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HERITAGE PROPANE PARTNERS L P  
Form 10-K/A  
July 12, 2002

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

FORM 10-K/A

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  
(State or other jurisdiction of incorporation or organization)

73-1493906  
(I.R.S. Employer Identification Number)

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

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

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

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

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

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

Yes  No

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

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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

### EXPLANATORY NOTE

This amendment to Heritage Propane Partners, L.P.'s Annual Report on Form 10-K (as filed by the Registrant on November 29, 2001) is being filed to include the audit report of Grant Thornton LLP on Heritage Propane Partners, L.P.'s consolidated financial statements for the year ended August 31, 2001. The unqualified audit report issued by Grant Thornton LLP, dated July 11, 2002, replaces the unqualified audit report for the same period issued by Arthur Andersen LLP, dated October 19, 2001. The audit report of Arthur Andersen LLP was replaced due to the uncertainty surrounding the viability and continuity of Arthur Andersen LLP. Neither Arthur Andersen LLP's nor Grant Thornton LLP's audit reports on Heritage Propane Partners, L.P.'s financial statements for the year ended August 31, 2001 contained an adverse opinion or a disclaimer of opinion, nor were the audit reports qualified or modified as to uncertainty or audit scope. Further, the audit conducted by Grant Thornton LLP resulted in only minor revisions that have been made primarily to update the disclosures for events occurring subsequent to the date of Arthur Andersen LLP's report. The revisions had no impact on the previously reported financial position or results of operations.

### 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 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.

Form 8-K dated July 10, 2002, was filed in connection with the dismissal of Arthur Andersen LLP as Heritage Propane Partners, L.P.'s independent auditor and the engagement of Grant Thornton LLP as Heritage Propane Partners, L.P.'s independent auditor.

Form 8-K dated February 4, 2002, was filed in connection with the

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approval of the Amendment Proposal by the Common Unitholders and Class B Subordinated Unitholders of Heritage Propane Partners, L.P., whereby U.S. Propane, L.P. replaced Heritage Holdings, Inc. as the general partner of Heritage Propane Partners, L.P. and Heritage Operating, L.P., Heritage Propane Partners, L.P.'s operating partnership.

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 Combined Financial Statements for the Nine months Ended May 31, 2001 and the Year Ended August 31, 2000 and related notes and (ii) ProFlame, Inc. and Subsidiaries and Affiliates Consolidated and Combined Financial Statements for the Years Ended August 31, 2000 and 1999 and related notes and for the Nine Months ended May 31, 2001 and 2000 (unaudited). This Form 8-K also filed as an exhibit the consent of Arthur Andersen LLP.

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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, 2000, by filing the consents of Deloitte and Touch LLP (two separate consents), Ernst & Young LLP and Arthur Andersen LLP.

Form 8-K dated August 15, 2001 was filed to report the acquisition of

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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.

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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: U.S. Propane, L.P.  
(General Partner)

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

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

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

Signature	Title	Date
/s/ H. Michael Krimbill ----- H. Michael Krimbill	President and Chief Executive Officer and Director (Principal Executive Officer)	July 12,
/s/ James E. Bertelsmeyer ----- James E. Bertelsmeyer	Chairman of the Board and Director	July 12,
/s/ Michael L. Greenwood	Vice President and Chief	July 12,

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----- Michael L. Greenwood	Financial Officer (Principal Financial and Accounting Officer)	
/s/ Bill W. Byrne ----- Bill W. Byrne	Director	July 12,
/s/ J. Charles Sawyer ----- J. Charles Sawyer	Director	July 12,
/s/ Stephen L. Cropper ----- Stephen L. Cropper	Director	July 12,
/s/ J. Patrick Reddy ----- J. Patrick Reddy	Director	July 12,
/s/ Royston K. Eustace ----- Royston K. Eustace	Director	July 12,
/s/ William N. Cantrell ----- William N. Cantrell	Director	July 12,
/s/ Ware F. Schiefer ----- Ware F. Schiefer	Director	July 12,

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Signature	Title	Date
/s/ David J. Dzuricky ----- David J. Dzuricky	Director	July 12, 2002
/s/ Clayton H. Preble ----- Clayton H. Preble	Director	July 12, 2002
/s/ J.D. Woodward ----- J.D. Woodward	Director	July 12, 2002
/s/ Richard T. O'Brien ----- Richard T. O'Brien	Director	July 12, 2002

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INDEX TO FINANCIAL STATEMENTS

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

Report of Independent Certified Public Accountants.....

Report of Independent Public Accountants.....

Consolidated Balance Sheets -  
August 31, 2001 and August 31, 2000.....

Consolidated Statements of Operations -  
Year Ended August 31, 2001,  
Eight Months Ended August 31, 2000 and 1999 (unaudited) and  
Years Ended December 31, 1999 and 1998 .....

Consolidated Statements of Comprehensive Income (Loss) -  
Year Ended August 31, 2001,  
Eight Months Ended August 31, 2000 and 1999 (unaudited) and  
Years Ended December 31, 1999 and 1998 .....

Consolidated Statements of Partners' Capital -  
Year Ended August 31, 2001,  
Eight Months Ended August 31, 2000 and  
Years Ended December 31, 1999 and 1998 .....

Consolidated Statements of Cash Flows -  
Year Ended August 31, 2001,  
Eight Months Ended August 31, 2000 and  
Years Ended December 31, 1999 and 1998.....

Notes to Consolidated Financial Statements.....

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

Report of Independent Certified Public Accountants.....

Consolidated Statements of Operations -  
Period Ended August 9, 2000 and  
Year Ended August 31, 1999.....

Consolidated Statements of Partners' Capital -  
Period Ended August 9, 2000 and  
Year Ended August 31, 1999.....

Consolidated Statements of Cash Flows -  
Period Ended August 9, 2000 and  
Year Ended August 31, 1999.....

Notes to Consolidated Financial Statements.....

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheet of Heritage Propane Partners, L.P. (a Delaware limited partnership) and subsidiaries, formerly Peoples Gas Company, as of August 31, 2001 and the related consolidated statements of operations, comprehensive income (loss), partners' capital and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heritage Propane Partners, L.P. and subsidiaries as of August 31, 2001, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 2 to the consolidated financial statements, effective September 1, 2001, the Company changed its method of accounting for derivatives to adopt the requirements of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities.

/s/ Grant Thornton LLP

Tulsa, Oklahoma  
July 11, 2002

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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

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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  
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Tulsa, Oklahoma  
October 19, 2001

The report of Arthur Andersen LLP shown above is a copy of a previously issued report; Arthur Andersen LLP has not reissued this report.

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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



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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 and outstanding, respectively)	190,548	106,221
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.

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## 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 Year Ended August 31, 2001	For the Eight Months Ended August 31, 2000	For the Eight Months Ended August 31, 1999  (Unaudited)
	-----	-----	-----
REVENUES:			
Retail fuel	\$ 440,527	\$ 43,815	\$ 21,766
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
	-----	-----	-----
COSTS AND EXPENSES:			
Cost of products sold	306,556	29,962	8,467
Liquids marketing	171,478	11,538	--
Operating expenses	126,849	16,581	8,596
Depreciation and amortization	40,431	4,686	2,037
Selling, general and administrative	15,716	1,019	--
	-----	-----	-----
Total costs and expenses	661,030	63,786	19,100
	-----	-----	-----
OPERATING INCOME (LOSS)	54,423	(714)	2,666
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
	-----	-----	-----
INCOME (LOSS) BEFORE MINORITY INTERESTS AND INCOME TAXES	20,524	(3,547)	2,677
Minority interests	(814)	80	--
	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	19,710	(3,467)	2,677
Income taxes	--	379	1,035
	-----	-----	-----
NET INCOME (LOSS)	19,710	(3,846)	1,642
GENERAL PARTNER'S INTEREST IN NET INCOME (LOSS)	831	(46)	4
	-----	-----	-----
LIMITED PARTNERS' INTEREST IN NET INCOME			

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(LOSS)	\$ 18,879	\$ (3,800)	\$ 1,638
	=====	=====	=====
BASIC NET INCOME (LOSS) PER LIMITED PARTNER UNIT	\$ 1.43	\$ (.37)	\$ .94
	=====	=====	=====
BASIC AVERAGE NUMBER OF UNITS OUTSTANDING	13,223,184	10,225,387	1,732,271
	=====	=====	=====
DILUTED NET INCOME (LOSS) PER LIMITED PARTNER UNIT	\$ 1.42	\$ (.37)	\$ .94
	=====	=====	=====
DILUTED AVERAGE NUMBER OF UNITS OUTSTANDING	13,254,908	10,225,387	1,732,271
	=====	=====	=====

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

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

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

	Year ended August 31, 2001	For the Eight Months Ended August 31,		For the Years E December 31,	
	-----	2000	1999	1999	1
	-----	-----	-----	-----	-----
			(Unaudited)		
Net income (loss)	\$ 19,710	\$ (3,846)	\$ 1,642	\$ 1,768	\$
Other comprehensive income:					
Transition adjustment for adoption of SFAS No. 133	5,429				
Change in value of derivative instruments	(9,893)	--	--	--	
Change in value of available-for-sale securities	(2,077)	--	--	--	
	-----	-----	-----	-----	-----
Comprehensive income (loss)	\$ 13,169	\$ (3,846)	\$ 1,642	\$ 1,768	\$
	=====	=====	=====	=====	=====
RECONCILIATION OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)					
Balance, beginning of period	\$ --	\$ --	\$ --	\$ --	\$
Transition adjustment for adoption of SFAS No. 133	5,429	--	--	--	

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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.

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

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

	Number of Units			
	Common	Subordinated	Class B Subordinated	Class
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1997	1,294,873	437,398	--	
Net income	--	--	--	
Dividends paid to parent	--	--	--	
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1998	1,294,873	437,398	--	
Net income	--	--	--	
Dividends paid to parent	--	--	--	
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1999	1,294,873	437,398	--	
Dividends paid to parent	--	--	--	
Liabilities retained by parent	--	--	--	
Merger with AGL, Atmos, and Piedmont	--	--	--	
Merger with Predecessor Heritage	8,379,273	1,414,073	1,382,514	1,000,
General partner capital contribution	--	--	--	
Other	--	--	--	
Net loss	--	--	--	
	-----	-----	-----	-----
BALANCE, AUGUST 31, 2000	9,674,146	1,851,471	1,382,514	1,000,
Unit distribution	--	--	--	
Issuance of common units	2,500,000	--	--	
Conversion of phantom units	72,050	--	--	
Issuance of restricted common units	216,917	--	--	
General partner capital contribution	(54,268)	--	--	
Conversion of subordinated units	1,851,471	(1,851,471)	--	
Other comprehensive loss	--	--	--	

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Other	--	--	--	
Net income	--	--	--	
	-----	-----	-----	-----
BALANCE, AUGUST 31, 2001	14,260,316	--	1,382,514	1,000,000
	=====	=====	=====	=====
				Accum
	Class B	Class C	General	Ot
	Subordinated		Partner	Compre
	-----	-----	-----	Inco
BALANCE, DECEMBER 31, 1997	\$ --	\$ --	\$ 39	\$
Net income	--	--	5	
Dividends paid to parent	--	--	(5)	
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1998	--	--	39	
Net income	--	--	4	
Dividends paid to parent	--	--	(6)	
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1999	--	--	37	
Dividends paid to parent	--	--	(4)	
Liabilities retained by parent	--	--	71	
Merger with AGL, Atmos, and Piedmont	--	--	843	
Merger with Predecessor Heritage	17,167	--	(523)	
General partner capital contribution	--	--	581	
Other	(213)	--	(20)	
Net loss	(488)	--	(46)	
	-----	-----	-----	-----
BALANCE, AUGUST 31, 2000	16,466	--	939	
Unit distribution	(3,284)	--	(663)	
Issuance of common units	--	--	--	
Conversion of phantom units	--	--	--	
Issuance of restricted common units	--	--	--	
General partner capital contribution	--	--	768	
Conversion of subordinated units	--	--	--	
Other comprehensive loss	--	--	--	
Other	--	--	--	
Net income	2,350	--	831	
	-----	-----	-----	-----
BALANCE, AUGUST 31, 2001	\$ 15,532	\$ --	\$ 1,875	\$
	=====	=====	=====	=====

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

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(FORMERLY PEOPLES GAS COMPANY)

## CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

	For the Year Ended August 31, 2001	For the E Month Ended August 2000
	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 19,710	\$ (3,8
Reconciliation of net income (loss) to net cash provided by operating activities-		
Depreciation and amortization	40,431	4,6
Provision for loss on accounts receivable	4,055	
Gain on disposal of assets	(812)	(1
Deferred compensation on restricted units and long term incentive plan	1,079	5
Undistributed earnings of affiliates	(1,125)	
Minority interests	463	7
Deferred income taxes	--	
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(4,533)	(5,1
Inventories	(24,158)	(7,2
Assets from liquids marketing	(2,332)	(3,9
Prepaid and other expenses	(12,331)	1
Intangibles and other assets	1,730	
Accounts payable	(3,166)	17,9
Accounts payable to related companies	4,123	5,0
Accrued and other current liabilities	1,476	5,6
Liabilities from liquids marketing	3,446	
	-----	-----
Net cash provided by operating activities	28,056	14,5
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash paid for acquisitions, net of cash acquired	(94,860)	(177,0
Capital expenditures	(23,854)	(3,5
Proceeds from the sale of assets	2,620	
Investment in marketable securities	(6,225)	
Other	--	(2,4
	-----	-----
Net cash used in investing activities	(122,319)	(183,0
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from borrowings	356,748	193,0
Principal payments on debt	(295,788)	(67,8
Net proceeds from issuance of common units	66,046	22,9
Net proceeds from issuance of subordinated units	--	27,2
Debt issuance costs	(441)	(1,0
Capital contributions	--	5
Unit distributions	(31,527)	
Dividends paid to parent	--	(1,5
	-----	-----
Net cash provided by (used in) financing activities	95,038	173,3
	-----	-----

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INCREASE (DECREASE) IN CASH	775	4,8
CASH, beginning of period	4,845	-----
CASH, end of period	\$ 5,620	\$ 4,8
	=====	=====
NONCASH FINANCING ACTIVITIES:		
Notes payable incurred on noncompete agreements	\$ 10,030	\$ 8
	=====	=====
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	\$ 5
	=====	=====
Cash paid to parent for income taxes under tax sharing agreement, net	\$ --	\$ 1,0
	=====	=====

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

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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

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=====

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.

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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:



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

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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

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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, in which Heritage owns a 60 percent interest. M-P Energy Partnership is a Canadian partnership engaged in supplying Heritage's northern U.S. locations and lower-margin wholesale distribution.

### 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:

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	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
	=====	=====

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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
-----	-----

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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.

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### ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities consisted of the following:

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	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:

Year Ended August 31,	Eight Months Ended August 31, -----
--------------------------	---

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	2001 -----	2000 -----	1999 -----
BASIC NET INCOME (LOSS) PER LIMITED PARTNER UNIT:			
Limited Partners' interest in net income (loss)	\$ 18,879 =====	\$ (3,800) =====	\$ 1,6 =====
Weighted average limited partner units	13,223,184 =====	10,225,387 =====	1,732,2 =====
Basic net income (loss) per limited partner unit	\$ 1.43 =====	\$ (.37) =====	\$ . =====
DILUTED NET INCOME (LOSS) PER LIMITED PARTNER UNIT:			
Limited partners' interest in net income (loss)	\$ 18,879 =====	\$ (3,800) =====	\$ 1,6 =====

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	Year Ended August 31, 2001 -----	Eight Months Ended August 31, 2000 -----	1999 -----
Weighted average limited partner units	13,223,184	10,225,387	1,732,
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, =====
Diluted net income (loss) per limited partner unit	\$ 1.42 =====	\$ (.37) =====	\$ =====

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

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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 transition adjustment for adopting SFAS 133 was recorded as an adjustment to accumulated 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 fixed price bid by the buyer and floating price determination for the seller based on certain indices at the end of the relevant trading period. 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

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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.

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### 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



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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

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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 engaged an independent appraisal firm to perform an assessment of the fair value of each of Heritage's operating segments, which compared the carrying value of each segment to determine whether any impairment existed on the date of adoption. According to the independent assessment, no 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 does not believe that the adoption of Statement No. 143 will have a material impact, if any, on its consolidated financial condition or results of operations.

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 does not believe that the adoption of Statement No. 144 will have a material impact, if any, on its consolidated financial position or results of operations.

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### 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 settled in March 2002 without a significant adjustment to the purchase price.

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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

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	Year Ended August 31, 2001	Eight Months Ended August 31, 2000
	-----	-----
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.

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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

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### 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 8%, 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.

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Series E Notes:           mature at the rate of \$714 on March 13 in each

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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

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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

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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 de minimis 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

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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. On February 4, 2002, the common unitholders approved the proposal to convert 1,382,574 issued and outstanding class B subordinated units were converted to 1,382,574 common units.

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.

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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

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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:

- o 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



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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;

- o 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;
- o 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;

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- o 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;
- o 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
- o 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:

- o 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;
- o Second, 97% to all unitholders, pro rata, 1% to U.S. Propane in respect of its limited partner interest in the Operating

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- Partnership and 2% to the general partner, until all unitholders have received \$0.55 per unit for such quarter;
- o 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;
  - o 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;
  - o 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

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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.

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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.

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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 Year Ended August 31, 2001 -----	For the Eight Months Ended August 31, ----- 2000                      1999 -----		For Years December ----- 1999 -----
			(Unaudited)	
Gallons:				
Domestic retail fuel	330,242	38,268	22,118	33,608
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
	=====	=====	=====	=====

	For the Year Ended August 31, 2001 -----	For the Eight Months Ended August 31, ----- 2000                      1999 -----		For the Years en December 31, ----- 1999                      1 -----
			(Unaudited)	

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Revenues:					
Domestic retail fuel	\$ 440,527	\$ 43,815	\$ 21,766	\$ 34,045	\$
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	\$
	=====	=====	=====	=====	=====

	For the Year	For the		For Years Ended	
	Ended	Eight Months Ended		December 31,	
	August 31,	August 31,			
	2001	2000	1999	1999	1998
	-----	-----	-----	-----	-----
			(Unaudited)		
Operating Income:					
Domestic retail fuel	\$ 69,416	\$ (578)	\$ 2,666	\$ 2,885	\$ 3,966
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	\$ 3,966
	=====	=====	=====	=====	=====

	August 31, 2001	August 31, 2000	August 31, 1999	December 31,	December 31,
	-----	-----	-----	1999	1998
			(Unaudited)		
Total Assets:					
Domestic retail	\$682,906	\$577,816	\$ 39,481	\$ 43,724	\$ 37,966
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	\$ 37,966
	=====	=====	=====	=====	=====

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	Ended August 31, 2001	Ended August 31,		December 31,
		2000	1999	1999
	-----	-----	-----	-----
Depreciation and amortization:				
Domestic retail fuel	\$40,135	\$ 4,673	\$ 2,037	\$ 3,088
Domestic wholesale	277	8	--	--
Foreign wholesale	19	5	--	--
Liquids marketing	--	--	--	--
	-----	-----	-----	-----
Total	\$40,431	\$ 4,686	\$ 2,037	\$ 3,088
	=====	=====	=====	=====

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

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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.

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	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 Ended
	March 31	June 30	August 31
Eight Months ended August 31, 2000:			
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)

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

The report of Arthur Andersen LLP shown above is a copy of a previously issued report; Arthur Andersen LLP has not reissued this report.

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

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

	For the Year Ended
For the Period	



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	Ended August 9, 2000	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
	=====	=====

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HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES  
(PREDECESSOR)CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL  
(in thousands, except unit data)

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

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

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

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(in thousands)

	For the Period Ended August 9, 2000 -----	Fo A
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 6,504	\$
Reconciliation of net income to net cash provided by operating activities-		
Depreciation and amortization	17,143	
Provision for losses on accounts receivable	328	
Gain on disposal of assets	(514)	
Deferred compensation on restricted units	362	
Undistributed earnings of affiliates	(654)	
Minority interests	91	
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(7,138)	
Inventories	(5,627)	
Prepaid expenses	(541)	
Intangibles and other assets	(851)	
Accounts payable	5,901	
Accrued and other current liabilities	(860)	
	-----	
Net cash provided by operating activities	14,144	
	-----	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash paid for acquisitions, net of cash acquired	(46,801)	
Capital expenditures	(12,931)	
Proceeds from asset sales	1,449	
	-----	
Net cash used in investing activities	(58,283)	
	-----	
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from borrowings	159,070	
Principal payments on debt	(116,918)	
Unit distribution	(21,897)	
Net proceeds from issuance of common units	24,054	
Capital contribution from General Partner	278	
	-----	
Net cash provided by financing activities	44,587	
	-----	
INCREASE (DECREASE) IN CASH	448	
CASH, beginning of period	1,679	
	-----	
CASH, end of period	\$ 2,127	\$
	=====	=====
<b>NONCASH FINANCING ACTIVITIES:</b>		
Notes payable incurred on noncompete agreements	\$ 3,575	\$
	=====	=====
Issuance of restricted common units in connection with certain acquisitions	\$ 4,064	\$

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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for interest	\$	18,377
Other comprehensive income	\$	3,289

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

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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

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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.

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#### 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

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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.

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### 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

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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

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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

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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



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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

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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.

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### 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.

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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

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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
	=====	=====

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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

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

Fiscal 1999:	Quarter Ended			August 31
	November 30	February 28	May 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).

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### 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

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listed below, are not applicable.

Exhibit Number -----	Description -----	
(1)	3.1	Agreement of Limited Partnership of Heritage Propane Partners, L.P.
(10)	3.1.1	Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P.
(16)	3.1.2	Amendment No. 2 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P.
(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
(16)	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, 1996) dated as of March 11, 1997
(6)	10.2.3	Amendment of Note Purchase Agreement (June 25, 1996) dated as of October 15, 1998
(8)	10.2.4	Second Amendment Agreement dated September 1, 1999 to June 25, 1996 Note Purchase Agreement
(11)	10.2.5	Third Amendment Agreement dated May 31, 2000 to June 25, 1996 Note Purchase Agreement and November 19, 1997 Note Purchase Agreement
(10)	10.2.6	Fourth Amendment Agreement dated August 10, 2000 to

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June 25, 1996 Note Purchase Agreement and November 19, 1997 Note Purchase Agreement

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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
(16) 10.12.1	First Amendment to First Amended and Restated Revolving Credit Agreement, dated October 15, 1999
(16) 10.12.2	Second Amendment to First Amended and Restated Revolving Credit Agreement, dated August 10, 2000
(16) 10.12.3	Third Amendment to First Amended and Restated Revolving Credit Agreement, dated December 28, 2000
(16) 10.12.4	Fourth Amendment to First Amended and Restated Revolving Credit Agreement, dated July 16, 2001

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(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

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	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
(16)	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,

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		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.
(16)	21.1	List of Subsidiaries

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Exhibit Number -----	Description -----
(16)	23.3 Consent of Arthur Andersen LLP
(*)	23.4 Consent of Grant Thornton LLP
(16)	99.1 Balance Sheet of Heritage Holdings, Inc. as of August 31, 2001
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- (1) Incorporated by reference to the same numbered Exhibit to Registrant's Registration Statement of Form S-1, File No. 333-04018, filed with the Commission on June 21, 1996.
- (2) Incorporated by reference to Exhibit 10.11 to Registrant's Registration Statement on Form S-1, File No. 333-04018, filed with the Commission on June 21, 1996.
- (3) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended November 30, 1996.
- (4) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended February 28, 1997.
- (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.

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

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