WOODWARD ALLYN C JR
Form 5
February 07, 2013

FORM 5

OMB APPROVAL

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

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Form 3 Holdings Reported
Form 4 Transactions Reported

ANNUAL STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

1. Name and Address of Reporting Person *
WOODWARD ALLYN C JR

(Last) (First) (Middle)

C/O HERCULES TECHNOLOGY GROWTH CAPITAL,Â 400 HAMILTON AVE., SUITE 310

(Street)

PALO ALTO,Â CAÂ 94301

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
HERCULES TECHNOLOGY GROWTH CAPITAL INC [HTGC]

3. Statement for Issuer's Fiscal Year Ended (Month/Day/Year)
12/31/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Reporting

(check applicable line)

_X_ Form Filed by One Reporting Person
___ Form Filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) Amount	(A) or (D)	Price	5. Amount of Securities Beneficially Owned at end of Issuer's Fiscal Year (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
Common Stock $0.001 par value	12/31/2012	Â	A	6,896 (1)	A	$ (1)	196,488	D	Â

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 2270 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. of D Se Be O Er Is Fi (I
					(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
WOODWARD ALLYN C JR C/O HERCULES TECHNOLOGY GROWTH CAPITAL 400 HAMILTON AVE., SUITE 310 PALO ALTO,Â CAÂ 94301	Â X	Â	Â	Â

Signatures

/s/ K. Nicholas Martitsch, Attorney-in-fact for Allyn C. Woodward, Jr.	02/07/2013
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares acquired through the Hercules Technology Growth Capital, Inc. Dividend Reinvestment Plan.

Note: File three copies of this Form, one of which must be manually signed. If space provided is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ---- 2003 2002 2003 2002 ---------- ----------- --------- ---------- Revenues $ 8,460 $ 6,497 $ 13,101 $ 9,357 Gross profit 3,981 3,329 6,266 4,784 Net income: Heritage 933 1,015 1,139 1,141 Other Partner 913 1,031 1,128 1,174 ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Heritage Propane Partners, L.P. (the "Registrant" or "Partnership"), is a Delaware limited partnership. The Partnership's common units are listed on the New York Stock Exchange. The Partnership's business activities are primarily conducted through its subsidiary, Heritage Operating, L.P. (the "Operating Partnership"), a Delaware limited partnership. The Partnership is the sole limited partner of the Operating Partnership, with a 98.9899% limited partner interest. The Partnership and the Operating Partnership are sometimes referred to collectively in this report as "Heritage." The following is a discussion of the historical financial condition and results of operations of the Partnership and its subsidiaries, and should be read in conjunction with the Partnership's historical consolidated financial statements and accompanying notes thereto included elsewhere in this

Quarterly Report on Form 10-Q. FORWARD-LOOKING STATEMENTS CERTAIN MATTERS DISCUSSED IN THIS REPORT, EXCLUDING HISTORICAL INFORMATION, AS WELL AS SOME STATEMENTS BY HERITAGE IN PERIODIC PRESS RELEASES AND SOME ORAL STATEMENTS OF HERITAGE OFFICIALS DURING PRESENTATIONS ABOUT THE PARTNERSHIP, INCLUDE CERTAIN "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934. STATEMENTS USING WORDS SUCH AS "ANTICIPATE," "BELIEVE," "INTEND," "PROJECT," "PLAN," "CONTINUE," "ESTIMATE," "FORECAST," "MAY," "WILL," OR SIMILAR EXPRESSIONS HELP IDENTIFY FORWARD-LOOKING STATEMENTS. ALTHOUGH HERITAGE BELIEVES SUCH FORWARD-LOOKING STATEMENTS ARE BASED ON REASONABLE ASSUMPTIONS AND CURRENT EXPECTATIONS AND PROJECTIONS ABOUT FUTURE EVENTS, NO ASSURANCE CAN BE GIVEN THAT EVERY OBJECTIVE WILL BE REACHED. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM ANY RESULTS PROJECTED, FORECASTED, ESTIMATED, OR EXPRESSED IN FORWARD-LOOKING STATEMENTS SINCE MANY OF THE FACTORS THAT DETERMINE THESE RESULTS ARE DIFFICULT TO PREDICT AND ARE BEYOND MANAGEMENT'S CONTROL. SUCH FACTORS INCLUDE: - CHANGES IN GENERAL ECONOMIC CONDITIONS IN THE UNITED STATES OF AMERICA AS WELL AS CHANGES IN GENERAL ECONOMIC CONDITIONS AND CURRENCIES IN FOREIGN COUNTRIES; - WEATHER CONDITIONS THAT VARY SIGNIFICANTLY FROM HISTORICALLY NORMAL CONDITIONS WHICH MAY ADVERSELY AFFECT THE DEMAND FOR PROPANE AND HERITAGE'S FINANCIAL CONDITION; 17 - HERITAGE'S SUCCESS IN HEDGING ITS PRODUCT SUPPLY POSITIONS; - THE EFFECTIVENESS OF RISK-MANAGEMENT POLICIES AND PROCEDURES AND THE ABILITY OF HERITAGE'S LIQUIDS MARKETING COUNTER-PARTIES TO SATISFY THEIR FINANCIAL COMMITMENTS; - THE GENERAL LEVEL OF PETROLEUM PRODUCT DEMAND AND THE AVAILABILITY AND PRICE OF PROPANE SUPPLIES; - SUDDEN AND SHARP PROPANE PRICE INCREASES AND MARKET VOLATILITY MAY ADVERSELY AFFECT HERITAGE'S OPERATING RESULTS; - THE POLITICAL AND ECONOMIC STABILITY OF PETROLEUM PRODUCING NATIONS; - HERITAGE'S ABILITY TO CONDUCT BUSINESS IN FOREIGN COUNTRIES; - HERITAGE'S ABILITY TO OBTAIN ADEQUATE SUPPLIES OF PROPANE FOR RETAIL SALE IN THE EVENT OF AN INTERRUPTION IN SUPPLY OR TRANSPORTATION; - ENERGY PRICES GENERALLY AND SPECIFICALLY, THE PRICE OF PROPANE TO THE CONSUMER COMPARED TO THE PRICE OF ALTERNATIVE AND COMPETING FUELS; - THE MATURITY OF THE PROPANE INDUSTRY AND COMPETITION FROM OTHER PROPANE DISTRIBUTORS AND OTHER ENERGY SOURCES; - ENERGY EFFICIENCIES AND TECHNOLOGICAL TRENDS MAY AFFECT DEMAND FOR PROPANE; - THE AVAILABILITY AND COST OF CAPITAL; - HERITAGE'S ABILITY TO ACCESS CERTAIN CAPITAL SOURCES MAY REQUIRE IT TO OBTAIN A DEBT RATING; - CHANGES IN LAWS AND REGULATIONS TO WHICH HERITAGE IS SUBJECT, INCLUDING TAX, ENVIRONMENTAL, TRANSPORTATION, AND EMPLOYMENT REGULATIONS; - OPERATING RISKS INCIDENTAL TO TRANSPORTING, STORING, AND DISTRIBUTING PROPANE, INCLUDING LITIGATION RISKS WHICH MAY NOT BE COVERED BY INSURANCE; - HERITAGE'S ABILITY TO GENERATE AVAILABLE CASH FOR DISTRIBUTIONS TO UNITHOLDERS; - THE COSTS AND EFFECTS OF LEGAL AND ADMINISTRATIVE PROCEEDINGS AGAINST HERITAGE OR WHICH MAY BE BROUGHT AGAINST IT; - HERITAGE'S ABILITY TO SUSTAIN HISTORICAL LEVELS OF INTERNAL GROWTH; - HERITAGE'S ABILITY TO CONTINUE TO LOCATE AND ACQUIRE OTHER PROPANE COMPANIES AT PURCHASE PRICES THAT ARE ACCRETIVE TO ITS FINANCIAL RESULTS; - CASH DISTRIBUTIONS TO UNITHOLDERS ARE NOT GUARANTEED AND MAY FLUCTUATE WITH HERITAGE'S PERFORMANCE AND OTHER EXTERNAL FACTORS, INCLUDING RESTRICTIONS IN HERITAGE'S DEBT AGREEMENTS; AND - HERITAGE MAY SELL ADDITIONAL LIMITED PARTNER INTERESTS, THUS DILUTING THE EXISTING INTEREST OF UNITHOLDERS. 18 GENERAL The retail propane business is a margin-based business in which gross profits depend on the excess of sales price over propane supply cost. The market price of propane is often subject to volatile changes as a result of supply or other market conditions over which Heritage will have no control. Product supply contracts are one-year agreements subject to annual renewal and generally permit suppliers to charge posted prices (plus transportation costs) at the time of delivery or the current prices established at major delivery points. Since rapid increases in the wholesale cost of propane may not be immediately passed on to retail customers, such increases could reduce gross profits. Heritage generally has attempted to reduce price risk by purchasing propane on a short-term basis. Heritage has on occasion purchased significant volumes of propane during periods of low demand, which generally occur during the summer months, at the then current market price, for storage both at its customer service locations and in major storage facilities for future resale. The retail propane business of Heritage consists principally of transporting propane purchased in the contract and spot markets, primarily from major fuel suppliers, to its customer service locations and then to tanks located on the customers' premises, as well as to portable propane cylinders. In the residential and commercial markets, propane is primarily used for space heating, water heating, and cooking. In the agricultural market, propane is primarily used for crop drying, tobacco curing, poultry brooding, and weed control. In addition, propane is used for certain industrial applications, including use as an engine fuel to power vehicles and forklifts and as a heating source in manufacturing and mining processes. Since its formation in 1989, Heritage has grown primarily through acquisitions of retail propane operations and, to a lesser extent, through internal growth. Since its inception through August 31, 2002, Heritage completed 91 acquisitions for an aggregate purchase price approximating $633 million. During the six months ended February 28, 2003, Heritage completed three acquisitions for an aggregate purchase price of $37.4 million, which includes $21.2 million in cash, $15.0 million in Common Units issued, and $1.2 million in notes payable on non-compete agreements and liabilities assumed. Heritage serves more than 650,000 customers from nearly 300 customer service locations in 29 states. Heritage's propane distribution business is largely seasonal and dependent upon weather conditions in its service areas. Propane sales to residential and commercial customers are affected by winter heating season requirements. Historically, approximately two-thirds of Heritage's retail propane volume and in excess of 80% of Heritage's EBITDA, as adjusted is attributable to sales during the six-month peak-heating season of October through March. This generally results in higher operating revenues and net income during the period from October through March of each year and lower operating revenues and either net losses or lower net income during the period from April through September of each year. Consequently, sales and operating profits are concentrated in the first and second fiscal quarters, however, cash flow from operations is generally greatest during the second and third fiscal quarters when customers pay for propane purchased during the six-month peak-heating season. Sales to industrial and agricultural customers are much less weather sensitive. A substantial portion of Heritage's propane is used in the heating-sensitive residential and commercial markets causing the temperatures realized in Heritage's areas of operations, particularly during the six-month peak-heating season, to have a significant effect on its financial performance. In any given area, sustained warmer-than-normal temperatures will tend to result in reduced propane use, while sustained colder-than-normal temperatures will tend to result in greater propane use. Heritage uses information on normal temperatures in understanding how temperatures that are colder or warmer than normal affect historical results of operations and in preparing forecasts of future operations. Gross profit margins are not only affected by weather patterns, but also vary according to customer mix. For example, sales to residential customers generate higher margins than sales to certain other customer groups, such as commercial or agricultural customers. Wholesale margins are substantially lower than retail margins. In addition, gross profit margins vary by geographical region. Accordingly, a change in customer or geographic mix can affect gross profit without necessarily affecting total revenues. Amounts discussed below reflect 100% of the results of MP Energy Partnership. MP Energy Partnership is a general partnership in which Heritage owns a 60% interest. Because MP Energy Partnership is primarily engaged in lower-margin wholesale distribution, its contribution to Heritage's net income is not significant and the minority interest of this partnership is excluded from the EBITDA, as adjusted calculation. 19 As stated above, during the fourth quarter of 2003, Heritage adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 Accounting for Stock-based Compensation (SFAS 123) effective as of September 1, 2002. Accordingly, the following information compares the originally reported consolidated statement of operations, reclassified for the adoption of EITF 02-3 for the three and six months ended February 28, 2003 and as adjusted for the adoption of SFAS 123: Three Months Six Months Ended February 28, 2003 Ended February 28,2003 ---------------------------------- ---------------------------------- As adjusted for As adjusted for As originally the adoption of As originally the adoption of reported SFAS 123 reported SFAS 123 REVENUES: Retail fuel $ 212,704 $ 212,704 $ 296,754 $ 296,754 Wholesale fuel 20,218 20,218 31,565 31,565 Liquids marketing, net 352 352 1,059 1,059 Other 16,535 16,535 33,891 33,891 ---------------- ---------------- ---------------- ---------------- Total revenues 249,809 249,809 363,269 363,269 ---------------- ---------------- ---------------- ---------------- COSTS AND EXPENSES: Cost of products sold 128,420 128,420 185,440 185,440

Operating expenses 45,270 45,237 78,695 78,630 Depreciation and amortization 9,447 9,447 18,713 18,713 Selling, general and administrative 4,656 4,320 7,848 7,177 ---------------- ---------------- ---------------- ---------------- Total costs and expenses 187,793 187,424 290,696 289,960 ---------------- ---------------- ---------------- ---------------- OPERATING INCOME 62,016 62,385 72,573 73,309 OTHER INCOME (EXPENSE): Interest expense (9,317) (9,317) (18,613) (18,613) Equity in earnings of affiliates 970 970 1,183 1,183 Gain on disposal of assets 88 88 155 155 Other (2,268) (2,268) (2,546) (2,546) ---------------- ---------------- ---------------- ---------------- INCOME BEFORE MINORITY INTERESTS AND INCOME TAXES 51,489 51,858 52,752 53,488 Minority interests (817) (821) (940) (947) ---------------- ---------------- ---------------- ---------------- INCOME BEFORE TAXES 50,672 51,037 51,812 52,541 Income taxes 1,285 1,285 1,285 1,285 ---------------- ---------------- ---------------- ---------------- NET INCOME 49,387 49,752 50,527 51,256 GENERAL PARTNER'S INTEREST IN NET INCOME 719 723 948 956 ---------------- ---------------- ---------------- ---------------- LIMITED PARTNERS' INTEREST IN NET INCOME $ 48,668 $ 49,029 $ 49,579 $ 50,300 ================ ================ ================ ================ BASIC NET INCOME PER LIMITED PARTNER UNIT $ 3.01 $ 3.03 $ 3.10 $ 3.15 ================ ================ ================ ================ BASIC AVERAGE NUMBER OF UNITS OUTSTANDING 16,165,602 16,165,602 15,990,010 15,990,010 ================ ================ ================ ================ DILUTED NET INCOME PER LIMITED PARTNER UNIT $ 3.00 $ 3.03 $ 3.09 $ 3.14 ================ ================ ================ ================ DILUTED AVERAGE NUMBER OF UNITS OUTSTANDING 16,207,002 16,207,002 16,026,860 16,026,860 ================ ================ ================ ================ 20 THREE MONTHS ENDED FEBRUARY 28, 2003 COMPARED TO THE THREE MONTHS ENDED FEBRUARY 28, 2002 Volume. Total retail gallons sold in the three months ended February 28, 2003 were 166.6 million, an increase of 32.1 million over the 134.5 million gallons sold in the three months ended February 28, 2002. Of the increase in volume, 9.1 million gallons reflects the benefits of the volume added through acquisitions and 23.0 million gallons reflects the increase due to more favorable weather conditions in some of Heritage's areas of operations, offset by warmer than normal weather conditions in other areas of operations. The Partnership also sold approximately 30.9 million wholesale gallons in this second quarter of fiscal 2003, an increase of 0.7 million gallons from the 30.2 million wholesale gallons sold in the second quarter of fiscal year 2002. U.S. wholesale volumes remained the same at 5.5 million gallons while the foreign volumes of MP Energy Partnership increased 0.7 million gallons to 25.4 million gallons for the second quarter. Revenues. Total revenues for the three months ended February 28, 2003 were $249.8 million, an increase of $65.8 million, as compared to $184.0 million in the three months ended February 28, 2002. The current period's domestic retail propane revenues increased $60.3 million to $212.7 million as compared to the prior year's revenues of $152.4 million of which $11.6 million was due to acquisitions, $19.2 million was due to higher selling prices in the current period, and $29.5 was due to the increased retail volumes described above. Selling prices in each of Heritage's reportable segments increased as compared to the same period last year as a result of higher supply costs. The U.S. wholesale revenues increased $1.0 million to $4.3 million for the three months ended February 28, 2003 as compared to $3.3 million for the period ended February 28, 2002, due to higher selling prices. Other domestic revenues increased $1.2 million to $16.5 million, as compared to $15.3 million in the prior year as a result of acquisitions. Foreign revenues increased $4.6 million for the three months ended February 28, 2003 to $15.9 million as compared to $11.3 million for the three months ended February 28, 2002, of which $4.2 million was a result of higher selling prices and $0.4 million was due to the increased volumes described above. Net revenues from the liquids marketing activity conducted through Resources decreased $1.3 million to $0.4 million as compared to the prior year's activity of $1.7 million due to less favorable movement in product prices in the current fiscal period. Cost of Products Sold. Total cost of products sold increased to $128.4 million for the three months ended February 28, 2003 as compared to $97.1 million for the three months ended February 28, 2002. The current period's domestic retail cost of sales increased $25.2 million to $104.9 million as compared to $79.7 million in the prior year, of which $20.3 million was due to increased volumes and $4.9 million was due to higher supply costs of product as compared to the same period last year. The U.S. wholesale cost of sales increased $0.7 million to $3.9 million for the three months ended February 28, 2003 as compared to $3.2 million for the period ended February 28, 2002, due to higher wholesale fuel costs. Foreign cost of sales increased $4.2 million to $14.8 million as compared to $10.6 million in the prior year, of which $3.8 million was due to an increase in wholesale fuel costs and $0.4 million was due to higher volumes. Other cost of sales increased $1.2 million to $4.8 million as compared to $3.6 million for the three months ended

February 28, 2002 primarily due to acquisitions. Gross Profit. Total gross profit for the three months ended February 28, 2003 was $121.3 million as compared to $86.9 million for the three months ended February 28, 2002. For the three months ended February 28, 2003, retail fuel gross profit was $107.8 million, U.S. wholesale was $0.4 million, and other gross profit was $11.6 million. Foreign wholesale gross profit was $1.1 million and liquids marketing gross profit was $0.4 million. As a comparison, for the three months ended February 28, 2002, Heritage recorded retail fuel gross profit of $72.7 million, U.S. wholesale of $0.1 million and other gross profit of $11.7 million. Foreign wholesale gross profit was $0.7 million, and liquids marketing gross profit was $1.7 million for the three months ended February 28, 2002. The increase in gross fuel profit is primarily attributable to increased volumes as described above and higher selling prices, partially offset by higher product costs. Operating Expenses. Operating expenses were $45.2 million an increase of $10.2 million, for the three months ended February 28, 2003 as compared to $35.0 million for the three months ended February 28, 2002. The increase is the result of various factors, which include a $3.6 million increase in employee-related costs due to acquisitions, a $2.4 million increase in incentive plan expense due to operating performance, a $4.1 million general increase in operating expenses in certain areas of the Partnership's operations to accommodate increased winter demand, a $0.1 million increase due to industry-wide increases in business insurance costs. Selling, General and Administrative. Selling, general and administrative expenses were $4.3 million for the three months ended February 28, 2003, a $1.1 million increase from the $3.2 million for the same three month 21 period last year. This increase is primarily related to the performance-based compensation plan expense in 2003 that was not incurred in 2002, offset by a $0.2 million decrease related to the adoption of SFAS 123. Depreciation and Amortization. Depreciation and amortization was $9.4 million in the three months ended February 28, 2003 a slight decrease as compared to $9.6 million in the three months ended February 28, 2002. Operating Income. For the three months ended February 28, 2003, Heritage had operating income of $62.4 million as compared to operating income of $39.1 million for the three months ended February 28, 2002. This increase is a combination of a $0.2 million increase related to the adoption of SFAS 123 and the increased gross profit offset by increased operating expenses described above. Other Expense. For the three months ended February 28, 2003, Heritage recorded other expense of $2.3 million as compared to $0.1 million for the three months ended February 28, 2002. This increase is primarily due to the reclassification into earnings of a loss on marketable securities in the six months ended February 28, 2003 that was previously recorded as accumulated other comprehensive loss on the balance sheet. Interest Expense. Interest expense decreased $0.2 million for the three months ended February 28, 2003 to $9.3 million from $9.5 million for the same three-month period last year. Taxes. Taxes for the three months ended February 28, 2003 were $1.3 million due to the tax expense anticipated to be incurred by Heritage's corporate subsidiaries. There was no tax expense in these subsidiaries for the three months ended February 28, 2002. Net Income. For the three-month period ended February 28, 2003, Heritage recorded net income of $49.8 million, an increase of $19.7 million as compared to net income for the three months ended February 28, 2002 of $30.1 million. The increase is primarily the result of a $0.2 increase related to the adoption of SFAS 123 and the increase in operating income, partially offset by the increase in other expenses and taxes described above. EBITDA, as adjusted. EBITDA, as adjusted increased $22.8 million to $73.0 million for the three months ended February 28, 2003, as compared to EBITDA, as adjusted of $50.2 million for the period ended February 28, 2002. This increase is due to the operating performance described above and is a record level EBITDA, as adjusted for the second quarter results of Heritage. EBITDA, as adjusted for the three months ended February 28, 2003 and February 28, 2002 is computed as follows: NET INCOME RECONCILIATION Three Months (in millions) Ended February 28, --------------------- 2003 2002 --------- --------- Net income $ 49.8 $ 30.1 Depreciation and amortization 9.4 9.6 Interest 9.3 9.5 Taxes 1.3 - Non-cash compensation expense 0.3 0.5 Other expense 2.3 0.1 Depreciation, amortization, and interest of investee 0.2 0.1 Minority interest in the Operating Partnership 0.5 0.5 Less : Gain on disposal of assets (0.1) (0.2) --------- --------- EBITDA, as adjusted (a) $ 73.0 $ 50.2 ========= ========= (a) EBITDA, as adjusted is defined as the Partnership's earnings before interest, taxes, depreciation, amortization and other non-cash items, such as compensation charges for unit issuances to employees, gain or loss on disposal of assets, and other expenses. We present EBITDA, as adjusted, on a Partnership basis which includes both the general and limited partner interests. Non-cash compensation expense represents charges for the value of the Common Units awarded under the Partnership's compensation plans that have not yet vested under the terms of those plans and are charges which do not, or will not, require cash settlement. Non-cash income such as the gain arising from our disposal of assets is not included when determining EBITDA, as adjusted. EBITDA, as adjusted (i) is not a measure of performance calculated in accordance with generally accepted accounting principles and (ii) should not be considered in isolation or as a substitute for net income, income from operations or cash flow as reflected in our consolidated financial statements. 22 EBITDA, as adjusted is presented because such information is relevant and is used by management, industry analysts, investors, lenders and rating agencies to assess the financial performance and operating results of the Partnership's fundamental business activities. Management believes that the presentation of EBITDA, as adjusted is useful to lenders and investors because of its use in the propane industry and for master limited partnerships as an indicator of the strength and performance of the Partnership's ongoing business operations, including the ability to fund capital expenditures, service debt and pay distributions. Additionally, management believes that EBITDA, as adjusted provides additional and useful information to the Partnership's investors for trending, analyzing and benchmarking the operating results of the Partnership from period to period as compared to other companies that may have different financing and capital structures. The presentation of EBITDA, as adjusted allows investors to view the Partnership's performance in a manner similar to the methods used by management and provides additional insight to the Partnership's operating results. EBITDA, as adjusted is used by management to determine our operating performance, and along with other data as internal measures for setting annual operating budgets, assessing financial performance of the Partnership's numerous business locations, as a measure for evaluating targeted businesses for acquisition and as a measurement component of incentive compensation. The Partnership has a large number of business locations located in different regions of the United States. EBITDA, as adjusted can be a meaningful measure of financial performance because it excludes factors which are outside the control of the employees responsible for operating and managing the business locations, and provides information management can use to evaluate the performance of the business locations, or the region where they are located, and the employees responsible for operating them. To present EBITDA, as adjusted on a full Partnership basis, we add back the minority interest of the general partner because net income is reported net of the general partner's minority interest. Our EBITDA, as adjusted includes non-cash compensation expense which is a non-cash expense item resulting from our unit based compensation plans that does not require cash settlement and is not considered during management's assessment of the operating results of the Partnership's business. By adding these non-cash compensation expenses in EBITDA, as adjusted allows management to compare the Partnership's operating results to those of other companies in the same industry who may have compensation plans with levels and values of annual grants that are different than the Partnership's. Other expenses include other finance charges and other asset non-cash impairment charges that are reflected in the Partnership's operating results but are not classified in interest, depreciation and amortization. We do not include gain on the sale of assets when determining EBITDA, as adjusted since including non-cash income resulting from the sale of assets increases the performance measure in a manner that is not related to the true operating results of the Partnership's business. In addition, Heritage's debt agreements contain financial covenants based on EBITDA, as adjusted. For a description of these covenants, please read "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Description of Indebtedness" included in the Partnership's Form 10-K/A for the fiscal year ended August 31, 2002, as filed with the Securities and Exchange Commission on November 26, 2003. There are material limitations to using a measure such as EBITDA, as adjusted, including the difficulty associated with using it as the sole measure to compare the results of one company to another, and the inability to analyze certain significant items that directly affect a company's net income or loss. In addition, Heritage's calculation of EBITDA, as adjusted may not be consistent with similarly titled measures of other companies and should be viewed in conjunction with measurements that are computed in accordance with GAAP. EBITDA, as adjusted for the periods described herein is calculated in the same manner as presented by Heritage in the past. Management compensates for these limitations by considering EBITDA, as adjusted in conjunction with its analysis of other GAAP financial measures, such as gross profit, net income (loss), and cash flow from operating activities. We have provided a reconciliation of EBITDA, as adjusted to net income(loss). SIX MONTHS ENDED FEBRUARY 28, 2003 COMPARED TO THE SIX MONTHS ENDED FEBRUARY 28, 2002 Volume. Total retail gallons sold in the six months ended February 28, 2003 were 243.3 million, an increase of 34.1 million over the 209.2 million gallons sold in the six months ended February 28, 2002. Of the $34.1 million increase, $10.7 million reflects the benefits of the volume added through acquisitions and $ 23.4 million is due to more favorable weather conditions in some of Heritage's areas of operations, offset by warmer than normal weather conditions in other areas of operations. Heritage also sold approximately 53.0 million wholesale gallons in the six months ended February 28, 2003, a decrease of 0.5 million gallons from the 53.5 million wholesale gallons sold in the six months ended February 28, 2002. U.S. wholesale gallons decreased 0.1 million gallons to 10.4 million gallons and the foreign volumes of MP Energy

Partnership decreased 0.4 million gallons to 42.6 million for the six months ended February 28, 2003. Revenues. Total revenues for the six months ended February 28, 2003 were $363.3 million, an increase of $71.3 million, as compared to $292.0 million in the six months ended February 28, 2002. The current period's 23 domestic retail propane revenues increased $61.2 million to $296.8 million as compared to the prior year's revenues of $235.6 million of which $41.6 million was due to increased retail volumes and $19.6 million was due to higher selling prices in the current period. The U.S. wholesale revenues increased to $6.7 million, as compared to $6.3 million for the six-month period ended February 28, 2002, due to higher selling prices. Foreign revenues increased $4.0 million for the six months ended February 28, 2003 to $24.8 million as compared to $20.8 million for the six months ended February 28, 2002, also as a result of higher selling prices. The net liquids marketing activity conducted through Resources increased $2.7 million to $1.1 million as compared to the prior year's activity of $(1.6) million due to more favorable movement in the product prices in the first quarter of fiscal year 2003, offset by the second quarter decrease. Other domestic revenues increased $3.1 million to $33.9 million as compared to $30.8 million in the prior year as a result of acquisitions. Cost of Products Sold. Total cost of products sold increased to $185.4 million for the six months ended February 28, 2003 as compared to $157.4 million for the six months ended February 28, 2002. The current period's domestic retail cost of sales increased $22.5 million to $146.5 million as compared to $124.0 million in the prior year of which $20.6 million was due to increased volumes, and $1.9 million was due to higher product costs compared to the same period last fiscal year. The U.S. wholesale cost of sales remained the same as last year at $6.1 million. Foreign cost of sales increased $3.5 million to $23.2 million as compared to $19.7 million in the prior year primarily due to an increase in foreign wholesale fuel costs. Other cost of sales increased $2.0 million to $9.6 million as compared to $7.6 million for the six months ended February 28, 2002. Gross Profit. Total gross profit for the six months ended February 28, 2003 increased by $43.2 million to $177.8 million as compared to $134.6 million for the six months ended February 28, 2002. For the six months ended February 28, 2003, retail fuel gross profit was $150.3 million, U.S. wholesale was $0.6 million, and other gross profit was $24.2 million. Foreign wholesale gross profit was $1.6 million and liquids marketing gross profit was $1.1 million. As a comparison, for the six months ended February 28, 2002, Heritage recorded retail fuel gross profit of $111.6 million, U.S. wholesale of $0.3 million, and other gross profit of $23.3 million. Foreign wholesale gross profit was $1.1 million and liquids marketing was a loss of $1.7 million for the six months ended February 28, 2002. The increase in gross profit is primarily attributable to increased volumes and higher selling prices, offset by higher fuel costs. Operating Expenses. Operating expenses were $78.6 million for the six months ended February 28, 2003 as compared to $66.8 million for the six months ended February 28, 2002. The increase of $11.8 million is the result of various factors, which include a $4.0 million increase in employee-related costs due to acquisitions, a $2.8 million increase in incentive plan expense due to operating performance, a $4.3 million general increase in operating expenses in certain areas of the Partnership's operations to accommodate increased winter demand and a $0.7 million increase due to industry-wide increases in business insurance costs. Selling, General and Administrative. Selling, general and administrative expenses were $7.2 million for the six months ended February 28, 2003, a $1.1 million increase from the $6.1 million for the same six month period last year. This increase is primarily related to the performance-based compensation plan expense in 2003 that was not incurred in 2002, offset by a decrease of $0.3 related to the adoption of SFAS 123. Depreciation and Amortization. Depreciation and amortization was $18.7 million in each of the six months ended February 28, 2003 and February 28, 2002. Operating Income. For the six months ended February 28, 2003, Heritage had operating income of $73.3 million as compared to operating income of $43.0 million for the six months ended February 28, 2002. This increase is a combination of a $0.3 increase related to the adoption of SFAS 123 and increased gross profit offset by increased operating expenses described above. Other Expense. For the six months ended February 28, 2003, Heritage recorded other expense of $2.5 million as compared to $0.2 million for the six months ended February 28, 2002. This increase is primarily due to the reclassification into earnings of a loss on marketable securities in the six months ended February 28, 2003 that was previously recorded as accumulated other comprehensive income loss on the balance sheet. Interest Expense. Interest expense decreased $0.1 million for the six months ended February 28, 2003 to $18.6 million from $18.7 million for the same six-month period last year. 24 Taxes. Taxes for the six months ended February 28, 2003 were $1.3 million due to the tax expense anticipated to be incurred by Heritage's corporate subsidiaries. There was no tax expense in these subsidiaries for the six months ended February 28, 2002. Net Income. For the six month period ended February 28, 2003, Heritage had net income of $51.3 million, an increase of $25.9 million, as compared to a net income for the six months ended February 28, 2002 of $25.4 million. The increase is primarily the result of a $0.3 increase related to the adoption of SFAS 123 and the increase in operating income, partially offset by the increase in other expenses and taxes described above. EBITDA, as adjusted. EBITDA, as adjusted increased $29.9 million to $93.8 million for the six months ended February 28, 2003, as compared to EBITDA, as adjusted of $63.9 million for the six months ended February 28, 2002. This increase is due to the operating conditions described above and is a record level EBITDA, as adjusted for the six-month results of Heritage. EBITDA, as adjusted for the six months ended February 28, 2003 and February 28, 2002 is computed as follows: Six Months Ended February 28, (in millions) --------------------- NET INCOME RECONCILIATION 2003 2002 ------------------ Net income $ 51.3 $ 25.4 Depreciation and amortization 18.7 18.7 Interest 18.6 18.7 Taxes 1.3 - Non-cash compensation expense 0.6 1.0 Other expense 2.5 0.2 Depreciation, amortization, and interest of investee 0.5 0.2 Minority interest in the Operating Partnership 0.5 0.4 Less : Gain on disposal of assets (0.2) (0.7) --------- --------- EBITDA, as adjusted $ 93.8 $ 63.9 ========= ========= LIQUIDITY AND CAPITAL RESOURCES The ability of Heritage to satisfy its obligations will depend on its future performance, which will be subject to prevailing economic, financial, business and weather conditions, and other factors, many of which are beyond management's control. Future capital requirements of Heritage are expected to be provided by cash flows from operating activities. To the extent future capital requirements exceed cash flows from operating activities: a) working capital will be financed by the working capital line of credit and repaid from subsequent seasonal reductions in inventory and accounts receivable; b) growth capital expenditures, mainly for customer tanks, will be financed by the revolving acquisition bank line of credit; and c) acquisition capital expenditures will be financed by the revolving acquisition bank line of credit; other lines of credit, long term debt, issuance of additional Common Units or a combination thereof. Operating Activities. Cash provided by operating activities during the six months ended February 28, 2003, was $55.0 million as compared to cash provided by operating activities of $23.8 million for the same six-month period ended February 28, 2002. The net cash provided by operations for the six months ended February 28, 2003 consisted of net income of $51.3 million and non-cash charges of $22.4 million, principally depreciation and amortization, offset by the impact of an increase in working capital of $18.7 million. Although the increase in working capital for the six months ended February 28, 2003 is comparable to the increase for the six months ended February 28, 2002, the changes in components of working capital varied significantly due to an increase in the demand for fuel resulting from the colder winter temperatures this fiscal year in various areas of Heritage's operations. The increase in fuel demand affects working capital as accounts receivable increases, inventory decreases, accounts payable to purchase product increases, and customer prebought gallons and prepayments decrease. 25 Investing Activities. Heritage completed three acquisitions during the six months ended February 28, 2003 spending a net of $21.2 million, after deducting cash received in such acquisitions. This capital expenditure amount is reflected in the cash used in investing activities of $35.6 million along with $16.5 million invested for maintenance needed to sustain operations at current levels and for customer tanks to support growth of operations. Cash used in investing activities also includes proceeds from the sale of idle property of $2.1 million. Financing Activities. Cash used in financing activities during the six months ended February 28, 2003 of $15.2 million resulted mainly from a net decrease in the outstanding balance under the Working Capital Facility of $10.9 million, cash distributions to Unitholders of $20.8 million, and payments on other long-term debt of $1.9 million. These decreases were offset by a net increase in the outstanding balance under the Acquisition Facility of $18.3 million used to acquire other propane businesses and other financing activities of $0.1 million. FINANCING AND SOURCES OF LIQUIDITY Heritage has a Bank Credit Facility with various financial institutions, which includes a Working Capital Facility, providing for up to $65.0 million of borrowings for working capital and other general partnership purposes, and an Acquisition Facility providing for up to $50.0 million of borrowings for acquisitions and improvements. The weighted average interest rate was 3.13% for the amounts outstanding at February 28, 2003 on both the Working Capital Facility and the Acquisition Facility. As of February 28, 2003, the Working Capital Facility had $45.7 million available for borrowings and the Acquisition Facility had $17.7 million available to fund future acquisitions. Heritage uses its cash provided by operating and financing activities to provide distributions to the Partnership's Unitholders and to fund acquisition, maintenance, and growth capital expenditures. Acquisition capital expenditures, which include expenditures related to the acquisition of retail propane operations and intangibles associated with such acquired businesses, were $21.2 million for the six months ended February 28, 2003. In addition to the $21.2 million of cash expended for acquisitions, $15 million in Partnership units were issued, $0.8 million for notes payable on non-compete agreements were issued, and liabilities of $0.4 million were assumed in connection with certain acquisitions. Under the Partnership Agreement, the

Partnership will distribute to its partners within 45 days after the end of each fiscal quarter, an amount equal to all of its Available Cash for such quarter. Available cash generally means, with respect to any quarter of the Partnership, all cash on hand at the end of such quarter less the amount of cash reserves established by the General Partner in its reasonable discretion that is necessary or appropriate to provide for future cash requirements. The Partnership's commitment to its Unitholders is to distribute the increase in its cash flow while maintaining prudent reserves for the Partnership's operations. The Partnership paid quarterly distributions of $0.6375 per unit (or $2.55 annually) on October 15, 2002 for the fourth quarter ended August 31, 2002, and on January 14, 2003 for the quarter ended November 30, 2002. On March 24, 2003, the Partnership declared a distribution for the second quarter ended February 28, 2003 of $0.6375 per unit (or $2.55 annually) payable on April 14, 2003 to the unitholders of record at the close of business on April 4, 2003. In addition to these quarterly distributions, the General Partner received quarterly distributions for its general partner interest in the Partnership, its minority interest, and incentive distributions to the extent the quarterly distribution exceeded $0.55 per unit ($2.20 annually). The assets utilized in the propane business do not typically require lengthy manufacturing process time or complicated, high technology components. Accordingly, the Partnership does not have any significant financial commitments for capital expenditures. In addition, the Partnership has not experienced any significant increases attributable to inflation in the cost of these assets or in its operations. 26 ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK. Heritage has little cash flow exposure due to rate changes for long-term debt obligations. The Operating Partnership had $51.6 million of variable rate debt outstanding as of February 28, 2003 through its Bank Credit Facility described elsewhere in this report. The balance outstanding in the Bank Credit Facility generally fluctuates throughout the year. A theoretical change of 1% in the interest rate on the balance outstanding at February 28, 2003 would result in an approximate $516 thousand change in annual net income. Heritage primarily enters debt obligations to support general corporate purposes including capital expenditures and working capital needs. The Operating Partnership's long-term debt instruments were typically issued at fixed interest rates. When these debt obligations mature, Heritage may refinance all or a portion of such debt at then-existing market interest rates which may be more or less than the interest rates on the maturing debt. Commodity price risk arises from the risk of price changes in the propane inventory that Heritage buys and sells. The market price of propane is often subject to volatile changes as a result of market conditions over which management will have no control. In the past, price changes have generally been passed along to Heritage's customers to maintain gross margins, mitigating the commodity price risk. In order to help ensure that adequate supply sources are available to Heritage during periods of high demand, Heritage will, from time to time, purchase significant volumes of propane during periods of low demand, which generally occur during the summer months, at the then current market price, for storage both at its customer service centers and in major storage facilities, and for future delivery. Heritage also attempts to minimize the effects of market price fluctuations for its propane supply by entering into certain financial contracts. In order to manage a portion of its propane price market risk, Heritage uses contracts for the forward purchase of propane, propane fixed-price supply agreements, and derivative commodity instruments such as price swap and option contracts. Swap instruments are a contractual agreement to exchange obligations of money between the buyer and seller of the instruments as propane volumes during the pricing period are purchased. Swaps are tied to a fixed price bid by the buyer and a floating price determination for the seller based on certain indices at the end of the relevant trading period. Call options give the Heritage the right, but not the obligation, to buy a specified number of gallons of propane at a specified price at any time until a specified expiration date. Heritage enters into these financial instruments to hedge pricing on the projected propane volumes to be purchased during each of the one-month periods during the projected heating season. At February 28, 2003, Heritage had outstanding propane hedges (call options) for a total of 2.1 million gallons of propane. The fair value of the call options is based on the market price of propane. At February 28, 2003, the fair value of the options was $572,000 and is recorded in accounts receivable. Inherent in the portfolio from the liquids marketing activities are certain business risks, including market risk and credit risk. Market risk is the risk that the value of the portfolio will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers, or financial counter parties to a contract. Heritage takes an active role in managing and controlling market and credit risk and has established control procedures, which are reviewed on an ongoing basis. Heritage monitors market risk through a variety of techniques, including routine reporting to senior management. Heritage attempts to minimize credit risk exposure through credit policies and periodic monitoring procedures. LIQUIDS MARKETING Heritage buys and sells derivative financial instruments, which are within the scope of SFAS 133 and that are not designated as accounting hedges. Heritage also enters into energy trading contracts, which are not derivatives, and therefore are not within the scope of SFAS 133. EITF Issue No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities (EITF 98-10), applied to energy trading contracts not within the scope of SFAS 133 that were entered into prior to October 25, 2002. The types of contracts Heritage utilizes in its liquids marketing segment include energy commodity forward contracts, options, and swaps traded on the over-the-counter financial markets. In accordance with the provisions of SFAS 133, derivative financial instruments utilized in connection with Heritages' liquids marketing activity are accounted for using the mark-to-market method. Additionally, all energy trading contracts entered into prior to October 25, 2002 were accounted for using the mark-to-market method in accordance with the provisions of EITF 98-10. Under the mark-to-market method of accounting, forwards, swaps, options, and storage contracts are reflected at fair value, and are shown in the consolidated balance sheet as assets and liabilities from liquids marketing activities. As of August 31, 2002, 27 Heritage adopted the applicable provisions of EITF Issue No. 02-3, Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities (EITF 02-3), which requires that gains and losses on derivative instruments be shown net in the statement of operations if the derivative instruments are held for trading purposes. Net realized and unrealized gains and losses from the financial contracts and the impact of price movements are recognized in the statement of operations as liquids marketing revenue. Changes in the assets and liabilities from the liquids marketing activities result primarily from changes in the market prices, newly originated transactions, and the timing and settlement of contracts. EITF 02-3 also rescinds EITF 98-10 for all energy trading contracts entered into after October 25, 2002 and specifies certain disclosure requirements. Consequently, Heritage does not apply mark-to-market accounting for any contracts entered into after October 25, 2002, that are not within the scope of SFAS 133. Heritage 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 management's assessment of anticipated market movements. The adoption of EITF 02-3 requires that realized and unrealized gains and losses be shown net for all periods presented. The following table summarizes the amounts that have been reclassified in the statement of operations: For the Three Months For the Six Months Ended February 28, Ended February 28, 2003 2002 2003 2002 ---- ---- ---- ---- Revenue - liquids marketing $ 79,587 $ 47,326 $ 140,317 $ 98,146 Costs and expenses - liquids marketing (79,235) (45,633) (139,258) (99,778) ----------- ----------- ----------- ----------- Net, as reclassified $ 352 $ 1,693 $ 1,059 $ (1,632) =========== =========== =========== =========== The notional amounts and terms of these financial instruments as of February 28, 2003 and 2002 include fixed price payor for 65,000 barrels of propane and 355,000 barrels of propane and butane, respectively, and fixed price receiver of 65,000 barrels of propane and 225,000 barrels of propane and butane, respectively. Notional amounts reflect the volume of the transactions, but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure Heritage's exposure to market or credit risks. The fair value of the financial instruments related to liquids marketing activities as of February 28, 2003 and August 31, 2002, was assets of $0.6 and $2.3 million, respectively, and liabilities of $0.6 and $1.8 million respectively Estimates related to Heritage's liquids marketing activities are sensitive to uncertainty and volatility inherent in the energy commodities markets and actual results could differ from these estimates. A theoretical change of 10% in the underlying commodity value of the liquids marketing contracts would result in no change in the market value of the contracts as there are no net unbalanced positions at February 28, 2003. 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 takes an active role in managing and controlling market and credit risk and has established control procedures, which are reviewed on an ongoing basis. Heritage monitors market risk through a variety of techniques, including routine reporting to senior management. Heritage attempts to minimize credit risk exposure through credit policies and periodic monitoring procedures. The following table summarizes the fair value of Heritage's contracts, aggregated by method of estimating fair value of the contracts as of February 28, 2003 and August 31, 2002 where settlement had not yet occurred. Heritage's contracts all have a maturity of less than 1 year. 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. 28 February 28, August 31, Source of Fair Value 2003 2002 ------------------- ----------- ---------- Prices actively quoted $ 596 $ 1,276 Prices based on other valuation methods - 1,025 ---------- ---------- Assets from liquids marketing $ 596 $ 2,301 ========== ========== Prices actively quoted $ 584 $ 669 Prices based on other valuation methods - 1,149 ---------- ---------- Liabilities from liquids marketing $ 584 $ 1,818 ========== ========== Unrealized gains in fair value of contracts outstanding as of August 31 $ 12 $ 483 ========== ========== The following table summarizes the changes in the unrealized fair value of Heritage's contracts where settlement had not yet occurred for the three and six months ended February 28, 2003 and 2002. Three Months Ended Six Months Ended February 28 February 28 2003 2002 2003 2002 ---------- ---------- ---------- ---------- Unrealized gains (losses) in fair value of contracts outstanding at the beginning of the period $ 41 $ (2,524) $ 483 $ (665) Other unrealized gains (losses) recognized during the period 352 1,693 576 (967) Less: Realized gains (losses) recognized during the period 381 (315) 1,047 (1,116) ---------- ---------- ---------- ---------- Unrealized gains (losses) in fair value of contracts outstanding at the end of the period $ 12 $ (516) $ 12 $ (516) ========== ========== ========== ========== The following table summarizes the gross transaction volumes in barrels for liquids marketing contracts that were physically settled for the three and six months ended February 28, 2003, and 2002. (in thousands) Three Months Six Months February 28, 2003 20 64 February 28, 2002 133 245 ITEM 4. CONTROLS AND PROCEDURES The Partnership maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Partnership files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Within 90 days prior to the filing date of this report, an evaluation was performed under the supervision and with the participation of the Partnership's management, including the Chief Executive Officer and the Chief Financial Officer of the General Partner of the Partnership, of the effectiveness of the design and operation of the Partnership's disclosure controls and procedures (as such terms are defined in Rule 13a-14(c) and 15d-14(c) of the Exchange Act). Based upon that evaluation, management, including the Chief Executive Officer and the Chief Financial Officer of the General Partner of the Partnership, concluded that the Partnership's disclosure controls and procedures were adequate and effective as of February 28, 2003. There have been no significant changes in the Partnership's internal controls or in other factors subsequent to such evaluation, and there have been no corrective actions with respect to significant deficiencies and material weaknesses in our internal controls. 29 PART II - OTHER INFORMATION ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS On January 2, 2003, the Partnership issued 551,456 Common Units, with a total value of $15 million, in exchange for certain assets acquired in connection with the acquisition of the propane distribution assets of V-1 Oil Co. The Units were issued utilizing the Partnership's Registration Statement No. 333-40407 on Form S-4. ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K (a) Exhibits The exhibits listed on the following Exhibit Index are filed as part of this Report. Exhibits required by Item 601 of Regulation S-K, but which are not listed below, are not applicable. Exhibit Number Description ------- ----------- (1) 3.1 Agreement of Limited Partnership of Heritage Propane Partners, L.P. (10) 3.1.1 Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (16) 3.1.2 Amendment No. 2 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (19) 3.1.3 Amendment No. 3 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (19) 3.1.4 Amendment No. 4 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (1) 3.2 Agreement of Limited Partnership of Heritage Operating, L.P. (12) 3.2.1 Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Heritage Operating, L.P. (19) 3.2.2 Amendment No. 2 to Amended and Restated Agreement of Limited Partnership of Heritage Operating, L.P. (18) 3.3 Amended Certificate of Limited Partnership of Heritage Propane Partners, L.P. (18) 3.4 Amended Certificate of Limited Partnership of Heritage Operating, L.P. (20) 4.1 Registration Rights Agreement for Limited Partner Interests of Heritage Propane Partners, 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 30 Exhibit Number Description ------- ----------- (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 June 25, 1996 Note Purchase Agreement and November 19, 1997 Note Purchase Agreement (13) 10.2.7 Fifth Amendment Agreement dated as of December 28, 2000 to June 25, 1996 Note Purchase Agreement, November 19, 1997 Note Purchase Agreement and August 10, 2000 Note Purchase Agreement (1) 10.3 Form of Contribution, Conveyance and Assumption Agreement among Heritage Holdings, Inc., Heritage Propane Partners, L.P. and Heritage Operating, L.P. (1) 10.6 Restricted Unit Plan (4) 10.6.1 Amendment of Restricted Unit Plan dated as of October 17, 1996 (12) 10.6.2 Amended and Restated Restricted Unit Plan dated as of August 10, 2000 (18) 10.6.3 Second Amended and Restated Restricted Unit Plan dated as of February 4, 2002 (12) 10.7 Employment Agreement for James E. Bertelsmeyer dated as of August 10, 2000 (18) 10.7.1 Consent to Assignment of Employment Agreement for James E. Bertelsmeyer dated February 3, 2002 (21) 10.7.2 Amendment 1 of Employment Agreement for James E. Bertelsmeyer dated August 10, 2002 (12) 10.8 Employment Agreement for R. C. Mills dated as of August 10, 2000 (18) 10.8.1 Consent to Assignment of Employment Agreement for R.C. Mills dated February 3, 2002 (12) 10.10 Employment Agreement for H. Michael Krimbill dated as of August 10, 2000 31 Exhibit Number Description ------- ----------- (18) 10.10.1 Consent to Assignment of Employment Agreement for H. Michael Krimbill dated February 3, 2002 (12) 10.11 Employment Agreement for Bradley K. Atkinson dated as of August 10, 2000 (18) 10.11.1 Consent to Assignment of Employment Agreement for Bradley K. Atkinson dated February 3, 2002 (7) 10.12 First Amended and Restated Revolving Credit Agreement between Heritage Service Corp. and Banks Dated May 31, 1999 (16) 10.12.1 First Amendment to First Amended and Restated Revolving Credit Agreement, dated October 15, 1999 (16) 10.12.2 Second Amendment to First Amended and Restated Revolving Credit Agreement, dated August 10, 2000 (16) 10.12.3 Third Amendment to First Amended and Restated Revolving Credit Agreement, dated December 28, 2000 (16) 10.12.4 Fourth Amendment to First Amended and Restated Revolving Credit Agreement, dated July 16, 2001 (12) 10.13 Employment Agreement for Mark A. Darr dated as of August 10, 2000 (18) 10.13.1 Consent to Assignment of Employment Agreement for Mark A. Darr dated February 3, 2002 (12) 10.14 Employment Agreement for Thomas H. Rose dated as of August 10, 2000 (18) 10.14.1 Consent to Assignment of Employment Agreement for Thomas H. Rose dated February 3, 2002 (12) 10.15 Employment Agreement for Curtis L. Weishahn dated as of August 10, 2000 (18) 10.15.1 Consent to Assignment of Employment Agreement for Curtis L. Weishahn dated February 3, 2002 (5) 10.16 Note Purchase Agreement dated as of November 19, 1997 (6) 10.16.1 Amendment dated October 15, 1998 to November 19, 1997 Note Purchase Agreement (8) 10.16.2 Second Amendment Agreement dated September 1, 1999 to November 19, 1997 Note Purchase Agreement and June 25, 1996 Note Purchase Agreement (9) 10.16.3 Third Amendment Agreement dated May 31, 2000 to November 19, 1997 Note Purchase Agreement and June 25, 1996 Note Purchase Agreement (10) 10.16.4 Fourth Amendment Agreement dated August 10, 2000 to November 19, 1997 Note Purchase Agreement and June 25, 1996 Note Purchase Agreement (13) 10.16.5 Fifth Amendment Agreement dated as of December 28, 2000 to June 25, 1996 Note Purchase Agreement, November 19, 1997 Note Purchase Agreement and August 10, 2000 Note Purchase Agreement 32 Exhibit Number Description ------- ----------- (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. (17) 10.18.3 Amendment Agreement dated October 5, 2001 to the June 15, 2000 Subscription Agreement. (10) 10.19 Note Purchase Agreement dated as of August 10, 2000 (13) 10.19.1 Fifth Amendment Agreement dated as of December 28, 2000 to June 25, 1996 Note Purchase Agreement, November 19, 1997 Note Purchase Agreement and August 10, 2000 Note Purchase Agreement (14) 10.19.2 First Supplemental Note Purchase Agreement dated as of May 24, 2001 to the August 10, 2000 Note Purchase Agreement (15) 10.20 Stock Purchase Agreement dated as of July 5, 2001 among the shareholders of ProFlame, Inc. and Heritage Holdings, Inc. (15) 10.21 Stock Purchase Agreement dated as of July 5, 2001 among the shareholders of Coast Liquid Gas, Inc. and Heritage Holdings, Inc. (15) 10.22 Agreement and Plan of Merger dated as of July 5, 2001 among California Western Gas Company, the Majority Stockholders of California Western Gas Company signatories thereto, Heritage Holdings, Inc. and California Western Merger Corp. (15) 10.23 Agreement and Plan of Merger dated as of July 5, 2001 among Growth Properties, the Majority Shareholders signatories thereto, Heritage Holdings, Inc. and Growth Properties Merger Corp. (15) 10.24 Asset Purchase Agreement dated as of July 5, 2001 among L.P.G. Associates, the Shareholders of L.P.G. Associates and Heritage Operating, L.P. (15) 10.25 Asset Purchase Agreement dated as of July 5, 2001 among WMJB, Inc., the Shareholders of WMJB, Inc. and Heritage Operating, L.P. (15) 10.25.1 Amendment to Asset Purchase Agreement dated as of July 5, 2001 among WMJB, Inc., the Shareholders of WMJB, Inc. and Heritage Operating, L.P. (18) 10.26 Assignment, Conveyance and Assumption Agreement between U.S. Propane, L.P. and Heritage Holdings, Inc., as the former General Partner of Heritage Propane Partners, L.P. dated as of February 4, 2002 (18) 10.27 Assignment, Conveyance and Assumption Agreement between U.S. Propane, L.P. and Heritage Holdings, Inc., as the former General Partner of Heritage Operating, L.P., dated as of February 4, 2002 33 Exhibit Number Description ------- ----------- (22) 10.28 Assignment for Contribution of Assets in Exchange for Partnership Interest dated December 9, 2002 amount V-1 Oil Co., the shareholders of V-1 Oil Co., Heritage Propane Partners, L.P. and Heritage Operating, L.P. (23) 10.29 Employment Agreement for Michael L. Greenwood dated as of July 1, 2002 (21) 21.1 List of Subsidiaries (*) 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (*) 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (*) 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (*) 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ------------------ (1) Incorporated by reference to the same numbered Exhibit to Registrant's Registration Statement of Form S-1, File No. 333-04018, filed with the Commission on June 21, 1996. (2) Incorporated by reference to Exhibit 10.11 to Registrant's Registration Statement on Form S-1, File No. 333-04018, filed with the Commission on June 21, 1996. (3) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended November 30, 1996. (4) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended February 28, 1997. (5) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended May 31, 1998. (6) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 1998. (7) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 1999. (8) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 1999. (9) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 2000. (10) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 8-K dated August 23, 2000. (11) File as Exhibit 10.16.3. 34 (12) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 2000. (13) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended February 28, 2001. (14) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 2001. (15) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 8-K dated August 15, 2001. (16) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 2001. (17) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended November 30, 2001. (18) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended February 28, 2002. (19) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 2002. (20) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 8-K dated February 4, 2002. (21) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 2002. (22) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 8-K dated January 6, 2003. (23) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended November 30, 2002. (*) Filed herewith. (b) Reports on Form 8-K The Partnership filed two reports on Form 8-K during the three months ended February 28, 2003: Form 8-K dated December 11, 2002, was filed reporting the Partnership had entered into a definitive agreement to acquire the retail propane assets of V-1 Oil Co. of Idaho Falls, Idaho. Attached as an exhibit to the Form 8-K was the press release dated December 10, 2002 announcing the transaction. Form 8-K dated January 6, 2003, was filed reporting the acquisition of the propane distribution assets of V-1 Oil Co. The report described the transaction and advised that the financial statements required to be filed in connection with the business acquisition would be filed within the prescribed time periods. Attached as exhibits to the Form 8-K were the Agreement for Contribution of Assets in Exchange for Partnership Interests dated December 9, 2002 among V-1 Oil Co., the shareholders of V-1 Oil Co., Heritage Propane Partners, L.P., and Heritage Operating L.P., and the Press Release dated January 6, 2003 announcing the completion of the acquisition. 35 SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. HERITAGE PROPANE PARTNERS, L.P. By: U.S. Propane, L.P.., General Partner By: U.S. Propane, L.L.C., General Partner Date: November 26, 2003 By: /s/ Michael L. Greenwood -- Michael L. Greenwood (Vice President, Chief Financial Officer and officer duly authorized to sign on behalf of the registrant) 36 INDEX TO EXHIBITS Exhibit Number Description ------- ----------- (1) 3.1 Agreement of Limited Partnership of Heritage Propane Partners, L.P. (10) 3.1.1 Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (16) 3.1.2 Amendment No. 2 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (19) 3.1.3 Amendment No. 3 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (19) 3.1.4 Amendment No. 4 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (1) 3.2 Agreement of Limited Partnership of Heritage Operating, L.P. (12) 3.2.1 Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Heritage Operating, L.P. (19) 3.2.2 Amendment No. 2 to Amended and Restated Agreement of Limited Partnership of Heritage Operating, L.P. (18) 3.3 Amended Certificate of Limited Partnership of Heritage Propane Partners, L.P. (18) 3.4 Amended Certificate of Limited Partnership of Heritage Operating, L.P. (20) 4.1 Registration Rights Agreement for Limited Partner Interests of Heritage Propane Partners, 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 Exhibit Number Description ------- ----------- (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 June 25, 1996 Note Purchase Agreement and November 19, 1997 Note Purchase Agreement (13) 10.2.7 Fifth Amendment Agreement dated as of December 28, 2000 to June 25, 1996 Note Purchase Agreement, November 19, 1997 Note Purchase Agreement and August 10, 2000 Note Purchase Agreement (1) 10.3 Form of Contribution, Conveyance and Assumption Agreement among Heritage Holdings, Inc., Heritage Propane Partners, L.P. and Heritage Operating, L.P. (1) 10.6 Restricted Unit Plan (4) 10.6.1 Amendment of Restricted Unit Plan dated as of October 17, 1996 (12) 10.6.2 Amended and Restated Restricted Unit Plan dated as of August 10, 2000 (18) 10.6.3 Second Amended and Restated Restricted Unit Plan dated as of February 4, 2002 (12) 10.7 Employment Agreement for James E. Bertelsmeyer dated as of August 10, 2000 (18) 10.7.1 Consent to Assignment of Employment Agreement for James E. Bertelsmeyer dated February 3, 2002 (21) 10.7.2 Amendment 1 of Employment Agreement for James E. Bertelsmeyer dated August 10, 2002 (12) 10.8 Employment Agreement for R. C. Mills dated as of August 10, 2000 (18) 10.8.1 Consent to Assignment of Employment Agreement for R.C. Mills dated February 3, 2002 (12) 10.10 Employment Agreement for H. Michael Krimbill dated as of August 10, 2000 Exhibit Number Description ------- ----------- (18) 10.10.1 Consent to Assignment of Employment Agreement for H. Michael Krimbill dated February 3, 2002 (12) 10.11 Employment Agreement for Bradley K. Atkinson dated as of August 10, 2000 (18) 10.11.1 Consent to Assignment of Employment Agreement for Bradley K. Atkinson dated February 3, 2002 (7) 10.12 First Amended and Restated Revolving Credit Agreement between Heritage Service Corp. and Banks Dated May 31, 1999 (16) 10.12.1 First Amendment to First Amended and Restated Revolving Credit Agreement, dated October 15, 1999 (16) 10.12.2 Second Amendment to First Amended and Restated Revolving Credit Agreement, dated August 10, 2000 (16) 10.12.3 Third Amendment to First Amended and Restated Revolving Credit Agreement, dated December 28, 2000 (16) 10.12.4 Fourth Amendment to First Amended and Restated Revolving Credit Agreement, dated July 16, 2001 (12) 10.13 Employment Agreement for Mark A. Darr dated as of August 10, 2000 (18) 10.13.1 Consent to Assignment of Employment Agreement for Mark A. 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(10) 10.19 Note Purchase Agreement dated as of August 10, 2000 (13) 10.19.1 Fifth Amendment Agreement dated as of December 28, 2000 to June 25, 1996 Note Purchase Agreement, November 19, 1997 Note Purchase Agreement and August 10, 2000 Note Purchase Agreement (14) 10.19.2 First Supplemental Note Purchase Agreement dated as of May 24, 2001 to the August 10, 2000 Note Purchase Agreement (15) 10.20 Stock Purchase Agreement dated as of July 5, 2001 among the shareholders of ProFlame, Inc. and Heritage Holdings, Inc. (15) 10.21 Stock Purchase Agreement dated as of July 5, 2001 among the shareholders of Coast Liquid Gas, Inc. and Heritage Holdings, Inc. (15) 10.22 Agreement and Plan of Merger dated as of July 5, 2001 among California Western Gas Company, the Majority Stockholders of California Western Gas Company signatories thereto, Heritage Holdings, Inc. and California Western Merger Corp. (15) 10.23 Agreement and Plan of Merger dated as of July 5, 2001 among Growth Properties, the Majority Shareholders signatories thereto, Heritage Holdings, Inc. and Growth Properties Merger Corp. (15) 10.24 Asset Purchase Agreement dated as of July 5, 2001 among L.P.G. Associates, the Shareholders of L.P.G. Associates and Heritage Operating, L.P. (15) 10.25 Asset Purchase Agreement dated as of July 5, 2001 among WMJB, Inc., the Shareholders of WMJB, Inc. and Heritage Operating, L.P. (15) 10.25.1 Amendment to Asset Purchase Agreement dated as of July 5, 2001 among WMJB, Inc., the Shareholders of WMJB, Inc. and Heritage Operating, L.P. 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