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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED AUGUST 31, 2001

OR

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

For the Transition Period from ---------- to -----------

COMMISSION FILE NUMBER 1-11727

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

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes X No
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value as of November 5, 2001, of the registrant's common units held by nonaffiliates of the registrant, based on the reported closing price of such units on the New York Stock Exchange on such date, was approximately $254,792,338.

At November 5, 2001, the registrant had units outstanding as follows:

Heritage Propane Partners, L.P.	14,262,066	Common Units
	1,382,514	Class B Subordinated Units

Documents Incorporated by Reference: None

HERITAGE PROPANE PARTNERS, L.P.

2001 FORM 10-K ANNUAL REPORT

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PART I

FORWARD-LOOKING STATEMENTS

CERTAIN MATTERS DISCUSSED IN THIS REPORT, EXCLUDING HISTORICAL INFORMATION, AS WELL AS SOME STATEMENTS BY HERITAGE IN PERIODIC PRESS RELEASES AND SOME ORAL STATEMENTS OF HERITAGE OFFICIALS DURING PRESENTATIONS ABOUT HERITAGE, INCLUDE CERTAIN "FORWARD-LOOKING" STATEMENTS. ALTHOUGH HERITAGE BELIEVES SUCH FORWARD-LOOKING STATEMENTS ARE BASED ON REASONABLE ASSUMPTIONS AND CURRENT EXPECTATIONS AND PROJECTIONS ABOUT FUTURE EVENTS, NO ASSURANCE CAN BE GIVEN THAT EVERY OBJECTIVE WILL BE REACHED. SUCH STATEMENTS ARE MADE IN RELIANCE ON THE "SAFE HARBOR" PROTECTIONS PROVIDED UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

AS REQUIRED BY THAT LAW, HERITAGE HEREBY IDENTIFIES THE FOLLOWING IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM ANY RESULTS PROJECTED, FORECASTED, ESTIMATED OR BUDGETED BY HERITAGE IN FORWARD-LOOKING STATEMENTS. THESE INCLUDE:

- CHANGES IN GENERAL ECONOMIC CONDITIONS IN THE UNITED STATES AS WELL AS CHANGES IN GENERAL ECONOMIC CONDITIONS AND CURRENCIES IN FOREIGN COUNTRIES;
- WEATHER CONDITIONS THAT VARY SIGNIFICANTLY FROM HISTORICALLY NORMAL CONDITIONS;
- ITS SUCCESS IN HEDGING ITS POSITIONS;
- THE EFFECTIVENESS OF RISK-MANAGEMENT POLICIES AND PROCEDURES AND THE ABILITY OF HERITAGE'S LIQUIDS MARKETING COUNTERPARTIES TO SATISFY THEIR FINANCIAL COMMITMENTS;
- THE GENERAL LEVEL OF PETROLEUM PRODUCT DEMAND, AND THE AVAILABILITY OF PROPANE SUPPLIES;
- ENERGY PRICES GENERALLY AND SPECIFICALLY, THE PRICE OF PROPANE TO THE CONSUMER COMPARED TO THE PRICE OF ALTERNATIVE AND COMPETING FUELS;
- COMPETITION FROM OTHER PROPANE DISTRIBUTORS AND ALTERNATE FUELS;
- THE AVAILABILITY AND COST OF CAPITAL;
- CHANGES IN LAWS AND REGULATIONS TO WHICH HERITAGE IS SUBJECT, INCLUDING TAX, ENVIRONMENTAL AND EMPLOYMENT REGULATIONS;
- ITS ABILITY TO GENERATE AVAILABLE CASH FOR DISTRIBUTIONS TO UNITHOLDERS;
- THE COSTS AND EFFECTS OF LEGAL AND ADMINISTRATIVE PROCEEDINGS AGAINST IT OR WHICH MAY BE BROUGHT AGAINST IT;
- ITS ABILITY TO SUSTAIN HISTORICAL LEVELS OF INTERNAL GROWTH; AND
- ITS ABILITY TO CONTINUE TO LOCATE AND ACQUIRE OTHER PROPANE COMPANIES AT PURCHASE PRICES THAT ARE ACCRETIVE TO ITS FINANCIAL RESULTS.

ITEM 1. BUSINESS

BUSINESS OF HERITAGE

Heritage Propane Partners, L.P., (the "Registrant" or "Partnership"), a publicly traded Delaware limited partnership, was formed in April of 1996. The general partner of Heritage Propane Partners, L.P. is Heritage

Holdings, Inc. (Heritage Holdings), which is a wholly owned subsidiary of U.S. Propane, L.P. (U.S. Propane). U.S. Propane is a joint venture among the following four publicly traded southeastern utilities: TECO Energy, Inc.; AGL Resources, Inc.; Piedmont Natural Gas Company, Inc.; and Atmos Energy Corporation.

- TECO Energy, Inc. (TECO) is a diversified, energy-related holding company. One of TECO's subsidiaries is Florida's largest natural gas distributor, serving more than 260,000 customers. Its other businesses include an electric utility that serves over 550,000 customers and an independent power company that builds, owns and operates electric generation facilities in the United States and Central America.

- AGL Resources, Inc. (AGL Resources), is a regional energy holding company engaged in natural gas distribution, wholesale and retail energy services and building telecommunications infrastructure. AGL Resources' principal subsidiary is the second largest pure natural gas distributor in the United States, serving more than 1.5 million customers in Georgia and portions of Tennessee and Virginia.

- Piedmont Natural Gas Company, Inc. (Piedmont Natural Gas) is an energy and services company primarily engaged in the transportation, distribution and sales of natural gas. Piedmont Natural Gas is the second largest natural gas distributor in the Southeast, serving more than 690,000 customers in North Carolina, South Carolina and Tennessee.

- Atmos Energy Corporation (Atmos), which owned United Cities Propane Gas, Inc., is an energy and services company primarily engaged in natural gas distribution and nonregulated energy management and gas marketing services. Atmos is the fifth largest natural gas distributor in the United States, serving approximately 1.4 million customers in 11 states.

In order to simplify the Partnership's obligations under the laws of several jurisdictions in which it conducts business, its business activities are conducted through a subsidiary operating partnership, Heritage Operating, L.P. (the "Operating Partnership"). The Partnership holds a 97.9798% limited partner interest in the Operating Partnership. In addition, Heritage Holdings holds a 1.0101% general partner interest and U.S. Propane holds a 1.0101% limited partner interest in the Operating Partnership. The Operating Partnership accounts for nearly all of the consolidated assets, sales and operating earnings of the Partnership.

The business of the Partnership starting with the formation of Heritage Holdings, Inc. in 1989 has grown primarily through acquisitions of retail propane operations and, to a lesser extent, through internal growth. Since its inception in 1989 through August 31, 2001, the Partnership has completed 81 acquisitions for a total purchase price of approximately $608 million, including the transfer by U.S. Propane of its propane operations to the Partnership for $181.4 million, plus working capital of approximately $12.9 million. The U.S. Propane transaction combined five of the nation's 50 largest retail propane operations. Volumes of propane sold to retail customers have increased steadily from 63.2 million gallons for the Partnership's fiscal year ended August 31, 1992 to 330.2 million gallons for the fiscal year ended August 31, 2001.

U.S. PROPANE MERGER

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

In August 2000, U.S. Propane acquired all of the outstanding common stock of Heritage Holdings for $120 million. By virtue of Heritage Holdings' general partner and limited partner interests in the Partnership, U.S. Propane gained control of the Partnership. Simultaneously, U.S. Propane transferred its propane operations, consisting of its interest in four separate limited liability companies, AGL Propane, L.L.C., Peoples Gas Company, L.L.C., United Cities Propane Gas, L.L.C. and Retail Propane Company, L.L.C. (former Piedmont operations) to the Partnership for $181.4 million plus working capital. The

$181.4 million was payable $139.5 million in cash, $31.8 million of assumed debt, and the issuance of 372,392 common units of the Partnership valued at $7.3 million and a

1.0101% limited partner interest in the Operating Partnership valued at $2.7 million. The purchase price and the exchange price for the common units were approved by an independent committee of the Board of Directors of Heritage Holdings. The exchange price for the common units was $19.73125 per unit under a formula based on the average closing price of common units on the New York Stock Exchange for the twenty (20) day period beginning ten (10) days prior to the public announcement of the transaction on June 15, 2000 (the "Formula Price"). Subsequent to August 31, 2000, payments totaling approximately $12.9 million were made for the working capital adjustment, of which $5.0 million was accrued at August 31, 2000.

Concurrent with the acquisition, the Operating Partnership borrowed $180 million from several institutional investors and the Partnership sold 1,161,814 common units and 1,382,514 class B subordinated units in a private placement to the former shareholders of Heritage Holdings based on the Formula Price resulting in net proceeds of $50.2 million. The total of these proceeds was utilized to finance the transaction and retire a portion of existing debt.

Heritage Propane Partners, L.P. is the surviving entity for legal purposes; however, U.S. Propane's propane operations was the acquirer for accounting purposes. For purposes of the discussion herein, Peoples Gas is described as the accounting acquirer because Peoples Gas was the acquirer in the transaction that formed U.S. Propane; the propane operations of Heritage Propane Partners, L.P. prior to the series of transactions with U.S. Propane are referred to as Predecessor Heritage; and the combined operations of U.S. Propane and Predecessor Heritage are described as Heritage. Peoples Gas had a fiscal year-end of December 31. The eight-month period ended August 31, 2000 was treated as a transition period under the rules of the Securities and Exchange Commission. However, the Form 10-K for the year ended August 31, 2000 was not a transition report as the Registrant continues to have an August 31 fiscal year-end.

Heritage believes it is presently the fourth largest retail marketer of propane in the United States (as measured by retail gallons sold). Heritage currently serves more than 600,000 active residential, commercial, industrial and agricultural customers located in 28 states. Heritage's operations extend from coast to coast with concentrations in the western, upper midwestern, northeastern and southeastern regions of the United States.

GENERAL

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

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

HERITAGE PROPANE PARTNERS, L.P. (FORMERLY PEOPLES GAS):

For the
For the
Year
RETAIL
PROPANE
GALLONS
Eight-
months
Ended
Ended SOLD
(IN
MILLIONS):
For the
Year Ended
December
31, August
31, August

31, ------

------- ---

----- ----

1995 1996
1997 1998
1999 2000
2001 ----
---- ----
---- ----
---- -----
- 24.7
26.7 29.1
30.9 33.6
38.3 330.2

As a result of the implementation of the strategy described below, Predecessor Heritage achieved the following retail sales volumes per fiscal year:

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

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

BUSINESS STRATEGY

Heritage's goal is to increase distributions to the Partnership's unitholders by being a low-cost, growth oriented retail propane distribution company. The three critical elements to this strategy are described below.

Acquisitions. Acquisitions will be the principal means of growth for Heritage, as the retail propane industry is mature and overall demand for propane is expected to experience limited growth in the foreseeable future. Management believes that the fragmented nature of the propane industry provides significant opportunities for growth through acquisition. Industry sources indicate that there are over 8,000 retail propane operations, of which the 10 largest retailers, including Heritage, account for approximately 45% of the total retail sales. Heritage follows a disciplined acquisition strategy that concentrates on companies that (i) are located in geographic areas experiencing higher-than-average population growth, (ii) provide a high percentage of sales to residential customers, (iii) have a strong reputation for quality service and (iv) own a high percentage of the propane tanks used by their customers. In addition Heritage attempts to capitalize on the reputations of the companies it acquires by maintaining local brand names, billing practices and employees, thereby creating a sense of continuity and minimizing customer loss. Management believes that this strategy has helped to make Heritage an attractive buyer for many acquisition candidates from the seller's viewpoint.

Through August 9, 2000, Predecessor Heritage had completed 68 acquisitions for a total purchase price of approximately $297 million. Of the 68 companies acquired by Predecessor Heritage, 19 represent "core acquisitions" with multiple plants in a specific geographic area, with the balance representing "blend-in companies" or acquisitions of companies that operate in an existing Heritage region. On August 10, 2000, Predecessor Heritage completed the merger with U.S. Propane. During the period between August 10, 2000 through August 31, 2001, Heritage completed 12 additional acquisitions, of which 3 represent core acquisitions. Heritage will focus on acquisition candidates in its existing areas of operations, but will consider core acquisitions in other higher-than-average population growth areas in order to further reduce the impact on Heritage's operations of adverse weather patterns in any one region. While Heritage is currently evaluating numerous acquisition candidates, there can be no assurance that Heritage will identify attractive acquisition candidates in the future, that Heritage will be able to acquire such businesses on economically acceptable terms or successfully integrate them into existing operations and make cost-saving changes, that any acquisition will not dilute earnings and distributions to unitholders or that any additional debt incurred to finance an acquisition will not adversely affect the ability of Heritage to make distributions to unitholders.

In order to facilitate Heritage's acquisition strategy, the Operating Partnership maintains a Bank Credit Facility with a total of $115 million available for borrowing. The Bank Credit Facility consists of a $50 million Acquisition Facility to be used for acquisitions and improvements and a $65 million Working Capital Facility to be used for working capital and other general partnership purposes. Heritage also has the ability to fund acquisitions through the issuance of additional partnership interests and through long-term debt. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Description of Indebtedness."

Low Cost, Decentralized Operations. Heritage focuses on controlling costs at the corporate and district levels. While Predecessor Heritage realized certain economies of scale as a result of its acquisitions, it attributes its low operating costs primarily to its decentralized structure, which Heritage plans to continue. By delegating all customer billing and collection activities to the district level, Heritage has been able to operate without a large corporate staff. Of Heritage's 2,340 full-time employees as of August 31, 2001, only 91, or approximately 4%, were general and administrative. In addition Heritage's district level incentive compensation program encourages district employees at all levels to control costs and expand revenues.

Internal Growth. In addition to pursuing expansion through acquisitions, Heritage has aggressively focused on internal growth at its existing district locations. Heritage believes that, by concentrating its operations in areas experiencing higher-than-average population growth, it is well positioned to achieve internal growth by adding new customers. Heritage also believes that its decentralized operations foster an entrepreneurial corporate culture by: (i) having operational decisions made at the district and regional level, (ii) retaining billing, collection and pricing responsibilities at the local and regional levels, and (iii) rewarding employees for achieving financial targets at the local level.

INDUSTRY BACKGROUND AND COMPETITION

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

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

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

of the cost of converting from one to another. Based upon information provided by the Energy Information Agency, propane accounts for approximately three percent of household energy consumption in the United States.

In addition to competing with alternative energy sources, Heritage competes with other companies engaged in the retail propane distribution business. Competition in the propane industry is highly fragmented and generally occurs on a local basis with other large full-service multi-state propane marketers, thousands of smaller local independent marketers and farm cooperatives. Based on industry publications, Heritage believes that the domestic retail market for propane is approximately 8.8 billion gallons annually, that the 10 largest retailers, including Heritage, account for approximately 45% of the total retail sales of propane in the United States, and that no single marketer has a greater than 10% share of the total retail market in the United States. Most of Heritage's retail distribution branches compete with five or more marketers or distributors. Each retail distribution outlet operates in its own competitive environment because retail marketers tend to locate in close proximity to customers. The typical retail distribution outlet generally has an effective marketing radius of approximately 50 miles although in certain rural areas the marketing radius may be extended by satellite locations.

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

The wholesale propane business is highly competitive. For fiscal 2001, Heritage's domestic wholesale operations (excluding M-P Energy Partnership) accounted for only 3.7% of total volumes and less than 1% of its gross profit. Heritage does not emphasize wholesale operations, but it believes that limited wholesale activities enhance its ability to supply its retail operations.

PRODUCTS, SERVICES AND MARKETING

Heritage distributes propane through a nationwide retail distribution network consisting of approximately 275 customer service locations in 28 states. Heritage's operations are concentrated in large part in the western, upper midwestern, northeastern and southeastern regions of the United States. Heritage serves almost 600,000 active customers. Historically, approximately two-thirds of Predecessor Heritage's retail propane volumes and in excess of 80% of its EBITDA were attributable to sales during the six-month peak-heating season from October through March, as many customers use propane for heating purposes. Consequently, sales and operating profits are normally concentrated in the first and second fiscal quarters. Cash flows from operations however, are generally greatest during the second and third fiscal quarters when customers pay for propane purchased during the six-month peak season. To the extent necessary, Heritage will reserve cash from peak periods for distribution to unitholders during the warmer seasons.

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

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

Heritage owns, though its subsidiaries, a 60% interest in M-P Energy Partnership, a Canadian partnership that supplies Heritage propane as described below under "Propane Supply and Storage." When it is referred to or information is given regarding domestic operations, amounts attributable to M-P Energy Partnership are generally excluded, unless otherwise indicated.

Propane use falls into three broad categories: (i) residential applications, (ii) industrial, commercial and agricultural applications and (iii) other retail applications, including motor fuel sales. Approximately 96% of the domestic gallons sold by Heritage in the fiscal year ended August 31, 2001 were to retail customers and 4% to wholesale customers. Of the retail gallons sold by Heritage, 57% were to residential customers, 29% were to industrial, commercial and agricultural customers, and 14% were to other retail users. Sales to residential customers in the fiscal year ended August 31, 2001 accounted for 55% of total domestic gallons sold inclusive of domestic wholesale but approximately 71% of Heritage's gross profit from propane sales. Residential sales have a greater profit margin and a more stable customer base than other markets served by Heritage. Industrial, commercial and agricultural sales accounted for 21% of Heritage's gross profit from propane sales for the fiscal year ended August 31, 2001, with all other retail users accounting for 8%. Additional volumes sold to wholesale customers contributed less than 1% of gross profit from propane sales. No single customer accounts for 10% or more of revenues.

The propane business is very seasonal with weather conditions significantly affecting demand for propane. Heritage believes that the geographic diversity of its operations helps to minimize its nationwide exposure to regional weather. Although overall demand for propane is affected by climate, changes in price and other factors, Heritage believes its residential and commercial business to be relatively stable due to the following characteristics:

- residential and commercial demand for propane has been relatively unaffected by general economic conditions due to the largely non-discretionary nature of most propane purchases,

- loss of customers to competing energy sources has been low,

- the tendency of Heritage's customers to remain with Heritage due to the product being delivered pursuant to a regular delivery schedule and to Heritage's ownership of over 90% of the storage tanks (verify) utilized by its customers, and

- the historic ability of Heritage to more than offset customer losses through internal growth of its customer base in existing markets.

Since home heating usage is the most sensitive to temperature, residential customers account for the greatest usage variation due to weather. Variations in the weather in one or more regions in which Heritage operates can significantly affect the total volumes of propane sold by Heritage and the margins realized thereon and, consequently, Heritage's results of operations. Heritage believes that sales to the commercial and industrial markets, while affected by economic patterns, are not as sensitive to variations in weather conditions as sales to residential and agricultural markets.

PROPANE SUPPLY AND STORAGE

Supplies of propane from Heritage's sources historically have been readily available. Heritage purchases from over 50 oil companies and natural gas processors at numerous supply points located in the United States and Canada. In the fiscal year ended August 31, 2001, Enterprise Products Operating L.P. (Enterprise) and Dynegy Liquids Marketing and Trade (Dynegy) provided approximately 21% and 19% of Heritage's total propane supply, respectively. In addition, M-P Oils, Ltd., one of our wholly owned subsidiaries, procured 21% of Heritage's total

propane supply during the fiscal year ended August 31, 2001. M-P Oils, Ltd. holds a 60% interest in M-P Energy Partnership, a Canadian partnership that buys and sells propane for its own account and supplies Heritage propane in the northern United States.

Heritage believes that, if supplies from Enterprise and Dynegy were interrupted, it would be able to secure adequate propane supplies from other sources without a material disruption of its operations. Aside from Enterprise and Dynegy, no single supplier provided more than 10% of Heritage's total domestic propane supply during the fiscal year ended August 31, 2001. Heritage believes that its diversification of suppliers will enable it to purchase all of its supply needs at market prices if supplies are interrupted from any of the sources without a material disruption of its operations. Although no assurances can be given that supplies of propane will be readily available in the future, Heritage expects a sufficient supply to continue to be available. However, increased demand for propane in periods of severe cold weather, or otherwise, could cause future propane supply interruptions or significant volatility in the price of propane.

Heritage typically enters into one-year supply agreements subject to annual renewal. The percentage of contract purchases may vary from year to year. Supply contracts generally provide for pricing in accordance with posted prices at the time of delivery or the current prices established at major delivery or storage points, and some contracts include a pricing formula that typically is based on these market prices. Most of these agreements provide maximum and minimum seasonal purchase guidelines. Heritage receives its supply of propane predominately through railroad tank cars and common carrier transport.

Because Heritage's profitability is sensitive to changes in wholesale propane costs, it generally seeks to pass on increases in the cost of propane to customers. Heritage has generally been successful in maintaining retail gross margins on an annual basis despite changes in the wholesale cost of propane, but there is no assurance that Heritage will always be able to pass on product cost increases fully, particularly when product costs rise rapidly. Consequently, Heritage's profitability will be sensitive to changes in wholesale propane prices. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-General."

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

PRICING POLICY

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

BILLING AND COLLECTION PROCEDURES

Customer billing and account collection responsibilities are retained at the district level. Heritage believes that this decentralized approach is beneficial for several reasons:

- the customer is billed on a timely basis;

- the customer is more apt to pay a "local" business;

- cash payments are received more quickly, and

- local personnel have a current account status available to them at all times to answer customer inquiries.

GOVERNMENT REGULATION

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

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

Petroleum-based contamination or environmental wastes are known to be located on or adjacent to six sites, which Heritage presently or formerly had operations. These sites were evaluated at the time of their acquisition. In all cases, remediation operations have been or will be undertaken by others, and in all six cases, Heritage obtained indemnification for expenses associated with any remediation from the former owners or related entities. Additionally, Heritage has been named as a large deminimis generator at one superfund site, but it believes that its exposure will not be material. Based on information currently available to Heritage, such projects are not expected to have a material adverse effect on Heritage's financial condition or results of operation.

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

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

EMPLOYEES

As of August 31, 2001, Heritage had 2,340 full time employees, of whom 91 were general and administrative and 2,249 were operational employees. Of its operational employees 60 are represented by a labor union. Heritage believes that its relations with its employees are satisfactory. Historically, Heritage has hired as many as 100 seasonal workers to meet peak winter demands.

ITEM 2. PROPERTIES

Heritage operates bulk storage facilities at approximately 275 customer service locations. Heritage owns substantially all of these facilities and has entered into long-term leases for those that it does not own. Heritage believes that the increasing difficulty associated with obtaining permits for new propane distribution locations makes its high level of site ownership and control a competitive advantage. Heritage owns approximately thirty-one million gallons of above ground storage capacity at its various plant sites and have leased an aggregate of approximately 50 million gallons of underground storage facilities in Michigan, Mississippi, South Carolina Arizona, Missouri and Texas. Heritage does not own or operate any underground storage facilities (excluding customer and local distribution tanks) or pipeline transportation assets (excluding local delivery systems).

Heritage also owns 50% of Bi-State Propane, a California general partnership that conducts business in California and Nevada. Bi-State Propane operates nine locations that are included on a gross basis in Heritage's site, customer and other property descriptions contained herein.

The transportation of propane requires specialized equipment. The trucks and railroad tank cars used for this purpose carry specialized steel tanks that maintain the propane in a liquefied state. As of August 31, 2001, Heritage utilized approximately 37 transport truck tractors, 41 transport trailers, 30 railroad tank cars, 984 bobtails and 1,492 other delivery and service vehicles, all of which Heritage owns. As of August 31, 2001, Heritage owned approximately 540,000 customer storage tanks with typical capacities of 120 to 1,000 gallons. These customer storage tanks are collateral to secure the obligations of Heritage under its borrowings from its banks and note holders.

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

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

ITEM 3. LEGAL PROCEEDINGS.

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

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

No matters were submitted to a vote of the security holders of Heritage Propane Partners, L.P. during the fiscal year ended August 31, 2001.

PART II

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

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

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

	Price Range		Cash
	High	Low	Distribution(1)
2001 FISCAL YEAR			
Fourth Quarter Ended August 31, 2001	$31.000	$25.250	$0.6250
Third Quarter Ended May 31, 2001	$31.000	$23.950	$0.6125
Second Quarter Ended February 28, 2001	$24.900	$20.125	$0.6000
First Quarter Ended November 30, 2000	$23.875	$20.500	$0.5875
2000 FISCAL YEAR			
Fourth Quarter Ended August 31, 2000	$21.250	$18.563	$0.5750
Third Quarter Ended May 31, 2000	$19.125	$16.500	$0.5625
Second Quarter Ended February 28, 2000	$19.500	$16.750	$0.5625
First Quarter Ended November 30, 1999	$23.000	$18.688	$0.5625

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

DESCRIPTION OF UNITS

As of October 1, 2001, there were approximately 573 holders of record of the Partnership's common units, including common units held in street name representing over nine thousand individual common unitholders. Common units, class B subordinated units and class C units represent limited partner interests in the partnership that entitle the holders to the rights and privileges specified in the Heritage Propane Partners, L.P. partnership agreement (the "partnership agreement"). As of November 5, 2001, there were 14,262,066 common units and 1,382,514 class B subordinated units representing, together with the 1.0101% limited partner interest in the Operating Partnership held by U.S. Propane, an aggregate 98.9899% limited partner interest in the Partnership.

Except as described below, the common units and class B subordinated units generally participate pro rata in Heritage's income, gains, losses deductions, credits and distributions. There are also 1,000,000 class C units outstanding that are entitled only to participate in any incentive distributions that Heritage may make that are attributable to amounts received by Heritage in connection with specified litigation.

Prior to July 6, 2001, the Partnership also had subordinated units representing limited partner interests that were issued and outstanding, all of which converted to common units as described below under "-- Subordinated Units". Prior to converting into common units, and except as described below, the subordinated units generally participated pro rata with the common units and the class B subordinated units in Heritage's income, gains, losses, deductions, credits and distributions.

No person is entitled to preemptive rights in respect of issuances of securities by the Partnership, except that Heritage Holdings, the general partner, has the right to purchase sufficient partnership securities to maintain its equity interest in the Partnership.

COMMON UNITS

The Partnership's common units are registered under the Securities Exchange Act of 1934 and are listed for trading on the New York Stock Exchange. Each holder of a common unit is entitled to one vote per unit on all matters presented to the limited partners for a vote. However, if at any time any person or group (other than the general partner and its affiliates) owns beneficially 20% or more of all common units, any common units owned by that person or group may not be voted on any matter and are not considered to be outstanding when sending notices of a meeting of unitholders (unless otherwise required by law), calculating required votes, determining the presence of a quorum or for other similar purposes under our partnership agreement. The common units are entitled to distributions of available cash as described below under "-- Cash Distribution Policy." As of October 1, 2001 there were approximately 573 holders of the Heritage's common units, including common units held in street name, representing over nine thousand individual common unitholders.

SUBORDINATED UNITS

Heritage Holdings, a wholly owned subsidiary of U.S. Propane and the general partner of the Partnership and the Operating Partnership held all of the subordinated units. The subordinated units were a separate class of limited partner interests and the rights of holders of subordinated units to participate in distributions to partners differed from, and were subordinated to, the rights of the holders of common units.

Under the partnership agreement, 925,736 subordinated units converted into common units as of July 7, 1999, 925,736 subordinated units converted into common units as of July 5, 2000 and the remaining 1,851,471 subordinated units converted into common units as of July 6, 2001. The conversions of the subordinated units occurred and the subordination period ended because the Partnership met specified cash performance and distribution requirements during successive four-quarter periods commencing with the initial public offering in June of 1996. As common units issued upon conversion of the subordinated units, the new common units share equally with other common units in distributions of available cash.

CLASS B SUBORDINATED UNITS

The class B subordinated units represent a portion of the limited partner interests issued to certain former stockholders of Heritage Holdings, who are also members of management, in connection with the transaction with U.S. Propane. The class B subordinated units have the same voting rights as the subordinated units outstanding before the end of the subordination period. Each class B subordinated unit is entitled to one vote on each matter with respect to which the class B subordinated units are entitled to vote.

In connection with the transaction with U.S. Propane and because the class B subordinated units are not convertible into common units except by approval of the common unitholders or a change in the rules of the New York Stock Exchange, the Partnership agreed to submit to a vote or consent of its common unitholders a proposal to change the terms of the class B subordinated units to provide that each class B subordinated unit is convertible into one common unit. The Partnership intends to submit this proposal to its common unitholders by December 31, 2001.

The rights of holders of class B subordinated units to participate in distributions to partners differ from, and are subordinated to, the right of holders of common units, as described below under "-- Cash distribution Policy". If the common unitholders approve the conversion of the class B subordinated units into common units, or if at any time the rules of the New York Stock Exchange or staff interpretations of such rules are changed, or facts and circumstances arise so that no vote or consent of the unitholders is required as a condition to the listing of any common units that may be issued upon such conversion, each class B subordinated unit will automatically convert into one common unit. But if the common unitholders do not approve the conversion by December 31, 2001, the terms of the class B subordinated units will automatically be changed to provide that the amount allocated or distributed to each class B subordinated unit will equal 115% of the amount allocated or distributed to each common unit, except that the common units will have priority over the class B subordinated units with respect to the minimum quarterly distributions of $0.50 per common unit and any arrearages on the minimum quarterly distribution.

The class B subordinated units have rights upon dissolution and liquidation of the Partnership, including the right to share in any liquidating distributions that are based on 100% (115% if the conversion of the class B

subordinated units is not approved) of the rights of the common units. Accordingly, the amount of any liquidating distribution to each class B subordinated unit will equal 100% (115% if the conversion of the class B subordinated units is not approved) of the amount of such distribution to each common units, except that the rights of the class B subordinated units will have the same order of priority relative to the rights of the common units as subordinated units outstanding before the end of the subordination period.

CLASS C UNITS

In conjunction with the transaction with U.S. Propane and the change of control of the general partner, the Partnership issued 1,000,000 newly created class C units to Heritage Holdings in conversion of that portion of its incentive distribution rights that entitled it to receive any distribution made by the Partnership attributable to the net amount received by the Partnership in connection with the settlement, judgment, award or other final nonappealable resolution of specified litigation filed by Heritage prior to the transaction with U.S. Propane, which is referred to as the "litigation". The class C units have zero initial capital account balance and were distributed by Heritage Holdings to its former stockholders in connection with the transaction with U.S. Propane. Thus, U.S. Propane will not receive any distributions made with respect to the litigation.

All decisions of the general partner relating to the litigation will be determined by a special litigation committee consisting of one or more independent directors of the general partner. As soon as practicable after the time, if any, that the Partnership receives the final cash payment as a result of the resolution of the litigation, the special litigation committee will determine the aggregate net amount of such proceeds distributable by the Partnership by deducting from the amounts received all costs and expenses incurred by the Partnership and its affiliates in connection with the litigation and such cash reserves as are necessary or appropriate to provide for operating expenditures. Until the special litigation committee decides to distribute the distributable proceeds, none of the distributable proceeds will be deemed to be "available cash" under the partnership agreement. Please read "-- Cash Distribution Policy - General" below for a discussion of available cash. When the special litigation committee decides to distribute the distributable proceeds, the amount of the distribution will be deemed to be available cash and will be distributed as described below under "-- Cash Distribution Policy," provided that the amount of distributable proceeds that would be distributed to holders of incentive distribution rights will instead be distributed to the holders of the class C units, pro rata. The Partnership cannot predict whether it will receive any cash payments as a result of the litigation and, if so, when such distributions might be received.

Each holder of class C units receiving a distribution of cash in any taxable year of the partnership will be allocated items of gross income with respect to such taxable year in an amount equal to the cash distributed to the holder. The holders of class C units will not be allocated any other items of income, gain, loss deduction or credit. The class C units do not have any rights to share in any of the assets or distributions upon dissolution and liquidation of the partnership, except for the extent that any such distributions consist of proceeds from the litigation to which the class C unitholders would have otherwise been entitled. The class C units do not have the privilege of conversion into any other unit and do not have any voting rights except to the extent provided by law, in which case the class C units will be entitled to one vote.

The amount of cash distributions to which the incentive distribution rights are entitled was not increased by the creation of the class C units; rather, the class C units are a mechanism for dividing the incentive distribution rights between Heritage Holdings and its former stockholders.

CASH DISTRIBUTION POLICY

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. 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, comply with applicable law or any Heritage debt instrument or other agreement, or to provide funds for future distributions to partners with respect to any one or more of the next four quarters. Available cash is more fully defined in the partnership agreement previously filed as an exhibit.

The subordination period ended as a result of the conversion into common units of all remaining outstanding subordinated units (but not class B subordinated units) as described above. Beginning with the fiscal quarter ended August 31, 2001, and as long as class B subordinated units are outstanding, the Partnership will distribute available cash, excluding any available cash to be distributed to the class C unitholders, as follows:

- First, 97% to the holders of common units, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership and 2% to the general partner, until the holders of common units have received $0.50 per common unit for such quarter and any prior quarter in which they failed to receive $0.50 per common unit;

- Second, 97% to the holders of class B subordinated units, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership and 2% to the general partner, until the holders of class B subordinated units have received $0.50 per unit for such quarter;

- Third, 97% to all common unitholders and class B subordinated units, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership and 2% to the general partner, until all common unitholders have received at least $0.55 per unit for such quarter;

- Fourth, 84% to all common unitholders and class B subordinated unitholders, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership and 13% to the holders of incentive distribution rights, pro rata and 2% to the general partner, until all common unitholders have received at least $0.635 per unit for such quarter;

- Fifth, 74% to all common unitholders and class B subordinated unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership, 23% to the holders of incentive distribution rights, pro rata, and 2% to the general partner, until all common unitholders have received at least $0.825 per unit for such quarter; and

- Sixth, thereafter 49% to all common unitholders and class B subordinated unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership, 48% to the holders of incentive distribution rights, pro rata, and 2% to the general partner.

If the common unitholders have not approved the conversion of class B subordinated units into common units by December 31, 2001, then the amount distributed to each class B subordinated unit pursuant to the second through sixth clauses above will be equal to 115% of the amount distributed to each common unit pursuant to each such clause.

If the conversion of the class B subordinated units is approved, each class B subordinated unit will be converted into one common unit and will then participate pro rata with the other common units in distributions of available cash. After the conversion of the class B subordinated units into common units, the Partnership will distribute available cash, excluding any available cash to be distributed to the class C unitholders, as follows:

- First, 97% to all unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership and 2% to the general partner, until all unitholders have received $0.50 per unit for such quarter and any prior quarter;

- Second, 97% to all unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership and 2% to the general partner, until all unitholders have received $0.55 per unit for such quarter;

- Third, 84% to all unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership, 13% to the holders of incentive distribution rights, pro rata, and 2% to the general partner, until all common unitholders have received at least $0.635 per unit for such quarter;

- Fourth, 74% to unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership, 23% to the holders of incentive distribution rights, pro rata and 2% to the general partner, until all common unitholders have received at least $0.825 per unit for such quarter;

- Fifth, thereafter 49% to all unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership, 48% to the holders of incentive distribution rights, pro rata, and 2% to the general partner.

RESTRICTIONS ON TRANSFER; REGISTRATION RIGHT

The 1,161,814 common units and the 1,382,514 class B subordinated units issued to the former stockholders of Heritage Holdings in the U.S. Propane transaction are subject to certain restrictions on transfer. On November 8, 2000, 473,473 of these class B subordinated units and 624,212 of the common units became transferable. An additional 266,715 of the class B subordinated units and 165,700 of the common units became transferable on August 10, 2001. An additional 266,715 of the class B subordinated units and 165,700 of the common units become transferable on August 10, 2002, and 375,611 of the class B subordinated units and 206,202 of the common units become transferable on August 10, 2003. The restrictions on transfer are also subject to exceptions contained in the employment agreements of certain of the former stockholders and of Heritage's management.

CHANGES IN SECURITIES AND RECENT SALES OF UNREGISTERED SECURITIES

On July 31, 2001, Heritage sold 2,500,000 common units in an underwritten public offering at a public offering price of $28.00 per unit. Heritage used $41 million of the approximate net proceeds of $66 million to reduce indebtedness under the Senior Revolving Acquisition Facility, which was incurred in the acquisition of ProFlame, Inc. (ProFlame) and related propane distribution companies of ProFlame. The remainder of the proceeds was used for general partnership purposes, including additional acquisitions and repayment of debt. To effect the transfer of the contribution required by the general partner to maintain its 1% general partner interest in the Partnership, the general partner contributed 25,252 common units back to the Partnership and those units were cancelled.

On August 1, 2001, the Partnership issued 129,901 common units to the general partner in connection with the assumption of certain liabilities by the general partner from the acquisition of certain assets of ProFlame. The general partner was entitled to 158,917 common units as a result of this transaction but agreed to forego the issuance of 1,638 units and 1,605 units, which represented its capital contributions to maintain its 1% interest in the Partnership and its 1.0101% interest in the Operating Partnership, respectively, in relation to this transaction. The general partner also agreed to forego the issuance of an additional 25,773 common units to which it was entitled in the ProFlame acquisition to maintain its 1.0101% interest in the Operating Partnership. The units issued to the general partner were not registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended, by virtue of an exemption under Section 4(2) thereof.

During fiscal 2001, Heritage issued 58,000 common units in exchange for certain assets in connection with the acquisition of a certain propane business, for a total value of $1.6 million. These units were issued utilizing Heritage's Registration Statement No. 333-40407 on Form S-4.

ITEM 6. SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

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

HERITAGE PROPANE PARTNERS, L.P. (FORMERLY PEOPLES GAS):

Eight Months Year ended Years ended December 31, Ended August 31, August 31, ---------------------- ---------------------- --- ------------------ --------- ----------- 1996 1997 1998 1999 1999 2000 2001 (Unaudited) (Unaudited) Statements of Operating Data: Revenues $ 37,508 $ 32,874 $ 30,187 $ 34,045 $ 21,766 $ 63,072 $ 715,453 Gross profit(a) 16,139 15,811 17,904 19,196 13,299 21,572 237,419 Depreciation and amortization 2,234 2,514 2,855 3,088 2,037 4,686 40,431 Operating income (loss) 4,611 1,370 3,961 2,885 2,666 (714) 54,423 Interest expense -- -- -- -- -- 2,409 35,567 Income (loss) before income taxes and minority interest 3,962 980 3,483 2,895 2,677 (3,547) 20,524 Provision for income taxes 1,323 378 1,412 1,127 1,035 379 -- Net income (loss) 2,639 602 2,071 1,768 1,642 (3,846) 19,710 Net income (loss) per unit(b) 1.52 .35 1.19 1.02 .94 (.37) 1.43 Cash dividends/distributions per unit -- -- 1.13 1.30 1.30 0.87 2.38

As of December 31, As of August 31, -------- ----------- ----------- ----------- --- -------- ----------- ----------- --- 1996 1997 1998 1999 1999 2000 2001 (Unaudited) (Unaudited) (Unaudited) Balance Sheet Data (end of period): Current assets $

6,829 $
5,278 $
4,310 $
6,643 $
4,326 $
84,869 $
138,263
Total assets
33,455
33,982
37,206
43,724
39,481
615,779
758,167
Current
liabilities
12,619 8,204
13,671
19,636
15,716
102,212
127,655
Long-term
debt -- -- -
- -- --
361,990
423,748
Minority
interests --
-- -- -- --
4,821 5,350
Partner's
capital -
General
Partner(b)
37 39 39 37
37 939 1,875
Partners'
capital -
Limited
Partner(b)
(d) 14,857
15,457
15,557
15,070
14,944
145,817
206,080
Accumulated
other
comprehensive
loss -- -- -
- -- -- --
(6,541)

Eight Months
Year ended
Years ended
December 31,
Ended August
31, August 31,

---- ----------
------------- -
--------- 1996
1997 1998 1999
1999 2000 2001
Operating Data
(unaudited):
EBITDA(c) $
6,845 $ 3,884 $
6,816 $ 5,793 $
4,703 $ 4,507 $
97,444 Capital
expenditures(e)
Maintenance and
growth 3,560

4,497 5,328
6,176 2,544
3,559 23,854
Acquisition --
-- 1,719 1,015
1,015 177,067
94,860 Retail
propane gallons
sold 26,654
29,077 30,921
33,608 22,118
38,268 330,242

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

(b) Net income (loss) per unit is computed by dividing the net income by the weighted average number of units outstanding. Although equity accounts of Peoples Gas survive the merger, Predecessor Heritage's partnership structure and partnership units survive. Accordingly, the equity accounts of Peoples Gas have been restated based on general partner interest and common units received by Peoples Gas in the merger.

(c) EBITDA is defined as operating income plus non-cash compensation, depreciation and amortization (including the EBITDA of investees). EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations), but provides additional information for evaluating Heritage's ability to make the Minimum Quarterly Distribution.

(d) Partners' Capital is anticipated to decrease to the extent depreciation and amortization exceeds maintenance capital expenditure requirements.

(e) Capital expenditures fall generally into three categories: (i) maintenance capital expenditures, which include expenditures for repairs that extend the life of the assets and replacement of property, plant and equipment, (ii) growth capital expenditures, which include expenditures for purchase of new propane tanks and other equipment to facilitate retail customer base expansion, and (iii) acquisition expenditures which include expenditures related to the acquisition of retail propane operations and the portion of the purchase price allocated to intangibles associated with such acquired businesses.

HERITAGE PROPANE PARTNERS, L.P. (PREDECESSOR HERITAGE):

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

	Ten Months Ended June 30, 1996(e)	Two Months Period Ended August 31, 1996	Years Ended August 31, 1997	1998	1999	2000
Statements of Operating Data:						
Revenues	$ 144,623	$ 18,477	$ 199,785	$ 185,987	$ 184,020	$ 242,491
Gross Profit(a)	55,634	6,314	73,838	89,103	96,753	101,746
Depreciation and amortization	7,581	1,733	11,124	13,680	14,749	17,143
Operating income (loss)	15,755	(1,956)	16,919	22,929	24,567	23,475
Interest expense	10,833	1,962	12,063			

14,599
15,915
17,664
Income
(loss)
before
income
taxes and
minority
interest
6,084
(4,087)
5,625 9,266
10,116
6,936
Provision
for income
taxes 2,735
-- -- -- --
-- Net
income
(loss)
2,921
(8,423)
5,177 8,790
9,662 6,504
Basic and
Diluted Net
income
(loss) per
unit(b) --
(1.06) 0.64
1.04 1.11
.66

August 31, -

1996 1997
1998 1999
Balance
Sheet Data
(end of
period):
Current
Assets $
24,014 $
27,951 $
26,185 $
29,267 Total
Assets
187,850
203,799
239,964
262,958
Current
Liabilities
24,728
34,426
35,444
47,680 Long-
term debt
132,521
148,453
177,431
196,216
Redeemable
preferred
stock - - -
-
Stockholders'
deficit - -
- -
Partner's
capital -
General
Partner 307

208 273 176
Partners'
capital -
Limited
Partner(f)
30,294
20,712
26,816
18,886

Period Ended
Years ended
August 31,
August 9, -----

1996(e) 1997
1998 1999 2000
Operating Data
(unaudited):
EBITDA(c) $
24,365 $ 28,718
$ 37,792 $
41,047 $ 42,373
Capital
Expenditures(d)
Maintenance and
growth 7,244
7,170 9,359
14,974 12,931
Acquisition
16,665 14,549
23,276 17,931
46,801 Retail
propane gallons
sold 118,200
125,605 146,747
159,938 170,891

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

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

(c) EBITDA is defined as operating income plus non-cash compensation, depreciation and amortization (including the EBITDA of investees). EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations), but provides additional information for evaluating the Partnership's ability to make the Minimum Quarterly Distribution. The minority interest of MP Energy Partnership, a majority owned partnership, is deducted from the EBITDA calculation.

(d) Capital expenditures fall generally into three categories: (i) maintenance capital expenditures of approximately $5.1 for the period ended August 9, 2000 and $4.6, $3.6 and $2.3 million in fiscal 1999, 1998 and 1997, respectively, which include expenditures for repairs that extend the life of the assets and replacement of property, plant and equipment, (ii) growth capital expenditures, which include expenditures for purchases of new propane tanks and other equipment to facilitate retail customer base expansion, and (iii) acquisition capital expenditures, which include expenditures related to the acquisition of retail propane operations and the portion of the purchase price allocated to intangibles associated with such acquired businesses.

(e) Reflects unaudited pro forma information for Predecessor Heritage as if the Partnership formation had occurred as of the beginning of the period presented.

(f) Partners' Capital is anticipated to decrease to the extent depreciation and amortization exceeds maintenance capital expenditure requirements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

FORWARD-LOOKING STATEMENTS

CERTAIN MATTERS DISCUSSED IN THIS REPORT, EXCLUDING HISTORICAL INFORMATION, AS WELL AS SOME STATEMENTS BY HERITAGE IN PERIODIC PRESS RELEASES AND SOME ORAL STATEMENTS OF HERITAGE OFFICIALS DURING PRESENTATIONS ABOUT THE PARTNERSHIP, INCLUDE CERTAIN "FORWARD-LOOKING" STATEMENTS. ALTHOUGH HERITAGE BELIEVES SUCH FORWARD-LOOKING STATEMENTS ARE BASED ON REASONABLE ASSUMPTIONS AND CURRENT EXPECTATIONS AND PROJECTIONS ABOUT FUTURE EVENTS, NO ASSURANCE CAN BE GIVEN THAT EVERY OBJECTIVE WILL BE REACHED. SUCH STATEMENTS ARE MADE IN RELIANCE ON THE "SAFE HARBOR" PROTECTIONS PROVIDED UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

AS REQUIRED BY THAT LAW, HERITAGE HEREBY IDENTIFIES THE FOLLOWING IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM ANY RESULTS PROJECTED, FORECASTED, ESTIMATED OR BUDGETED BY HERITAGE IN FORWARD-LOOKING STATEMENTS. THESE INCLUDE:

- CHANGES IN GENERAL ECONOMIC CONDITIONS IN THE UNITED STATES AS WELL AS CHANGES IN GENERAL ECONOMIC CONDITIONS AND CURRENCIES IN FOREIGN COUNTRIES;

- WEATHER CONDITIONS THAT VARY SIGNIFICANTLY FROM HISTORICALLY NORMAL CONDITIONS;

- ITS SUCCESS IN HEDGING ITS POSITIONS;

- THE EFFECTIVENESS OF RISK-MANAGEMENT POLICIES AND PROCEDURES AND THE ABILITY OF HERITAGE'S LIQUIDS MARKETING COUNTERPARTIES TO SATISFY THEIR FINANCIAL COMMITMENTS;

- THE GENERAL LEVEL OF PETROLEUM PRODUCT DEMAND, AND THE AVAILABILITY OF PROPANE SUPPLIES;

- ENERGY PRICES GENERALLY AND SPECIFICALLY, THE PRICE OF PROPANE TO THE CONSUMER COMPARED TO THE PRICE OF ALTERNATIVE AND COMPETING FUELS;

- COMPETITION FROM OTHER PROPANE DISTRIBUTORS AND ALTERNATE FUELS;

- THE AVAILABILITY AND COST OF CAPITAL;

- CHANGES IN LAWS AND REGULATIONS TO WHICH HERITAGE IS SUBJECT, INCLUDING TAX, ENVIRONMENTAL AND EMPLOYMENT REGULATIONS;

- ITS ABILITY TO GENERATE AVAILABLE CASH FOR DISTRIBUTIONS TO UNITHOLDERS;

- THE COSTS AND EFFECTS OF LEGAL AND ADMINISTRATIVE PROCEEDINGS AGAINST IT WHICH MAY BE BROUGHT AGAINST IT;

- ITS ABILITY TO SUSTAIN HISTORICAL LEVELS OF INTERNAL GROWTH; AND

- ITS ABILITY TO CONTINUE TO LOCATE AND ACQUIRE OTHER PROPANE COMPANIES AT PURCHASE PRICES THAT ARE ACCRETIVE TO ITS FINANCIAL RESULTS.

WEATHER AND SEASONALITY

Heritage's propane distribution business is seasonal and dependent upon weather conditions in its service areas. Propane sales to residential and commercial customers are affected by winter heating season requirements. This generally results in higher operating revenues and net income during the period from October through March of each year and lower operating revenues and either net losses or lower net income during the period from April through September of each year. Sales to industrial and agricultural customers are much less weather sensitive.

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

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

GENERAL

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

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

Since its formation in 1989, Heritage has grown primarily through acquisitions of retail propane operations and, to a lesser extent, through internal growth. Through August 9, 2000, Predecessor Heritage completed 68

acquisitions for an aggregate purchase price of approximately $297 million. Predecessor Heritage completed 40 of these acquisitions since its initial public offering on June 25, 1996. During the period from August 10, 2000 and August 31, 2001, Heritage completed 12 additional acquisitions, for an aggregate purchase price of $119.1 million, not including the merger of U.S. Propane and Predecessor Heritage. On August 1, 2001, Heritage acquired the operations of ProFlame, Inc. (ProFlame) and related propane distribution companies in California and Nevada. ProFlame delivered approximately 38 million retail and wholesale gallons of propane for its fiscal year ended August 31, 2000 to over 32,000 customers. ProFlame's propane distribution network includes 20 customer service locations throughout California and Nevada, as well as 11 additional sites that are either railcar terminals and/or storage facilities located in areas such as the San Francisco Bay, San Joaquin Valley, Redding and Barstow, California, and in Reno and Las Vegas, Nevada. The general partner believes that Heritage is the fourth largest retail marketer of propane in the United States, based on retail gallons sold. As of November 5, 2001, Heritage serves over 600,000 customers through approximately 275 customer service locations in 28 states.

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

A substantial portion of Heritage's propane is used in the heating-sensitive residential and commercial markets causing the temperatures realized in Heritage's areas of operations, particularly during the six-month peak-heating season, to have a significant effect on its financial performance. In any given area, sustained warmer-than-normal temperatures will tend to result in reduced propane use, while sustained colder-than-normal temperatures will tend to result in greater propane use. Heritage therefore uses information on normal temperatures in understanding how temperatures that are colder or warmer than normal affect historical results of operations and in preparing forecasts of future operations, which assumes that normal weather will prevail in each of the regions in which it operates.

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

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

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

In August 2000, U.S. Propane acquired all of the outstanding common stock of Heritage Holdings, Inc., Heritage Propane Partner, L.P.'s general partner, for $120 million. By virtue of Heritage Holdings, Inc.'s general partner and limited partner interests in Heritage Propane Partners, L.P., U.S. Propane gained control of Heritage Propane Partners, L.P. Simultaneously, U.S. Propane transferred its propane operations, consisting of its interest in four separate limited liability companies, AGL Propane, L.L.C., Peoples Gas Company, L.L.C., United Cities Propane Gas, L.L.C. and Retail Propane Company, L.L.C. (former Piedmont operations) to Heritage Propane Partners, L.P. for $181.4 million plus working capital. The $181.4 million was payable $139.5 million in cash, $31.8 million of assumed debt, and the issuance of 372,392 common units of the Heritage Propane Partners, L.P. valued at $7.3 million and a 1.0101% limited partner interest in Heritage Operating, L.P. valued at $2.7 million. An independent committee of the Board of Directors of Heritage Holdings, Inc, approved the purchase price and the exchange price for the common units. Subsequent to August 31, 2000, additional payments of approximately $12.9 million were made for working capital. The exchange price for the common units was $19.73125 per unit under a formula based on the average closing price of Heritage Propane Partners, L.P.'s common units on the New York Stock Exchange for the twenty (20) day period beginning ten (10) days prior to the public announcement of the transaction on June 15, 2000.

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

The following discussion of the historical financial condition and results of operations of Heritage Propane Partners, L.P., formerly Peoples Gas, should be read in conjunction with the Selected Historical Financial and Operating Data and notes thereto, and the historical financial statements and notes thereto included elsewhere herein. The formation of U.S. Propane and the merger with Predecessor Heritage affect the comparability of the fiscal year ended August 31, 2001 and the eight months ended August 31, 2000, because the volumes and results of operations of fiscal 2001 include a full year of the volumes and results of operations of the propane operations of the combined operations and also the comparability of the results of the eight months ended August 31, 2000 and August 31, 1999, because the volumes and results of operations for the period from August 10, 2000 through August 31, 2000 also include the volumes and results of operations of AGL Propane, United Cities, Piedmont Propane and Predecessor Heritage. The increases in the line items discussed below are a result of these transactions. Amounts discussed below reflect 100% of the results of M-P Energy Partnership during the period from August 9, 2000 through August 31, 2000 and the fiscal year ended August 31, 2001. M-P Energy Partnership is a general partnership in which Heritage owns a 60% interest. Because M-P Energy Partnership is primarily engaged in lower-margin wholesale distribution, its contribution to Heritage's net income is not significant and the minority interest of this partnership is excluded from the EBITDA calculation.

FISCAL YEAR ENDED AUGUST 31, 2001 COMPARED TO THE EIGHT MONTHS ENDED AUGUST 31, 2000

Volume. Total retail gallons sold in the year ended August 31, 2001 were 330.2 million, an increase of 291.9 million over the 38.3 million gallons sold in the eight months ended August 31, 2000. Predecessor Heritage sold 170.9 million retail gallons in the approximate 11-month period ended August 9, 2000. A return to more normal weather during the peak-heating season plus acquisitions were responsible for the increase.

Heritage sold approximately 101.6 million wholesale gallons during fiscal 2001 of which 12.7 million were domestic wholesale and 88.9 million were foreign wholesale. In the eight months ended August 31, 2000, Heritage sold 0.6 million domestic wholesale gallons and 6.2 million foreign wholesale gallons. The increase in wholesale gallons is attributable to having a full year of the operations of Predecessor Heritage reported in fiscal 2001, as Peoples Gas did not have any wholesale gallons that were reported in the eight months ended August 31, 2000. As a comparison, Predecessor Heritage sold approximately 82.6 million wholesale gallons in the 11-month period ended August 9, 2000 of which 7.1 million were domestic wholesale and 75.5 million were foreign wholesale.

Revenues. Total revenues for the fiscal year ended August 31, 2001 were $715.5 million an increase of $652.4 million as compared to $63.1 million in the eight months ended August 31, 2000. Revenues for the propane operations of Predecessor Heritage for the approximate 11-month period ended August 9, 2000 were $242.5 million. Retail revenues for the fiscal year ended August 31, 2001 were $440.5 million as compared to $43.8 million for the eight months ended August 31, 2000, an increase of $396.7 million. Predecessor Heritage reported retail fuel revenues of $178.9 million were in the 11-months ended August 9, 2000. Domestic wholesale revenues were $9.9 million, foreign wholesale revenues were $50.0 million and other revenues were $42.2 for the fiscal year ended August 31, 2001. Heritage also had revenues from its liquids marketing of $172.9 million for fiscal 2001, which began operations in June of 2000. For the eight months ended August 31, 2000, Heritage reported domestic wholesale revenues of $.4 million, foreign wholesale revenues of $3.4 million and revenues from the liquids marketing of $12.3 million. A full year of the combined operations of the propane operations of U.S. Propane, Predecessor Heritage and the additional acquisitions made by Heritage attributed to the increases in the revenues, along with the increase in gallons, due to the return of more normal weather patterns, higher selling prices and the effect of the operations of previous acquisitions in fiscal 2001 as compared to periods reported last year.

Cost of Products Sold. Total cost of products sold in fiscal 2001 increased $436.5 million to $478.0 million as compared to $41.5 million for the eight months ended August 31, 2000. Of this increase, $160.0 million is the result of the liquids marketing due to the increased related revenues. Retail fuel cost of sales were $238.1 million for the fiscal year ended August 31, 2001, an increase of $212.7 million, as compared to $25.4 million for the eight months ended August 31, 2000. Predecessor Heritage reported total cost of sales of $140.8 million in the 11-month period ended August 9, 2000, of which $95.1 million was for retail fuel cost of sales. Wholesale cost of sales increased $53.4 million of which $44.7 million was related to foreign cost of sales. Other cost of sales increased to $11.4 million as compared to $1.0 million due to a full year of the combined operations of the propane operations of U.S. Propane and Predecessor Heritage coupled with the acquisitions made during fiscal 2001. Fuel cost of sales increased due to the increases in volumes described above and due to the significantly higher wholesale cost of propane for fiscal year ended August 31, 2001 as compared to the eight-month period last year.

Gross Profit. Total gross profit increased to $237.4 million in fiscal 2001 as compared to $21.6 million for the eight months ended August 31, 2000. This increase is due to the aforementioned increases in volumes and revenues, offset by the increase in product costs. For the fiscal year ended August 31, 2001, retail fuel gross profit was $202.4 million, domestic wholesale was $.8 million, and other gross profit was $30.7 million. Foreign wholesale gross profit was $2.0 million and liquids marketing gross profit was $1.4 million for the fiscal year ended August 31, 2001. As a comparison, for the eleven month period ended August 9, 2000, Predecessor Heritage recorded retail fuel gross profit of $83.8 million, wholesale fuel gross profit of $.6 million, foreign gross profit of $1.5 million and other of $15.8 million, for a total gross profit of $101.7 million.

Operating Expenses. Operating expenses were $126.8 million for fiscal 2001 as compared to $16.6 million for the eight-month period ended August 31, 2000. The increase of $110.2 million is the result of the additional operating expenses related to a full year of the combined propane operations of U.S. Propane, Predecessor Heritage and the additional acquisitions made by Heritage. Predecessor Heritage reported operating expenses of $55.1 million in the eleven-month period ended August 9, 2000.

Selling, General and Administrative. Selling, general and administrative expenses were $15.7 million for the fiscal year ended August 31, 2001 as compared to $1.0 million for the eight months ended August 31, 2000. Peoples Gas did not classify any of its operating expenses as selling, general and administrative, so as a comparison Predecessor Heritage had selling, general and administrative, expenses of $6.0 million for the eleven month period ended August 31, 2000. The increase in selling, general and administrative expenses is primarily due to the growth of Heritage resulting from the merger of U.S. Propane and Predecessor Heritage, other acquisitions and the additional executive compensation that relates to this fiscal year's operating performance.

Depreciation and Amortization. Depreciation and amortization for the fiscal year ended August 31, 2001 was $40.4 million, an increase of $35.7 millions as compared to $4.7 million in the eight months ended August 31, 2000. The increase is primarily attributable to the addition of property, plant and equipment, and intangible assets from the transactions referred to above.

Operating Income (Loss). Heritage reported net income of $54.4 million in fiscal 2001 as compared to the operating loss of $.7 million for the eight months ended August 31, 2000. Predecessor Heritage reported operating income of $23.5 million for the eleven-month period ended August 9, 2000. The increases in gross profit above, offset by the increases in operating and selling, general and administrative expenses and depreciation and amortization, attributed to the increase in operating income.

Provision for Income Taxes. Heritage did not report a provision for income taxes for fiscal 2001. Heritage is a limited partnership and as a result, its earnings or loss for federal income tax purposes is included in the tax returns of the individual partners. Provision for income taxes was $.4 million in the eight months ended August 31, 2000, which represents the provision for income taxes incurred prior to the transactions with Predecessor Heritage. Prior to the transaction with Predecessor Heritage, Peoples Gas filed a consolidated federal income tax return with TECO and, based on a tax sharing agreement, included, in its statements of operations, a provision for income taxes calculated on a separate return basis.

Net Income (Loss). Heritage reported a record net income of $19.7 million, or $1.43 per limited partner unit, for the fiscal year ended August 31, 2001, an increase of $23.5 million over the net loss of $3.8 million for the eight-month period ended August 31, 2000. Predecessor Heritage reported net income of $6.5 million or $0.66 per limited partner unit for the eleven-month period ended August 9, 2000. The increase in net income over the eight-month period ended August 31, 2000 and the eleven-month period ended August 9, 2000, was the result of the increase in operating income described above, plus a nonrecurring gain of $.8 million on the sale of excess property offset by an increase of $33.2 million of interest expense over the interest expense reported in eight months ended August 31, 2000. Interest expense for fiscal 2001 increased due to the increase of debt incurred in the transaction with U.S. Propane.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ANALYSIS OF HISTORICAL RESULTS OF OPERATIONS - PREDECESSOR HERITAGE

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

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

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

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

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

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

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

Cost of Sales. Total cost of sales increased $53.5 million or 61.3% to $140.8 million for the period ended August 9, 2000 as compared to $87.3 million for the fiscal year ended August 31, 1999. This increase is the result of a significant increase in the wholesale propane prices which began increasing during the first fiscal quarter as compared to the low wholesale costs experienced in the fiscal year ended August 31, 1999, the increase in gallons sold and $4.3 million of trading cost of sales which were not in fiscal 1999 cost of sales. Retail fuel cost of sales increased $37.5 million or 65.1% to $95.1 million during the period ended August 9, 2000, as compared to $57.6 million for the fiscal year ended August 31, 1999. Foreign wholesale cost of sales also reflected an increase, going from $19.1 million for the fiscal year ended August 31, 1999 to $29.3 million for the period ended August 9, 2000 due to the impact of the increase in the cost of propane and increased volumes in this area. U. S. wholesale cost of sales increased $.9 million as a result of the higher cost of fuel. Other cost of sales also increased $.7 million due to an increase in other revenues. The pro forma cost of sales for the period ended August 31, 2000, for Predecessor Heritage is approximately $162.8 million, of which $15.8 million represents trading cost of sales that are not in 1999's cost of sales.

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

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

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

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

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

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

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

EBITDA. Earnings before interest, taxes, depreciation and amortization increased $1.4 million to $42.4 million for the period ended August 9, 2000, as compared to fiscal 1999's EBITDA of $41.0 million. The pro forma EBITDA for Predecessor Heritage for the twelve months ended August 31, 2000 was $42.3 million. Heritage's EBITDA includes the EBITDA of investees, but does not include the EBITDA of the minority interest of M-P Energy Partnership. EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations), but provides additional information for evaluating the Partnership's ability to make the Minimum Quarterly Distribution.

LIQUIDITY AND CAPITAL RESOURCES

The ability of Heritage to satisfy its obligations will depend on its future performance, which will be subject to prevailing economic, financial, business and weather conditions and other factors, many of which are beyond its control. Future capital requirements of Heritage are expected to be provided by cash flows from operating activities. To the extent future capital requirements exceed cash flows from operating activities:

a) working capital will be financed by the working capital line of credit and repaid from subsequent seasonal reductions in inventory and accounts receivable;

b) growth capital, mainly for customer tanks, expended will be financed by the revolving acquisition line of credit; and

c) acquisition capital expenditures will be financed by the revolving acquisition line of credit; other lines of credit, long-term debt, the issuance of additional common units or a combination thereof.

Cash Flows

Operating Activities. Cash provided by operating activities for fiscal year ended August 31, 2001 was $28.1 million as compared to cash provided by operating activities of $14.5 million for the eight months ended August 31, 2000. The net cash provided from operations of $28.1 million for the fiscal year ended August 31, 2001 consisted of net income of $19.7 million and noncash charges of $44.1 million, principally depreciation and amortization offset by the increase in working capital items of $35.7 million. Working capital items have increased in fiscal 2001 over the eight-month period ended August 31, 2000 as Heritage has secured more inventory and inventory positions for the coming fiscal year than it had at the same time last year.

Investing Activities. Heritage has completed 10 acquisitions during the fiscal year ended August 31, 2001 investing $94.9 million, net of cash received, to purchase propane companies. This capital expenditure amount is reflected in the cash used in investing activities of $122.3 million along with $23.8 million invested for maintenance

needed to sustain operations at current levels and customer tanks to support growth of operations and $6.2 million on the investment in marketable securities, offset by proceeds of $2.6 million from the sale of excess assets.

Financing Activities. Cash provided by financing activities of $95.0 million during the fiscal year ended August 31, 2001, was primarily from the net proceeds of $66.0 million from the issuance of 2.5 million of common units in an equity offering on July 31, 2001 and the increase in long term debt of $61 million, offset by $31.5 million of cash distributions paid to unitholders and the general partner. The proceeds were used to repay the outstanding indebtedness under the Acquisition Facility, substantially all of which was incurred in the acquisition of ProFlame, with the balance used for general partnership purposes, including additional acquisitions and repayment of debt. On May 24, 2001, Heritage issued an additional $70 million (Series G through I) of the fixed rate senior secured notes. Heritage used the net proceeds from the notes to repay the balance then outstanding under the senior revolving acquisition facility and to reduce other debt (See "Description of Indebtedness" below).

Financing and Sources of Liquidity

Heritage has a Bank Credit Facility, which includes a Working Capital Facility, a revolving credit facility providing for up to $65.0 million of borrowings to be used for working capital and other general partnership purposes, and an Acquisition Facility, a revolving credit facility providing for up to $50.0 million of borrowings to be used for acquisitions and improvements. On July 16, 2001, the Working Capital Facilities was amended to extend its expiration date from June 30, 2002 to June 30, 2004 and the Acquisition Facility was amended to extend its initial expiration date from December 31, 2001 to December 31, 2003, at which time the facility will convert to a term loan payable in quarterly installments with a final maturity of June 30, 2006. See Note 4 - Working Capital Facility and Long-Term Debt of the Consolidated Financial Statements starting on Page F-1 of this report.

Heritage uses its cash provided by operating and financing activities to provide distributions to unitholders and to fund acquisition, maintenance and growth capital expenditures. Acquisition capital expenditures, which include expenditures related to the acquisition of retail propane operations and intangibles associated with such acquired businesses, were $94.9 million for the fiscal year ended August 31, 2001 as compared to Predecessor Heritage's $46.8 million for the period ended August 9, 2000, $17.9 million for fiscal year 1999 and $23.3 million during fiscal 1998. In addition to the $94.9 million of cash expended for acquisitions during fiscal 2001, $6.0 million of common units and $10.0 million for notes payable on non-compete agreements were issued in connection with certain acquisitions. In comparison, in addition to the $46.8 million of cash expended for acquisitions during the period ended August 9, 2000, $4.1 million of common units and $3.6 million for notes payable on non-compete agreements were issued in connection with certain acquisitions. In addition to the $17.9 million of cash expended for acquisitions during fiscal 1999 for Predecessor Heritage, $.5 million of common units and $3.3 million for notes payable on non-compete agreements were issued in connection with certain acquisitions.

Under the partnership agreement, Heritage will distribute to its partners, 45 days after the end of each fiscal quarter, an amount equal to all of its Available Cash for such quarter. Available cash generally means, with respect to any quarter of the Partnership, all cash on hand at the end of such quarter less the amount of cash reserves established by the general partner in its reasonable discretion that is necessary or appropriate to provide for future cash requirements. Heritage's commitment to its unitholders is to distribute the increase in its cash flow while maintaining prudent reserves for the Partnership's operations. Heritage raised the quarterly distribution $0.0125 per unit each quarter during fiscal 2001 from the $0.575 distribution paid on October 16, 2000 for the fourth quarter ended August 31, 2000, to the current level of $0.625 per unit (or $2.50 annually) for the fourth quarter ended August 31, 2001, the fifth consecutive increase. The decision to increase the quarterly distribution resulted from a review of Heritage's and Predecessor Heritage's past financial performance and current projections for available cash due to the merger between U.S. Propane and Heritage. The current distribution level includes incentive distributions payable to the general partner to the extent the quarterly distribution exceeds $.55 per unit ($2.20 annually).

The assets utilized in the propane business do not typically require lengthy manufacturing process time 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.

DESCRIPTION OF INDEBTEDNESS

Predecessor Heritage assumed $120 million principal amount of 8.55% Senior Secured Notes (the "Notes") at the formation of the Partnership in a private placement with institutional investors. Interest is payable semi-annually in arrears on each December 31 and June 30. The Notes have a final maturity of June 30, 2011, with ten equal mandatory repayments of principal beginning on June 30, 2002.

On November 19, 1997, Predecessor Heritage entered into a Note Purchase Agreement ("Medium Term Note Program") that provides for the issuance of up to $100 million of senior secured promissory notes if certain conditions are met. An initial placement of $32 million (Series A and B) at an average interest rate of 7.23% with an average 10-year maturity was completed at the closing of the Medium Term Note Program. Interest is payable semi-annually in arrears on each November 19 and May 19. An additional placement of $15 million (Series C, D and E) at an average interest rate of 6.59% with an average 12-year maturity was completed in March 1998. Interest is payable on Series C, D and E semi-annually in arrears on each September 13 and March 13. The proceeds of the placements were used to refinance amounts outstanding under the Acquisition Facility. No future placements are permitted under the unused portion of the Medium Term Note Program.

On August 10, 2000, Heritage entered into a Note Purchase Agreement ("Senior Secured Promissory Notes") that provides for the issuance of up to $250 million of fixed rate senior secured promissory notes if certain conditions are met. An initial placement of $180 million (Series A through F) at an average rate of 8.66% with an average 13-year maturity was completed in conjunction with the merger with U.S. Propane. Interest is payable quarterly commencing November 15, 2000. The proceeds were used to finance the transaction with U.S. Propane and retire a portion of existing debt. On May 24, 2001, Heritage issued an additional $70 million (Series G through I) of the fixed rate senior secured notes. The Senior Secured Promissory Notes were sold to a group of institutional lenders and have 7-, 12- and 15-year maturities with an average coupon rate of 7.66%. Heritage used the net proceeds from the Senior Secured Promissory Notes to repay the balance outstanding under the Acquisition Facility and to reduce other debt. Interest is payable quarterly commencing August 15, 2001.

The Note Agreements for each of the Notes, Medium Term Note Program, Senior Secured Promissory Notes and Bank Credit Facility contain customary restrictive covenants applicable to the Operating Partnership including limitations on the level of additional indebtedness, creation of liens and sale of assets. In addition, the Operating Partnership must maintain certain ratios of Consolidated Funded Indebtedness to Consolidated EBITDA and Consolidated EBITDA to Consolidated Interest Expense. These Agreements also provide that the Operating Partnership may declare, make or incur a liability to make a restricted payment during each fiscal quarter, if: (a) the amount of such restricted payment, together with all other restricted payments during such quarter, do not exceed Available Cash with respect to the immediately preceding quarter; and (b) no default or event of default exists before such restricted Payment and after giving effect thereto. The Agreements provide that Cash is required to reflect a reserve equal to 50% of the interest to be paid on the notes. In addition, in the third, second and first quarters preceding a quarter in which a scheduled principal payment is to be made on the notes, Available Cash is required to reflect a reserve equal to 25%, 50% and 75%, respectively, of the principal amount to be repaid on such payment dates.

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

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Heritage has very little cash flow exposure due to rate changes for long-term debt obligations. Heritage primarily enters debt obligations to support general corporate purposes including capital expenditures and working capital needs. Heritages long-term debt instruments are typically issued at fixed interest rates. When these debt obligations mature, Heritage may refinance all or a portion of such debt at then-existing market interest rates which may be more or less than the interest rates on the maturing debt.

Commodity price risk arises from the risk of price changes in the propane inventory that Heritage buys and sells. The market price of propane is often subject to volatile changes as a result of supply or other market conditions over which Heritage will have no control. In the past, price changes have generally been passed along to Heritage's and Predecessor Heritage's customers to maintain gross margins, mitigating the commodity price risk. In order to help ensure adequate supply sources are available to Heritage during periods of high demand, Heritage at times will purchase significant volumes of propane during periods of low demand, which generally occur during the summer months, at the then current market price, for storage both at its service centers and in major storage facilities and for future delivery.

Heritage also attempts to minimize the effects of market price fluctuations for its propane supply by entering into certain financial contracts. In order to manage a portion of its propane price market risk, Heritage uses contracts for the forward purchase of propane, propane fixed-price supply agreements, and derivative commodity instruments such as price swap and option contracts. The swap instruments are a contractual agreement to exchange obligations of money between the buyer and seller of the instruments as propane volumes during the pricing period are purchased. The swaps are tied to a fixed price bid by the buyer and a floating price determination for the seller based on certain indices at the end of the relevant trading period. Heritage enters into these swap instruments to hedge the projected propane volumes to be purchased during each of the one-month periods during the projected heating season.

At August 31, 2001, Heritage had outstanding propane hedges (swap agreements) for a total of 33.4 million gallons of propane at a weighted average price of $.5575 per gallon. The fair value of the swap agreement is the amount at which they could be settled, based on estimated market prices. At August 31, 2001, Heritage would have had to pay approximately $4.6 million to terminate the swap agreements then in place, which was recorded as accrued and other liabilities on the balance sheet through other comprehensive income. Also at August 31, 2001, Heritage had outstanding options to purchase 14.7 million gallons of propane during December 2001 and January 2002 at a weighted average price of $.48 per gallon. The fair value of $.2 million of the option contracts was recorded as current assets on the balance sheet. 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 of the Partnership is certain business risks, including market risk and credit risk. Market risk is the risk that the value of the portfolio will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers, or financial 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 ("Resources"). Financial instruments utilized in connection with the liquids marketing activity are accounted for using the mark-to-market method. Under the mark-to-market method of accounting, forwards, swaps, options and storage contracts are reflected at fair value, and are shown in the consolidated balance sheet as assets and liabilities from liquids marketing activities. Unrealized gains and losses from the financial contracts and the impact of price movements are recognized in the income statement, as 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 August 31, 2001 include fixed price payor for 2,130,000 barrels of propane and butane and fixed price receiver of 1,820,000 barrels of propane and butane. Notional amounts reflect the volume of the transactions, but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure Heritage's exposure to market or credit risks.

Fair Value -

The fair value of the financial instruments related to liquids marketing activities as of August 31, 2001, was assets of $6.5 million and liabilities of $7.1 million related to propane and butane. The unrealized loss related to

liquids marketing activities for the fiscal year ended August 31, 2001, was $665 and is recorded through the income statement as other expense. The liquids marketing also had entered an option contract, which the counter party has the option to purchase 6.3 million gallons of propane from October 1, 2001 through December 31, 2001 at $.62 per gallon.

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

SENSITIVITY ANALYSIS

A theoretical change of 10 percent in the underlying commodity value of the liquids marketing contracts would not have a significant impact in the Partnership's financial position as there were approximately 1.3 million gallons of net unbalanced positions at August 31, 2001. Similarly, a theoretical change of 10 percent in the underlying commodity values of the hedge instruments would not have a significant impact, as a change in their fair value would be equally offset by a change in value of the hedged item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

PARTNERSHIP MANAGEMENT

The Board of Directors of the general partner appoints members of the Board to serve on the Independent Committee with the authority to review specific matters to which the Board of Directors believes there may be a conflict of interest in order to determine if the resolution of such conflict proposed by the general partner is fair and reasonable to the Partnership. Any matters approved by the Independent Committee will be conclusively deemed to be fair and reasonable to the Partnership, approved by all partners of the Partnership and not a breach by the general partner or its Board of Directors of any duties they may owe the Partnership or the unitholders. Bill W. Byrne, Stephen L. Cropper and J. Charles Sawyer were appointed to serve as the members of the Independent Committee in September 2000 and reappointed in October of 2001.

In April 2000, in order to avoid and resolve any potential conflict of interest between the shareholders of the general partner and the Partnership and it's unitholders in conjunction with the transactions with U.S. Propane, the Board of Directors of the general partner appointed independent directors J.T. Atkins and Stephen L. Cropper to serve as members of the Special Committee. The Special Committee was granted the authority to evaluate and negotiate the transactions with U.S. Propane on behalf of the Partnership, to retain independent counsel and other advisors for the purpose of receiving a fairness opinion and to recommend to the Board of Directors whether the transactions should be completed and the terms thereof.

The Board of Directors of the general partner has appointed persons who are neither officers nor employees of the Partnership or any affiliates of the Partnership to serve on its Audit Committee. The Audit Committee has the authority and responsibility to review external financial reporting of the Partnership, to engage the Partnership's independent accountants and to review the Partnership's procedures for internal auditing and the adequacy of the Partnership's internal accounting controls. Any matters approved by the Audit Committee will be conclusively deemed to be fair and reasonable to the Partnership, approved by all partners of the Partnership and not a breach by the general partner or its Board of Directors of any duties they may owe the Partnership or the unitholders. In September 2000, Bill W. Byrne, Stephen L. Cropper and J. Charles Sawyer were appointed to serve as member of the Audit Committee. The same individuals were reappointed in October of 2001.

Eight of the thirteen directors are filled by the appointment of two designees of each of the four joint venture members of U.S. Propane: TECO; AGL Resources; Piedmont Natural Gas; and Atmos pursuant to an agreement amount the joint venture members. In addition, Mr. Bertelsmeyer's employment agreement specifies that he serve as Chairman of the Board.

The Partnership does not directly employ any of the persons responsible for managing or operating the Partnership. At August 31, 2001, the general partner employed 2,340 full time individuals.

DIRECTORS AND EXECUTIVE OFFICERS OF THE GENERAL PARTNER

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

Name	Age	Position with General Partner
H. Michael Krimbill(1)	47	President and Chief Executive Officer, and Director
James E. Bertelsmeyer	59	Chairman of the Board and Director
R. C. Mills	64	Executive Vice President and Chief Operating Officer
Larry J. Dagley(3)	53	Vice President, Chief Financial Officer, Secretary & Treasurer
Bradley K. Atkinson	46	Vice President of Corporate Development
Mark A. Darr(4)	41	Vice President - Southern Operations
Thomas H. Rose(4)	57	Vice President - Northern Operations
Curtis L. Weishahn(4)	48	Vice President - Western Operations
Bill W. Byrne	71	Director of the General Partner
J. Charles Sawyer	64	Director of the General Partner
Stephen L.		

Cropper(2)
51 Director
of the
General
Partner J.
Patrick
Reddy(1) 49
Director of
the General
Partner Tom
S. Hawkins,
Jr.(5) 45
Director of
the General
Partner
Royston K.
Eustace(1)
60 Director
of the
General
Partner
William N.
Cantrell(1)
49 Director
of the
General
Partner
Ware F.
Schiefer(1)
64 Director
of the
General
Partner
Clayton H.
Preble(1)
54 Director
of the
General
Partner
David J.
Dzuricky(1)
50 Director
of the
General
Partner
Paul
Shlanta(5)
44 Director
of the
General
Partner
J.D.
Woodward(6)
52 Director
of the
General
Partner
Richard T.
O'Brien(6)
47 Director
of the
General
Partner

(1) Elected to the Board of Directors August 2000.

(2) Elected to the Board of Directors April 2000.

(3) Elected Vice President and Chief Financial Officer August 2000.

(4) Elected an Executive Officer July 2000.

(5) Elected to the Board of Directors August 2000 and resigned October 2001.

(6) Elected to the Board of Directors October 2001.

H. Michael Krimbill. Mr. Krimbill was Treasurer of a publicly traded, fully integrated oil company prior to joining Heritage as Vice President and Chief Financial Officer in 1990. Mr. Krimbill was promoted to President of Heritage in April 1999 and to Chief Executive Officer in March 2000. Mr.

Krimbill is a director of the National Propane Gas Association, (the "Association").

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

R. C. Mills. Mr. Mills has over 40 years of experience in the propane industry. Mr. Mills joined Heritage in 1991 as Executive Vice President and Chief Operating Officer. Before coming to Heritage, Mr. Mills spent 25 years with Texgas Corporation and its successor, Suburban Propane, Inc. At the time he left Suburban in 1991, Mr. Mills was Vice President of Supply and Wholesale.

Larry J. Dagley. Mr. Dagley became Heritage's Vice President and Chief Financial Officer in August 2000, following with transaction with U.S. Propane. Prior to joining Heritage, Mr. Dagley was Chief Operating Officer of U.S. Propane, LLC for approximately three months during its transition in the transaction between U.S. Propane and Heritage. Prior to that time, Mr. Dagley served as Executive Vice President and Chief Financial Officer of Atmos Energy Corporation, a Dallas-based gas distribution company from May 1998 until April 2000 and Senior Vice President and Chief Financial Officer of Pacific Enterprises, a California-based holding company whose primary subsidiary is Southern California Gas Company from August 1995 until April 1997; and Senior Vice President and Chief Financial Officer for Transco Energy Company, a Houston-based natural gas pipeline company; and as Audit Partner with Arthur Andersen & Co., where he supervised audit and financial consulting engagements in the energy industry.

Bradley K. Atkinson. Mr. Atkinson joined Heritage on April 16, 1998 as Vice President Administration. Prior to joining Heritage, Mr. Atkinson spent twelve years with MAPCO/Thermogas, eight of which were spent in the acquisitions and business development of Thermogas. Mr. Atkinson was promoted to Vice President of Corporate Development in August 2000.

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

Thomas H. Rose. Mr. Rose has 26 years of experience in the propane industry. Mr. Rose joined Heritage in November 1994 as Vice President and Regional Manager. Prior to joining Heritage, Mr. Rose held Regional Manager positions with Texgas Corporation, its successor, Suburban Propane, and later Vision Energy of Florida. Mr. Rose was appointed Vice President - Northern Operations in July 2000.

Curtis L. Weishahn. Mr. Weishahn has 24 years experience in the propane industry. Mr. Weishahn joined Heritage in 1995 as Vice President and Regional Manager and was elected Vice President - Western Operations in July 2000. Prior to joining Heritage, Mr. Weishahn owned his own propane business, which was acquired by Heritage. Prior to that time, Mr. Weishahn spent twelve years with Amerigas/CalGas where, at the time of departing, he was Director of Marketing/Strategic Development for the Western United States.

Bill W. Byrne. Mr. Byrne is the principal of Byrne & Associates, LLC, a gas liquids consulting group based in Tulsa, Oklahoma, and has held that position since 1992. Prior to that time, he served as Vice President of Warren Petroleum Company, the gas liquids division of Chevron Corporation, from 1982-1992. Mr. Byrne has served as a director of Heritage since 1992 and is Chairman of the Audit Committee. Mr. Byrne is a former president and director of the Association.

J. Charles Sawyer. Mr. Sawyer is the President and Chief Executive Officer of Computer Energy, Inc., a provider of software of the propane industry, and has held that position since 1984. Mr. Sawyer was Chief Executive Officer of Sawyer Gas Co., a regional propane distributor, until it was purchased by Heritage in 1991. Mr. Sawyer has served as a director of Heritage since 1991 and is a member of the Audit Committee. Mr. Sawyer is a former president and director of the Association.

Stephen L. Cropper. Mr. Cropper spent 25 years with The Williams Companies before retiring in 1998. From January 1996 until the time of his retirement in December 1998, Mr. Cropper was President and Chief Executive Officer of Williams Energy Services. Mr. Cropper has served as a director of Heritage since April 2000 and is a member of the both the Independent and the Audit Committee.

J. Patrick Reddy. Mr. Reddy is the Senior Vice President and Chief Financial Officer of Atmos Energy Corporation ("Atmos") and has held that position since October 2000. Prior to being named to that position, Mr. Reddy served as Atmos' Senior Vice President, Chief Financial Officer and Treasurer from April 2000 to September 2000, and prior to that time he served as Atmos' Vice President and Treasurer from December 1998 to April 2000.

Prior to joining Atmos in August 1998 as Vice President, Corporate Development, Mr. Reddy held a number of management positions with Pacific Enterprises, Inc. for 18 years, including Vice President, Planning & Advisory Services from 1995 to August 1998. Mr. Reddy has served as a director of Heritage since August 2000 and is a member of the Compensation Committee.

Tom S. Hawkins, Jr. Mr. Hawkins is the President of Energas Company, a division of Atmos Energy Corporation, and has held that position since November 2000. Prior to being named to that position, he was Vice President - Planning of Atmos Energy Corporation from September 1997 through November 2000, and prior to that time he served as the Vice President - Finance of United Cities Gas Company from June 1995 through September 1997. Mr. Hawkins served as a director of Heritage from August 2000 to October 2001.

Royston K. Eustace. Mr. Eustace is the Senior Vice President of Business Development for TECO Energy, Inc. ("TECO") and has held that position since 1998. Mr. Eustace is also the President of TECO Coalbed Methane and TECO Oil & Gas and has held those positions since 1991 and 1995, respectively. Mr. Eustace joined TECO in 1987 as its Vice President of Strategic Planning and Business Development. Mr. Eustace has served as a director of Heritage since August 2000.

William N. Cantrell. Mr. Cantrell is the President of Peoples Gas System, a gas distribution company. He has held that position since June 1997. Mr. Cantrell is also the President of TECO Solutions, an energy services company providing services primarily in Florida. Peoples Gas System and TECO Solutions are subsidiaries of TECO Energy, where Mr. Cantrell has been employed since 1975. Mr. Cantrell has served as a director of Heritage since August 2000.

Ware F. Schiefer. Mr. Schiefer is the President and Chief Executive Officer of Piedmont Natural Gas Company, Inc. ("Piedmont") and has held that position since February 2000. Mr. Schiefer is also a director of Piedmont. From February 1999 to February 2000, he served as Piedmont's Chief Operating Officer. From 1995 to 1999, Mr. Schiefer served as Executive Vice President, and prior to that time her served as Piedmont's Vice President - Marketing and Gas Supply. Mr. Schiefer has served as a director of Heritage since August 2000.

Clayton H. Preble. Mr. Preble is the Senior Vice President of AGL Resources, Inc. ("AGL") since and has held that position since June 1999. Prior to being named to that position, Mr. Preble served as the Senior Vice President - - Direct Marketing of SouthStar Energy Services, L.L.C. and as the President of The Energy Spring, Inc., both affiliates of AGL. Mr. Preble joined AGL in 1970 and served in various executive capacities prior to these positions. Mr. Preble has served as a director of Heritage since August 2000.

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

Paul Shlanta. Mr. Shlanta is Senior Vice President and General Counsel of AGL Resources, Inc., and has held that position since September 1998. Prior to being named to that position, he was a partner in the law firm of Rowe, Fultz & Martin, P.C. in Atlanta, Georgia. Mr. Shlanta also serves as a director of SouthStar Energy Services, L.L.C. Mr. Shlanta served as a director of Heritage from August 2000 to October 2001.

J.D. Woodward. Mr. Woodward is Senior Vice President of Non Utility Operations Atmos Energy and has held that position since April 2000. Prior to being named to that position, he was President of Woodward Marketing, in Houston Texas from 1986-1995. Mr. Woodward was named a director of Heritage October 2001.

Richard T. O'Brien. Mr. O'Brien is Senior Vice President and Chief Financial Officer of AGL Resources, Inc. and has held that position since May 2001. Prior to being named to that position, he was Vice President of Mirant (formerly Southern Energy) and President of Mirant Capital Management, LLC from March 2000 to April 2001 in Atlanta, Georgia and held various executive positions with PacifiCorp in Portland, Oregon during the period of 1983 to 2000. Mr. O'Brien was named a director of Heritage October 2001.

COMPENSATION OF THE GENERAL PARTNER.

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

The general partner has a 1.9899% general partner interest in the combined operations of the Partnership and the Operating Partnership.

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

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

Based solely on its review of the copies of such forms received by the general partner, or written representations from certain reporting persons that no Form 5's were required for those persons, the general partner believes that during fiscal year ending August 31, 2001, all filing requirements applicable to its officers, directors, and greater than 10% beneficial owners were met in a timely manner other than one late Form 4 filing for Bradley K. Atkinson.

ITEM 11. EXECUTIVE COMPENSATION.

The following table sets forth the annual salary, bonus and all other compensation awards and payouts for each of the past three fiscal years earned by: (i) all persons serving as the general partner's Chief Executive Officer during fiscal year 2001; (ii) the four next highly compensated executive officers other than the Chief Executive Officer, who served as executive officers of the general partner during the 2001 fiscal year; and (iii) any persons who would have been reported had they been an executive officer of the general partner at the end of the 2001 fiscal year.

Name and Principal Position	Year	Salary	Bonus (1)	Other Annual Compensation (2)	All Other Compensation
James E. Bertelsmeyer	2001	$ 193,500	$ --	$ 400	$ --
Chairman of the Board	2000	387,297	--	695	129,306
	1999	356,150	--	1,078	--
H. Michael Krimbill	2001	$ 350,000	$ 280,000	$ 242	$ --

President
and Chief
2000
251,678 --
193 214,838
Executive
Officer
1999
211,255 --
267 -- R.
C. Mills
2001 $
335,000 $
280,000 $
1,066 $ --
Executive
Vice
President
2000
244,732 --
822 129,306
and Chief
Operating
Officer
1999
234,770 --
1,257 --
Larry J.
Dagley 2001
$ 325,000 $
280,000 $
372 $ --
Vice
President
and 2000 --
-- -- --
Chief
Financial
Officer
1999 -- --
-- --
Bradley K.
Atkinson
2001 $
200,000 $
280,000 $
145 $ --
Vice
President -
2000
134,836
125,000 72
131,718
Corporate
Development
1999
128,910 --
125 --

(1) Consists of life insurance premiums.

(2) Consists of the value of common units issued pursuant to the vesting rights of the Restricted Unit Plan.

EMPLOYMENT AGREEMENTS

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

The Employment Agreement for Mr. Bertelsmeyer has an initial term of two years starting August 2000. The Employment Agreements for Messrs. Krimbill, Mills, Dagley, Atkinson, Weishahn, Rose and M. Darr (each an "Executive") have an initial term of three years starting August 2000. However, for each Executive with the three year Employment Agreement, beginning on the second anniversary of the effective date and on each day thereafter the expiration date shall be automatically extended one additional day unless either party (i) shall give written notice to the other that the Term shall cease to be so extended beginning immediately after the date of such notice or (ii) shall give a Notice of Termination to the other by delivering notice to the Chairman of the Board, or in the event of the Executive's death. The Employment Agreements provide for an annual base salary of $193,500, $350,000, $335,000, $325,000, $200,000, $150,000, $135,000 and $135,000 ("Base Salary") for each of Messrs. Bertelsmeyer, Krimbill, Mills, Dagley, Atkinson, Weishahn, Rose and M. Darr, respectively. The Board shall review the Base Salary at least annually and may adjust the amount of the Base Salary at any time, as the Board may deem appropriate in its sole discretion; provided, however, that in no event may the Base Salary be decreased below the above stated amount without the prior written consent of the employee. The Employment Agreements provide the Executives to participate in bonus and incentive plans. The Employment Agreements also provide for the Executive and, where applicable, the Executive's dependents, to have the right to participate in benefit plans made available to other executives of Heritage including the Restricted Unit Plan and the Long-Term Incentive Plan described below.

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

RESTRICTED UNIT PLAN

The general partner has adopted the Amended and Restated Restricted Unit Plan dated August 10, 2000 (the "Restricted Unit Plan"), previously filed as an exhibit, for certain directors and key employees of the general partner and its affiliates. The Restricted Unit Plan covers rights to acquire 146,000 common units. The right to acquire the common units under the Restricted Unit Plan, including any forfeiture or lapse of rights are available for grant to key employees on such terms and conditions (including vesting conditions) as the Compensation Committee of the general partner shall determine. Each director shall automatically receive a Director's grant with respect to 500 common units on each September 1 that such person continues as a director. Newly elected directors are also entitled to receive a grant with respect to 2,000 common units upon election or appointment to the Board.

Messrs. Bertelsmeyer and Krimbill are not entitled to receive a Director's Grant of common units but may receive common units as employees. Directors who are employees of TECO, Atmos, Piedmont or AGL or their affiliates are not entitled to receive a Director's grant of common units. Generally, the rights to acquire the common units will vest upon the later to occur of (i) the three-year anniversary of the grant date, or (ii) the conversion of the Subordinated units to common units. Grants made after the conversion of all of the Subordinated units to common units shall vest on such terms as the Committee may establish, which may include the achievement of performance objectives. In the event of a "change of control" (as defined in the Restricted Unit Plan), all rights to acquire common units pursuant to the Restricted Unit Plan will immediately vest.

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

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

The issuance of the common units pursuant to the Restricted Unit Plan is intended to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation in respect of the common units. Therefore, no consideration will be payable by the plan participants upon vesting and issuance of the common units. As of August 31, 2001, 34,050 restricted units granted to non-employee directors and key employees were outstanding. Compensation expense of $.3 million and $.5 million was recognized for fiscal year 2001 and the eight months ended August 31, 2000, respectively. See Note 6 of the Consolidated Financial Statements, which begin on page F-1 of this Report. Compensation expense of $.3 million was recognized in Predecessor Heritage's financial statements for the period ended August 9, 2000 and $.4 million and $.2 million for fiscal years 1999 and 1998, respectively. See Note 5 of Predecessor Heritage's Consolidated Financial Statements that begin on page F-26 of this Report.

The following table sets forth the number of grants awarded in the last fiscal year that may result in the issuance of common units under the Restricted Unit Plan to persons serving as executive officers of the Company:

Number of
Performance
or Shares,
Units or
Other
Period
Until
Threshold
Target
Maximum
Name Other
Rights(#)
Maturation
or Payout
(#) (#)
(#) - ----

------ ---

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

-- Larry J. Dagley 15,000(1) (1) 15,000 15,000 15,000

(1) In accordance with the change in control provision of the Restricted Unit Plan, this grant specifies the terms and conditions for the participant to become vested in the units. Unless earlier terminated, the rights to acquire the phantom units granted October 2000, will vest on the later of the third anniversary of this grant.

LONG-TERM INCENTIVE PLAN

Effective September 1, 2000, Heritage adopted a long-term incentive plan whereby units will be awarded based on achieving certain targeted levels of Distributed Cash per unit to the Executive Officers and other employees at their discretion. Awards under the program will be made starting in 2003 based upon the average of the prior there years Distributed Cash per unit. A minimum of 250,000 units and a maximum of 500,000 units will be awarded if the targeted levels are achieved. Compensation expense of $.8 million was recognized for the fiscal year 2001.

COMPENSATION OF DIRECTORS

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

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee of the Board of Directors of the general partner determines compensation of the executive officers of Heritage. Royston K. Eustace, Bill W. Byrne and J. Charles Sawyer served as members of the Compensation Committee.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of November 2, 2001, regarding the beneficial ownership by certain beneficial owners, all directors and named executive officers of the general partner and Heritage, each of the named executive officers and all directors and executive officers of the general partner as a group, of (i) the common and Subordinated units of Heritage Propane Partners, L.P., and (ii) the common stock of the general partner. The general partner knows of no other person beneficially owning more than 5% of the common units.

HERITAGE PROPANE PARTNERS, L.P. UNITS

Title of Class	Name and Address(1) of Beneficial Owner	Beneficially Owned(2)	Percent of Class
Common Units	James E. Bertelsmeyer(3)	153,351	1.08%
	H. Michael Krimbill(3)	111,000	*
	R.C. Mills(3)	103,000	*
	Larry J. Dagley	6,000	*
	Bradley K. Atkinson	13,600	*
	Bill W. Byrne	77,657	*
	J. Charles Sawyer	68,157	*
	Stephen L. Cropper	5,000	*
	J. Patrick Reddy	--	*
	Tom S. Hawkins, Jr. (4)	--	*
	Royston K. Eustace	--	*
	William N. Cantrell	--	*
	Ware F.		

Schiefer -- *
David J.
Dzuricky -- *
Clayton H.
Preble -- *
Paul Shlanta(4)
-- * J.D.
Woodward(4) --
* Richard T.
O'Brien(4) -- *
All Directors
and Executive
Officers as a
group (19
persons)
616,755 4.32%
Heritage
Holdings, Inc.
(5) 4,105,977
28.79% U.S.
Propane L.P.(5)
372,392 2.61%
Class B
Subordinated
Units James E.
Bertelsmeyer
946,946 68.49%
H. Michael
Krimbill
211,059 15.27%
R.C. Mills
224,509 16.24%

* Less than one percent (1%)

(1) The address for Heritage Holdings, Inc., Mr. Krimbill, Mr. Dagley and Mr. Atkinson is 8801 S. Yale, Suite 310, Tulsa, Oklahoma 74137. The address for U.S. Propane is 702 N. Franklin Street, Tampa, Florida 33602. The address for each of Messrs. Bertelsmeyer and Mills is 5000 Sawgrass Village Circle, Suite 4, Ponte Vedra Beach, Florida 32082.

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

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

(4) Mr. Woodward replaced Mr. Hawkins and Mr. O'Brien replaced Mr. Shlanta on the Board of Directors effective as of October 20, 2001.

(5) U.S. Propane, L.P. owns 100% of the common stock of Heritage Holdings, Inc. and may be deemed to beneficially own the common units owned by Heritage Holdings. AGL Propane Services, Inc., United Cities Propane Gas, Inc., TECO Propane Ventures, LLC and Piedmont Propane Company own a 22.358%, 18.968%, 37.976% and 20.688%, respectively, limited partner interest in U.S. Propane, L.P. U.S. Propane, L.L.C. is the general partner of U.S. Propane, L.P. with a .01% general partner interest. The members of U.S. Propane L.L.C. and their respective membership interest is as follows:

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

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

(a) 1. FINANCIAL STATEMENTS.

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

2. FINANCIAL STATEMENT SCHEDULES.

None.

3. EXHIBITS.

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

(b) REPORTS ON FORM 8-K.

Heritage Propane Partners, L.P. filed five reports on Form 8-K during the three months ended August 31, 2001. Form 8-K dated July 12, 2001, was filed reporting the announcement that Heritage had entered into definitive agreements to acquire the operations of ProFlame, Inc. (ProFlame) and related propane distribution companies in California and Nevada. Attached as an exhibit to this Form 8-K was the press release dated July 5, 2001 making the announcement.

Form 8-K dated July 24, 2001, filed as exhibits the financial statements and the pro forma financial information of ProFlame, Inc. and Subsidiaries and Affiliates under Item 5. Other Events. This report provided the (i) Unaudited ProForma Combines Financial Statements for the Nine months Ended May 31, 2001 and the Year Ended August 31, 2000 and related notes and (ii) ProFlame, Inc. and Subsidiaries and Affiliates Consolidated and Combined Financial Statements for the Years Ended August 31, 2000 and 1999 and related notes and for the Nine Months ended May 31, 2001 and 2000 (unaudited). This Form 8-K also filed as an exhibit the consent of Arthur Andersen LLP.

Form 8-K dated July 27, 2001, was filed in connection with the public offering (the "Offering") of up to 2,875,000 common units (the "Offered Units") representing limited partner interests in the Partnership, including common units issuable pursuant to an over-allotment option granted to underwriters, under the Partnership's shelf registration statement on Form S-3 (Registration No. 333-86057) (the "Registration Statement") as supplemented by the Prospectus Supplement dated July 26, 2001 relating to the Offered Units filed with the Securities and Exchange Commission pursuant to Rule 424(b) under the Securities Act of 1933, as amended. In connection with the Offering, the Partnership, Heritage Holdings, Inc. and Heritage Operating, L.P. entered into an underwriting agreement with Salomon Smith Barney Inc., A.G. Edwards & Sons, Inc. Dain Rauscher Incorporated and First Union Securities, Inc. on July 26, 2001, which was filed as an exhibit to the Form 8-K. Opinions of Baker Botts L.L.P. as to the legality of the securities registered and as to certain tax matters, along with their consent were also included as exhibits to this Form 8-K. The opinion as to certain tax matters replaced the opinions as to tax matters previously filed as exhibits to the Registration Statement. The opinions of Baker Botts L.L.P. were filed as exhibits to the Form 8-K Report in lieu of filing them as exhibits to the Registration Statement by means of a post-effective amendment, and incorporated by reference into the Registration Statement.

Form 8-K/A to the August 10, 2000 Form 8-K was filed on July 27, 2001 to amend the Form 8-K of Heritage Propane Partners, L.P. dated August 10, 2000 and filed with Securities and Exchange Commission on August 23, 2000, as amended by the Form 8-K/A of Heritage dated August 10, 2000 and filed with the Commission on October 24, 3000, by filing the consents of Deloitte and Touch LLP (two separate consents), Ernst & Young LLP and Arthur Andersen LLP.

From 8-K dated August 15, 2001 was filed to report the acquisition of the propane operations of ProFlame, Inc., and subsidiaries and affiliates in a series of mergers, stock purchases and asset purchases. The report described the transaction and attached as exhibits the Stock Purchase Agreement dated July 5, 2001 among the shareholders of ProFlame Inc. and Heritage Holdings, Inc., the Stock Purchase Agreement dated as of July 5, 2001 among the shareholders of Coast Liquid Gas, Inc. and Heritage Holdings, Inc., the 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., the Agreement and Plan of Merger dated as of July 5, 2001 among Growth Properties the Majority Shareholders of Growth Properties signatories thereto, Heritage Holdings, Inc. and Growth Properties Merger Corp., the 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., the Asset Purchase Agreement dated as of July 5, 2001 among WMJB, Inc. the Shareholders of WMJB, Inc. and Heritage Operating, L.P., the Amendment to Asset Purchase Agreement dated as of July 5, 2001 among WMJB, Inc., the Shareholders of WMJB, Inc. and Heritage Operating, L.P. and the Press Release dated August 31, 2001 announcing the transaction.

INDEX TO FINANCIAL STATEMENTS

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES
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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Heritage Propane Partners, L.P. (a Delaware limited partnership) and subsidiaries, formerly Peoples Gas Company, as of August 31, 2001 and 2000 and the related consolidated statements of operations, comprehensive income (loss), partners' capital and cash flows for the year ended August 31, 2001, the eight month period ended August 31, 2000, and for each of the two years in the period ended December 31, 1999. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heritage Propane Partners, L.P. and subsidiaries, formerly Peoples Gas Company, as of August 31, 2001 and 2000, and the results of their operations and their cash flows for the year ended August 31, 2001, the eight month period ended August 31, 2000, and for each of the two years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Tulsa, Oklahoma
October 19, 2001

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

CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)

	AUGUST 31, 2001	AUGUST 31, 2000
ASSETS		
CURRENT ASSETS:		
Cash	$ 5,620	$ 4,845
Marketable Securities	4,245	--
Accounts receivable, net of allowance for doubtful accounts	40,221	31,855
Inventories	66,814	39,045
Assets from liquids marketing	6,465	4,133
Prepaid expenses and other	14,898	4,991
Total current assets	138,263	84,869
PROPERTY, PLANT AND EQUIPMENT, net	394,742	339,366
INVESTMENT IN AFFILIATES	6,920	5,795
INTANGIBLES AND OTHER ASSETS, net	218,242	185,749
Total assets	$ 758,167	$ 615,779
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Working capital facility	$ 19,900	$ 24,200
Accounts		

payable
43,164
43,244
Accounts
payable to
related
companies
7,937 3,814
Accrued and
other
current
liabilities
33,404
24,682
Liabilities
from liquids
marketing
7,130 3,684
Current
maturities
of long-term
debt 16,120
2,588 ------
--- --------
- Total
current
liabilities
127,655
102,212
LONG-TERM
DEBT, less
current
maturities
423,748
361,990
MINORITY
INTERESTS
5,350 4,821
COMMITMENTS
AND
CONTINGENCIES
--------- --

Total
liabilities
556,753
469,023 ----
----- ------

PARTNERS'
CAPITAL:
Common
unitholders
(14,260,316
and
9,674,146
units issued
190,548
106,221 and
outstanding,
respectively)
Subordinated
unitholders
(1,851,471
issued and
outstanding
at August
31, 2000) --
23,130 Class
B
subordinated
unitholders
(1,382,514
units issued
and
outstanding)
15,532
16,466 Class
C
unitholders
(1,000,000

units issued and outstanding) -- --
General partner 1,875 939
Accumulated other comprehensive loss (6,541) -- ---------

Total partners' capital 201,414 146,756 ---------
------ --- Total liabilities and partners' capital $ 758,167 $ 615,779
=========
=========

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

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

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

For the Eight Months Ended For the Years Ended For the Year August 31, December 31, Ended August 31,

	2001	2000	1999	1999	1998
				(Unaudited)	
REVENUES:					
Retail fuel	$ 440,527	$ 43,815	$ 21,766	$ 34,045	$ 30,187
Wholesale fuel	59,879	3,807	--	--	--
Liquids marketing	172,875	12,262	--	--	--
Other	42,172	3,188	--	--	--
Total revenues	715,453	63,072	21,766	34,045	30,187
COSTS AND EXPENSES:					
Cost of products sold	306,556	29,962	8,467	14,849	12,283
Liquids marketing	171,478	11,538	--	--	--
Operating expenses	126,849	16,581	8,596	13,223	11,088
Depreciation and					

amortization
40,431 4,686
2,037 3,088
2,855
Selling,
general and
administrative
15,716 1,019
-- -- -- ----
-------- ----
-------- ----
-------- ----
-------- ----

Total costs
and expenses
661,030
63,786 19,100
31,160 26,226

OPERATING
INCOME (LOSS)
54,423 (714)
2,666 2,885
3,961 OTHER
INCOME
(EXPENSE):
Interest
expense
(35,567)
(2,409) -- --
-- Equity in
earnings
(losses) of
affiliates
1,250 (67) --
-- -- Gain on
disposal of
assets 812
121 -- -- --
Other (394)
(478) 11 10
(478) -------
----- -------
----- -------
----- -------
----- -------
----- INCOME
(LOSS) BEFORE
MINORITY
INTERESTS AND
INCOME TAXES
20,524
(3,547) 2,677
2,895 3,483
Minority
interests
(814) 80 -- -
- -- --------
---- --------
---- --------
---- --------
---- --------
---- INCOME
(LOSS) BEFORE
INCOME TAXES
19,710
(3,467) 2,677
2,895 3,483
Income taxes
-- 379 1,035
1,127 1,412 -
----------- -
----------- -
----------- -
----------- -

NET INCOME (LOSS)	19,710	(3,846)	1,642	1,768	2,071
GENERAL PARTNER'S INTEREST IN NET INCOME (LOSS)	831	(46)	4	4	5
LIMITED PARTNERS' INTEREST IN NET INCOME (LOSS)	$ 18,879	$ (3,800)	$ 1,638	$ 1,764	$ 2,066
BASIC NET INCOME (LOSS) PER LIMITED PARTNER UNIT	$ 1.43	$ (.37)	$ .94	$ 1.02	$ 1.19
BASIC AVERAGE NUMBER OF UNITS OUTSTANDING	13,223,184	10,225,387	1,732,271	1,732,271	1,732,271
DILUTED NET INCOME (LOSS) PER LIMITED PARTNER UNIT	$ 1.42	$ (.37)	$ .94	$ 1.02	$ 1.19
DILUTED AVERAGE NUMBER OF UNITS OUTSTANDING	13,254,908	10,225,387	1,732,271	1,732,271	1,732,271

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

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

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

For the Eight Months Ended For the Years Ended For the Year August 31, December 31, Ended August 31,

	2001	2000	1999	1999	1998
			(Unaudited)		
Net income (loss)	$ 19,710	$ (3,846)	$ 1,642	$ 1,768	$ 2,071
Other comprehensive income:					
Unrealized loss on derivative instruments	(4,464)	--	--	--	--
Unrealized loss on available-for-sale securities	(2,077)	--	--	--	--
Comprehensive income (loss)	$ 13,169	$ (3,846)	$ 1,642	$ 1,768	$ 2,071
RECONCILIATION OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)					
Balance, beginning of period	$ --	$ --	$ --	$ --	$ --
Cumulative effect of the adoption of SFAS 133	5,429	--	--	--	--
Current period reclassification to earnings	(3,844)	--	--	--	--
Current period change	(8,126)	--	--	--	--

- -------- ----
---- Balance,
end of period $
(6,541) $ -- $
-- $ -- $ --
========
========
========
========
========

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

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

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

Number of
Units ------

- Class B
Common
Subordinated
Subordinated
Class C
Common
Subordinated

BALANCE,
DECEMBER 31,
1997
1,294,873
437,398 -- -
- $ 11,585 $
3,872 Net
income -- --
-- -- 1,549
517
Dividends
paid to
parent -- --
-- --
(1,475)
(491) ------
----- ------
----- ------
----- ------
----- ------
----- ------

BALANCE,
DECEMBER 31,
1998
1,294,873
437,398 -- -
- 11,659
3,898 Net
income -- --
-- -- 1,323
441
Dividends
paid to
parent -- --
-- --
(1,688)
(563) ------
----- ------
----- ------
----- ------
----- ------
----- ------

BALANCE,
DECEMBER 31,
1999
1,294,873
437,398 -- -
- 11,294
3,776

Dividends paid to parent -- -- -- -- (1,132) (377) Liabilities retained by parent -- -- -- -- 21,080 7,051 Merger with AGL, Atmos, and Piedmont -- -- -- -- 83,410 28,085 Merger with Predecessor Heritage 8,379,273 1,414,073 1,382,514 1,000,000 (4,080) (14,657) General partner capital contribution -- -- -- -- -- -- Other -- -- -- -- (1,502) (285) Net loss -- -- -- -- (2,849) (463) ----------- ----------- ----------- ----------- ----------- ----------- BALANCE, AUGUST 31, 2000 9,674,146 1,851,471 1,382,514 1,000,000 106,221 23,130 Unit distribution -- -- -- -- (23,183) (4,397) Issuance of common units 2,500,000 -- -- -- 66,046 -- Conversion of phantom units 72,050 -- -- -- 323 -- Issuance of restricted common units 216,917 -- -- -- 6,050 -- General partner capital contribution (54,268) -- -- -- (1,520) -- Conversion of subordinated units 1,851,471 (1,851,471) -- -- 24,214 (24,214) Cumulative effect of the adoption of SFAS 133 -- -- -- -- -- -- Net change in accumulated other comprehensive income per accompanying statements - - -- -- -- - - -- Other - - -- -- -- 1,349 -- Net income -- -- -- -- 11,048 5,481 ------ ----- ------ ----- ------ ----- ------ ----- ------ ----- ------ ----- BALANCE, AUGUST 31, 2001 14,260,316 - - 1,382,514 1,000,000 $ 190,548 $ -- =========== =========== =========== =========== =========== =========== Accumulated Other Class B General Comprehensive Subordinated Class C Partner Income Total ------------ ----------- ----------- ------------ - ---------- - BALANCE, DECEMBER 31, 1997 $ -- $ -- $ 39 $ -- $ 15,496 Net income -- -- 5 -- 2,071 Dividends paid to parent -- -- (5) -- (1,971) ---- ------- ---- ------- ---- ------- ---- ------- ---- ------- BALANCE, DECEMBER 31, 1998 -- -- 39 -- 15,596 Net income - - -- 4 --

1,768
Dividends paid to parent -- -- (6) -- (2,257) ---- ------- ---- ------- ---- ------- ---- ------- ---- -------
BALANCE, DECEMBER 31, 1999 -- -- 37 -- 15,107
Dividends paid to parent -- -- (4) -- (1,513)
Liabilities retained by parent -- -- 71 -- 28,202
Merger with AGL, Atmos, and Piedmont -- -- 843 -- 112,338
Merger with Predecessor Heritage 17,167 -- (523) -- (2,093)
General partner capital contribution -- -- 581 -- 581
Other (213) -- (20) -- (2,020)
Net loss (488) -- (46) -- (3,846) ---- ------- ---- ------- ---- ------- ---- ------- ---- -------
BALANCE, AUGUST 31, 2000 16,466 -- 939 -- 146,756
Unit distribution (3,284) -- (663) -- (31,527)
Issuance of common units -- -- -- -- 66,046
Conversion of phantom units -- -- -- -- 323
Issuance of restricted common units -- -- -- -- 6,050
General partner capital contribution -- -- 768 -- (752)
Conversion

of
subordinated
units -- --
-- -- --
Cumulative
effect of
the adoption
of SFAS 133
-- -- --
5,429 5,429
Net change
in
accumulated
other
comprehensive
income per
accompanying
statements -
- -- --
(11,970)
(11,970)
Other -- --
-- -- 1,349
Net income
2,350 -- 831
-- 19,710 --
--------- --
--------- --
--------- --
--------- --

BALANCE,
AUGUST 31,
2001 $
15,532 $ --
$ 1,875 $
(6,541) $
201,414
===========
===========
===========
===========
===========

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

For the Eight For the Year Months For the Years Ended Ended Ended December 31, August 31, August 31, -------------------- 2001 2000 1999 1998 ------------ ------------- --------- --------- CASH FLOWS FROM OPERATING ACTIVITIES: Net income (loss) $ 19,710 $ (3,846) $ 1,768 $ 2,071 Reconciliation of net income (loss) to net cash provided by operating activities- Depreciation and amortization 40,431 4,686 3,088 2,855 Provision for loss on accounts receivable 4,055 -- -- -- Gain on disposal of assets (812) (121) -- -- Deferred compensation on restricted units and long term 1,079 509 -- -- incentive plan Undistributed earnings of affiliates (1,125) 67 -- -- Minority interests 463 700 -- -- Deferred income taxes -- -- 517 444 Changes in assets and liabilities, net of effect of acquisitions: Accounts receivable

(4,533)
(5,109)
(2,051) 698
Inventories
(24,158)
(7,274) (413)
255 Assets
from liquids
marketing
(2,332)
(3,909) -- --
Prepaid and
other
expenses
(12,331) 142
51 22
Intangibles
and other
assets 1,730
-- (97) --
Accounts
payable
(3,166)
17,976 511
(300)
Accounts
payable to
related
companies
4,123 5,057
6,064 4,226
Accrued and
other current
liabilities
1,476 5,630
(85) (1,052)
Liabilities
from liquids
marketing
3,446 -- -- -
- --------- -
-------- ----
----- -------
-- Net cash
provided by
operating
activities
28,056 14,508
9,353 9,219 -
-------- ----
----- -------
-- ---------
CASH FLOWS
FROM
INVESTING
ACTIVITIES:
Cash paid for
acquisitions,
net of cash
acquired
(94,860)
(177,067)
(1,015)
(1,719)
Capital
expenditures
(23,854)
(3,559)
(6,176)
(5,328)
Proceeds from
the sale of
assets 2,620
-- -- --
Investment in
marketable
securities
(6,225) -- --
-- Other --
(2,411) -- --
--------- ---

------ ------
--- ---------
Net cash used
in investing
activities
(122,319)
(183,037)
(7,191)
(7,047) -----
---- --------
- --------- -
-------- CASH
FLOWS FROM
FINANCING
ACTIVITIES:
Proceeds from
borrowings
356,748
193,032 -- --
Principal
payments on
debt
(295,788)
(67,898) --
(346) Net
proceeds from
issuance of
common units
66,046 22,924
-- -- Net
proceeds from
issuance of
subordinated
units --
27,279 -- --
Debt issuance
costs (441)
(1,052) -- --
Capital
contributions
-- 581 -- --
Unit
distributions
(31,527) -- -
- --
Dividends
paid to
parent --
(1,513)
(2,257)
(1,971) -----
---- --------
- --------- -
-------- Net
cash provided
by (used in)
financing
activities
95,038
173,353
(2,257)
(2,317) -----
---- --------
- --------- -

INCREASE
(DECREASE) IN
CASH 775
4,824 (95)
(145) CASH,
beginning of
period 4,845
21 116 261 --
------- -----
---- --------
- ---------
CASH, end of
period $
5,620 $ 4,845
$ 21 $ 116
=========

NONCASH FINANCING ACTIVITIES:				
Notes payable incurred on noncompete agreements	$ 10,030	$ 809	$ 200	$ 253
General partner capital contribution	$ (752)	$ --	$ --	$ --
Issuance of restricted common units	$ 6,050	$ --	$ --	$ --
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid during the period for interest	$ 35,541	$ 581	$ --	$ --
Cash paid to parent for income taxes under tax sharing agreement, net	$ --	$ 1,028	$ 851	$ 582

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands, except unit and per unit data)
(Unaudited as to August 31, 1999 data)

1. OPERATIONS AND ORGANIZATION:

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

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

In August 2000, U.S. Propane acquired all of the outstanding common stock of Heritage Holdings, Inc., (the "General Partner" or "Heritage Holdings"), the General Partner of Heritage Propane Partners, L.P. for $120,000. By virtue of Heritage Holdings, Inc.'s general partner and limited partner interests in Heritage Propane Partners, L.P., U.S. Propane gained control of Heritage Propane Partners, L.P. Simultaneously, U.S. Propane transferred its propane operations, consisting of its interest in four separate limited liability companies, AGL Propane, L.L.C., Peoples Gas Company, L.L.C., United Cities Propane Gas, L.L.C. and Retail Propane Company, L.L.C. (former Piedmont operations), (collectively, the "Propane LLCs"), to Heritage Propane Partners, L.P. for $181,395 plus working capital. The $181,395 was payable $139,552 in cash, $31,843 of assumed debt, and the issuance of 372,392 Common Units of Heritage Propane Partners, L.P. valued at $7,348 and a 1.0101 percent limited partner interest in Heritage Propane Partners, L.P.'s operating partnership, Heritage Operating, L.P., valued at $2,652. The purchase price and the exchange price for the Common Units were approved by an independent committee of the Board of Directors of Heritage Holdings, Inc. The exchange price for the Common Units was $19.73125 per unit under a formula based on the average closing price of Heritage Propane Partners L.P.'s Common Units on the New York Stock Exchange for the twenty (20) day period beginning ten (10) days prior to the public announcement of the transaction on June 15, 2000 (the "Formula Price"). Subsequent to August 31, 2000, payments totaling approximately $12,900 were made for the working capital adjustment, of which $5,000 was accrued at August 31, 2000.

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

The merger was accounted for as a reverse acquisition in accordance with Accounting Principles Board Opinion No. 16. The propane operations of Heritage Propane Partners, L.P. prior to the series of transactions with U.S. Propane are referred to as Predecessor Heritage. Although Predecessor Heritage is the surviving entity for legal purposes, U.S. Propane's propane operations is the acquirer for accounting purposes. The assets and liabilities of Predecessor Heritage have been recorded at fair value to the extent acquired by U.S. Propane's propane operations, approximately 36 percent, in accordance with Emerging Issues Task Force Issue No. 90-13, "Accounting for Simultaneous Common Control Mergers." The assets and liabilities of U.S. Propane have been recorded at historical cost, as recorded in the U.S. Propane transaction described above. The combined operations of Predecessor Heritage and U.S. Propane are referred to herein as "Heritage." Although the equity accounts of Peoples Gas survive the merger, Predecessor Heritage's partnership structure and partnership units survive.

Accordingly, the equity accounts of Peoples Gas have been restated based on the general partner interest and common units received by Peoples Gas in the merger.

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

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

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

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

The accompanying financial statements for the eight month period ended August 31, 2000 include the results of operations for Peoples Gas and the results of operations of Predecessor Heritage, Piedmont, AGL and United Cities beginning August 10, 2000. The financial statements of Peoples Gas are the financial statements of the registrant as Peoples Gas was the acquirer in the transaction in which U.S. Propane was formed. The accompanying financial statements for the periods ended December 31, 1999 and 1998 have been presented on a carve-out basis and reflect the historical results of operations, financial position and cash flows of Peoples Gas. As discussed further in Note 8, certain expenses in the financial statements include allocations from TECO Energy, Inc. (TECO) and other wholly-owned subsidiaries of TECO. Management believes that the allocations were made on a reasonable basis; however, the allocations of costs and expenses do not necessarily indicate the costs that would have been incurred by Peoples Gas on a stand-alone basis. Also, the financial statements may not necessarily reflect what the financial position, results of operations and cash flows of Peoples Gas would have been if Peoples Gas had been a separate, stand-alone company during the periods presented.

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

8-
months
12-
months
Ended
Ended
August
31,
2000
December
31,
1999 --

Net revenues	$ 316,555	$ 299,600
Net income (loss)	$ 4,712	$ (1,662)
Basic and diluted earnings (loss) per common unit	$ .36	$ (.14)

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

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

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

Partnership. In addition, the General Partner holds a 1.0101 percent general partner interest and U.S. Propane holds a 1.0101 percent limited partner interest in the Operating Partnership.

The Operating Partnership sells propane and propane-related products to more than 600,000 active residential, commercial, industrial and agricultural customers in 29 states. Heritage is also a wholesale propane supplier in the southwestern and southeastern United States and in Canada, the latter through participation in M-P Energy Partnership. M-P Energy Partnership is a Canadian partnership primarily engaged in lower-margin wholesale distribution in which Heritage owns a 60 percent interest.

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

PRINCIPLES OF CONSOLIDATION

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

REVENUE RECOGNITION

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

ACCOUNTS RECEIVABLE

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

	August 31, 2001	August 31, 2000
Accounts receivable	$ 43,797	$ 31,855
Less - allowance for doubtful accounts	3,576	--
Total, net	$ 40,221	$ 31,855
Allowance for doubtful accounts:		
Balance, beginning of the year	--	
Provision for loss on accounts receivable	4,055	
Accounts receivable written		

off, net of recoveries	(479)
Balance, end of period	$ 3,576

INVENTORIES

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

	August 31, 2001	August 31, 2000
Fuel	$56,975	$30,882
Appliances, parts and fittings	9,839	8,163
	$66,814	$39,045

PROPERTY, PLANT AND EQUIPMENT

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

	August 31, 2001	August 31, 2000
Land and improvements	$ 21,244	$ 16,648
Buildings and improvements (10 to 30 years)	27,871	22,483
Bulk storage, equipment and facilities (3 to 30 years)	34,431	28,210
Tanks and other equipment (5 to 30 years)	287,155	241,934
Vehicles (5 to 10 years)	52,177	41,125
Furniture and fixtures (5 to 10 years)	6,852	5,262
Other	3,242	2,995
	432,972	358,657
Less - Accumulated depreciation	(47,036)	(23,948)
	385,936	334,709
Plus - Construction work-in-process	8,806	4,657
Property, plant and equipment, net $		

	394,742	$ 339,366
	=========	=========

INTANGIBLES AND OTHER ASSETS

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

	August 31, 2001	August 31, 2000
Goodwill (30 years)	$ 158,622	$ 133,569
Noncompete agreements (10 to 15 years)	40,764	30,649
Customer lists (15 years)	26,903	18,713
Other	6,055	4,808
	232,344	187,739
Less - Accumulated amortization	(14,102)	(1,990)
Intangibles and other assets, net	$ 218,242	$ 185,749
	=========	=========

LONG-LIVED ASSETS

Heritage reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such a review should indicate that the carrying amount of long-lived assets is not recoverable, Heritage reduces the carrying amount of such assets to fair value. No impairment of long-lived assets was required during the year ended August 31, 2001, the period ended August 31, 2000 or the years ended December 31, 1999 and 1998.

ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities consisted of the following:

	August 31, 2001	August 31, 2000
Interest payable	$ 4,542	$ 4,647
Wages and payroll taxes	5,117	3,337
Deferred tank rent	5,694	2,568
Advanced budget payments	5,883	160
Customer deposits	2,425	2,220
Taxes other than income	2,430	2,523
U.S. Propane working capital payable	--	5,000
Derivative instruments	4,556	--
Other	2,757	4,227
Accrued and other current liabilities	$33,404	$24,682

INCOME TAXES

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

Heritage is a limited partnership. As a result, Heritage's earnings or losses for federal income tax purposes are included in the tax returns of the individual partners. Accordingly, because of the merger, no recognition has been given to income taxes in the accompanying financial statements of Heritage for the year ended August 31, 2001 or the period ended August 31, 2000, except those incurred by Peoples Gas prior to the series of transactions with U.S. Propane and Predecessor Heritage. Net earnings for financial statement purposes may differ significantly from taxable income reportable to unit holders as a result of differences between the tax basis and financial reporting basis of assets and liabilities and the taxable income allocation requirements under the partnership agreement.

INCOME (LOSS) PER LIMITED PARTNER UNIT

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

	Eight Months Ended August 31,	Year Ended December 31,	Year Ended August 31,		
	2001	2000	1999	1999	1998
BASIC NET INCOME (LOSS) PER LIMITED PARTNER UNIT:					
Limited Partners' interest in net income (loss)	$ 18,879	$ (3,800)	$ 1,638	$ 1,764	$ 2,066
Weighted average limited partner units	13,223,184	10,225,387	1,732,271	1,732,271	1,732,271
Basic net income (loss) per limited partner unit	$ 1.43				

$ (.37) $
.94 $ 1.02
$ 1.19
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DILUTED NET
INCOME
(LOSS) PER
LIMITED
PARTNER
UNIT:
Limited
partners'
interest in
net income
(loss) $
18,879 $
(3,800) $
1,638 $
1,764 $
2,066
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Eight Months Ended Year Ended Year Ended August 31, December 31, August 31,

	2001	2000	1999	1999	1998
Weighted average limited partner units	13,223,184	10,225,387	1,732,271	1,732,271	1,732,271
Dilutive effect of Phantom Units	31,724	--	--	--	--
Weighted average limited partner units, assuming dilutive effect of Phantom Units	13,254,908	10,225,387	1,732,271	1,732,271	1,732,271
Diluted net income (loss) per limited partner unit	$ 1.42	$ (.37)	$ .94	$ 1.02	$ 1.19

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates include allowances for doubtful accounts, derivative hedging instruments and liquids marketing assets and liabilities. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform with the 2001 presentation. These reclassifications have no impact on net income or net assets.

FAIR VALUE

The carrying amounts of accounts receivable and accounts payable approximate their fair value. Based on the estimated borrowing rates currently available to Heritage for long-term loans with similar terms and average maturities, the aggregate fair value at August 31, 2000 of long-term debt approximated the aggregate carrying amount. The fair value and carrying amount of long-term debt at August 31, 2001 was approximately $465,690 and $439,868, respectively. The fair value is determined using estimated borrowing rates currently available to the Company for loans with similar terms and maturities.

SFAS 133 ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, and for hedging activities, be recorded on the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. Heritage adopted the provisions of SFAS 133 effective September 1, 2000. The cumulative effect of adopting SFAS 133 was an adjustment to beginning other comprehensive income of $5,429.

Heritage had certain financial swap instruments outstanding at August 31, 2001 that have been designated as cash flow hedging instruments in accordance with SFAS 133. A financial swap is a contractual agreement to exchange obligations of money between the buyer and seller of the instruments as propane volumes during the pricing period are purchased. The swaps are tied to a set fixed price for the buyer and floating price determinants for the seller priced on certain indices. Heritage entered into these instruments to hedge the forecasted propane volumes to be purchased during each of the one-month periods ending October 2001 through March 2002. Heritage utilizes hedging transactions to provide price protection against significant fluctuations in propane prices. These instruments had a fair value of ($4,556) as of August 31, 2001, which was recorded as accrued and other liabilities on the balance sheet through other comprehensive income, exclusive of ($92) of minority interest. Also at August 31, 2001, Heritage had outstanding options to purchase 14.7 million gallons of propane during December 2001 and January 2002 at a weighted average price of $.48 per gallon. The fair value of $.2 million of the option contracts was recorded as current assets on the balance sheet. During the year ended August 31, 2001, Heritage reclassified into earnings a gain of $3,844 that was reported in accumulated other comprehensive income. There were no ineffective hedges or discontinued hedges as of August 31, 2001.

MARKETABLE SECURITIES

Heritage's marketable securities are classified as available-for-sale securities and are reflected as a current asset on the consolidated balance sheet at their fair value. Unrealized holding losses of $2,077 for the year ended August 31, 2001 was recorded through accumulated other comprehensive income based on the market value of the securities.

LIQUIDS MARKETING ACTIVITIES

Heritage buys and sells financial instruments for its own account through Resources. Financial instruments utilized in connection with liquids marketing activities are accounted for using the mark-to-market method. Under the mark-to-market method of accounting, forwards, swaps, options and storage contracts are reflected at fair value, and are shown in the consolidated balance sheets 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 liquids marketing activities result primarily from changes in the market prices, newly originated transactions and the timing of settlement. Resources attempts to balance its contractual portfolio in terms of notional amounts and timing of performance and delivery obligations. However, net unbalanced positions can exist or are established based on assessment of anticipated market movements.

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

Notional Amounts and Terms -

The notional amounts and terms of these financial instruments as of August 31, 2001 include fixed price payor for 2,130,000 barrels of propane and butane, and fixed price receiver of 1,820,000 barrels of propane and butane. Notional amounts reflect the volume of the transactions, but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure Heritage's exposure to market or credit risks.

Fair Value -

The fair value of the financial instruments related to liquids marketing activities as of August 31, 2001, was assets of $6,465 and liabilities of $7,130. The unrealized loss related to liquids marketing activities for the year ended August 31, 2001, was $665 and is recorded through the income statement as other income (loss). Resources also entered an option contract in which the counter party has the option to purchase 6.3 million gallons of propane from October 1, 2001 through December 31, 2001 at $.62 per gallon.

Market and Credit Risk -

Inherent in the resulting contractual portfolio are certain business risks, including market risk and credit risk. Market risk is the risk that the value of the portfolio will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers, or financial counterparties to a contract. Heritage and Resources take active roles in managing and controlling market and credit risk and have established control procedures, which are reviewed on an ongoing basis. Heritage monitors market risk through a variety of techniques, including routine reporting to senior management. Heritage attempts to minimize credit risk exposure through credit policies and periodic monitoring procedures.

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

RECENTLY ISSUED ACCOUNTING STANDARD NOT YET ADOPTED

In June 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement No. 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting. Under Statement 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based test. Additionally, an acquired intangible asset should be separately

recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the acquirer's intent to do so. There will be more recognized intangible assets, such as unpatented technology and database content, being separated from goodwill. Those assets will be amortized over their useful lives, other than assets that have an indefinite life. Statement No. 142 is required to be applied starting with fiscal years beginning after December 15, 2001. Early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not previously been issued.

Heritage adopted Statement No. 142 on September 1, 2001 and accordingly has discontinued the amortization of goodwill existing at the time of adoption. Management has engaged an independent appraisal firm to perform an assessment of the fair value of each of Heritage's operating segments, which will be compared with the carrying value of each segment to determine whether any impairment exists on the date of adoption. Under the provisions of Statement No. 142, Heritage has six months from the time of adoption to have its appraisals completed. However, management does not believe that any impairment existed at adoption. The adoption of Statement No. 142 will eliminate goodwill amortization that would have totaled approximately $5,704 in fiscal 2002, based on the balances of August 31, 2001, and totaled approximately $5,051 in fiscal 2001.

In June 2001, the FASB issued Statement No. 143, Accounting for Asset Retirement Obligations. Statement No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This statement amends FASB Statement No. 19, Financial Accounting and Reporting by Oil and Gas Producing Companies. Heritage will adopt the provisions of Statement No. 143 effective September 1, 2002. Management has not determined the impact of adopting Statement No. 143.

In August 2001, the FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This Statement supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. This statement retains the fundamental provisions of Statement No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used, and measurement of long-lived assets to be disposed of by sale. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years, with early application encouraged. Management has not determined the method, timing or impact of adopting Statement No. 144.

3. ACQUISITIONS:

On July 31, 2001, Heritage purchased the propane operations of ProFlame, Inc. and subsidiaries and affiliates (ProFlame) located in California and Nevada, in a series of mergers, stock purchases and asset purchases. This acquisition was accounted for using the purchase method of accounting under FASB Statement No. 141. The acquisition of ProFlame enhanced Heritage's operations in the Western United States and is expected to reduce costs through blend-ins to existing operations.

The aggregate purchase price was $56,201 net of cash acquired of $6,518. The purchase price included $42,695 paid in cash, of which $2,958 related to preliminary working capital, 129,901 common units valued at $4,450 and liabilities assumed of $9,056. The 129,901 common units were issued to the General Partner in connection with the assumption of certain liabilities by the General Partner. The value of the units was determined based on the market price at the date of acquisition. Management is in the process of obtaining valuations of certain intangible assets; thus, the allocation of the purchase price is preliminary. The working capital adjustment is expected to settle in January 2002.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets, net of cash acquired	$ 4,995
Property, plant and equipment	25,231
Goodwill	15,521
Other intangible assets	10,454
Total assets acquired	56,201
Current liabilities	2,036
Long-term debt	7,020
Total liabilities assumed	9,056
Net assets acquired	$47,145

Of the $10,454 of acquired intangible assets, $7,040 was assigned to non-competes, which are being amortized over a 10 year weighted-average useful life and $3,414 was assigned to customer lists, which are being amortized over 15 year weighted average useful life. Of the $15,521 assigned to goodwill, none is expected to be deductible for tax purposes.

The results of operations of ProFlame from August 1, 2001 through August 31, 2001 are included in the consolidated statement of operations of Heritage for the fiscal year ended August 31, 2001.

The following unaudited pro forma consolidated results of operations are presented as if the series of transactions with ProFlame and Heritage had been made at the beginning of the periods presented.

	Year Ended August 31, 2001	Eight Months Ended August 31, 2001
Total revenues	$766,795	$ 110,698
Net income (loss)	$ 19,492	$ (5,938)
Basic and diluted earnings (loss) per common unit	$ 1.47	$ (.55)

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

Heritage also purchased all of the common stock of EnergyNorth Propane, Inc. and its VGS Propane, LLC subsidiary in northern New England, and all of the stock of one other small company. Heritage acquired substantially all of the assets of seven other companies during the fiscal year ended August 31, 2001. These acquisitions totaled $60,473, which included liabilities assumed and noncompete agreements of $3,010 for periods ranging up to ten years. These acquisitions were financed primarily with the acquisition facility and the issuance of $1,600 of common units.

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

4. WORKING CAPITAL FACILITY AND LONG-TERM DEBT:

Long-term debt consists of the following:

	August 31, 2001	August 31, 2000
1996 8.55% Senior Secured Notes	$ 120,000	$ 120,000
1997 Medium Term Note Program:		
7.17% Series A Senior Secured Notes	12,000	12,000
7.26% Series B Senior Secured Notes	20,000	20,000
6.50% Series C Senior Secured Notes	3,571	4,286
6.59% Series D Senior Secured Notes	5,000	5,000
6.67% Series E Senior Secured Notes	5,000	5,000
2000 and 2001 Senior Secured Promissory Notes:		
8.47% Series A Senior Secured Notes	16,000	16,000
8.55% Series B Senior Secured Notes	32,000	32,000
8.59% Series C Senior Secured Notes	27,000	27,000
8.67% Series D Senior Secured Notes	58,000	58,000
8.75% Series E Senior Secured Notes	7,000	7,000
8.87% Series F Senior Secured Notes	40,000	40,000
7.21% Series G Senior Secured Notes	26,500	--
7.89% Series H Senior Secured Notes	27,500	--
7.99% Series I Senior Secured Notes		

16,000 -- Senior Revolving Acquisition Facility -- 1,900 Notes Payable on noncompete agreements with interest imputed at rates averaging 7.5%, due in installments through 2010, collateralized by a first security lien on certain assets of Heritage 22,579 15,107 Other 1,718 1,285 Current maturities of long-term debt (16,120) (2,588) --------- -------- - $ 423,748 $ 361,990 ========= =========

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

1996 8.55% Senior Notes: mature at the rate of $12,000 on June 30 in each of the years 2002 to and including 2011. Interest is paid semi-annually.

1997 Medium Term Note Program:

Series A Notes: mature at the rate of $2,400 on November 19 in each of the years 2005 to and including 2009. Interest is paid semi-annually.

Series B Notes: mature at the rate of $2,000 on November 19 in each of the years 2003 to and including 2012. Interest is paid semi-annually.

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

Series D Notes: mature at the rate of $556 on March 13 in each of the years 2002 to and including 2010. Interest is paid semi-annually.

Series E Notes: mature at the rate of $714 on March 13 in each of the years 2007 to and including 2013. Interest is paid semi-annually.

2000 and 2001 Senior Secured Promissory Notes:

Series A Notes:	mature at the rate of $3,200 on August 15 in each of the years 2003 to and including 2007. Interest is paid quarterly.
Series B Notes:	mature at the rate of $4,571 on August 15 in each of the years 2004 to and including 2010. Interest is paid quarterly.
Series C Notes:	mature at the rate of $5,750 on August 15 in each of the years 2006 to and including 2007, $4,000 on August 15, 2008 and $5,750 on August 15, 2009 to and including 2010. Interest is paid quarterly.
Series D Notes:	mature at the rate of $12,450 on August 15 in each of the years 2008 and 2009, $7,700 on August 15, 2010, $12,450 on August 15, 2011 and $12,950 on August 15, 2012. Interest is paid quarterly.
Series E Notes:	mature at the rate of $1,000 on August 15 in each of the years 2009 to and including 2015. Interest is paid quarterly.
Series F Notes:	mature at the rate of $3,636 on August 15 in each of the years 2010 to and including 2020. Interest is paid quarterly.
Series G Notes:	mature at the rate of $5,300 on May 15 in each of the years 2004 to and including 2008. Interest is paid quarterly.
Series H Notes:	mature at the rate of $2,500 on May 15 in each of the years 2006 to and including 2016. Interest is paid quarterly.
Series I Notes:	mature in one payment of $16,000 on May 15, 2013. Interest is paid quarterly.

The Senior Secured Notes, the Medium Term Note Program and the Senior Secured Promissory Notes contain restrictive covenants including limitations on substantial disposition of assets, changes in ownership of Heritage and additional indebtedness and require the maintenance of certain financial ratios. At August 31, 2001, Heritage was in compliance with all covenants. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the common stock of Heritage's subsidiaries secure the notes.

Effective December 28, 2000, Heritage entered into the Fourth Amendment to the First Amended and Restated Credit Agreement, and effective July 16, 2001, Heritage entered into the Fifth Amendment to First Amended and Restated Credit Agreement, with various financial institutions that amended existing credit agreements. The terms of the Agreement as amended are as follows:

A $65,000 Senior Revolving Working Capital Facility, expiring June 30, 2004, with $19,900 outstanding at August 31, 2001. 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 5.295 percent for the amount outstanding at August 31, 2001. Heritage must be free of all working capital borrowings for 30 consecutive days each fiscal year. The maximum commitment fee payable on the unused portion of the facility is .50 percent.

A $50,000 Senior Revolving Acquisition Facility is available through December 31, 2003, at which time the outstanding amount must be paid in ten equal quarterly installments, beginning March 31, 2004. There were no amounts outstanding as of August 31, 2001. The interest rate and interest payment dates vary depending on the terms Heritage agrees to when the money is borrowed. The maximum commitment fee payable on the unused portion of the facility is .50 percent.

Future maturities of long-term debt for each of the next five fiscal years and thereafter are $16,120 in 2002; $19,605 in 2003; $31,697 in 2004; $31,998 in 2005; $41,877 in 2006 and $298,571 thereafter.

5. COMMITMENTS AND CONTINGENCIES:

Certain property and equipment is leased under noncancelable leases, which require fixed monthly rental payments and expire at various dates through 2020. Rental expense under these leases totaled approximately $2,708 for the year ended August 31, 2001, $245 for the eight months ended August 31, 2000, and $184 for fiscal 1999 and $119 for fiscal 1998, and has been included in operating expenses in the accompanying statements of operations. Fiscal year future minimum lease commitments for such leases are $2,680 in 2002; $1,830 in 2003; $1,365 in 2004; $1,126 in 2005; $488 in 2006 and $1,052 thereafter.

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

Petroleum-based contamination or environmental wastes are known to be located on or adjacent to six sites, which Heritage presently or formerly had operations. These sites were evaluated at the time of their acquisition. In all cases, remediation operations have been or will be undertaken by others, and in all six cases, Heritage obtained indemnification for expenses associated with any remediation from the former owners or related entities. Additionally, Heritage has been named as a large deminimis generator at one superfund site, but it believes that its exposure will not be material. In the opinion of management and based on information currently available to Heritage, such projects are not expected to have a material adverse effect on Heritage's financial condition or results of operation.

Heritage has entered into several purchase and supply commitments with varying terms as to quantities and prices, which expire at various dates through March 2002.

6. PARTNERS' CAPITAL:

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

All of the subordinated units were held by Heritage Holdings, a wholly owned subsidiary of U.S. Propane and the general partner of the Operating Partnership. The subordinated units were a separate class of limited partner interests and the rights of holders of subordinated units to participate in distributions to partners differed from, and were subordinated to, the rights of the holders of common units.

Under the partnership agreement, 925,736 subordinated units converted into common units as of July 7, 1999, 925,736 subordinated units converted into common units as of July 5, 2000 and the remaining 1,851,471 subordinated units converted into common units as of July 6, 2001. The conversions of the subordinated units occurred and the subordination period ended because Heritage met specified cash performance and distribution requirements during successive four-quarter periods commencing with the initial public offering in June of 1996. As common units issued upon conversion of the subordinated units, the new common units share equally with other common units in distributions of available cash.

The class B subordinated units represent a portion of the limited partner interests issued to certain former stockholders of Heritage Holdings, who are also members of management, in connection with the transaction with U.S. Propane. The class B subordinated units have the same voting rights as the subordinated units outstanding before the end of the subordination period. Each class B subordinated unit is entitled to one vote on each matter with respect to which the class B subordinated units are entitled to vote.

In connection with the transaction with U.S. Propane and because the class B subordinated units are not convertible into common units except by approval of the common unitholders or a change in the rules of the New York Stock Exchange, Heritage agreed to submit to a vote or consent of the common unitholders a proposal to change the terms of the class B subordinated units to provide that each class B subordinated unit is convertible into one common unit. Heritage intends to submit this proposal to its common unitholders by December 31, 2001.

In conjunction with the transaction with U.S. Propane and the change of control of the General Partner, Heritage issued 1,000,000 newly created class C units to Heritage Holdings in conversion of that portion of its incentive distribution rights that entitled it to receive any distribution made by Heritage attributable to the net amount received by Heritage in connection with the settlement, judgment, award or other final nonappealable resolution of specified litigation filed by Heritage prior to the transaction with U.S. Propane, which is referred to as the "litigation". The class C units have zero initial capital account balance and were distributed by Heritage Holdings to its former stockholders in connection with the transaction with U.S. Propane. Thus, U.S.

Propane will not receive any distributions made with respect to the litigation.

On July 31, 2001, Heritage sold 2,500,000 common units in an underwritten public offering at a public offering price of $28.00 per unit. Heritage used $41 million of the approximate net proceeds of $66 million to reduce indebtedness under the Senior Revolving Acquisition Facility, which was incurred in the acquisition of ProFlame. The remainder of the proceeds was used for general partnership purposes, including additional acquisitions and repayment of debt. To effect the transfer of the contribution required by the general partner to maintain its 1% general partner interest in, the General Partner contributed common units to Heritage and those units were cancelled.

On August 1, 2001, Heritage issued 129,901 common units to the General Partner in connection with the assumption of certain liabilities by the general partner from Heritage's acquisition of certain assets of ProFlame. The general partner was entitled to 158,917 common units as a result of this transaction but forwent 1,638 units and 1,605 units, which represented its capital contributions to maintain its 1% interest in Heritage and its 1.0101% interest in the Operating Partnership, respectively, in relation to this transaction. Heritage Holdings also forwent an additional 25,773 common units to which it was entitled in the ProFlame acquisition to maintain its 1.0101% interest in the Operating Partnership. These units were not registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended, by virtue of an exemption under Section 4(2) thereof. These units carry a restrictive legend with regard to transfer of the units.

During fiscal 2001, Heritage issued 58,000 common units in exchange for certain assets in connection with the acquisitions of certain propane businesses, for a total value of $1.6 million. These units were issued utilizing Heritage's Registration Statement No. 333-40407 on Form S-4.

QUARTERLY DISTRIBUTIONS OF AVAILABLE CASH

The partnership agreement requires that Heritage will distribute all of its "available cash" to its unitholders and its general partner within 45 days following the end of each fiscal quarter, subject to the payment of incentive distributions to the holders of Incentive Distribution Rights to the extent that certain target levels of cash distributions are achieved. The term "available cash" generally means, with respect to any fiscal quarter of the partnership, all cash on hand at the end of such quarter, plus working capital borrowings after the end of the quarter, less reserves established by the general partner in its sole discretion to provide for the proper conduct of Heritage's business, comply with applicable laws or any Heritage debt instrument or other agreement, or to provide funds for future distributions to partners with respect to any one or more of the next four quarters. Available cash is more fully defined in the Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P.

The Minimum Quarterly Distribution was made to the Common and Subordinated Unitholders for the quarters ended November 30, 1996 through August 31, 1998. For the quarter ended November 30, 1998, a quarterly distribution of $.5125 was paid to the Common and Subordinated Unitholders. For each of the quarters ended February 28, 1999 through and including May 31, 2000, quarterly distributions of $.5625, respectively, were paid to the Common and Subordinated Unitholders. Heritage raised the quarterly distribution $0.0125 per unit each quarter beginning with the quarter ended August 31, 2000, to the current level of $0.625 per unit (or $2.50 annually) for the quarter ended August 31, 2001. The quarterly distributions for the quarters ended February 28, 1999 through August 31, 2001 included incentive distributions payable to the General Partner to the extent the quarterly distribution exceeded $.55 per unit.

The subordination period ended as a result of the conversion into common units of all remaining outstanding subordinated units (but not class B subordinated units) as described above. Beginning with the fiscal quarter ended August 31, 2001, and as long as class B subordinated units are outstanding, Heritage will distribute available cash, excluding any available cash to be distributed to the class C unitholders, as follows:

- First, 97% to the holders of common units, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership and 2% to the general partner, until the holders of common units have received $0.50 per common unit for such quarter and any prior quarter in which they failed to receive $0.50 per common unit;

- Second, 97% to the holders of class B subordinated units, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership and 2% to the general partner, until the holders of class B subordinated units have received $0.50 per unit for such quarter;

- Third, 97% to all common unitholders and class B subordinated units, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership and 2% to the general partner, until all common unitholders have received at least $0.55 per unit for such quarter;

- Fourth, 84% to all common unitholders and class B subordinated unitholders, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership and 13% to the holders of incentive distribution rights, pro rata and 2% to the general partner, until all common unitholders have received at least $0.635 per unit for such quarter;

- Fifth, 74% to all common unitholders and class B subordinated unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership, 23% to the holders of incentive distribution rights, pro rata, and 2% to the general partner, until all common unitholders have received at least $0.825 per unit for such quarter; and

- Sixth, thereafter 49% to all common unitholders and class B subordinated unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership, 48% to the holders of incentive distribution rights, pro rata, and 2% to the general partner.

If the common unitholders have not approved the conversion of class B subordinated units into common units by December 31, 2001, then the amount distributed to each class B subordinated unit pursuant to the second through sixth clauses above will be equal to 115% of the amount distributed to each common unit pursuant to each such clause.

If the conversion of the class B subordinated units is approved, each class B subordinated unit will be converted into one common unit and will then participate pro rata with the other common units in distributions of available cash. After the conversion of the class B subordinated units into common units, Heritage will distribute available cash, excluding any available cash to be distributed to the class C unitholders as follows:

- First, 97% to all unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership and 2% to the general partner, until all unitholders have received $0.50 per unit for such quarter and any prior quarter;

- Second, 97% to all unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership and 2% to the general partner, until all unitholders have received $0.55 per unit for such quarter;

- Third, 84% to all unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership, 13% to the holders of incentive distribution rights, pro rata, and 2% to the general partner, until all common unitholders have received at least $0.635 per unit for such quarter;

- Fourth, 74% to unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership, 23% to the holders of incentive distribution rights, pro rata and 2% to the general partner, until all common unitholders have received at least $0.825 per unit for such quarter;

- Fifth, thereafter 49% to all unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership, 48% to the holders of incentive distribution rights, pro rata, and 2% to the general partner.

RESTRICTED UNIT PLAN

The General Partner has adopted the Amended and Restated Restricted Unit Plan dated August 10, 2000 (the "Restricted Unit Plan"), for certain directors and key employees of the general partner and its affiliates. The Restricted Unit Plan covers rights to acquire 146,000 common units. The right to acquire the common units under the Restricted Unit Plan, including any forfeiture or lapse of rights is available for grant to key employees on such terms and conditions (including vesting conditions) as the Compensation Committee of the general partner shall determine. Each director shall automatically receive a Director's grant with respect to 500 common units on each September 1 that such person continues as a director. Newly elected directors are also entitled to receive a grant with respect to 2,000 common units upon election or appointment to the Board. Directors who are employees of TECO, Atmos, Piedmont or AGL or their affiliates are not entitled to receive a Director's grant of common units. Generally, the rights to acquire the common units will vest upon the later to occur of (i) the three-year anniversary of the grant date, or (ii) the conversion of the Subordinated units to common units. Grants made after the conversion of all of the Subordinated units to common units shall vest on such terms as the Committee may establish, which may include the achievement of performance objectives. In the event of a "change of control" (as defined in the Restricted Unit Plan), all rights to acquire common units pursuant to the Restricted Unit Plan will immediately vest.

The issuance of the common units pursuant to the Restricted Unit Plan is intended to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation in respect of the common units. Therefore, no consideration will be payable by the plan participants upon vesting and issuance of the common units. As of August 31, 2001, 34,050 restricted units are outstanding and 31,150 are available for grants to non-employee directors and key employees.

Subsequent to August 31, 2001, 1,750 additional Phantom Units vested pursuant to the vesting rights of the Restricted Unit Plan and common units were issued. During fiscal 2000, 21,300 of these Phantom Units were granted by Predecessor Heritage to non-employee directors and key employees of Predecessor Heritage. As of August 31, 2000, 80,800 Phantom Units were awarded of which 4,500 grants vested pursuant to the vesting rights of the Restricted Unit Plan and 71,300 vested in accordance with the change of control that occurred with the General Partner. Compensation expense of $323 and $549 was recognized for fiscal year 2001 and the eight months ended August 31, 2000, respectively on the units, which vested due to the change in control of the General Partner. Individuals holding the remaining 5,000 grants waived their rights to vesting under the change of control and compensation cost related to such units will be recognized over the vesting period of the related awards. During fiscal 2001, 750 additional Phantom Units vested pursuant to the vesting rights of the Restricted Unit Plan and Common Units were issued. Heritage applies APB Opinion No. 25 "Accounting for Stock Issued to Employees". Heritage follows the disclosure only provision of Statement of Financial Accounting Standards ("SFAS") No. 123 "Accounting for Stock-based Compensation". Pro forma net income and net income per limited partner unit under the fair value method of accounting for equity instruments under SFAS No. 123 would be the same as reported net income and net income per limited partner unit.

LONG-TERM INCENTIVE PLAN

Effective September 1, 2000, Heritage adopted a long-term incentive plan whereby units will be awarded based on achieving certain targeted levels of Distributed Cash per unit. Awards under the program will be made starting in 2003 based upon the average of the prior three years' Distributed Cash per unit. A minimum of 250,000 units and a maximum of 500,000 units will be awarded. Compensation expense of $756 was recognized for the year ended August 31, 2001.

7. PROFIT SHARING AND 401(K) SAVINGS PLAN:

Heritage sponsors a defined contribution profit sharing and 401(k) savings plan (the "Plan"), which covers all employees subject to service period requirements. Contributions are made to the Plan at the discretion of the Board of Directors and are allocated to eligible employees as of the last day of the plan year based on their pro rata share of total contributions. Employer matching contributions are calculated using a discretionary formula based on employee contributions. Prior to 2001, employer matching contributions were entirely discretionary. Heritage did not recognize any expense under the profit sharing provision of the Plan during the year ended August 31, 2001 or the period ended August 31, 2000. The company made matching contributions of $2,260 and $0 to the 401(k) savings plan for the year ended August 31, 2001 and the period ended August 31, 2000, respectively.

8. RELATED PARTY TRANSACTIONS:

Heritage has no employees and is managed by the General Partner. Pursuant to the Partnership Agreement, the General Partner is entitled to reimbursement for all direct and indirect expenses incurred or payments it makes on behalf of Heritage, and all other necessary or appropriate expenses allocable to Heritage or otherwise reasonably incurred by the General Partner in connection with operating Heritage's business. These costs, which totaled approximately $93,442 for the year ended August 31, 2001 and $5,977 for the period ended August 31, 2000, include compensation and benefits paid to officers and employees of the General Partner.

TECO performed certain services for Peoples Gas, which were billed at actual cost. In addition, common general and administrative salary and other operating costs and expenses were allocated to Peoples Gas based upon methods considered reasonable by management. Such charges for employee services amounted to $1,836 and $1,697 for the eight months ended August 31, 2000 and 1999, respectively, and $2,906 and $2,160 for the years ended 1999 and 1998 respectively.

Accounts payable to related companies are non-interest bearing. Accounts payable to related companies include amounts payable from Heritage to the General Partner of $6,360 and $2,675 as of August 31, 2001 and 2000 respectively and $1,577 and $1,139 payable to Bi-State Partnership as of August 31, 2001 and 2000, respectively.

9. REPORTABLE SEGMENTS:

Heritage's financial statements reflect four reportable segments: the domestic retail operations of Heritage, the domestic wholesale operations of Heritage, the foreign wholesale operations of M-P Energy Partnership, and the trading activities of Resources. Heritage's reportable domestic and wholesale fuel segments are strategic business units that sell products and services to different types of users: retail and wholesale customers. Intersegment sales by the foreign wholesale segment to the domestic segment are priced in accordance with the partnership agreement. Resources is a trading company that buys and sells financial instruments for its own account. Heritage manages these segments separately as each segment involves different distribution, sale and marketing strategies. Heritage evaluates the performance of its operating segments based on operating income. The operating income below does not reflect domestic and foreign selling, general, and administrative expenses of $15,716 and $1,019 for the year ended August 31, 2001 and the period ended August 31, 2000, respectively. The following table presents financial information by segment for the following periods:

For the Eight Months Ended For Years Ended For the Year Ended August 31, December 31, August 31,

	2001	2000	1999	1999	1998
			(Unaudited)		
Gallons:					
Domestic retail fuel	330,242	38,268	22,118	33,608	30,921
Domestic wholesale fuel	12,741	562	--	--	--
Foreign wholesale fuel					
Affiliated	86,166	5,118	--	--	--
Unaffiliated	88,882	6,245	--	--	--
Elimination	(86,166)	(5,118)	--	--	--

-------- --

Total
431,865
45,075
22,118
33,608
30,921
========
========
========
========
========

For the
Eight
Months
Ended For
Years Ended
For the
Year Ended
August 31,
December
31, August
31, -------

-------- --

2001 2000
1999 1999
1998 ------

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

(Unaudited)
Revenues:
Domestic
retail fuel
$ 440,527 $
43,815 $
21,766 $
34,045 $
30,187
Domestic
wholesale
fuel 9,902
415 -- -- -
- Foreign
wholesale
fuel
Affiliated
55,798
3,132 -- --
--
Unaffiliated
49,977
3,392 -- --
--
Elimination
(55,798)
(3,132) --
-- --
Liquids
marketing
172,875
12,262 -- -
- -- Other
domestic
revenues
42,172
3,188 -- --
-- --------
- ---------
--------- -
-------- --

Total $
715,453 $
63,072 $
21,766 $
34,045 $
30,187
=========
=========
=========
=========
=========

For the
Eight
Months
Ended For
Years Ended
For the
Year Ended
August 31,
December
31, August
31, -------

-------- --

2001 2000
1999 1999
1998 ------

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

(Unaudited)
Operating
Income:
Domestic
retail fuel
$ 69,416 $
(578) $
2,666 $
2,885 $
3,961
Domestic
wholesale
fuel
(1,163) 17
-- -- --
Foreign
wholesale
fuel -- --
-- -- --
Affiliated
578 -- -- -
- --
Unaffiliated
1,996 142 -
- -- --
Elimination
(578) -- --
-- --
Liquids
marketing
(110) 724 -
- -- -- ---
----- -----
--- -------
- --------

Total $
70,139 $
305 $ 2,666
$ 2,885 $
3,961
========
========
========

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

(Unaudited)

	August 31, 2001	August 31, 2000	August 31, 1999	December 31, 1999	December 31, 1998
Total Assets:					
Domestic retail	$682,906	$577,816	$ 39,481	$ 43,724	$ 37,206
Domestic wholesale	19,533	12,790	--	--	--
Foreign wholesale	8,467	7,918	--	--	--
Liquids marketing	35,127	7,747	--	--	--
Corporate	12,134	9,508	--	--	--
Total	$758,167	$615,779	$ 39,481	$ 43,724	$ 37,206

	For the Year Ended August 31,		For the Eight Months Ended August 31,	For the Years Ended December 31,	
	2001	2000	1999	1999	1998
Depreciation and amortization:					
Domestic retail fuel	$40,135	$ 4,673	$ 2,037	$ 3,088	$ 2,855
Domestic wholesale	277	8	--	--	--
Foreign wholesale	19	5	--	--	--
Liquids marketing	--	--	--	--	--
Total	$40,431	$ 4,686	$ 2,037	$ 3,088	$ 2,855

10. SIGNIFICANT INVESTEE:

At August 31, 2001, Heritage held a 50 percent interest in Bi-State Partnership. Heritage accounts for its 50 percent interest in Bi-State Partnership under the equity method. Heritage's investment in Bi-State Partnership totaled $6,610 and $5,550 at August 31, 2001 and 2000, respectively. Heritage received distributions from Bi-State Partnership in the amount of $125 and $0 for the year ended August 31, 2001, and for the one month period ended August 31, 2000, respectively.

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

	August 31, 2001	August 31, 2000

Current assets	$ 2,783	$ 2,290
Noncurrent assets	13,899	14,071
	$16,682	$16,361
Current liabilities	$ 1,722	$ 3,296
Long-term debt	3,131	3,525
Partners' capital:		
Heritage	6,610	5,550
Other partner	5,219	3,990
	$16,682	$16,361

Bi-State Partnership's results of operations for the year ended August 31, 2001 are summarized below. The results of operations for the eight month period ended August 31, 2000 includes only one month of operations of Bi-State Partnership due to the U.S. Propane merger and it is not presented due to insignificance.

	2001
Revenues	$19,172
Gross profit	8,012
Net income:	
Heritage	1,186
Other partner	1,353

11. QUARTERLY FINANCIAL DATA (UNAUDITED):

Summarized unaudited quarterly financial data is presented below. The sum of net income (loss) per limited partner unit by quarter may not equal the net income (loss) per limited partner unit for the year due to variations in the weighted average units outstanding used in computing such amounts. Heritage's business is seasonal due to weather conditions in its service areas. Propane sales to residential and commercial customers are affected by winter heating season requirements, which generally results in higher operating revenues and net income during the period from October through March of each year and lower operating revenues and either net losses or lower net income during the period from April through September of each year. Sales to industrial and agricultural customers are much less weather sensitive.

Quarter Ended --	November 30	February 28	May 31	August 31
Fiscal 2001:				
Revenues	$ 165,845	$ 326,760	$ 132,153	$ 90,695
Operating income (loss)	10,573	52,630	2,476	(11,256)
Net income (loss)	1,963	43,330	(5,845)	(19,738)
Basic and diluted net income (loss) per limited partner unit	$ .15	$ 3.30	$ (.48)	$ (1.54)

Quarter Ended
Two-months
Eight Months
ended --
Ended August 31, 2000:
March 31
June 30

	August 31		
Revenues	$ 14,377	$ 9,287	$ 39,408
Operating income (loss)	2,413	(443)	(2,684)
Net income (loss)	1,457	(335)	(4,968)
Basic and diluted net income (loss) per limited partner unit	$ .84	$ (.19)	$ (.87)

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

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

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

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

/s/ Arthur Andersen LLP

Tulsa, Oklahoma
October 26, 2000
(except with respect to
the matter discussed in Note
12, as to which the date is
October 19, 2001)

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

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

	For the Period Ended August 9, 2000	For the Year Ended August 31, 1999
REVENUES:		
Retail fuel	$ 178,906	$ 137,403
Wholesale fuel	35,145	24,018
Liquids marketing	4,300	--
Other	24,140	22,599
Total revenues	242,491	184,020
COSTS AND EXPENSES:		
Cost of products sold	136,462	87,267
Cost of liquids marketing	4,283	--
Operating expenses	55,154	51,201
Depreciation and amortization	17,143	14,749
Selling, general and administrative	5,974	6,236
Total costs and expenses	219,016	159,453
OPERATING INCOME	23,475	24,567
OTHER INCOME (EXPENSE):		
Interest expense	(17,664)	(15,915)
Equity in earnings of affiliates	614	1,005
Gain on disposal of assets	514	722
Other	(3)	

(263) -------
---- --------
--- INCOME
BEFORE
MINORITY
INTERESTS
6,936 10,116
Minority
interests
(432) (454) -
---------- --
--------- NET
INCOME 6,504
9,662 GENERAL
PARTNER'S
INTEREST IN
NET INCOME 65
97 ----------
- -----------
LIMITED
PARTNERS'
INTEREST IN
NET INCOME $
6,439 $ 9,565
===========
===========
BASIC NET
INCOME PER
LIMITED
PARTNER UNIT
$ .66 $ 1.11
===========
===========
BASIC
WEIGHTED
AVERAGE
NUMBER OF
UNITS
OUTSTANDING
9,712,927
8,589,335
===========
===========
DILUTED NET
INCOME PER
LIMITED
PARTNER UNIT
$ .66 $ 1.11
===========
===========
DILUTED
WEIGHTED
AVERAGE
NUMBER OF
UNITS
OUTSTANDING
9,788,093
8,645,958
===========
===========

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

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

	Number of Units Common	Number of Units Subordinated	Common Unitholders	Subordinated Unitholders	General Partner	Accumulated Other Comprehensive Income	Total Partners' Capital
BALANCE, AUGUST 31, 1998	4,876,725	3,702,943	$ 20,775	$ 6,041	$ 273	$ --	$ 27,089
Unit distribution	--	--	(12,428)	(5,924)	(202)	--	(18,554)
Issuance of restricted Common Units	23,213	--	502	--	--	--	502
General Partner contribution	--	--	--	--	5	--	5
Conversion of Subordinated Units	925,736	(925,736)	1,510	(1,510)	--	--	--
Other	--	--	240	115	3	--	358
Net income	--	--	6,478	3,087	97	--	9,662

BALANCE,
AUGUST 31,
1999
5,825,674
2,777,207
17,077 1,809
176 --
19,062 Unit
distribution
-- --
(15,393)
(6,248)
(256) --
(21,897)
Issuance of
restricted
Common Units
184,030 --
4,064 -- --
-- 4,064
Issuance of
Common Units
1,200,000 --
24,054 -- --
-- 24,054
General
Partner
contribution
-- -- -- --
278 -- 278
Conversion
of
Subordinated
Units
925,736
(925,736)
(1,480)
1,480 -- --
--
Conversion
of Phantom
Units 4,500
-- 29 (28)
(1) -- --
Other -- --
283 75 4 --
362 Other
comprehensive
income - net
gain on
hedging
instruments
-- -- -- --
-- 3,289
3,289 Net
income -- --
5,246 1,193
65 -- 6,504
---------- -
--------- --
-------- ---
------- ----
------ -----
----- ------

BALANCE,
AUGUST 9,
2000
8,139,940
1,851,471 $
33,880 $
(1,719) $
266 $ 3,289
$ 35,716
==========
==========
==========
==========
==========
==========
==========

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Period Ended August 9, 2000	For the Year Ended August 31, 1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,504	$ 9,662
Reconciliation of net income to net cash provided by operating activities-		
Depreciation and amortization	17,143	14,749
Provision for losses on accounts receivable	328	338
Gain on disposal of assets	(514)	(722)
Deferred compensation on restricted units	362	358
Undistributed earnings of affiliates	(654)	(534)
Minority interests	91	(92)
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(7,138)	(848)
Inventories	(5,627)	(1,718)
Prepaid expenses	(541)	310
Intangibles and other assets	(851)	883
Accounts payable	5,901	2,947
Accrued and other current liabilities	(860)	(1,720)
Net cash provided		

by operating activities 14,144 23,613 --------- --- ------ CASH FLOWS FROM INVESTING ACTIVITIES: Cash paid for acquisitions, net of cash acquired (46,801) (17,931) Capital expenditures (12,931) (14,974) Proceeds from asset sales 1,449 2,106 --------- ---- ----- Net cash used in investing activities (58,283) (30,799) ---- ----- ------- -- CASH FLOWS FROM FINANCING ACTIVITIES: Proceeds from borrowings 159,070 85,250 Principal payments on debt (116,918) (59,673) Unit distribution (21,897) (18,554) Net proceeds from issuance of common units 24,054 -- Capital contribution from General Partner 278 5 --------- --- ------ Net cash provided by financing activities 44,587 7,028 --------- --- ------ INCREASE (DECREASE) IN CASH 448 (158) CASH, beginning of period 1,679 1,837 ------- -- --------- CASH, end of period $ 2,127 $ 1,679 ========= ========= NONCASH FINANCING ACTIVITIES: Notes payable incurred on noncompete agreements $

3,575 $ 3,332
=========
=========
Issuance of restricted common units in connection with certain acquisitions
$ 4,064 $ 502
=========
=========
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:
Cash paid during the period for interest $ 18,377 $ 15,655
=========
=========
Other comprehensive income $ 3,289 $ --
=========
=========

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

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

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

1. OPERATIONS AND ORGANIZATION:

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

The Operating Partnership sells propane and propane-related products to approximately 286,000 retail customers in 27 states throughout the United States. Predecessor Heritage is also a wholesale propane supplier in the southwestern United States and in Canada, the latter through participation in M-P Energy Partnership. M-P Energy Partnership is a Canadian partnership primarily engaged in lower-margin wholesale distribution in which Predecessor Heritage owns a 60 percent interest. Predecessor Heritage grants credit to its customers for the purchase of propane and propane-related products.

In August 2000, U.S. Propane acquired all of the outstanding common stock of Heritage Holdings, Inc., ("General Partner"), the General Partner of Heritage Propane Partners, L.P. By virtue of Heritage Holdings, Inc.'s general partner and limited partner interests in Heritage Propane Partners, L.P., U.S. Propane gained control of Heritage Propane Partners, L.P. Simultaneously, U.S. Propane transferred its propane operations, consisting of its interest in four separate limited liability companies, AGL Propane, L.L.C., Peoples Gas Company, L.L.C., United Cities Propane Gas, L.L.C. and Retail Propane Company, L.L.C. (former Piedmont operations) to Heritage Propane Partners, L.P. for $181,395 plus working capital. The $181,395 was payable $139,552 in cash, $31,843 of assumed debt, and the issuance of 372,392 Common Units of Heritage Propane Partners, L.P. valued at $7,348 and a 1.0101 percent limited partner interest in the Operating Partnership valued at $2,652. The purchase price and the exchange price for the common units were approved by an independent committee of the Board of Directors of Heritage Holdings, Inc. The exchange price for the common units was $19.73125 per unit under a formula based on the average closing price of the Heritage Propane Partners, L.P.'s Common Units on the New York Stock Exchange for the twenty (20) day period beginning ten (10) days prior to the public announcement of the transaction on June 15, 2000 (the "Formula Price"). The working capital adjustment is estimated at $5,000 and is anticipated to be settled in December 2000.

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

The merger was accounted for as a reverse acquisition in accordance with Accounting Principles Board Opinion No. 16. Although Heritage Propane Partners, L.P. is the surviving entity for legal purposes, U.S. Propane's propane operations will be the acquirer for accounting purposes. U.S. Propane retained the name Heritage Propane Partners, L.P. subsequent to the transactions ("Successor Heritage"). The assets and liabilities and results of operations of Predecessor Heritage are included in the financial statements of Successor Heritage as of August 10, 2000.

2. SIGNIFICANT ACCOUNTING POLICIES AND BALANCE SHEET DETAIL:

PRINCIPLES OF CONSOLIDATION

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

REVENUE RECOGNITION

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

INCOME TAXES

Predecessor Heritage is a limited partnership. As a result, Predecessor Heritage's earnings or losses for federal income tax purposes are included in the tax returns of the individual partners. Accordingly, no recognition has been given to income taxes in the accompanying financial statements. Net earnings for financial statement purposes may differ significantly from taxable income reportable to unitholders as a result of differences between the tax basis and financial reporting basis of assets and liabilities and the taxable income allocation requirements under the partnership agreement.

INCOME PER LIMITED PARTNER UNIT

Basic net income per limited partner unit is computed by dividing net income, after considering the General Partner's one percent interest, by the weighted average number of Common and Subordinated Units outstanding. Diluted net income per limited partner unit is computed by dividing net income, after considering the General Partner's one percent interest, by the weighted average number of Common and Subordinated Units outstanding and the weighted average number of Restricted Units ("Phantom Units") granted under the Restricted Unit Plan (see Note 5). A reconciliation of net income and weighted average units used in computing basic and diluted earnings per unit is as follows:

	Period Ended August 9, 2000	Year Ended August 31, 1999
BASIC NET INCOME PER LIMITED PARTNER UNIT:		
Limited partners' interest in net income	$ 6,439	$ 9,565
Weighted average limited partner units	9,712,927	8,589,335
Basic net income per limited partner unit	$ .66	$ 1.11
DILUTED NET INCOME PER LIMITED PARTNER UNIT:		

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

USE OF ESTIMATES

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

RECLASSIFICATIONS

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

3. ACQUISITIONS:

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

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

The acquisitions have been accounted for by the purchase method and, accordingly, the purchase prices have been allocated to assets acquired and liabilities assumed based on the fair market values at the date of acquisitions. Predecessor Heritage capitalized as part of the purchase price allocation certain legal and other costs directly related to the acquisitions. The excess of the purchase price over the fair market values of the net assets acquired has been recorded as goodwill.

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

4. COMMITMENTS AND CONTINGENCIES:

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

5. PARTNERS' CAPITAL:

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

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

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

to the terms of the Partnership Agreement, 925,736 Subordinated Units held by the General Partner converted to Common Units on July 7, 1999 and an additional 925,736 converted on July 5, 2000.

QUARTERLY DISTRIBUTIONS OF AVAILABLE CASH

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

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

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

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

RESTRICTED UNIT PLAN

The General Partner adopted a Restricted Unit Plan (the "Restricted Unit Plan") for its non-employee directors and key employees of the General Partner and its affiliates effective June 1996. Rights to acquire 146,000 Common Units ("Phantom Units") are available under the Restricted Unit Plan and may be granted to employees from time to time at the discretion of the Restricted Unit Plan Committee. Commencing on September 1, 1996 and on each September 1 thereafter that the Restricted Unit Plan is in effect, each director who is in office automatically receives 500 units. The Phantom Units vest upon, and in the same proportions as (1) the conversion of Predecessor Heritage's Subordinated Units into Common Units or if later, (2) the third anniversary of their grant date, and (3) terms and conditions specified by each grant. During fiscal 1999, 21,300 of these Phantom Units were granted to non-employee directors and key employees. During fiscal 1998, 20,200 of these Phantom Units were granted to non-employee directors and key employees. As of August 31, 1999, Phantom Units with a value of $1,346 have been awarded and the compensation cost related to such units will be recognized over the vesting period of the related awards. Predecessor Heritage applies APB Opinion No. 25, "Accounting for Stock Issued to Employees".

Compensation cost and directors' fee expense of $362 and $358 was recorded for the period ended August 9, 2000 and fiscal 1999, respectively, related to the issuance of the units. Subsequent to August 31, 1999, 4,500 of Phantom Unit grants vested pursuant to the vesting rights of the Restricted Unit Plan. Predecessor Heritage follows the disclosure only provision of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-based Compensation". Proforma net income and net income per limited partner unit under the fair value method of accounting for equity instruments under SFAS No. 123 would be the same as reported net income and net income per limited partner unit.

6. REGISTRATION STATEMENTS:

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

Effective September 13, 1999, Predecessor Heritage registered $150.0 million of Common Units and Debt Securities on Form S-3 that may be offered for sale in one or more offerings. On October 25, 1999, Predecessor Heritage issued a prospectus supplement offering 1,200,000 Common Units, representing limited partner interests in Predecessor Heritage. The underwriters delivered the Common Units to purchasers on October 28, 1999 at a public offering price of $22.00 per Common Unit. Predecessor Heritage used the net proceeds of approximately $24.0 million from this offering to repay a portion of the outstanding indebtedness under its acquisition facility that was incurred to acquire propane businesses.

7. PROFIT SHARING AND 401(K) SAVINGS PLAN:

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

8. RELATED PARTY TRANSACTIONS:

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

9. REPORTABLE SEGMENTS:

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

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

	August 9, 2000	August 31, 1999
Gallons:		
Domestic retail fuel	170,891	159,938
Domestic wholesale fuel	7,113	7,795
Foreign wholesale fuel		
Affiliated	63,390	56,869
Unaffiliated	75,514	73,337
Elimination	(63,390)	(56,869)
Total	253,518	241,070
Revenues:		
Domestic retail fuel	$ 178,906	$ 137,403
Domestic wholesale fuel	4,342	3,409
Foreign wholesale fuel		
Affiliated	29,038	16,903
Unaffiliated	30,803	20,628
Elimination	(29,038)	(16,903)
Liquids marketing	4,300	--
Other domestic revenues	24,140	22,580
Total	$ 242,491	$ 184,020
Operating Income:		
Domestic retail	$ 27,670	$ 29,659
Domestic		

wholesale
fuel 259 162
Foreign
wholesale
fuel
Affiliated
541 494
Unaffiliated
1,528 982
Elimination
(541) (494)
Liquids
marketing
(8) -- -----
---- -------
-- Total $
29,449 $
30,803
=========
=========
Depreciation
and
amortization:
Domestic
retail fuel
$ 17,105 $
14,691
Domestic
wholesale 31
45 Foreign
wholesale 7
13 ---------

Total $
17,143 $
14,749
=========
=========

10. SIGNIFICANT INVESTEE:

At August 31, 1999, Predecessor Heritage held a 50 percent interest in Bi-State Partnership. Predecessor Heritage accounts for its 50 percent interest in Bi-State Partnership under the equity method. Predecessor Heritage received distributions from Bi-State Partnership in the amount of $200 and $470 for the period ended August 9, 2000, and for the year ended August 31, 1999, respectively.

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

	2000	1999
Revenues	$12,298	$12,627
Gross profit	6,008	7,356
Net income:		
Heritage	613	1,004
Other partner	753	1,149

11. QUARTERLY FINANCIAL DATA (UNAUDITED):

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

Fiscal 2000:	Quarter Ended --			Period Ended
	November 30	February 28	May 31	August 9,
Revenues	$ 51,890	$102,160	$ 57,224	$ 31,217
Operating				

income
(loss)
3,430
21,253
2,732
(3,940)
Net
income
(loss)
(808)
16,971
(2,198)
(7,461)
Net
income
(loss)
per
unit-
basic
and
diluted
(0.09)
1.70
(0.22)
(.72)

Fiscal
1999:
Quarter
Ended --

--
November
30
February
28 May
31
August
31, ----

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

Revenues
$ 41,558
$ 68,498
$ 43,150
$ 30,814
Operating
income
(loss)
4,563
18,070
5,009
(3,075)
Net
income
(loss)
1,215
14,404
1,344
(7,301)
Net
income
(loss)
per
unit-
basic
and
diluted
0.14
1.66

0.15
(0.84)

12. SUBSEQUENT EVENT:

On August 22, 2001, the final payment to settle the working capital adjustment was made to the partners of U.S. Propane. Total payments made to settle the working capital adjustment were approximately $12,900. Accordingly, an additional amount of approximately $7,900 was recorded as goodwill (See Note 1).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HERITAGE PROPANE PARTNERS, L.P.

By Heritage Holdings, Inc.
(General Partner)

By: /s/ H. Michael Krimbill

H. Michael Krimbill
President and Chief Executive Officer

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

Signature
Title Date
/s/ H.
Michael
Krimbill
President
and Chief
November
29, 2001 -

Executive
Officer and
Director H.
Michael
Krimbill
(Principal
Executive
Officer)
/s/ James
E.
Bertelsmeyer
Chairman of
the Board
and
November
29, 2001 -

Director
James E.
Bertelsmeyer
/s/ Larry
J. Dagley
Vice
President
and Chief
November
29, 2001 -

Financial
Officer
(Principal
Financial
Larry J.
Dagley and
Accounting
Officer)
/s/ Bill W.
Byrne
Director

November
29, 2001 -

Bill W.
Byrne /s/
J. Charles
Sawyer
Director
November
29, 2001 -

------- J.
Charles
Sawyer /s/
Stephen L.
Cropper
Director
November
29, 2001 -

Stephen L.
Cropper /s/
J. Patrick
Reddy
Director
November
29, 2001 -

------- J.
Patrick
Reddy /s/
Royston K.
Eustace
Director
November
29, 2001 -

Royston K.
Eustace /s/
William N.
Cantrell
Director
November
29, 2001 -

William N.
Cantrell
/s/ Ware F.
Schiefer
Director
November
29, 2001 -

Ware F.
Schiefer

Signature
Title
Date /s/
David J.
Dzuricky
Director
November
29, 2001
- ------

David J.
Dzuricky
/s/
Clayton
H.
Preble
Director
November
29, 2001
- ------

Clayton
H.
Preble
/s/ J.D.
Woodward
Director
November
29, 2001
- ------

J.D.
Woodward
/s/
Richard
T.
O'Brien
Director
November
29, 2001
- ------

Richard
T.
O'Brien

INDEX TO EXHIBITS

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

EXHIBIT NUMBER DESCRIPTION
------- -- ---------
(1) 3.1 Agreement of Limited Partnership of Heritage Propane Partners, L.P. (10)
3.1.1 Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (*)
3.1.2 Amendment No. 2 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (1)
3.2 Agreement of Limited Partnership of Heritage Operating, L.P. (12)
3.2.1 Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Heritage Operating, L.P. (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 (*) 10.1.5 Fifth Amendment to First Amended and Restated Credit Agreement dated as of July 16, 2001 (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,
2996)
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

EXHIBIT NUMBER DESCRIPTION
------- ----
------- (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 (12) 10.7 Employment Agreement for James E. Bertelsmeyer dated as of August 10, 2000 (12) 10.8 Employment Agreement for R. C. Mills dated as of August 10, 2000 (12) 10.9 Employment

Agreement for Larry J. Dagley dated as of August 10, 2000 (12) 10.10 Employment Agreement for H. Michael Krimbill dated as of August 10, 2000 (12) 10.11 Employment Agreement for Bradley K. Atkinson dated as of August 10, 2000 (7) 10.12 First Amended and Restated Revolving Credit Agreement between Heritage Service Corp. and Banks Dated May 31, 1999 (*) 10.12.1 First Amendment to First Amended and Restated Revolving Credit Agreement, dated October 15, 1999 (*) 10.12.2 Second Amendment to First Amended and Restated Revolving Credit Agreement, dated August 10, 2000 (*) 10.12.3 Third Amendment to First Amended and Restated Revolving Credit Agreement, dated December 28, 2000 (*) 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 (12) 10.14 Employment Agreement for Thomas H. Rose dated as of August 10, 2000 (12) 10.15 Employment Agreement for Curtis L. Weishahn dated as of August 10, 2000 (5) 10.16 Note Purchase Agreement dated as of November 19, 1997 (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

EXHIBIT NUMBER DESCRIPTION
------- ---
----

(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

(10) 10.18 Subscription Agreement dated June 15, 2000 between Heritage

Propane Partners, L.P. and individual investors (10) 10.18.1 Amendment dated August 10, 2000 to June 15, 2000 Subscription Agreement (*) 10.18.2 Amendment Agreement dated January 3, 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. (*)

21.1 List of Subsidiaries

EXHIBIT NUMBER DESCRIPTION
------- --- --------
(*) 23.3 Consent of Arthur Andersen LLP (*) 99.1 Balance Sheet of Heritage Holdings, Inc. as of August 31, 2001 - ---- ------ (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. (*) Filed Herewith.

EXHIBIT 3.1.2

AMENDMENT NO. 2 TO AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF HERITAGE PROPANE PARTNERS, L.P.

This Amendment No. 2 (this "Amendment") to the Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (the "Partnership"), dated as of June 27, 1996 (the "Original Agreement") as amended by Amendment No. 1 dated as of August 9, 2000 (the "First Amendment") (the Original Agreement and the First Amendment are collectively the "Partnership Agreement") is entered into effective as of January 5, 2001, by Heritage Holdings, Inc., a Delaware corporation (the "General Partner"), as the general partner of the Partnership, on behalf of itself and the Limited Partners of the Partnership. Capitalized terms used but not defined herein are used as defined in the Partnership Agreement.

RECITALS

WHEREAS, Section 3 of the First Amendment provides for its effectiveness to be conditioned upon the failure of the Partnership's securityholders to approve a change in the terms of the Class B Subordinated Units to provide that they are convertible as provided in Section 2 thereof by the requisite vote on or before January 7, 2001; and

WHEREAS, the General Partner, holders of not less than a majority of the Partnership's Class B Subordinated Units, and the Partnership have requested that the vote of securityholders be delayed until a date on or prior to December 31, 2001; and

WHEREAS, Section 13.1(d)(i) of the Partnership Agreement provides that each Partner agrees that the General Partner, without the approval of any Partner or Assignee, may amend any provision of the Partnership Agreement, to execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith, to reflect a change that, in the discretion of the General Partner, does not adversely affect the Unitholders in any material respect; and

WHEREAS, the General Partner has in the exercise of its discretion determined that the adoption of the Amendment will not adversely affect the Unitholders in any material respect; and

WHEREAS, Section 13.3 of the Partnership Agreement provides that any amendment that would have a material effect on the rights or preferences of any class of Partnership Interests in relation to other classes of Partnership Interests must be approved by the holders of not less than a majority of the Partnership Interests of the class affected; and

WHEREAS, the Amendment was approved by the holders of not less than a majority of the Class B Subordinated Units.

NOW, THEREFORE, the Partnership Agreement is hereby amended to amend Section 3 of the First Amendment such that the date referred to in the first sentence of Section 3 is changed from "January 7, 2001" to "December 31, 2001."

RATIFICATION OF PARTNERSHIP AGREEMENT. Except as expressly modified and amended herein, all of the terms and conditions of the Partnership Agreement shall remain in full force and effect.

GOVERNING LAW. This Amendment will be governed by and construed in accordance with the laws of the State of Delaware.

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

GENERAL PARTNER:

HERITAGE HOLDINGS, INC.

By:

Name:

Title:

LIMITED PARTNERS:

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

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

By:

Name:

Title:

EXHIBIT 10.1.5

FIFTH AMENDMENT TO FIRST AMENDED AND RESTATED CREDIT AGREEMENT

THIS FIFTH AMENDMENT TO FIRST AMENDED AND RESTATED CREDIT AGREEMENT, dated effective as of July 16, 2001 (the "Fifth Amendment"), is entered into between and among HERITAGE OPERATING, L.P., a Delaware limited partnership (the "Borrower") and BANK OF OKLAHOMA, NATIONAL ASSOCIATION ("BOk"), FIRSTAR BANK, N.A. (formerly known as Mercantile Bank National Association ("Firstar"), LOCAL OKLAHOMA BANK, N. A. ("Local") and HARRIS TRUST AND SAVINGS BANK ("Harris") (BOk, Firstar, Local and Harris, together with each other Person that becomes a Bank pursuant to Article XI of the Credit Agreement (hereinafter defined) collectively referred to herein as the "Banks"), BOk, as administrative agent for the Banks (in such capacity, the "Administrative Agent") and Firstar, as co-agent for the Banks (in such capacity, the "Co-Agent").

WHEREAS, the Borrower, the Banks, the Administrative Agent and the Co-Agent entered into that certain First Amended and Restated Credit Agreement dated as of May 31, 1999 (the "Restated Credit Agreement"), as subsequently amended by that certain First Amendment thereto dated as of October 15, 1999 (the "First Amendment"), by that certain Second Amendment thereto dated as of May 31, 2000 (the "Second Amendment"), by that certain Third Amendment thereto dated as of August 10, 2000 (the "Third Amendment"), and by that certain Fourth Amendment thereto dated as of December 28, 2000 (the "Fourth Amendment") (the Restated Credit Agreement, together with the First Amendment, the Second Amendment, the Third Amendment and the Fourth Amendment, and all such other and further amendments now or hereafter entered into, including without limitation, this Fifth Amendment, are collectively referred to herein as the "Credit Agreement"); and

WHEREAS, the Restated Credit Agreement, as amended and modified by the First Amendment, the Second Amendment, the Third Amendment and the Fourth Amendment, are sometimes collectively referred to herein as the "Existing Credit Agreement"; and

WHEREAS, the Borrower has requested the Banks, the Administrative Agent and the Co-Agent to (i) extend and renew the (a) Working Capital Loan pursuant to the Working Capital Facility from June 30, 2002, until June 30, 2004, and (b) Acquisition Loan pursuant to the Acquisition Facility from June 30, 2004, until June 30, 2006, (ii) modify the Applicable Commitment Fee Percentage and (iii) ratify, confirm and acknowledge certain other amendments and modifications to the Existing Credit Agreement, including without limitation, application of the Applicable Margin definition as hereinafter set forth, for interest rate calculation purposes on the Notes effective as of and from and after the effective dates of the Third Amendment described above, all as set forth herein below.

NOW THEREFORE, the parties hereto agree as follows:

1. Amendments. The Credit Agreement shall be amended as set forth below:

A. Section 1.1 of the Credit Agreement is amended by deleting the definitions of "Applicable Commitment Fee Percentage", "Applicable Margin" and "Existing Credit Agreement" and inserting in lieu thereof the following respective definitions in the appropriate alphabetical position:

"Applicable Commitment Fee Percentage" means, with respect to any Margin Period, the applicable percentage set forth below:

(i) if the Leverage Ratio on the Financial Statement Delivery Date beginning such Margin Period was less than 3.25 to 1.0, 0.375%;

(ii) if the Leverage Ratio on the Financial Statement Delivery Date beginning such Margin Period was equal to or greater than 3.25 to 1.0 but less than 3.75 to 1.0, 0.450%; and

(iii) if the Leverage Ratio on the Financial Statement Delivery Date beginning such Margin Period was equal to or greater than 3.75 to 1.0, 0.50%.

Notwithstanding the foregoing, if any of the financial statements required pursuant to Section 7A.1(i) of this Credit Agreement are not delivered within the time periods specified in Section 7A.1(i), the Applicable Commitment Fee Percentage shall be 0.50% until the date such financial statements are delivered.

"Applicable Margin" means with respect to any Eurodollar Loan or with respect to any Base Rate Loan, the rate of interest per annum determined as set forth below:

(i) if the Leverage Ratio on the Financial Statement Delivery Date (as defined in the Credit Agreement) commencing such Margin Period was less than 3.25 to 1.0, the Applicable Margin will be 1.125% for Eurodollar Loans and zero for Base Rate Loans;

(ii) if the Leverage Ratio on the Financial Statement Delivery Date commencing such Margin Period was equal to or greater than 3.25 to 1.0 but less than 3.75 to 1.0, the Applicable Margin will be 1.375% for Eurodollar Loans and zero for Base Rate Loans;

(iii) if the Leverage Ratio on the Financial Statement Delivery Date commencing such Margin Period was equal to or greater than 3.75 to 1.0 but less than 4.25 to 1.0, the Applicable Margin will be 1.625% for Eurodollar Loans and zero for Base Rate Loans;

(iv) if the Leverage Ratio on the Financial Statement Delivery Date commencing such Margin Period was equal to or greater than 4.25 to 1.0 but less than 4.50 to 1.0, the Applicable Margin will be 1.75% for Eurodollar Loans and zero for Base Rate Loans;

(v) if the Leverage Ratio on the Financial Statement Delivery Date commencing such Margin Period was equal to or greater than 4.50 to 1.0 but less than 4.75 to 1.0, the Applicable Margin will be 1.875% for Eurodollar Loans and 0.125% for Base Rate Loans; and

(vi) if the Leverage Ratio on the Financial Statement Delivery Date commencing such Margin Period was equal to or greater than 4.75 to 1.0, the Applicable Margin will be 2.125% for Eurodollar Loans and 0.250% for Base Rate Loans.

Notwithstanding the foregoing, if any of the financial statements required pursuant to Section 7A.1(i) of this Credit Agreement are not delivered within the time periods specified in Section 7A.1(i) thereof, the Applicable Margin shall be the Applicable Margin set forth in clause (vi) above until the date such financial statements are delivered.

"Existing Credit Agreement" means the Credit Agreement dated as of June 25, 1996, as amended by the First Amendment to Credit Agreement dated as of July 25, 1996, the Second Amendment to Credit Agreement dated as of February 28, 1997, the Third Amendment to Credit Agreement dated as of September 30, 1997, the Fourth Amendment to Credit Agreement dated as of November 18, 1997, and the Fifth Amendment to Credit Agreement dated as of November 13, 1998, between and among Borrower, BOk, Firstar and BankBoston, N.A., and BankBoston, N.A., as Administrative Agent, and BOk, as Documentation Agent, as replaced and restated by the First Amended and Restated Credit Agreement dated as of May 31, 1999, between and among Borrower, BOk, Firstar and Local, and BOk, as Administrative Agent, and Firstar, as Co-Agent, as amended by the First Amendment to First Amended and Restated Credit Agreement dated as of October 15, 1999, between and among Borrower, BOk, Firstar and Local, and BOk, as Administrative Agent and Mercantile, as Co-Agent, as amended by the Second Amendment to First Amended and Restated Credit Agreement dated as of May 31, 2000, between and among Borrower, BOk, Firstar and Local, and BOk, as Administrative Agent, and Firstar, as Co-Agent, as amended by the Third Amendment to First Amended and Restated Credit Agreement dated as of August 10, 2000, between and among Borrower, BOk, Firstar, Local and Harris, and BOk, as Administrative Agent and Firstar, as Co-Agent, and as further amended by the Fourth Amendment to First Amended and Restated Credit Agreement dated as of December 28, 2000, between and among Borrower, the Banks, the Administrative Agent and the Co-Agent".

B. The form of Exhibit 2.1.4 (Acquisition Notes) annexed to the Existing Credit Agreement is replaced with the form of Exhibit 2.1.4 annexed to this Fifth Amendment.

C. The form of Exhibits 2.2.3 (Working Capital Borrowing Request) and 2.2.4 (Working Capital Notes) annexed to the Existing Credit Agreement are replaced with the form of Exhibits 2.2.3 and 2.2.4 annexed to this Fifth Amendment.

D. Section 3.1 of the Existing Credit Agreement is amended by deleting "December 31, 2000" and inserting in lieu thereof "July 31, 2001."

E. Section 6.1(vii) of the Existing Credit Agreement is deleted in its entirety and replaced by the following:

(vii) Opinions of Borrower's Counsel. The Agents shall have received from Borrower's counsel, Doerner, Saunders, Daniel & Anderson, L.L.P., a favorable written closing opinion addressed to the Agents and the Banks with respect to the Credit Agreement, as amended by this Fifth Amendment, satisfactory in form and substance to the Administrative Agent's legal counsel including, without limitation, an opinion that all notices to or consents of the Collateral Agent or the Note Purchasers as required by the amendments, modifications and transactions contemplated by this Fifth Amendment have been duly obtained and are in full force and effect.

2. Existing Credit Agreement/Counterparts. All of the remaining terms, provisions and conditions of the Existing Credit Agreement, except as otherwise expressly amended and modified by this Fifth Amendment, shall continue in full force and effect in all respects. This Fifth Amendment may be executed in multiple counterparts, each of which shall be deemed an original and all of which shall constitute a single Fifth Amendment. Delivery of an executed counterpart of a signature page to this Fifth Amendment by telecopier shall be as effective as delivery of a manually executed counterpart of this Fifth Amendment.

3. Intercreditor Agreement/Security Agreement. The Borrower confirms that it has reviewed and approved the terms of the Intercreditor Agreement, including without limitation, the setoff sharing provisions set forth in Section 13(c) thereof. The Borrower agrees that any setoff shared under the terms of the Intercreditor Agreement with the Purchasers of the Private Placement Notes, to the extent of the portions so shared, will not be deemed to pay down the Loan. The Borrower further confirms, warrants and represents to the Banks, the Administrative Agent and the Co-Agent that any amendments to or modifications of the Existing Credit Agreement and any notice to or consent of the Collateral Agent required by virtue of the modifications, ratifications and acknowledgments herein contained or other transactions contemplated by this Fifth Amendment have been duly and validly consummated, given or obtained, as the case may be, and that such amendments, modifications or consents remain in full force and effect.

4. Further Assurances. The Borrower will, upon the request of the Agent from time to time, promptly execute, acknowledge and deliver, and file and record, all such instruments and notices, and take all such action, as the Agents deem necessary or advisable to carry out the intent and purposes of this Fifth Amendment and the Existing Credit Agreement.

5. General. The Existing Credit Agreement and all of the other Loan Documents are each confirmed as being in full force and effect. This Fifth Amendment, the Existing Credit Agreement and the other Loan Documents referred to herein or therein constitute the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior and current understandings and agreements, whether written or oral, with respect to such subject matter. The invalidity or unenforceability of any provision hereof shall not affect the

validity and enforceability of any other term or provision hereof. The headings in this Fifth Amendment are for convenience of reference only and shall not alter, limit or otherwise affect the meaning hereof. This Fifth Amendment is a Loan Document and may be executed in any number of counterparts, which together shall constitute one instrument, and shall bind and inure to the benefit of the parties and their respective successors and assigns including as such successors and assigns all holders of any Note(s). This Fifth Amendment shall be governed by and construed in accordance with the laws (other than the conflict of law rules) of the State of Oklahoma.

6. Conditions to Effectiveness. The effectiveness of this Fifth Amendment is subject to the satisfaction of the following conditions:

(a) the Required Banks under the Credit Agreement shall have consented to this Fifth Amendment as evidenced by their execution hereof;

(b) the Borrower shall have executed and delivered to the Administrative Agent its four (4) replacement and extended (i) Working Capital Notes payable to the order of each of the Banks in the respective principal face amounts as set forth in the "Maximum Working Capital Facility" column of Section 10.1 of the Existing Credit Agreement and (ii) Acquisition Notes payable to the order of each of the Banks in the respective principal face amounts as set forth in the "Maximum Acquisition Loan Facility" column of Section 10.1 of the Existing Credit Agreement;

(c) Borrower's corporate general partner shall have delivered to the Administrative Agent its closing and incumbency certificate with corporate resolutions attached in form and content acceptable to the Administrative Agent and its legal counsel; and

(d) legal counsel to the Banks shall have been paid all fees and expenses incurred in connection with the transactions contemplated by this Fifth Amendment;

IN WITNESS WHEREOF, the parties hereto have caused this Fifth Amendment to First Amended and Restated Credit Agreement to be duly executed and delivered in multiple counterparts in Tulsa, Oklahoma, effective as of the 16th day of July, 2001, by the undersigned duly authorized respective officers thereof.

"Borrower"

HERITAGE OPERATING, L.P., a Delaware limited partnership

By: Heritage Holdings, Inc., a Delaware corporation, General Partner

By
\-----------------------------------
Larry J. Dagley, Vice President and Chief Financial Officer

"Banks"

BANK OF OKLAHOMA, NATIONAL ASSOCIATION

By

Denise L. Maltby
Senior Vice President

FIRSTAR BANK, N.A. (formerly known as
Mercantile Bank National Association)

By

Barry P. Sullivan
Vice President

LOCAL OKLAHOMA BANK, N.A.

By

  Elisabeth F. Blue
  Senior Vice President

HARRIS TRUST AND SAVINGS BANK

By

Timothy E. Broccolo
Managing Director

"Administrative Agent"

BANK OF OKLAHOMA, NATIONAL ASSOCIATION

By

Denise L. Maltby
Senior Vice President

"Co-Agent"

FIRSTAR BANK, N.A. (formerly known as
Mercantile Bank National Association)

By

Barry P. Sullivan
Vice President

FIRST AMENDMENT TO
FIRST AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

THIS FIRST AMENDMENT TO FIRST AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT, dated effective as of October 15, 1999 (the "First Amendment"), is entered into between and among HERITAGE SERVICE CORP., a Delaware corporation (the "Borrower") and BANK OF OKLAHOMA, NATIONAL ASSOCIATION ("BOk"), MERCANTILE BANK NATIONAL ASSOCIATION ("Mercantile") and LOCAL OKLAHOMA BANK, N. A. ("Local") (BOk, Firstar, Mercantile and Local collectively referred to herein as the "Banks"), BOk, as administrative agent for the Banks (in such capacity, the "Administrative Agent") and Mercantile, as co-agent for the Banks (in such capacity, the "Co-Agent").

WHEREAS, the Borrower, the Banks, the Administrative Agent and the Co-Agent entered into that certain First Amended and Restated Credit Agreement dated as of May 31, 1999, (the "Credit Agreement"); and

WHEREAS, due to certain modifications and amendments to the Operating Partnership Credit Agreement (as defined in the Credit Agreement), including an increase in the maximum outstanding amount of the Working Capital Loan pursuant to the Working Capital Facility from $20,000,000.00 to $35,000,000.00, and reallocation of the Percentage Interests of the respective Banks, the Borrower, the Banks, the Administrative Agent and the Co-Agent desire to amend and modify certain provisions of the Credit Agreement concerning such matters and the increase in interest rates.

NOW THEREFORE, the Credit Agreement is hereby amended and modified as follows:

1. The definition of "Applicable Margin" in Schedule I of the Credit Agreement is deleted in its entirety and replaced with the following:

> "Applicable Margin". With respect to any Eurodollar Loan or with respect to any Base Rate Loan, the rate of interest per annum determined for any Margin Period:
>
> (i) if the Leverage Ratio on the Financial Statement Delivery Date commencing such Margin Period was less than 3.25 to 1, the Applicable Margin will be .875% for Eurodollar Loans and zero for Base Rate Loans;
>
> (ii) if the Leverage Ratio on the Financial Statement Delivery Date commencing such Margin Period was equal to or greater than 3.25 to 1 but less than 3.75 to 1, the Applicable Margin will be 1.125% for Eurodollar Loans and zero for Base Rate Loans;

(iii) if the Leverage Ratio on the Financial Statement Delivery Date commencing such Margin Period was equal to or greater than 3.75 to 1 but less than 4.25 to 1, the Applicable Margin will be 1.375% for Eurodollar Loans and zero for Base Rate Loans;

(iv) if the Leverage Ratio on the Financial Statement Delivery Date commencing such Margin Period was equal to or greater than 4.25 to 1 but less than 4.50 to 1, the Applicable Margin will be 1.500% for Eurodollar Loans and zero for Base Rate Loans;

(v) if the Leverage Ratio on the Financial Statement Delivery Date commencing such Margin Period was equal to or greater than 4.50 to 1 but less than 4.75 to 1, the Applicable Margin will be 1.625% for Eurodollar Loans and 0.125% for Base Rate Loans; and

(vi) if the Leverage Ratio on the Financial Statement Delivery Date commencing such Margin Period was equal to or greater than 4.75 to 1, the Applicable Margin will be 1.875% for Eurodollar Loans and .250% for Base Rate Loans.

Notwithstanding the foregoing, if any of the financial statements required pursuant to Section 7A.1(i) of the Operating Partnership Credit Agreement are not delivered within the time periods specified in Section 7A.1(i), the Applicable Margin shall be the Applicable Margin set forth in clause (vi) above until the date such financial statements are delivered.

2. The definition of "Existing Credit Agreement" in the Credit Agreement is deleted in its entirety and replaced with the following:

"Operating Partnership Credit Agreement" means the First Amended and Restated Credit Agreement dated as of May 31, 1999, between and among Heritage Operating, L.P., a Delaware limited partnership, BOk, Mercantile and Local, and BOk, as Administrative Agent, and Mercantile, as Co-Agent, as amended by the First Amendment thereto dated as of October 15, 1999, and as further amended and modified from time to time.

3. Section 2.1.2(ii) of the Credit Agreement is amended by deleting "$20,000,000" and inserting in lieu thereof "$35,000,000." The form of Exhibit 2.1.4 (Revolver Notes) annexed to the Credit Agreement is replaced with the form of Exhibit 2.1.4 annexed to this First Amendment.

4. Article III of the Credit Agreement is amended by deleting "June 30, 1999" and inserting in lieu thereof "October 31, 1999."

5. Section 7B.1(i) of the Existing Credit Agreement is amended by deleting "$20,000,000" and inserting in lieu thereof "$35,000,000."

6. Section 10.1 of the Existing Credit Agreement is deleted in its entirety and replaced by the following:

10.1 Interests in Loans/Commitments. The percentage interest of each Bank in the Loans and the Commitments, shall be computed based on the maximum principal amount for each Bank as follows:

BANK	MAXIMUM REVOLVER LOAN COMMITMENT AMOUNT	PERCENTAGE INTEREST
BOk	$ 529,411.00	52.9411%
Mercantile	294,118.00	29.4118%
Local	176,471.00	17.6471%
Total	$1,000,000.00	100.0000%

The foregoing percentage interests, as from time to time in effect and reflected in the Register, are referred to as the "Percentage Interests" with respect to all or any portion of the Loans and Letters of Credit, and the Commitments.

7. Credit Agreement/Counterparts. All of the remaining terms, provisions and conditions of the Credit Agreement, except as otherwise expressly amended and modified by this First Amendment, shall continue in full force and effect in all respects. This First Amendment may be executed in multiple counterparts, each of which shall be deemed an original and all of which shall constitute a single First Amendment. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be as effective as delivery of a manually executed counterpart of this Agreement.

8. Further Assurances. The Borrower will, upon the request of the Agent from time to time, promptly execute, acknowledge and deliver, and file and record, all such instruments and notices, and take all such action, as the Agent deem necessary or advisable to carry out the intent and purposes of this First Amendment and the Credit Agreement.

9. General. The Credit Agreement and all of the other Loan Documents are each confirmed as being in full force and effect. This First Amendment, the Credit Agreement and the other Loan Documents referred to herein or therein constitute the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior and current understandings and agreements, whether written or oral, with respect to such subject matter. The invalidity or unenforceability of any provision hereof shall not affect the validity and enforceability of any other term or provision hereof. The headings in this First Amendment are for convenience of reference only and shall not alter, limit or otherwise affect the meaning hereof. Each of this First Amendment and the Credit Agreement is a Loan Document and may be executed in any number of counterparts, which together shall constitute one instrument, and shall bind and inure to the benefit of the parties and their respective successors and assigns including as such successors and assigns all holders of any Note. This First Amendment shall be

governed by and construed in accordance with the laws (other than the conflict of law rules) of the State of Oklahoma.

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to Amended and Restated Credit Agreement to be duly executed and delivered in Tulsa, Oklahoma, effective as of the 15th day of October, 1999, by the undersigned duly authorized officers thereof.

"Borrower"

HERITAGE SERVICE CORP.,
a Delaware corporation

By

H. Michael Krimbill, President

"Banks"

BANK OF OKLAHOMA, NATIONAL
ASSOCIATION

By

Denise L. Maltby, Senior Vice President

MERCANTILE BANK NATIONAL ASSOCIATION

By

Jeffrey A. Nelson, Vice President

LOCAL OKLAHOMA BANK, N.A.

By

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Elisabeth F. Blue, Senior Vice President

"Administrative Agent"

BANK OF OKLAHOMA, NATIONAL ASSOCIATION

By

Denise L. Maltby, Senior Vice President

"Co-Agent"

MERCANTILE BANK NATIONAL ASSOCIATION

By

  Jeffrey A. Nelson, Vice President

EXHIBIT 10.12.2

SECOND AMENDMENT TO
FIRST AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

THIS SECOND AMENDMENT TO FIRST AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT, dated effective as of August 10, 2000 (the "Second Amendment"), is entered into between and among HERITAGE SERVICE CORP., a Delaware corporation (the "Borrower") and BANK OF OKLAHOMA, NATIONAL ASSOCIATION ("BOk"), FIRSTAR BANK, N.A., formerly Mercantile Bank National Association ("Firstar"), LOCAL OKLAHOMA BANK, N. A. ("Local") and HARRIS TRUST AND SAVINGS BANK ("Harris") (BOk, Firstar, Local and Harris collectively referred to herein as the "Banks"), BOk, as administrative agent for the Banks (in such capacity, the "Administrative Agent") and Firstar, as co-agent for the Banks (in such capacity, the "Co-Agent").

WHEREAS, the Borrower, the Banks, (other than Harris), the Administrative Agent and the Co-Agent entered into that certain First Amended and Restated Credit Agreement dated as of May 31, 1999, as amended by the First Amendment thereto dated as of October 15, 1999 (the "Credit Agreement"); and

WHEREAS, due to certain modifications and amendments to the Operating Partnership Credit Agreement (as defined in the Credit Agreement), including an increase in the maximum outstanding amount of the Working Capital Loan pursuant to the Working Capital Facility from $35,000,000.00 to $50,000,000.00, and reallocation of the Percentage Interests of the respective Banks, the Borrower, the Banks (including Harris), the Administrative Agent and the Co-Agent desire to amend and modify certain provisions of the Credit Agreement concerning such matters.

NOW THEREFORE, the Credit Agreement is hereby amended and modified as follows:

1. The definition of "Operating Partnership Credit Agreement" in the Credit Agreement is deleted in its entirety and replaced with the following:

> "Operating Partnership Credit Agreement" means the First Amended and Restated Credit Agreement dated as of May 31, 1999, between and among Heritage Operating, L. P., a Delaware limited partnership, BOk, Firstar and Local, and BOk, as Administrative Agent, and Firstar, as Co-Agent, as amended by the First Amendment thereto dated as of October 15, 1999, as further amended by the Second Amendment thereto dated as of May 31, 2000, as further amended by the Third Amendment thereto dated as of August 10, 2000,between and among the Operating Partnership, the Banks, the Administrative Agent and the Co-Agent, and as further amended and modified from time to time hereafter.

2. Section 2.1.2(ii) of the Credit Agreement is amended by deleting "$35,000,000" and inserting in lieu thereof "$50,000,000." The form of Exhibit 2.1.4 (Revolver Notes) annexed to the Credit Agreement is replaced with the form of Exhibit 2.1.4 annexed to this First Amendment.

3. Article III of the Credit Agreement is amended by deleting "October 31, 1999" and inserting in lieu thereof "August 31, 2000."

4. Section 7B.1(i) of the Existing Credit Agreement is amended by deleting "$35,000,000" and inserting in lieu thereof "$50,000,000."

5. Section 10.1 of the Existing Credit Agreement is deleted in its entirety and replaced by the following:

> 10.1 Interests in Loans/Commitments. The percentage interest of each Bank in the Loans and the Commitments, shall be computed based on the maximum principal amount for each Bank as follows:

BANK	MAXIMUM REVOLVER LOAN COMMITMENT AMOUNT	PERCENTAGE INTEREST
BOk	$ 450,000.00	45.00%
Firstar	250,000.00	25.00%
Local	150,000.00	15.00%
Harris	150,000.00	15.00%
Total	$ 1,000,000.00	100.0000%

> The foregoing percentage interests, as from time to time in effect and reflected in the Register, are referred to as the "Percentage Interests" with respect to all or any portion of the Loans and Letters of Credit, and the Commitments.

6. Credit Agreement/Counterparts. All of the remaining terms, provisions and conditions of the Credit Agreement, except as otherwise expressly amended and modified by this Second Amendment, shall continue in full force and effect in all respects. This Second Amendment may be executed in multiple counterparts, each of which shall be deemed an original and all of which shall constitute a single Second Amendment. Delivery of an executed counterpart of a signature page to this Second Amendment by telecopier shall be as effective as delivery of a manually executed counterpart of this Second Amendment.

7. Further Assurances. The Borrower will, upon the request of the Administrative Agent from time to time, promptly execute, acknowledge and deliver, and file and record, all such instruments and notices, and take all such action, as the Administrative Agent deems necessary or advisable to carry out the intent and purposes of this Second Amendment and the Credit Agreement.

8. General. The Credit Agreement and all of the other Loan Documents are each confirmed as being in full force and effect. This Second Amendment, the Credit Agreement and the other Loan Documents (including that certain Second Restated Security Agreement and Assignment from Borrower, as debtor, dated as of even date herewith) referred to herein or therein constitute the entire understanding of the parties with respect to the subject matter hereof

and thereof and supersede all prior and current understandings and agreements, whether written or oral, with respect to such subject matter. The invalidity or unenforceability of any provision hereof shall not affect the validity and enforceability of any other term or provision hereof. The headings in this Second Amendment are for convenience of reference only and shall not alter, limit or otherwise affect the meaning hereof. Each of this Second Amendment and the Credit Agreement is a Loan Document and may be executed in any number of counterparts, which together shall constitute one instrument, and shall bind and inure to the benefit of the parties and their respective successors and assigns including as such successors and assigns all holders of any Note. This Second Amendment shall be governed by and construed in accordance with the laws (other than the conflict of law rules) of the State of Oklahoma.

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to Amended and Restated Credit Agreement to be duly executed and delivered in Tulsa, Oklahoma, effective as of the tenth (10th) day of August, 2000, by the undersigned duly authorized officers thereof.

"Borrower"

HERITAGE SERVICE CORP.,
a Delaware corporation

By

H. Michael Krimbill,
President

"Banks"

BANK OF OKLAHOMA, NATIONAL ASSOCIATION

By

Denise L. Maltby,
Senior Vice President

FIRSTAR BANK, N.A.

By

(name)

(title)

LOCAL OKLAHOMA BANK, N.A.

By

Elisabeth F. Blue,
Senior Vice President

HARRIS TRUST AND SAVINGS BANK

By

Timothy E. Broccolo,

Managing Director

"Administrative Agent"

BANK OF OKLAHOMA, NATIONAL
ASSOCIATION

By

Denise L. Maltby,
Senior Vice President

"Co-Agent"

FIRSTAR BANK N.A.

By

(name)

(title)

EXHIBIT 10.12.3

THIRD AMENDMENT TO FIRST AMENDED AND RESTATED CREDIT AGREEMENT

THIS THIRD AMENDMENT TO FIRST AMENDED AND RESTATED CREDIT AGREEMENT, dated effective as of December 28, 2000 (the "Third Amendment"), is entered into between and among HERITAGE SERVICE CORP., a Delaware corporation (the "Borrower") and BANK OF OKLAHOMA, NATIONAL ASSOCIATION ("BOk"), FIRSTAR BANK, N. A., formerly Mercantile Bank National Association ("Firstar"), LOCAL OKLAHOMA BANK, N. A. ("Local") and HARRIS TRUST AND SAVINGS BANK ("Harris") (BOk, Firstar, Local and Harris collectively referred to herein as the "Banks"), BOk, as administrative agent for the Banks (in such capacity, the "Administrative Agent") and Firstar, as co-agent for the Banks (in such capacity, the "Co-Agent").

WHEREAS, the Borrower, the Banks, the Administrative Agent and the Co-Agent entered into that certain First Amended and Restated Credit Agreement dated as of May 31, 1999, as amended by the First Amendment thereto dated as of October 15, 1999, as further amended by the Second Amendment thereto dated as of May 31, 2000, and as further amended by the Third Amendment thereto dated as of August 10, 2000 (collectively the "Credit Agreement"); and

WHEREAS, due to certain modifications and amendments to the Operating Partnership Credit Agreement (as defined in the Credit Agreement), resulting in an increase in the maximum outstanding amount of the Working Capital Loan pursuant to the Working Capital Facility from $50,000,000.00 to $65,000,000.00, all as set forth in that certain Fourth Amendment to First Amended and Restated Credit Agreement dated as of even date herewith (the "Fourth Amendment"), the Borrower, the Banks (including Harris), the Administrative Agent and the Co-Agent desire to amend and modify certain provisions of the Credit Agreement concerning such matters and issue replacement Revolver Notes to the order of the Banks as follows: Bok ($434,783), Firstar ($260,870), Local ($130,435) and Harris ($173,912), respectively.

NOW THEREFORE, the Credit Agreement is hereby amended and modified as follows:

1. The definition of "Operating Partnership Credit Agreement" in the Credit Agreement is deleted in its entirety and replaced with the following:

> "Operating Partnership Credit Agreement" means the First Amended and Restated Credit Agreement dated as of May 31, 1999, between and among Heritage Operating, L. P., a Delaware limited partnership, BOk, Firstar and Local, and BOk, as Administrative Agent, and Firstar, as Co-Agent, as amended by the First Amendment thereto dated as of October 15, 1999, as further amended by the Second Amendment thereto dated as of May 31, 2000, as further amended by the Third Amendment thereto dated as of August 10, 2000, and as further amended by the Fourth Amendment thereto dated as of December 28, 2000, between and among the Operating Partnership, the Banks, the Administrative Agent and the Co-Agent, and as further amended and modified from time to time hereafter.

2. Section 2.1.2(ii) of the Credit Agreement is amended by deleting "$50,000,000" and inserting in lieu thereof "$65,000,000." The form of Exhibit 2.1.4 (Revolver Notes) annexed to the Credit Agreement is replaced with the form of Exhibit 2.1.4 annexed to this Third Amendment and replacement Revolver Notes are being issued concurrently herewith to the order of each of the Banks in accordance with the amounts set forth in the last Preamble clause of this Third Amendment and in Section 10.1 of the Credit Agreement.

3. Article III of the Credit Agreement is amended by deleting "August 31, 2000" and inserting in lieu thereof "December 31, 2000."

4. Section 7B.1(i) of the Credit Agreement is amended by deleting "$50,000,000" and inserting in lieu thereof "$65,000,000."

5. Section 10.1 of the Credit Agreement is deleted in its entirety and replaced by the following:

> 10.1 Interests in Loans/Commitments. The percentage interest of each Bank in the Loans and the Commitments, shall be computed based on the maximum principal amount for each Bank as follows:

Bank	Maximum Revolver Loan Commitment Amount	Percentage Interest
BOk	$ 434,783.00	43.4783%
Firstar	260,870.00	26.0870%
Local	130,435.00	13.0435%
Harris	173,912.00	17.3912%
Total	$ 1,000,000.00	100.0000%

> The foregoing percentage interests, as from time to time in effect and reflected in the Register, are referred to as the "Percentage Interests" with respect to all or any portion of the Loans and Letters of Credit, and the Commitments.

6. Credit Agreement/Counterparts. All of the remaining terms, provisions and conditions of the Credit Agreement, except as otherwise expressly amended and modified by this Third Amendment, shall continue in full force and effect in all respects. This Third Amendment may be executed in multiple counterparts, each of which shall be deemed an original and all of which shall constitute a single Third Amendment. Delivery of an executed counterpart of a signature page to this Third Amendment by telecopier shall be as effective as delivery of a manually executed counterpart of this Third Amendment.

7. Further Assurances. The Borrower will, upon the request of the Administrative Agent from time to time, promptly execute, acknowledge and deliver, and file and record, all such instruments and notices, and take all such action, as the Administrative Agent deems necessary or advisable to carry out the intent and purposes of this Third Amendment and the Credit Agreement.

8. General. The Credit Agreement and all of the other Loan Documents are each confirmed as being in full force and effect. This Third Amendment, the Credit Agreement and the other Loan Documents (including that certain Second Restated Security Agreement and Assignment from Borrower, as debtor, dated as of August 10, 2000) referred to herein or therein constitute the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior and current understandings and agreements, whether written or oral, with respect to such subject matter. The invalidity or unenforceability of any provision hereof shall not affect the validity and enforceability of any other term or provision hereof. The headings in this Third Amendment are for convenience of reference only and shall not alter, limit or otherwise affect the meaning hereof. Each of this Third Amendment and the Credit Agreement is a Loan Document and may be executed in any number of counterparts, which together shall constitute one instrument, and shall bind and inure to the benefit of the parties and their respective successors and assigns including as such successors and assigns all holders of any Note. This Third Amendment shall be governed by and construed in accordance with the laws (other than the conflict of law rules) of the State of Oklahoma.

IN WITNESS WHEREOF, the parties hereto have caused this Third Amendment to Amended and Restated Credit Agreement to be duly executed and delivered in Tulsa, Oklahoma, effective as of the twenty-eighth (28th) day of December, 2000, by the undersigned duly authorized officers thereof.

"Borrower"

HERITAGE SERVICE CORP.,
a Delaware corporation

By

Larry J. Dagley, Vice President and
Chief Financial Officer

"Banks"

BANK OF OKLAHOMA, NATIONAL
ASSOCIATION

By

Denise L. Maltby,
Senior Vice President

FIRSTAR BANK, N. A.

By

John Billings
Senior Vice President

LOCAL OKLAHOMA BANK, N.A.

By

Elisabeth F. Blue,
Senior Vice President

HARRIS TRUST AND SAVINGS BANK

By

  Timothy E. Broccolo,
  Managing Director

"Administrative Agent"

BANK OF OKLAHOMA, NATIONAL
ASSOCIATION

By

Denise L. Maltby,
Senior Vice President

"Co-Agent"

FIRSTAR BANK, N. A.

By

John Billings
Senior Vice President

EXHIBIT 10.12.4

FOURTH AMENDMENT TO FIRST AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

THIS FOURTH AMENDMENT TO FIRST AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT, dated effective as of July 16, 2001 (the "Fourth Amendment"), is entered into between and among HERITAGE SERVICE CORP., a Delaware corporation (the "Borrower") and BANK OF OKLAHOMA, NATIONAL ASSOCIATION ("BOk"), FIRSTAR BANK, N. A., formerly Mercantile Bank National Association ("Firstar"), LOCAL OKLAHOMA BANK, N. A. ("Local") and HARRIS TRUST AND SAVINGS BANK ("Harris") (BOk, Firstar, Local and Harris collectively referred to herein as the "Banks"), BOk, as administrative agent for the Banks (in such capacity, the "Administrative Agent") and Firstar, as co-agent for the Banks (in such capacity, the "Co-Agent").

WHEREAS, the Borrower, the Banks, the Administrative Agent and the Co-Agent entered into that certain First Amended and Restated Credit Agreement dated as of May 31, 1999, as amended by the First Amendment thereto dated as of October 15, 1999, as further amended by the Second Amendment thereto dated as of August 10, 2000, and as further amended by the Third Amendment thereto dated as of December 28, 2000 (collectively the "Credit Agreement"); and

WHEREAS, due to certain modifications and amendments to the Operating Partnership Credit Agreement (as defined in the Credit Agreement), resulting in an extension and renewal of (i) the Working Capital Loan pursuant to the Working Capital Facility from June 30, 2002, until June 30, 2004, and (ii) the Acquisition Loan pursuant to the Acquisition Facility from June 30, 2004, until June 30, 2006, and certain other amendments, ratifications and acknowledgments, all as set forth in the Fifth Amendment to First Amended and Restated Credit Agreement dated of even date herewith (the "Fifth Amendment"), the Borrower, the Banks, the Administrative Agent and the Co-Agent desire to amend and modify certain provisions of the Credit Agreement concerning such matters and issue replacement and extended Revolver Notes to the order of the Banks as follows: BOk ($434,783), Firstar ($260,870), Local ($130,435) and Harris ($173,912), respectively.

NOW THEREFORE, the Credit Agreement is hereby amended and modified as follows:

1. The definition of "Operating Partnership Credit Agreement" in the Credit Agreement is deleted in its entirety and replaced with the following:

> "Operating Partnership Credit Agreement" means the First Amended and Restated Credit Agreement dated as of May 31, 1999, between and among Heritage Operating, L. P., a Delaware limited partnership, BOk, Firstar and Local, and BOk, as Administrative Agent, and Firstar, as Co-Agent, as amended by the First Amendment thereto dated as of October 15, 1999, as further amended by the Second Amendment thereto dated as of May 31, 2000, as further amended by the Third Amendment thereto dated as of August 10, 2000, as further amended by the

Fourth Amendment thereto dated as of December 28, 2000, and as further amended by the Fifth Amendment thereto dated as of July 16, 2001,between and among the Operating Partnership, the Banks, the Administrative Agent and the Co-Agent, and as further amended and modified from time to time hereafter.

2. The form of Exhibit 2.1.4 (Revolver Notes) annexed to the Credit Agreement is replaced with the form of Exhibit 2.1.4 annexed to this Fourth Amendment and replacement Revolver Notes are being issued concurrently herewith to the order of each of the Banks in accordance with the amounts set forth in the last Preamble clause of this Fourth Amendment and in Section 10.1 of the Credit Agreement.

3. Article III of the Credit Agreement is amended by deleting "December 31, 2000" and inserting in lieu thereof "July 31, 2000."

4. The definition of Applicable Rate in Schedule I annexed to the Credit Agreement is deleted in its entirety and replaced with the following:

"Applicable Margin" shall mean with respect to any Eurodollar Loan or with respect to any Base Rate Loan, the rate of interest per annum determined as set forth below:

(i) if the Leverage Ratio on the Financial Statement Delivery Date (as defined in the Operating Partnership Credit Agreement) commencing such Margin Period was less than 3.25 to 1.0, the Applicable Margin will be 1.125% for Eurodollar Loans and zero for Base Rate Loans;

(ii) if the Leverage Ratio on the Financial Statement Delivery Date commencing such Margin Period was equal to or greater than 3.25 to 1.0 but less than 3.75 to 1.0, the Applicable Margin will be 1.375% for Eurodollar Loans and zero for Base Rate Loans;

(iii) if the Leverage Ratio on the Financial Statement Delivery Date commencing such Margin Period was equal to or greater than 3.75 to 1.0 but less than 4.25 to 1.0, the Applicable Margin will be 1.625% for Eurodollar Loans and zero for Base Rate Loans;

(iv) if the Leverage Ratio on the Financial Statement Delivery Date commencing such Margin Period was equal to or greater than 4.25 to 1.0 but less than 4.50 to 1.0, the Applicable Margin will be 1.75% for Eurodollar Loans and zero for Base Rate Loans;

(v) if the Leverage Ratio on the Financial Statement Delivery Date commencing such Margin Period was equal to or greater than 4.50 to 1.0 but less than 4.75 to 1.0, the Applicable Margin will be 1.875% for Eurodollar Loans and 0.125% for Base Rate Loans; and

(vi) if the Leverage Ratio on the Financial Statement Delivery Date commencing such Margin Period was equal to or greater than 4.75 to 1.0, the Applicable Margin will be 2.125% for Eurodollar Loans and 0.250% for Base Rate Loans.

Notwithstanding the foregoing, if any of the financial statements required pursuant to Section 7A.1(i) of the Operating Partnership Credit Agreement are not delivered within the time periods specified in Section 7A.1(i) thereof, the Applicable Margin shall be the Applicable Margin set forth in clause (vi) above until the date such financial statements are delivered.

Borrower acknowledges, stipulates and agrees that interest has accrued on the Notes based on the Applicable Margin schedule set forth above in this Fourth Amendment from and including the effective date of the Second Amendment described above.

5. Credit Agreement/Counterparts. All of the remaining terms, provisions and conditions of the Credit Agreement, except as otherwise expressly amended and modified by this Fourth Amendment, shall continue in full force and effect in all respects. This Fourth Amendment may be executed in multiple counterparts, each of which shall be deemed an original and all of which shall constitute a single Fourth Amendment. Delivery of an executed counterpart of a signature page to this Fourth Amendment by telecopier shall be as effective as delivery of a manually executed counterpart of this Fourth Amendment.

6. Further Assurances. The Borrower will, upon the request of the Administrative Agent from time to time, promptly execute, acknowledge and deliver, and file and record, all such instruments and notices, and take all such action, as the Administrative Agent deems necessary or advisable to carry out the intent and purposes of this Fourth Amendment and the Credit Agreement.

7. General. The Credit Agreement and all of the other Loan Documents are each confirmed as being in full force and effect. This Fourth Amendment, the Credit Agreement and the other Loan Documents (including that certain Second Restated Security Agreement and Assignment from Borrower, as debtor, dated as of August 10, 2000) referred to herein or therein constitute the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior and current understandings and agreements, whether written or oral, with respect to such subject matter. The invalidity or unenforceability of any provision hereof shall not affect the validity and enforceability of any other term or provision hereof. The headings in this Fourth Amendment are for convenience of reference only and shall not alter, limit or otherwise affect the meaning hereof. Each of this Fourth Amendment and the Credit Agreement is a Loan Document and may be executed in any number of counterparts, which together shall constitute one instrument, and shall bind and inure to the benefit of the parties and their respective successors and assigns including as such successors and assigns all holders of any Note. This Fourth Amendment shall be governed by and construed in accordance with the laws (other than the conflict of law rules) of the State of Oklahoma.

IN WITNESS WHEREOF, the parties hereto have caused this Fourth Amendment to Amended and Restated Credit Agreement to be duly executed and delivered to the Administrative Agent in Tulsa, Oklahoma, effective as of the sixteenth (16th) day of July, 2001, by the undersigned duly authorized officers thereof.

"Borrower"

HERITAGE SERVICE CORP.,
a Delaware corporation

By

Larry J. Dagley, Vice President
and Chief Financial Officer

"Banks"

BANK OF OKLAHOMA, NATIONAL ASSOCIATION

By

Denise L. Maltby,
Senior Vice President

FIRSTAR BANK, N.A.

By

Barry P. Sullivan
Vice President

LOCAL OKLAHOMA BANK, N.A.

By

Elisabeth F. Blue,
Senior Vice President

HARRIS TRUST AND SAVINGS BANK

By

Timothy E. Broccolo,
Managing Director

"Co-Agent"

FIRSTAR BANK, N.S.

By

Barry P. Sullivan

Vice President

"Administrative Agent"

BANK OF OKLAHOMA, NATIONAL ASSOCIATION

By

Denise L. Maltby,
Senior Vice President

EXHIBIT 10.18.2

AMENDMENT AGREEMENT

This Amendment Agreement (this "Agreement"), dated as of January 5, 2001, is entered into by and among the following:

1. Heritage Propane Partners, L.P., a Delaware limited partnership ("Heritage MLP"); and

2. James E. Bertelsmeyer and Donna C. Bertelsmeyer, as Tenants by the Entireties; H. Michael Krimbill; R. C. Mills; G. A. Darr; The Beth Elise Bertelsmeyer Snapp Trust; The Amy Renee Bertelsmeyer Trust; The John D. Capps Trust; J. Charles Sawyer; Bill W. Byrne; Robert K Blackman; Byron Jay Cook; Blaine L. Cronn; Mark A. Darr; Larry J. Lindsey; Ray S. Parsons; Charles B. Pass; Kermit V. Jacobsen; Thomas H. Rose; C. H. Timberlake, III; Curtis L. Weishahn; William V. Cody; James C. Hamilton, II; and Jack McKeehan (collectively, the "Former GP Stockholders").

RECITALS

Each of the Former GP Stockholders has purchased Common Units of Heritage MLP and/or Class B Subordinated Units of limited partner interests from Heritage MLP pursuant to the terms of a Subscription Agreement dated June 15, 2000 and amended as of August 10, 2000 (the "Subscription Agreement").

The Parties desire to amend the timing of voting obligations with respect to the unitholders' vote(s) for approval of the conversion of the Class B Subordinated Units to Common Units (the "Conversion").

NOW, THEREFORE, in consideration of the mutual agreements set forth herein, the parties hereto agree as follows:

A. DEFINED TERMS. As used in this Amendment Agreement, each capitalized term used herein, but not defined, has the meaning given to it in the Subscription Agreement.

B. The Parties agree to amend Section 5.3 of the Subscription Agreement to postpone the preparation and filing with the Securities and Exchange Commission of a proxy for the Conversion until a date no later than October 1, 2001, and further agree to defer the date of the increased distribution rights of the holders of the Class B Subordinated Units until December 31, 2001, and consent to the amendment of the Heritage MLP Partnership Agreement in the form of Amendment No. 2 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. in the form of Exhibit "A" attached hereto and incorporated herein by reference.

C. This Amendment Agreement may be executed by the parties hereto individually, or in any combination of the parties hereto in several counterparts, all of which taken together shall constitute one and the same Amendment Agreement.

D. Except as amended hereby, all of the representations, warranties, provisions, covenants, terms and conditions of the Subscription Agreement shall remain unaltered and in full force and effect and the Subscription Agreement, as amended hereby, is in all respects agreed to, ratified and confirmed by the parties hereto.

E. Upon the effectiveness of this Amendment Agreement, each reference in the Subscription Agreement and in other documents describing or referencing the Subscription Agreement to "this Agreement," "hereunder," "hereof," "herein," or words of like import referring to such Subscription Agreement, shall mean and be a reference to such Subscription Agreement as amended hereby.

AGREED to as of January 5, 2001.

Heritage MLP

HERITAGE PROPANE PARTNERS, L.P.,
A DELAWARE LIMITED PARTNERSHIP

BY: HERITAGE HOLDINGS, INC.
ITS GENERAL PARTNER

By: ---------------------------------------

Name: -------------------------------------

Title: ------------------------------------

Former GP Stockholders

By: ---------------------------------------
James E. Bertelsmeyer

By: ---------------------------------------
Donna C. Bertelsmeyer

By: ---------------------------------------
H. Michael Krimbill

By: ---------------------------------------
R. C. Mills

By: ---------------------------------------
G. A. Darr

The Beth Elise Bertelsmeyer Snapp Trust

By:

Beth Elise Bertelsmeyer Snapp,
as Co-Trustee

By:

Amy Rene Bertelsmeyer Westbrock,
as Co-Trustee

The Amy Rene Bertelsmeyer Trust

By:

Amy Rene Bertelsmeyer Westbrock,
as Co-Trustee

By:

Beth Elise Bertelsmeyer Snapp,
as Co-Trustee

The John D. Capps Trust

By:

Estelle A. Capps, as Trustee

By:

J. Charles Sawyer

By:

Bill W. Byrne

By:

Robert K. Blackman

By:

Byron Jay Cook

By:

Blaine L. Cronn

By:

Mark A. Darr

By:

Larry J. Lindsey

By:

Ray S. Parsons

By:

Charles B. Pass

By:

Kermit V. Jacobsen

By:

Thomas H. Rose

By:

C. H. Timberlake, III

By:

Curtis L. Weishahn

By:

William V. Cody

By:

James C. Hamilton, II

By:

Jack McKeehan

EXHIBIT 21.1

SUBSIDIARIES

1. Heritage Operating L.P., a Delaware limited partnership, which does business under the following names:

- Adams LP Gas of Lake City
- Balgas
- Blue Flame Gas of Charleston
- Blue Flame Gas of Mt. Pleasant
- Blue Flame Gas of Vermont
- C & D Propane
- Carolane Propane Gas
- Clarendon Gas
- Covington Propane
- Cumberland LP Gas
- Duncan Propane
- Eaves Oil
- Efird Gas Company
- Fallsburg Gas
- Foster Gas
- Foust Fuels
- Gas Service Co.
- Gibson Propane
- Greer Gas Co.
- Grenier Gas Company
- Harris Propane Gas
- Heritage Propane
- Holton's L.P. Gas
- Horizon Gas
- Horizon Gas of Palm Bay
- Houston County Propane
- Hydratane of Athens
- Ikard & Newsom
- J & J Propane Gas
- Jerry's Propane Service
- John E. Foster & Son
- Johnson Gas
- Kingston Propane
- Kirby's Propane Gas
- Lewis Gas Company
- Liberty Propane Gas
- Lake County Gas

o Lyons Propane

- Modern Propane Gas
- Mountain Gas
- Myers Propane Service
- New Mexico Propane
- Northern Energy
- Northwestern Propane
- Paradee Gas
- Pioneer Gas
- ProFlame
- Propane Gas Inc.
- Rural Bottled Gas and Appliance
- San Juan Propane
- Sandwich Gas
- Sawyer Gas
- ServiGas
- Spring Lake Super Flame
- TriGas Company
- Tri-Gas of Benzie
- Truett's Propane Service
- Wakulla L.P.G.
- Wurtsboro Propane Gas
- Waynesville Gas Service
- Young's Propane

2. Heritage-Bi State, L.L.C., a Delaware limited liability company, holding a partnership interest in the following:

   - Bi-State Propane (Bi-State Propane also transacts business under the name Turner Propane)

3. Heritage Service Corp., a Delaware corporation, holding a direct or indirect interest in the following:

   - M-P Oils Ltd., an Alberta, Canada corporation, holding a partnership interest in the following:

     - M-P Energy Partnership

   - EarthAmerica, L.L.C., a Delaware limited liability company, holding a direct or indirect interest in the following:

     - EarthAmerica of Texas, L.P., a Texas limited partnership

4. Guilford Gas Service, Inc., a North Carolina corporation, which conducts business under the name Guilford Gas and through its wholly owned subsidiary:

   - EnergyNorth Propane, Inc., a New Hampshire corporation, which conducts business under the name EnergyNorth Propane and through its wholly owned subsidiary:

     - VGS Propane, L.L.C., a Vermont limited liability company

5. Heritage Energy Resources, L.L.C., an Oklahoma limited liability company

6. AGL Propane, L.L.C., a Georgia limited liability company, which does business under the following names:

   - AGL Propane

7. Peoples Gas Company, L.L.C., a Delaware limited liability company, which does business under the following names:

   - Teco Peoples Gas

   - Teco Propane

8. United Cities Propane Gas, L.L.C., a Delaware limited liability company, which does business under the following names:

   - E-Con Gas

   - Heritage Propane

   - Shaw L.P. Gas

9. Retail Propane Company, L.L.C., a Delaware limited liability company, which does business under the following names:

   - FlameGas

   - Green's Fuel Gas Company

   - PNG Propane Company

   - Southern Gas Company

   - Thomas Gas Company

10. EarthAmerica GP, L.L.C., a Delaware limited liability company, holding a direct or indirect interest in the following:

   - EarthAmerica of Texas, L.P., a Texas limited partnership

EXHIBIT 23.3

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into Heritage Propane Partners, L.P.'s previously filed Registration Statements File No. 333-40407 and File No. 333-86057.

Tulsa, Oklahoma
November 28, 2001

/s/ Arthur Andersen LLP

EXHIBIT 99.1

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Heritage Holdings, Inc.:

We have audited the accompanying consolidated balance sheet of Heritage Holdings, Inc. (a Delaware corporation and wholly-owned subsidiary of U.S. Propane, L.P.) and subsidiaries as of August 31, 2001. This balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

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

In our opinion, the consolidated balance sheet referred to above presents fairly, in all material respects, the consolidated financial position of Heritage Holdings, Inc. and subsidiaries as of August 31, 2001, in conformity with accounting principles generally accepted in the United States.

Tulsa, Oklahoma
October 19, 2001

/s/ Arthur Andersen LLP

HERITAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(in thousands, except share and per share amounts)

	August 31, 2001
ASSETS	
CURRENT ASSETS:	
Cash	$ 5,918
Marketable securities	4,256
Accounts receivable, net of allowance for doubtful accounts	40,221
Inventories	66,814
Assets from liquids marketing	6,465
Prepaid expenses and other	15,274
Total current assets	138,948
PROPERTY, PLANT AND EQUIPMENT, net	394,742
ASSETS HELD IN TRUST	1,482
INVESTMENT IN AFFILIATE	6,920
INTANGIBLES AND OTHER ASSETS, net	249,004
Total assets	$ 791,096
LIABILITIES AND STOCKHOLDER'S EQUITY	
CURRENT LIABILITIES:	
Working capital facility	$ 19,900
Accounts payable	43,210
Accounts payable to affiliate	1,577
Accrued and other current liabilities	41,834

Liabilities from liquids marketing	7,130
Current maturities of long-term debt	16,394

Total current liabilities	130,045
LONG-TERM DEBT, less current maturities	424,875
MINORITY INTEREST	88,951
DEFERRED TAX LIABILITY	38,479

	682,350
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDER'S EQUITY:	
Common stock, $.01 par value, 600,000 shares authorized, 534,788 shares issued and outstanding	5
Additional paid-in capital	121,196
Accumulated deficit	(5,868)
Accumulated other comprehensive loss	(6,587)

Total stockholder's equity	108,746

Total liabilities and stockholder's equity	$ 791,096
	==========

The accompanying notes are an integral part of this consolidated balance sheet.

NOTES TO CONSOLIDATED BALANCE SHEET

(Dollars in thousands, except per share/unit amounts)

1. OPERATIONS AND ORGANIZATION:

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

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

In August 2000, U.S. Propane acquired all of the outstanding common stock of Heritage Holdings, Inc., (General Partner), the General Partner of Heritage Propane Partners, L.P. for $120,000. By virtue of Heritage Holdings, Inc.'s general partner and limited partner interests in Heritage Propane Partners, L.P., U.S. Propane gained control of Heritage Propane Partners, L.P. Simultaneously, U.S. Propane transferred its propane operations, consisting of its interest in four separate limited liability companies, AGL Propane, L.L.C., Peoples Gas Company, L.L.C., United Cities Propane Gas, L.L.C. and Retail Propane Company, L.L.C. (former Piedmont operations), (collectively the "Propane LLCs"), to Heritage Propane Partners, L.P. for $181,395 plus working capital. The $181,395 was payable $139,552 in cash, $31,843 of assumed debt, and the issuance of 372,392 Common Units of Heritage Propane Partners, L.P. valued at $7,348 and a 1.0101 percent limited partner interest in Heritage Propane Partners, L.P.'s operating partnership, Heritage Operating, L.P., valued at $2,652. The purchase price and the exchange price for the Common Units were approved by an independent committee of the Board of Directors of Heritage Holdings, Inc. The exchange price for the Common Units was $19.73125 per unit under a formula based on the average closing price of Heritage Propane Partners L.P.'s Common Units on the New York Stock Exchange for the twenty (20) day period beginning ten (10) days prior to the public announcement of the transaction on June 15, 2000 (the "Formula Price"). Subsequent to August 31, 2000, payments totaling approximately $12,900 were made for the working capital adjustment, of which $5,000 was accrued at August 31, 2000.

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

The merger was accounted for as a reverse acquisition in accordance with Accounting Principles Board Opinion No. 16. The propane operations of Heritage Propane Partners, L.P. prior to the series of transactions with U.S. Propane are referred to as Predecessor Heritage. Although Predecessor Heritage is the surviving entity for legal purposes, U.S. Propane's propane operations was the acquirer for accounting purposes. The assets and liabilities of Predecessor Heritage have been recorded at fair value to the extent acquired by U.S. Propane's propane operations, approximately 36 percent, in accordance with Emerging Issues Task Force Issue No. 90-13, "Accounting for Simultaneous Common Control Mergers." The assets and liabilities of U.S. Propane have been recorded at historical cost, as recorded in the U.S. Propane transaction described above. Heritage

Holdings, Inc. and the combined operations of Predecessor Heritage and U.S. Propane are referred to herein as "Heritage."

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

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

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

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

The accompanying consolidated balance sheet has been prepared on the pushdown method of accounting under which stockholder's equity was determined based on the purchase price paid by U.S. Propane. Goodwill of $29,163 was recorded in connection with U.S. Propane's acquisition of the Company, which was being amortized over 30 years, prior to the adoption of Financial Accounting Standards Board (FASB) Statement No. 142, as discussed further in Note 2. The fair value of the deferred tax liability assumed was based on preliminary estimates and may be revised at a later date.

Heritage sells propane and propane-related products to more than 600,000 active residential, commercial, industrial and agricultural customers in 29 states. Heritage is also a wholesale propane supplier in the southwestern and southeastern United States and in Canada, the latter through participation in M-P Energy Partnership. M-P Energy Partnership is a Canadian partnership primarily engaged in lower-margin wholesale distribution in which Heritage owns a 60 percent interest.

2. SIGNIFICANT ACCOUNTING POLICIES AND BALANCE SHEET DETAIL:

Principles of Consolidation

The accompanying consolidated balance sheet includes the accounts of Heritage Holdings, Inc. and its subsidiaries (the "Company"), including Heritage Propane Partners, L.P. (Heritage Propane), Heritage Operating, L.P. (the "Operating Partnership"), Heritage Energy Resources (Resources) and M-P Energy Partnership. The Company accounts for its 50 percent partnership interest in Bi-State Partnership, another propane retailer, under the equity method. All significant intercompany transactions and accounts have been eliminated in consolidation.

Accounts Receivable

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

August 31,
2001 -----

Accounts
receivable
$ 43,797
Less -

allowance
for
doubtful
accounts
3,576 ----

Total, net
$ 40,221
==========

Inventories

Inventories are valued at the lower of cost or market. The cost of fuel inventories is determined using the average cost method, while the cost of appliances, parts and fittings is determined by the first-in, first-out method. Inventories consist of the following:

	August 31, 2001

Fuel	$ 56,975
Appliances, parts and fittings	9,839

	$ 66,814
	==========

Property, Plant and Equipment

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

	August 31, 2001

Land and improvements	$ 21,244
Buildings and improvements (10 to 30 years)	27,871
Bulk storage, equipment and facilities (3 to 30 years)	34,431
Tanks and other equipment (5 to 30 years)	287,155
Vehicles (5 to 10 years)	52,177
Furniture and fixtures (5 to 10 years)	6,852
Other	3,242

	432,972
Less- Accumulated depreciation	(47,036)

	385,936
Plus- Construction work-in-process	

8,806 ----- ----- $ 394,742 ==========

Intangibles and Other Assets

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

	August 31, 2001
Goodwill (30 years)	$ 190,432
Noncompete agreements (10 to 15 years)	45,764
Customer lists (15 years)	26,903
Other	6,055
	269,154
Less-Accumulated amortization	(20,150)
	$ 249,004

Long-lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such a review should indicate that the carrying amount of long-lived assets is not recoverable, the Company reduces the carrying amount of such assets to fair value. No impairment was required as of August 31, 2001.

Accrued and Other Current Liabilities

Accrued and other current liabilities consist of the following:

	August 31, 2001
Interest payable	$ 4,614
Wages and benefits	12,909
Deferred tank rent	5,694
Advanced budget payments	5,883
Customer deposits	2,425
Taxes other than income	2,430
Derivative instruments	4,556
Income taxes payable	566
Other	2,757
	$ 41,834

Income Taxes

Concurrent with the series of transactions with U.S. Propane, the Company converted to a taxable corporation from a subchapter "S" corporation for tax reporting purposes. The Company follows the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (Statement) No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, deferred income taxes are recorded based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets are received and liabilities settled.

Use of Estimates

The preparation of consolidated balance sheet in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. Actual results could differ from those estimates.

Fair Value

The carrying amount of accounts receivable and accounts payable approximates their fair value. Based on the estimated borrowing rates currently available to the Company for long-term loans with similar terms and average maturities, the fair value and carrying amount of long-term debt at August 31, 2001, was approximately $465,690 and $441,269, respectively. The fair value is determined using estimated borrowing rates currently available to the Company for loans with similar terms and maturities.

Accounting for Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, and for hedging activities, be recorded on the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. The Company adopted the provisions of SFAS 133 effective September 1, 2000. The cumulative effect of adopting SFAS 133 was an adjustment to beginning other comprehensive income of $5,429.

The Company had certain financial swap instruments outstanding at August 31, 2001 that have been designated as cash flow hedging instruments in accordance with SFAS 133. A financial swap is a contractual agreement to exchange obligations of money between the buyer and seller of the instruments as propane volumes during the pricing period are purchased. The swaps are tied to a set fixed price for the buyer and floating price determinants for the seller priced on certain indices. Heritage entered into these instruments to hedge the forecasted propane volumes to be purchased during each of the one-month periods ending October 2001 through March 2002. The Company utilizes hedging transactions to provide price protection against significant fluctuations in propane prices. These instruments had a fair value of ($4,556) as of August 31, 2001, which was recorded as accrued and other liabilities on the balance sheet through other comprehensive income, exclusive of ($46) of minority interest. Also at August 31, 2001, the Company had outstanding options to purchase 14.7 million gallons of propane during December 2001 and January 2002 at a weighted average price of $.48 per gallon. The fair value of $.2 million of the option contracts was recorded as current assets on the balance sheet.

Marketable Securities

Heritage's marketable securities are classified as available for sale securities and are reflected as a current asset on the consolidated balance sheet at their fair value. As of August 31, 2001, unrealized holding losses of $2,077 were recorded in accumulated other comprehensive income based on the market value of the securities.

Liquids Marketing Activities

Heritage trades financial instruments for its own account through Resources. Financial instruments utilized in connection with liquids marketing activities are accounted for using the mark-to-market method. Under the mark-to-market method of accounting, forwards, swaps, options and storage contracts are reflected at fair value, and are shown in the consolidated balance sheet as assets and liabilities from liquids marketing activities. Changes in the assets and liabilities from liquids marketing activities result primarily from changes in the market prices, newly originated transactions and the timing of settlement. Resources attempts to balance its contractual portfolio in terms of notional amounts and timing of performance and delivery obligations. However, net unbalanced positions can exist or are established based on assessment of anticipated market movements.

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

Notional Amounts and Terms -

The notional amounts and terms of these financial instruments as of August 31, 2001 include fixed price payor for 2,130,000 barrels of propane and butane, and fixed price receiver of 1,820,000 barrels of propane and butane. Notional amounts reflect the volume of the transactions, but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure the Company's exposure to market or credit risks.

Fair Value -

The fair value of the financial instruments related to liquids marketing activities as of August 31, 2001, was assets of $6,465 and liabilities of $7,130. Resources also entered into an option contract in which the counter party had the option to purchase 6.3 million gallons of propane from October 1, 2001 through December 31, 2001 at $.62 per gallon.

Market and Credit Risk -

Inherent in the resulting contractual portfolio is certain business risks, including market risk and credit risk. Market risk is the risk that the value of the portfolio will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers, or financial counterparties to a contract. Heritage and Resources take active roles in managing and controlling market and credit risk and have established control procedures, which are reviewed on an ongoing basis. Heritage monitors market risk through a variety of techniques, including routine reporting to senior management. Heritage attempts to minimize credit risk exposure through credit policies and periodic monitoring procedures.

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

Recently Issued Accounting Standard Not Yet Adopted

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

Heritage adopted Statement No. 142 on September 1, 2001 and accordingly has discontinued the amortization of goodwill existing at the time of adoption. Management has engaged an independent appraisal firm to perform an assessment of the fair value of each of the Company's operating segments, which will be compared with the carrying value of each segment to determine whether any impairment exists on the date of adoption. Under the provisions of Statement No. 142, Heritage has six months from the time of adoption to have its appraisals completed. However, management does not believe that any impairment exists upon adoption.

In June 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations". Statement No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This Statement amends FASB Statement No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies". Heritage will adopt the provisions of Statement No. 143 effective September 1, 2002. Management has not determined the impact of adopting Statement No. 143.

In August 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This Statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". This statement retains the fundamental provisions of Statement No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used, and measurement of long-lived assets to be disposed of by sale. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years, with early application encouraged. Management has not determined the method, timing or impact of adopting Statement No. 144.

3. ASSETS HELD IN TRUST:

In connection with the initial public offering (IPO) by Predecessor Heritage in June 1996, the Company retained proceeds, which were placed in various trusts to be paid to the noteholders of noncompete agreements entered into by the Company prior to the IPO. The proceeds are disbursed monthly from the trust in accordance with the noncompete agreements. The Company retains all earnings from the trust assets.

4. ACQUISITIONS:

On July 31, 2001, Heritage purchased the propane operations of ProFlame, Inc. and subsidiaries and affiliates (ProFlame) located in California and Nevada, in a series of mergers, stock purchases and asset purchases. This acquisition was accounted for using the purchase method of accounting under FASB Statement No. 141. The acquisition of ProFlame enhanced Heritage's operations in the Western United States and is expected to reduce costs through blend-ins to existing operations.

The aggregate purchase price was $56,201 net of cash acquired of $6,518. The purchase price included $42,695 paid in cash of which $2,958 related to preliminary working capital, 129,901 common units valued at $4,450 and liabilities assumed of $9,056. The 129,901 common units were issued to the General Partner in connection with the assumption of certain liabilities by the General Partner. The value of the units was determined based on the market price at the date of acquisition. Management is in the process of obtaining valuations of certain intangible assets; thus, the allocation of the purchase price is preliminary. The working capital adjustment is expected to settle in January 2002.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets, net of cash acquired	$ 4,995
Property, plant and equipment	25,231
Goodwill	15,521
Other intangible assets	10,454
Total assets acquired	56,201
Current liabilities	2,036
Long-term debt	7,020
Total liabilities assumed	9,056
Net assets acquired	$47,145

Of the $10,454 of acquired intangible assets, $7,040 was assigned to non-competes, which are being amortized over a 10 year weighted-average useful life and $3,414 was assigned to customer lists, which are being amortized over 15 year weighted average useful life. Of the $15,521 assigned to goodwill, none is expected to be deductible for tax purposes.

The results of operations of ProFlame from August 1, 2001 through August 31, 2001 are included in the consolidated statement of operations of Heritage for the fiscal year ended August 31, 2001.

The following unaudited pro forma consolidated results of operations are presented as if the series of transactions with ProFlame and Heritage had been made at the beginning of the periods presented

Year
Eight
Months
Ended
Ended
August
31,
2001
August
31,
2001 --

- Total
revenues
$
766,795
$
110,698
Net
income
(loss)
$
19,492
$
(5,938)
Basic
and
diluted
earnings
(loss)
per
common
unit $
1.47 $
(.55)

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

Heritage also purchased all of the common stock of EnergyNorth Propane, Inc. and its VGS Propane, LLC subsidiary in northern New England, and all of the stock of one other small company. Heritage acquired substantially all of the assets of seven other companies during the fiscal year ended August 31, 2001. These acquisitions totaled $60,473, which included liabilities assumed and noncompete agreements of $3,010 for periods ranging up to ten years. These acquisitions were financed primarily with the acquisition facility and the issuance of $1,600 of common units.

5. WORKING CAPITAL FACILITY AND LONG-TERM DEBT:

Long-term debt consists of the following:

	August 31, 2001
1996 8.55% Senior Secured Notes	$ 120,000
1997 Medium Term Note Program:	
7.17% Series A Senior Secured Notes	12,000
7.26% Series B Senior Secured Notes	20,000
6.50% Series C Senior Secured Notes	3,571
6.59% Series D Senior Secured Notes	5,000
6.67% Series E Senior Secured Notes	5,000
2000 and 2001 Senior Secured Promissory Notes:	
8.47% Series A Senior Secured Notes	16,000
8.55% Series B Senior Secured Notes	32,000
8.59% Series C Senior Secured Notes	27,000
8.67% Series D Senior Secured Notes	58,000
8.75% Series E Senior Secured Notes	7,000
8.87% Series F Senior Secured Notes	

40,000 7.21%
Series G
Senior
Secured Notes
26,500 7.89%
Series H
Senior
Secured Notes
27,500 7.99%
Series I
Senior
Secured Notes
16,000 Senior
Revolving
Acquisition
Facility --
Notes Payable
on noncompete
agreements
with interest
imputed at
rates
averaging
7.5%, due in
installments
through 2010,
collateralized
by a first
security lien
on certain
assets of
Heritage
22,579 Other
3,119 Current
maturities of
long-term
debt (16,394)
---------- $
424,875
==========

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

1996 8.55% Senior Notes:	mature at the rate of $12,000 on June 30 in each of the years 2002 to and including 2011. Interest is paid semi-annually.

1997 Medium Term Note Program:

Series A Notes:	mature at the rate of $2,400 on November 19 in each of the years 2005 to and including 2009. Interest is paid semi-annually.
Series B Notes:	mature at the rate of $2,000 on November 19 in each of the years 2003 to and including 2012. Interest is paid semi-annually.
Series C Notes:	mature at the rate of $714 on March 13 in each of the years 2000 to and including 2003, $357 on March 13, 2004, $1,073 on March 13, 2005, and $357 in each of the years 2006 and 2007. Interest is paid semi-annually.
Series D Notes:	mature at the rate of $556 on March 13 in each of the years 2002 to and including 2010. Interest is paid semi-annually.
Series E Notes:	mature at the rate of $714 on March 13 in each of the years 2007 to and including 2013. Interest is paid semi-annually.

2000 and 2001 Senior Secured Promissory Notes:

Series A Notes:	mature at the rate of $3,200 on August 15 in each of the years 2003 to and including 2007. Interest is paid quarterly.
Series B Notes:	mature at the rate of $4,571 on August 15 in each of the years 2004 to and including 2010. Interest is paid quarterly.
Series C Notes:	mature at the rate of $5,750 on August 15 in each of the years 2006 to and including 2007, $4,000 on August 15, 2008 and $5,750 on August 15, 2009 to and including 2010. Interest is paid quarterly.
Series D Notes:	mature at the rate of $12,450 on August 15 in each of the years 2008 and 2009, $7,700 on August 15, 2010, $12,450 on August 15, 2011 and $12,950 on August 15, 2012. Interest is paid quarterly.
Series E Notes:	mature at the rate of $1,000 on August 15 in each of the years 2009 to and including 2015. Interest is paid quarterly.
Series F Notes:	mature at the rate of $3,636 on August 15 in each of the years 2010 to and including 2020. Interest is paid quarterly.
Series G Notes:	mature at the rate of $5,300 on May 15 in each of the years 2004 to and including 2008. Interest is paid quarterly.
Series H Notes:	mature at the rate of $2,500 on May 15 in each of the years 2006 to and including 2016. Interest is paid quarterly.
Series I Notes:	mature in one payment of $16,000 on May 15, 2013. Interest is paid quarterly.

The Note Purchase Agreement, the Medium Term Note Program and the Senior Secured Promissory Notes contain restrictive covenants including limitations on substantial disposition of assets, changes in ownership of Heritage and additional indebtedness and require the maintenance of certain financial ratios. At August 31, 2001, Heritage was in compliance with all covenants. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the common stock of Heritage's subsidiaries secure the notes.

Effective December 28, 2000, Heritage entered into the Fourth Amendment to the First Amended and Restated Credit Agreement, and effective July 16, 2001, Heritage entered into the Fifth Amendment to First Amended and Restated Credit Agreement, with various financial institutions that amended existing credit agreements. The terms of the Agreement as amended are as follows:

A $65,000 Senior Revolving Working Capital Facility, expiring June 30, 2004, with $19,900 outstanding at August 31, 2001. 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 5.295 percent for the amount outstanding at August 31, 2001. Heritage must be free of all working capital borrowings for 30 consecutive days each fiscal year. The maximum commitment fee payable on the unused portion of the facility is .50 percent.

A $50,000 Senior Revolving Acquisition Facility is available through December 31, 2003, at which time the outstanding amount must be paid in ten equal quarterly installments, beginning March 31, 2004. There were no amounts outstanding as of August 31, 2001. The interest rate and interest payment dates vary depending on the terms Heritage agrees to when the money is borrowed. The maximum commitment fee payable on the unused portion of the facility is .50 percent.

Future maturities of long-term debt for each of the next five fiscal years and thereafter are $16,394 in 2002; $19,872 in 2003; $31,928 in 2004; $32,250 in 2005; $42,254 in 2006 and $298,571 thereafter.

6. INCOME TAXES:

The components of the deferred tax liability are as follows:

Deferred tax assets-	
Net operating loss carryforwards (NOLs)	$ 4,134
Reserves	4,441
Alternative minimum tax carryforwards	855
	$ 9,430
Deferred tax liabilities-	
Property basis	$47,909
Net deferred tax liabilities	$38,479

The Company's NOLs generally begin to expire in 2011 through 2015.

7. COMMITMENTS AND CONTINGENCIES:

Certain property and equipment is leased under noncancelable leases which require fixed monthly rental payments and expire at various dates through 2008. Fiscal year future minimum lease commitments for such leases are $2,680 in 2002; $1,830 in 2003; $1,365 in 2004; $1,126 in 2005; $488 in 2006 and $1,052 thereafter.

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

Petroleum-based contamination or environmental wastes are known to be located on or adjacent to six sites, which Heritage presently or formerly had operations. These sites were evaluated at the time of their acquisition. In all cases, remediation operations have been or will be undertaken by others, and in all six cases, Heritage obtained indemnification for expenses associated with any remediation from the former owners or related entities. Additionally, Heritage has been named as a large deminimis generator at one superfund site, but it believes that its exposure will not be material. In the opinion of management and based on information currently available to Heritage, such projects are not expected to have a material adverse effect on Heritage's financial condition or results of operation.

Heritage has entered into several purchase and supply commitments with varying terms as to quantities and prices, which expire at various dates through March 2002.

8. PARTNERSHIP UNITS:

The partnership agreement of Heritage Propane requires that Heritage Propane will distribute all of its "available cash" to its unitholders and its general partner within 45 days following the end of each fiscal quarter, subject to the payment of incentive distributions to the holders of Incentive Distribution Rights to the extent that certain target levels of cash distributions are achieved. The term "available cash" generally means, with respect to any fiscal quarter of the partnership, all cash on hand at the end of such quarter, plus working capital borrowings after the end of the quarter, less reserves established by the General Partner in its sole discretion to provide for the proper conduct of Heritage Propane's business, comply with applicable laws or any Heritage debt instrument or other agreement, or to provide funds for future distributions to partners with respect to any one or more of the next four quarters. Available cash is more fully defined in the Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P.

The Minimum Quarterly Distribution was made to the Common and Subordinated Unitholders for the quarters ended November 30, 1996 through August 31, 1998. For the quarter ended November 30, 1998, a quarterly distribution of $.5125 was paid to the Common and Subordinated Unitholders. For each of the quarters ended February 28, 1999 through and including May 31, 2000, quarterly distributions of $.5625 were paid to the Common and Subordinated Unitholders. Heritage raised the quarterly distribution $0.0125 per unit each quarter beginning with the quarter ended August 31, 2000, to the current level of $0.625 per unit (or $2.50 annually) for the quarter ended August 31, 2001. The quarterly distributions for the quarters ended February 28, 1999 through August 31, 2001 included incentive distributions payable to the General Partner to the extent the quarterly distribution exceeded $.55 per unit.

The subordination period ended as a result of the conversion into common units of all remaining outstanding subordinated units (but not class B subordinated units) as described above. Beginning with the fiscal quarter ended August 31, 2001, and as long as class B subordinated units are outstanding, Heritage Propane will distribute available cash, excluding any available cash to be distributed to the class C unitholders, as follows:

- First, 97% to the holders of common units, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership and 2% to Heritage in respect of its general partner interests in Heritage Propane and the Operating Partnership, until the holders of common units have received $0.50 per common unit for such quarter and any prior quarter in which they failed to receive $0.50 per common unit;

- Second, 97% to the holders of class B subordinated units, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership and 2% to Heritage in respect of its general partner interests in Heritage Propane and the Operating Partnership, until the holders of class B subordinated units have received $0.50 per unit for such quarter;

- Third, 97% to all common unitholders and class B subordinated units, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership and 2% to Heritage in respect of its general partner interests in Heritage Propane and the Operating Partnership, until all common unitholders have received at least $0.55 per unit for such quarter;

- Fourth, 84% to all common unitholders and class B subordinated unitholders, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership and 13% to Heritage in respect of its incentive distribution rights, pro rata and 2% to Heritage in respect of its general partner interests in Heritage Propane and the Operating Partnership, until all common unitholders have received at least $0.635 per unit for such quarter;

- Fifth, 74% to all common unitholders and class B subordinated unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership, 23% to Heritage in respect of its incentive distribution rights, pro rata, and 2% to Heritage in respect of its general partner interests in Heritage Propane and the Operating Partnership, until all common unitholders have received at least $0.825 per unit for such quarter; and

Sixth, thereafter 49% to all common unitholders and class B subordinated unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership, 48% to Heritage in respect of its incentive distribution rights, pro rata, and 2% to Heritage in respect of its general partner interests in Heritage Propane and the Operating Partnership.

If the common unitholders have not approved the conversion of class B subordinated units into common units by December 31, 2001, then the amount distributed to each class B subordinated unit pursuant to the second through sixth clauses above will be equal to 115% of the amount distributed to each common unit pursuant to each such clause.

If the conversion of the class B subordinated units is approved, each class B subordinated unit will be converted into one common unit and will then participate pro rata with the other common units in distributions of available cash. After the conversion of the class B subordinated units into common units, Heritage Propane will distribute available cash, excluding any available cash to be distributed to the class C unitholders as follows:

- First, 97% to all unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership and 2% to Heritage in respect of its general partner interests in Heritage Propane and the Operating Partnership, until all unitholders have received $0.50 per unit for such quarter and any prior quarter;

- Second, 97% to all unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership and 2% to Heritage in respect of its general partner interests in Heritage Propane and the Operating Partnership, until all unitholders have received $0.55 per unit for such quarter;

- Third, 84% to all unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership, 13% to Heritage in respect of its incentive distribution rights, pro rata, and 2% to Heritage in respect of its general partner interests in Heritage Propane and the Operating Partnership, until all common unitholders have received at least $0.635 per unit for such quarter;

- Fourth, 74% to unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership, 23% to Heritage in respect of its incentive distribution rights, pro rata and 2% to Heritage in respect of its general partner interests in Heritage Propane and the Operating Partnership, until all common unitholders have received at least $0.825 per unit for such quarter;

- Fifth, thereafter 49% to all unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating Partnership, 48% to Heritage in respect of its incentive distribution rights, pro rata, and 2% to Heritage in respect of its general partner interests in Heritage Propane and the Operating Partnership.

Restricted Unit Plan

The Company adopted the Amended and Restated Restricted Unit Plan dated August 10, 2000 (the "Restricted Unit Plan"), for certain directors and key employees of Heritage and its affiliates. The Restricted Unit Plan covers rights to acquire 146,000 common units. The right to acquire the common units under the Restricted Unit Plan, including any forfeiture or lapse of rights are available for grant to key employees on such terms and conditions (including vesting conditions) as the Compensation Committee of Heritage shall determine. Each director shall automatically receive a Director's grant with respect to 500 common units on each September 1 that such person continues as a director. Newly elected directors are also entitled to receive a grant with respect to 2,000 common units upon election or appointment to the Board. Directors who are employees of TECO Energy, Inc., Atmos Resources, Inc., Piedmont Natural Gas Company, Inc. or AGL Resources, Inc. or their affiliates are not entitled to receive a Director's grant of common units. Generally, the rights to acquire the common units will vest upon the later to occur of (i) the three-year anniversary of the grant date, or (ii) the conversion of the Subordinated units to common units. Grants made after the conversion of all of the Subordinated units to common units shall vest on such terms as the Committee may establish, which may include the achievement of performance objectives. In the event of a "change of control" (as defined in the Restricted Unit Plan), all rights to acquire common units pursuant to the Restricted Unit Plan will immediately vest.

The issuance of the common units pursuant to the Restricted Unit Plan is intended to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation in respect of the common units. Therefore, no consideration will be payable by the plan participants upon vesting and issuance of the common units. As of August 31, 2001, 34,050 restricted units are outstanding and 31,150 are available for grants to non-employee directors and key employees.

Subsequent to August 31, 2001, 1,750 additional Phantom Units vested pursuant to the vesting rights of the Restricted Unit Plan and common units were issued. During fiscal 2000, 21,300 of these Phantom Units were granted by Predecessor Heritage to non-employee directors and key employees of Predecessor Heritage. As of August 31, 2000, 80,800 Phantom Units were awarded of which 4,500 grants vested pursuant to the vesting rights of the Restricted Unit Plan and 71,300 vested in accordance with the change of control that occurred with the Company. Individuals holding the remaining 5,000 grants waived their rights to vesting under the change of control. During fiscal 2001, 750 additional Phantom Units vested pursuant to the vesting rights of the Restricted Unit Plan and common units were issued.

Long-Term Incentive Plan

Effective September 1, 2000, Heritage adopted a long-term incentive plan whereby units will be awarded based on achieving certain targeted levels of Distributed Cash per unit. Awards under the program will be made starting in 2003 based upon the average of the prior three years Distributed Cash per unit. A minimum of 250,000 units and a maximum of 500,000 units will be awarded.

9. SUPPLEMENTAL INFORMATION:

The following balance sheet of the Company includes its investment in Heritage on an equity basis. Such presentation is included to provide additional information with respect to the Company's financial position on a stand-alone basis:

	August 31, 2001
ASSETS	
CURRENT ASSETS:	
Cash	$ 309
Receivable from Heritage Propane	6,360
Prepaid expenses and other	10
Current portion of assets held in trust	366
Total current assets	7,045
ASSETS HELD IN TRUST	1,482
INVESTMENT IN HERITAGE	122,623
INTANGIBLES AND OTHER ASSETS, net	30,762
Total assets	$ 161,912
LIABILITIES AND STOCKHOLDER'S EQUITY	
CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	$ 8,476
Current maturities of long-term debt	274
Total current liabilities	8,750
LONG-TERM DEBT, less current maturities	1,127
MINORITY INTEREST	(1,731)
DEFERRED TAX LIABILITY	38,479
	46,625
STOCKHOLDER'S EQUITY:	
Common stock $.01 par	

value, 600,000 shares authorized, 534,788 shares issued and outstanding 5 Additional paid-in capital 121,196 Accumulated other comprehensive income (46) Accumulated deficit (5,868) ---------- Total stockholder's equity 115,287 ---------- Total liabilities and stockholder's equity $ 161,912 ==========