5, 2001 among the shareholders of Coast Liquid Gas, Inc. and Heritage Holdings, Inc.
(15)	10.22	Agreement and Plan of Merger dated as of July 5, 2001 among California Western Gas Company, the Majority Stockholders of California Western Gas Company signatories thereto, Heritage Holdings, Inc. and California Western Merger Corp.
(15)	10.23	Agreement and Plan of Merger dated as of July 5, 2001 among Growth Properties, the Majority Shareholders signatories thereto, Heritage Holdings, Inc. and Growth Properties Merger Corp.
(15)	10.24	Asset Purchase Agreement dated as of July 5, 2001 among L.P.G. Associates, the Shareholders of L.P.G. Associates and Heritage Operating, L.P.
(15)	10.25	Asset Purchase Agreement dated as of July 5, 2001 among WMJB, Inc., the Shareholders of WMJB, Inc. and Heritage Operating, L.P.
(15)	10.25.1	Amendment to Asset Purchase Agreement dated as of July 5, 2001 among WMJB, Inc., the Shareholders of WMJB, Inc. and Heritage Operating, L.P.
(18)	10.26	Assignment, Conveyance and Assumption Agreement between U.S. Propane, L.P. and Heritage Holdings, Inc., as the former General Partner of Heritage Propane Partners, L.P. dated as of February 4, 2002
(18)	10.27	Assignment, Conveyance and Assumption Agreement between U.S. Propane, L.P. and Heritage Holdings, Inc., as the former General Partner of Heritage Operating, L.P., dated as of February 4, 2002
(21)	10.28	Assignment for Contribution of Assets in Exchange for Partnership Interest dated December 9, 2002 amount V-1 Oil Co., the shareholders of V-1 Oil Co., Heritage Propane Partners, L.P. and Heritage Operating, L.P.
(*)	10.29	Employment Agreement for Michael L. Greenwood dated as of July 1, 2002



Exhibit  
Number

Description

- |      |      |                                                                                                                                                                                                          |
|------|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (20) | 21.1 | List of Subsidiaries                                                                                                                                                                                     |
| (*)  | 99.1 | Certification of Chief Executive Officer and<br>Certification of Chief Financial Officer pursuant to<br>18 U.S.C. Section 1350, as adopted pursuant to<br>Section 906 of the Sarbanes-Oxley Act of 2002. |
- 
- (1) Incorporated by reference to the same numbered Exhibit to Registrant's Registration Statement of Form S-1, File No. 333-04018, filed with the Commission on June 21, 1996.
  - (2) Incorporated by reference to Exhibit 10.11 to Registrant's Registration Statement on Form S-1, File No. 333-04018, filed with the Commission on June 21, 1996.
  - (3) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended November 30, 1996.
  - (4) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended February 28, 1997.
  - (5) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended May 31, 1998.
  - (6) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 1998.
  - (7) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 1999.
  - (8) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 1999.
  - (9) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 2000.
  - (10) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 8-K dated August 23, 2000.
  - (11) File as Exhibit 10.16.3.
  - (12) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 2000.
  - (13) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended February 28, 2001.
  - (14) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 2001.
  - (15) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 8-K dated August 15, 2001.
  - (16) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 2001.

- (17) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended November 30, 2001.
- (18) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended February 28, 2002.
- (19) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 2002.
- (20) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 2002.
- (21) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 8-K dated January 6, 2003.
- (\*) Filed herewith.

(b) Reports on Form 8-K

The Partnership filed no reports on Form 8-K during the three months ended November 30, 2002.

SIGNATURE

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

HERITAGE PROPANE PARTNERS, L.P.

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

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

Date: January 14, 2003

By: /s/ Michael L. Greenwood

-----  
Michael L. Greenwood  
(Vice President, Chief Financial  
Officer and officer duly authorized  
to sign on behalf of the registrant)

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER

I, H. Michael Krimbill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Heritage Propane Partners, L.P.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the Audit Committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize, and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 14, 2003

/s/ H. Michael Krimbill  
-----  
H. Michael Krimbill  
President and Chief Executive Officer

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER

I, Michael L. Greenwood, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Heritage Propane Partners, L.P.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the Audit Committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize, and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 14, 2003

/s/ Michael L. Greenwood

-----

Michael L. Greenwood

Vice President and Chief Financial Officer





INDEX TO EXHIBITS

Exhibit  
Number  
Description  
-----  
-----  
(1) 3.1  
Agreement  
of Limited  
Partnership  
of  
Heritage  
Propane  
Partners,  
L.P. (10)  
3.1.1  
Amendment  
No. 1 to  
Amended  
and  
Restated  
Agreement  
of Limited  
Partnership  
of  
Heritage  
Propane  
Partners,  
L.P. (16)  
3.1.2  
Amendment  
No. 2 to  
Amended  
and  
Restated  
Agreement  
of Limited  
Partnership  
of  
Heritage  
Propane  
Partners,  
L.P. (19)  
3.1.3  
Amendment  
No. 3 to  
Amended  
and  
Restated  
Agreement  
of Limited  
Partnership  
of  
Heritage  
Propane  
Partners,  
L.P. (19)  
3.1.4  
Amendment  
No. 4 to  
Amended  
and  
Restated  
Agreement  
of Limited  
Partnership  
of  
Heritage  
Propane  
Partners,  
L.P. (1)  
3.2  
Agreement  
of Limited  
Partnership  
of  
Heritage

Operating,  
L.P. (12)  
3.2.1  
Amendment  
No. 1 to  
Amended  
and  
Restated  
Agreement  
of Limited  
Partnership  
of

Heritage  
Operating,  
L.P. (19)

3.2.2  
Amendment  
No. 2 to  
Amended  
and  
Restated  
Agreement  
of Limited  
Partnership  
of

Heritage  
Operating,  
L.P. (18)

3.3  
Amended  
Certificate  
of Limited  
Partnership  
of

Heritage  
Propane  
Partners,  
L.P. (18)

3.4  
Amended  
Certificate  
of Limited  
Partnership  
of

Heritage  
Operating,  
L.P. (7)

10.1 First  
Amended  
and

Restated  
Credit  
Agreement  
with Banks  
Dated May  
31, 1999

(8) 10.1.1

First  
Amendment  
to the  
First  
Amended  
and

Restated  
Credit  
Agreement  
dated as  
of October  
15, 1999

(9) 10.1.2

Second  
Amendment  
to First  
Amended  
and

Restated  
Credit  
Agreement  
dated as  
of May 31,  
2000 (10)

10.1.3  
Third  
Amendment  
dated as  
of August  
10, 2000  
to First  
Amended  
and  
Restated  
Credit  
Agreement  
(13)

10.1.4  
Fourth  
Amendment  
to First  
Amended  
and  
Restated  
Credit  
Agreement  
dated as  
of  
December  
28, 2000  
(16)

10.1.5  
Fifth  
Amendment  
to First  
Amended  
and  
Restated  
Credit  
Agreement  
dated as  
of July  
16, 2001

Exhibit  
Number  
Description  
-----  
----- (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  
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1999 to June  
25, 1996  
Note  
Purchase  
Agreement  
(11) 10.2.5  
Third  
Amendment  
Agreement  
dated May  
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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  
(13) 10.2.7  
Fifth Amendment Agreement dated as of December 28, 2000 to June 25, 1996  
Note

Purchase Agreement, November 19, 1997 Note  
Purchase Agreement and August 10, 2000 Note

Purchase Agreement (1) 10.3  
Form of Contribution, Conveyance and Assumption Agreement among Heritage Holdings, Inc., Heritage Propane Partners, L.P. and Heritage Operating, L.P. (1)  
10.6

Restricted Unit Plan (4) 10.6.1  
Amendment of Restricted Unit Plan dated as of October 17, 1996 (12)  
10.6.2

Amended and Restated Restricted Unit Plan dated as of August 10, 2000 (18)  
10.6.3

Second Amended and Restated Restricted Unit Plan dated as of February 4, 2002 (12)  
10.7

Employment Agreement for James E. Bertelsmeyer dated as of August 10, 2000 (18)  
10.7.1

Consent to Assignment of Employment Agreement

for James E.  
Bertelsmeyer  
dated  
February 3,  
2002 (20)  
10.7.2  
Amendment 1  
of  
Employment  
Agreement  
for James E.  
Bertelsmeyer  
dated August  
10, 2002  
(12) 10.8  
Employment  
Agreement  
for R. C.  
Mills dated  
as of August  
10, 2000  
(18) 10.8.1  
Consent to  
Assignment  
of  
Employment  
Agreement  
for R.C.  
Mills dated  
February 3,  
2002 (12)  
10.9  
Employment  
Agreement  
for Larry J.  
Dagley dated  
as of August  
10, 2000  
(18) 10.9.1  
Consent to  
Assignment  
of  
Employment  
Agreement  
for Larry J.  
Dagley dated  
February 3,  
2002 (12)  
10.10  
Employment  
Agreement  
for H.  
Michael  
Krimbill  
dated as of  
August 10,  
2000 (18)  
10.10.1  
Consent to  
Assignment  
of  
Employment  
Agreement  
for H.  
Michael  
Krimbill  
dated  
February 3,  
2002 (12)  
10.11  
Employment  
Agreement  
for Bradley  
K. Atkinson  
dated as of  
August 10,  
2000

Exhibit  
Number  
Description  
-----

-----  
(18)

10.11.1  
Consent to  
Assignment  
of  
Employment  
Agreement  
for Bradley  
K. Atkinson  
dated  
February 3,  
2002 (7)

10.12 First  
Amended and  
Restated  
Revolving  
Credit  
Agreement  
between  
Heritage  
Service  
Corp. and  
Banks Dated  
May 31,  
1999 (16)

10.12.1  
First  
Amendment  
to First  
Amended and  
Restated  
Revolving  
Credit  
Agreement,  
dated  
October 15,  
1999 (16)

10.12.2  
Second  
Amendment  
to First  
Amended and  
Restated  
Revolving  
Credit  
Agreement,  
dated  
August 10,  
2000 (16)

10.12.3  
Third  
Amendment  
to First  
Amended and  
Restated  
Revolving  
Credit  
Agreement,  
dated  
December  
28, 2000  
(16)

10.12.4  
Fourth  
Amendment  
to First  
Amended and  
Restated  
Revolving  
Credit  
Agreement,  
dated July  
16, 2001

(12) 10.13  
Employment  
Agreement  
for Mark A.  
Darr dated  
as of  
August 10,  
2000 (18)

10.13.1  
Consent to  
Assignment  
of  
Employment  
Agreement  
for Mark A.  
Darr dated  
February 3,  
2002 (12)

10.14  
Employment  
Agreement  
for Thomas  
H. Rose  
dated as of  
August 10,  
2000 (18)

10.14.1  
Consent to  
Assignment  
of  
Employment  
Agreement  
for Thomas  
H. Rose  
dated  
February 3,  
2002 (12)

10.15  
Employment  
Agreement  
for Curtis  
L. Weishahn  
dated as of  
August 10,  
2000 (18)

10.15.1  
Consent to  
Assignment  
of  
Employment  
Agreement  
for Curtis  
L. Weishahn  
dated  
February 3,  
2002 (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  
(13)  
10.16.5  
Fifth  
Amendment  
Agreement  
dated as of  
December  
28, 2000 to  
June 25,  
1996 Note  
Purchase  
Agreement,  
November  
19, 1997  
Note  
Purchase  
Agreement  
and August  
10, 2000  
Note  
Purchase  
Agreement  
(10) 10.17  
Contribution  
Agreement  
dated June  
15, 2000  
among U.S.  
Propane,  
L.P.,  
Heritage  
Operating,  
L.P. and  
Heritage  
Propane  
Partners,  
L.P. (10)  
10.17.1  
Amendment

dated  
August 10,  
2000 to  
June 15,  
2000  
Contribution  
Agreement

Exhibit  
Number  
Description  
-----  
-----  
(10) 10.18  
Subscription  
Agreement  
dated June  
15, 2000  
between  
Heritage  
Propane  
Partners,  
L.P. and  
individual  
investors  
(10)  
10.18.1  
Amendment  
dated  
August 10,  
2000 to  
June 15,  
2000  
Subscription  
Agreement  
(16)  
10.18.2  
Amendment  
Agreement  
dated  
January 3,  
2001 to the  
June 15,  
2000  
Subscription  
Agreement.  
(17)  
10.18.3  
Amendment  
Agreement  
dated  
October 5,  
2001 to the  
June 15,  
2000  
Subscription  
Agreement.  
(10) 10.19  
Note  
Purchase  
Agreement  
dated as of  
August 10,  
2000 (13)  
10.19.1  
Fifth  
Amendment  
Agreement  
dated as of  
December  
28, 2000 to  
June 25,  
1996 Note  
Purchase  
Agreement,  
November  
19, 1997  
Note  
Purchase  
Agreement  
and August  
10, 2000  
Note  
Purchase  
Agreement  
(14)

10.19.2  
First  
Supplemental  
Note  
Purchase  
Agreement  
dated as of  
May 24,  
2001 to the  
August 10,  
2000 Note  
Purchase  
Agreement  
(15) 10.20  
Stock  
Purchase  
Agreement  
dated as of  
July 5,  
2001 among  
the  
shareholders  
of  
ProFlame,  
Inc. and  
Heritage  
Holdings,  
Inc. (15)  
10.21 Stock  
Purchase  
Agreement  
dated as of  
July 5,  
2001 among  
the  
shareholders  
of Coast  
Liquid Gas,  
Inc. and  
Heritage  
Holdings,  
Inc. (15)  
10.22  
Agreement  
and Plan of  
Merger  
dated as of  
July 5,  
2001 among  
California  
Western Gas  
Company,  
the  
Majority  
Stockholders  
of  
California  
Western Gas  
Company  
signatories  
thereto,  
Heritage  
Holdings,  
Inc. and  
California  
Western  
Merger  
Corp. (15)  
10.23  
Agreement  
and Plan of  
Merger  
dated as of  
July 5,  
2001 among  
Growth  
Properties,  
the  
Majority  
Shareholders  
signatories

thereto,  
Heritage  
Holdings,  
Inc. and  
Growth  
Properties  
Merger  
Corp. (15)  
10.24 Asset  
Purchase  
Agreement  
dated as of  
July 5,  
2001 among  
L.P.G.  
Associates,  
the  
Shareholders  
of L.P.G.  
Associates  
and  
Heritage  
Operating,  
L.P. (15)  
10.25 Asset  
Purchase  
Agreement  
dated as of  
July 5,  
2001 among  
WMJB, Inc.,  
the  
Shareholders  
of WMJB,  
Inc. and  
Heritage  
Operating,  
L.P. (15)  
10.25.1  
Amendment  
to Asset  
Purchase  
Agreement  
dated as of  
July 5,  
2001 among  
WMJB, Inc.,  
the  
Shareholders  
of WMJB,  
Inc. and  
Heritage  
Operating,  
L.P. (18)  
10.26  
Assignment,  
Conveyance  
and  
Assumption  
Agreement  
between  
U.S.  
Propane,  
L.P. and  
Heritage  
Holdings,  
Inc., as  
the former  
General  
Partner of  
Heritage  
Propane  
Partners,  
L.P. dated  
as of  
February 4,  
2002 (18)  
10.27  
Assignment,  
Conveyance  
and

Assumption  
Agreement  
between  
U.S.  
Propane,  
L.P. and  
Heritage  
Holdings,  
Inc., as  
the former  
General  
Partner of  
Heritage  
Operating,  
L.P., dated  
as of  
February 4,  
2002 (21)  
10.28  
Assignment  
for  
Contribution  
of Assets  
in Exchange  
for  
Partnership  
Interest  
dated  
December 9,  
2002 amount  
V-1 Oil  
Co., the  
shareholders  
of V-1 Oil  
Co.,  
Heritage  
Propane  
Partners,  
L.P. and  
Heritage  
Operating,  
L.P. (\*)  
10.29  
Employment  
Agreement  
for Michael  
L.  
Greenwood  
dated as of  
July 1,  
2002

Exhibit  
Number  
Description  
-----  
----- (20)  
21.1 List of  
Subsidiaries  
(\* ) 99.1  
Certification  
of Chief  
Executive  
Officer and  
Certification  
of Chief  
Financial  
Officer  
pursuant to  
18 U.S.C.  
Section  
1350, as  
adopted  
pursuant to  
Section 906  
of the  
Sarbanes-  
Oxley Act of  
2002.

-----

- (1) Incorporated by reference to the same numbered Exhibit to Registrant's Registration Statement of Form S-1, File No. 333-04018, filed with the Commission on June 21, 1996.
- (2) Incorporated by reference to Exhibit 10.11 to Registrant's Registration Statement on Form S-1, File No. 333-04018, filed with the Commission on June 21, 1996.
- (3) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended November 30, 1996.
- (4) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended February 28, 1997.
- (5) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended May 31, 1998.
- (6) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 1998.
- (7) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 1999.
- (8) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 1999.
- (9) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 2000.
- (10) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 8-K dated August 23, 2000.
- (11) File as Exhibit 10.16.3.
- (12) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 2000.
- (13) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended February 28, 2001.
- (14) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 2001.
- (15) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 8-K dated August 15, 2001.

(16) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 2001.



- (17) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended November 30, 2001.
- (18) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended February 28, 2002.
- (19) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 2002.
- (20) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 2002.
- (21) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 8-K dated January 6, 2003.
- (\*) Filed herewith.
- (b) Reports on Form 8-K

The Partnership filed no reports on Form 8-K during the three months ended November 30, 2002.

HERITAGE HOLDINGS, INC.

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into effective as of the 1st day of July, 2002 ("Effective Date") by and between U.S. Propane, L.P., a Delaware limited partnership ("Company"), and Michael L. Greenwood ("Employee").

RECITALS

WHEREAS, Employee and the Company desire to enter into an employment relationship;

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 U.S. Propane, L.L.C.

"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.

"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 August 10, 2003 (the "Expiration Date"); provided, however, that beginning on August 10, 2002 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 and Treasurer 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 President and Chief Executive Officer of the Company. While employed hereunder, Employee shall (i) report directly to the President and 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 President and 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, 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 \$240,000.00 ("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/UNIT PURCHASE

(a) The Employee will participate in bonus and incentive plans with substantially equivalent economic provisions as set forth in Exhibit A hereto; provided, however, with respect to the Long Term Incentive Plan, that Employee would be eligible to receive only one-third (1/3)

of the first three (3) year period that ends August 31, 2003 vesting (if any), but he will be eligible for full participation at his employee percentage in periods ending after August 31, 2003. For example, at the minimum award level, Employee would be eligible for  $1/3 \times 16\%$  of 83,333 Common Units at August 31, 2003, and at 16% of 83,333 for August 31, 2004 and 2005, and with respect to the Short Term Incentive Plan, participation shall commence with the fiscal year beginning September 1, 2002.

(b) As an incentive for the Employee to participate in the equity of Heritage Propane Partners, L.P. (the "Partnership"), the Employee shall be awarded (subject to the terms of Annex I hereto which is incorporated herein by reference) two (2) Common Units of the Partnership for each one (1) Common Unit that he shall have purchased while an Employee, to be issuable three (3) years after he shall have purchased such Common Unit, and provided that he shall remain an employee of the Company or an affiliate as of the third anniversary of the date of his purchase of such Common Unit; provided, however, that the maximum number of Common Units issuable hereunder shall not exceed 20,000 Common Units; and in the event of a Change of Control, the right to receive the Common Units shall vest but become issuable on the date three (3) years after his purchase of the qualifying units, regardless of whether or not he remains an employee of the Company or an affiliate at such time.

### 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 President and 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 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.

#### 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 August 10, 2002, 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; provided, however, with respect to the Long Term Incentive Plan, that Employee would be eligible to receive only one-third (1/3) of the first three (3) year period that ends August 31, 2003 vesting (if any), but he will be eligible for full participation at his employee percentage in periods ending after August 31, 2003. For example, at the minimum award level, Employee would be eligible for  $1/3 \times 16\%$  of 83,333 Common Units at August 31, 2003, and at 16% of 83,333 for August 31, 2004 and 2005, and with respect to the Short Term Incentive Plan, participation shall commence with the fiscal year beginning September 1, 2002.

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(b)(2) 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 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.

U.S. PROPANE, L.P.

EMPLOYEE

BY U.S. PROPANE, L.L.C., GENERAL PARTNER

-----  
Michael L. Greenwood

By: -----  
Name: -----  
Title: -----

## ANNEX I

A. Transferability. No Common Units granted under this award shall be transferable by the Employee other than by will or the laws of descent and distribution.

B. Adjustments. In the event that (i) any change is made to the Common Units deliverable under this award or (ii) Heritage Propane Partners, L.P. (the "Partnership") makes any distribution of cash, Common 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 Board of Directors, such change or distribution would significantly dilute the value of the Common Units issuable to the Employee hereunder, then the Board of Directors may make appropriate adjustments in the maximum number of Common Units deliverable under this Agreement. The adjustments determined by the Board of Directors shall be final, binding and conclusive.

C. No Fractional Units. The employer will not be required to deliver any fractional Common Units pursuant to this award. The Board of Directors, in its discretion, may provide for the elimination of fractions or for the settlement of fractions in cash.

D. Withholding of Taxes. To the extent that the employer is required to withhold federal, state, local or foreign taxes in connection with any grant or payment made to the Employee or any other person under this award, or is requested by the Employee to withhold additional amounts with respect to such taxes, it will be a condition to the receipt of such payment that the Employee or such other person make arrangements satisfactory to the employer for the payment of balance of the such taxes required or requested to be withheld, which arrangements in the discretion the Board of Directors may include the relinquishment of a portion of each person's issuable Common Units.

E. Investment Representation. Unless the Common Units issuable under this award have been registered under the Securities Act of 1933, as amended (the "1933 Act") (and in case the Employee has been deemed an affiliate (for securities law purposes) of the general partner of the Partnership), and such Common Units have been registered under the 1933 Act for resale by the Employee (or the Partnership has determined that an exemption from registration is available), the employer may require prior to and as a condition of the delivery of any Common Units that the Employee furnish the Partnership with a written representation in a form prescribed by the Board of Directors to the effect that such person is acquiring said Common Units solely with a view to investment for his 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 Common Units otherwise than in accordance with the provisions of Rule 144 under the 1933 Act unless and until either the Common Units are registered under the 1933 Act or the Partnership is satisfied that an exemption from such registration is available.

F. 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 Common Units to the employer for delivery under this award 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 Common Units are traded (or the governing body of the principal market in which such Units are traded, if such Common 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 employer acknowledges that, as the general partner of 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 employer.



detailed below.

Exhibit A - Page 1

2003 2004  
2005 TOTALS

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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

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Heritage Propane Partners, L.P. (the "Partnership") on Form 10-Q for the three months ended November 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, H. Michael Krimbill, Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

The foregoing certification is made solely for purposes of 19 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and is subject to the "knowledge" and "willfulness" qualifications contained in 18 U.S.C. Section 1350(c).

/s/ H. Michael Krimbill

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H. Michael Krimbill  
President and Chief Executive Officer  
Dated: January 14, 2002

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Heritage Propane Partners, L.P. (the "Partnership") on Form 10-Q for the three months ended November 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael L. Greenwood, Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

The foregoing certification is made solely for purposes of 19 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and is subject to the "knowledge" and "willfulness" qualifications contained in 18 U.S.C. Section 1350(c).

/s/ Michael L. Greenwood

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Michael L. Greenwood  
Vice President and Chief Financial Officer  
Dated: January 14, 2003