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

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

FOR THE FISCAL YEAR ENDED AUGUST 31, 2001

OR

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

For the Transition Period from __________ to__________

COMMISSION FILE NUMBER 1-11727

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

DELAWARE	73-1493906
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identific

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. [ ]

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 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.

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

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

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

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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,

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,

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

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.)

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.)

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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 year ended August 31, 2001, the eight month period ended August 31, 2000, and for each of the two years in the period ended December 31, 1999. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

/s/ Arthur Andersen LLP

Tulsa, Oklahoma
October 19, 2001

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

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.

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			

(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.

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

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

	Year ended August 31,	For the Eight Months Ended August 31,		For the Years E December 31,	
	2001	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	--	--	--	

Current period reclassification to earnings	(3,844)	--	--	--	
Current period change	(8,126)	--	--	--	
Balance, end of period	$ (6,541)	$ --	$ --	$ --	$

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

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

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

	Number of Units			
	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	--	--	--	

Other	--	--	--	
Net income	--	--	--	
BALANCE, AUGUST 31, 2001	14,260,316	--	1,382,514	1,000,

	Class B Subordinated	Class C	General Partner	Accum Ot Compre Inc
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.

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

(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
CASH FLOWS FROM OPERATING ACTIVITIES:		
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
CASH FLOWS FROM INVESTING ACTIVITIES:		
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
CASH FLOWS FROM FINANCING ACTIVITIES:		
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

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.

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:

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)

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

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

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

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

The Operating Partnership sells propane and propane-related products to more than 600,000 active residential, commercial, industrial and agricultural customers in 29 states. Heritage is also a wholesale propane supplier in the southwestern and southeastern United States and in Canada, the latter through participation in M-P Energy Partnership, 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:

	August 31, 2001	August 31, 2000
Accounts receivable	$ 43,797	$ 31,855
Less - allowance for doubtful accounts	3,576	--
Total, net	$ 40,221	$ 31,855

Allowance for doubtful accounts:	
Balance, beginning of the year	--
Provision for loss on accounts receivable	4,055
Accounts receivable written off, net of recoveries	(479)
Balance, end of period	$ 3,576

INVENTORIES

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

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

PROPERTY, PLANT AND EQUIPMENT

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

	August 31, 2001	August 31, 2000

Land and improvements	$ 21,244	$ 16,648
Buildings and improvements (10 to 30 years)	27,871	22,483
Bulk storage, equipment and facilities (3 to 30 years)	34,431	28,210
Tanks and other equipment (5 to 30 years)	287,155	241,934
Vehicles (5 to 10 years)	52,177	41,125
Furniture and fixtures (5 to 10 years)	6,852	5,262
Other	3,242	2,995
	432,972	358,657
Less - Accumulated depreciation	(47,036)	(23,948)
	385,936	334,709
Plus - Construction work-in-process	8,806	4,657
Property, plant and equipment, net	$ 394,742	$ 339,366

INTANGIBLES AND OTHER ASSETS

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

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

LONG-LIVED ASSETS

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

ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities consisted of the following:

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

INCOME TAXES

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

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

INCOME (LOSS) PER LIMITED PARTNER UNIT

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

	Year Ended August 31,	Eight Months Ended August 31,

	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

	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

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

August 31, 2001, Heritage reclassified into earnings a gain of $3,844 that was reported in accumulated other comprehensive income. There were no ineffective hedges or discontinued hedges as of August 31, 2001.

MARKETABLE SECURITIES

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

LIQUIDS MARKETING ACTIVITIES

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

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

Notional Amounts and Terms -

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

Fair Value -

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

Market and Credit Risk -

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

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

RECENTLY ISSUED ACCOUNTING STANDARD NOT YET ADOPTED

In June 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement No. 141 requires all business combinations initiated after June 30, 2001, to be

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

Heritage adopted Statement No. 142 on September 1, 2001 and accordingly has discontinued the amortization of goodwill existing at the time of adoption. Management 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.

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.

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

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

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

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

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

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

4. WORKING CAPITAL FACILITY AND LONG-TERM DEBT:

Long-term debt consists of the following:	August 31, 2001	August 31, 2000
1996 8.55% Senior Secured Notes	$ 120,000	$ 120,000
1997 Medium Term Note Program:		
7.17% Series A Senior Secured Notes	12,000	12,000
7.26% Series B Senior Secured Notes	20,000	20,000
6.50% Series C Senior Secured Notes	3,571	4,286
6.59% Series D Senior Secured Notes	5,000	5,000
6.67% Series E Senior Secured Notes	5,000	5,000

2000 and 2001 Senior Secured Promissory Notes:		
8.47% Series A Senior Secured Notes	16,000	16,000
8.55% Series B Senior Secured Notes	32,000	32,000
8.59% Series C Senior Secured Notes	27,000	27,000
8.67% Series D Senior Secured Notes	58,000	58,000
8.75% Series E Senior Secured Notes	7,000	7,000
8.87% Series F Senior Secured Notes	40,000	40,000
7.21% Series G Senior Secured Notes	26,500	--
7.89% Series H Senior Secured Notes	27,500	--
7.99% Series I Senior Secured Notes	16,000	--
Senior Revolving Acquisition Facility	--	1,900
Notes Payable on noncompete agreements with interest imputed at rates averaging 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.

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

2000 and 2001 Senior Secured Promissory Notes:

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

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

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

A $65,000 Senior Revolving Working Capital Facility, expiring June 30, 2004, with $19,900 outstanding at August 31, 2001. The interest rate and interest payment dates vary depending on the terms Heritage agrees to when the money is borrowed. The weighted average interest rate was 5.295 percent for the amount outstanding at August 31, 2001. Heritage must be free of all working capital borrowings for 30 consecutive days each fiscal year. The maximum commitment fee payable on the unused portion of the facility is .50 percent.

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

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

5. COMMITMENTS AND CONTINGENCIES:

Certain property and equipment is leased under noncancelable leases, which require fixed monthly rental payments and expire at various dates through 2020. Rental expense under these leases totaled approximately $2,708 for the year ended August 31, 2001, $245 for the eight months ended August 31, 2000, and $184 for fiscal 1999 and $119 for fiscal 1998, and has been included in operating expenses in the accompanying statements of operations. Fiscal

year future minimum lease commitments for such leases are $2,680 in 2002; $1,830 in 2003; $1,365 in 2004; $1,126 in 2005; $488 in 2006 and $1,052 thereafter.

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

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

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

6. PARTNERS' CAPITAL:

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

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

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

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

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

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

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

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

QUARTERLY DISTRIBUTIONS OF AVAILABLE CASH

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RESTRICTED UNIT PLAN

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

include the achievement of performance objectives. In the event of a "change of control" (as defined in the Restricted Unit Plan), all rights to acquire common units pursuant to the Restricted Unit Plan will immediately vest.

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

Subsequent to August 31, 2001, 1,750 additional Phantom Units vested pursuant to the vesting rights of the Restricted Unit Plan and common units were issued.

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

LONG-TERM INCENTIVE PLAN

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

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

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

8. RELATED PARTY TRANSACTIONS:

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

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

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

9. REPORTABLE SEGMENTS:

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

	For the Year Ended August 31, 2001	For the Eight Months Ended August 31, 2000	For the Eight Months Ended August 31, 1999	For Years Ended Decembe 1999
Income taxes				

695,357

1,779,440

243,643

1,046,494

Net income

$

1,458,545

$

3,196,388

$

584,594

$

1,693,503

Earnings per Share:

Basic

$

.23

$

.51

$

.09

$

.27

Diluted

$

.23

$

.51

$

.09

$

.27

Cash dividends per share:

$

.22

$

.22

$

.11

$

.11

See accompanying notes.

THE EASTERN COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Six Months Ended		Three Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Net income	$ 1,458,545	$ 3,196,388	$ 584,594	$ 1,693,503
Other comprehensive income/(loss):				
Change in foreign currency translation	(621,923)	(52,772)	(27,591)	313,757
Change in pension and postretirement benefit costs, net of taxes of: 2015 – $373,028 and $186,514, respectively 2014 – $200,718 and $100,368, respectively	679,178	368,695	339,588	184,365
Total other comprehensive income	57,255	315,923	311,997	498,122
Comprehensive income	$ 1,515,800	$ 3,512,311	$ 896,591	$ 2,191,625

See accompanying notes.

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THE EASTERN COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended	
	July 4, 2015	June 28, 2014
Operating Activities		
Net income	$ 1,458,545	$ 3,196,388
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,902,386	1,666,843
Unrecognized pension and postretirement benefits	1,156,385	674,219
Loss on sale of equipment and other assets	17,734	84,785
Provision for doubtful accounts	26,626	51,330
Issuance of Common Stock for directors' fees	19,960	14,994
Changes in operating assets and liabilities:		
Accounts receivable	(3,038,008)	(2,096,292)
Inventories	(724,353)	(120,992)
Prepaid expenses and other	513,110	378,211
Recoverable taxes receivable	380,000	-
Other assets	21,384	(96,529)
Accounts payable	1,099,021	1,137,942
Accrued compensation	(1,039,252)	(1,356,886)
Other accrued expenses	(440,315)	(391,757)
Net cash provided by operating activities	1,353,223	3,142,256
Investing Activities		
Purchases of property, plant and equipment	(1,609,471)	(1,608,421)
Net cash used in investing activities	(1,609,471)	(1,608,421)
Financing Activities		
Principal payments on long-term debt	(714,285)	(714,285)
Dividends paid	(1,373,724)	(1,368,927)
Net cash used in financing activities	(2,088,009)	(2,083,212)
Effect of exchange rate changes on cash	(169,871)	(61,671)
Net change in cash and cash equivalents	(2,514,128)	(611,048)
Cash and cash equivalents at beginning of period	15,834,444	19,988,361
Cash and cash equivalents at end of period	$ 13,320,316	$ 19,377,313

See accompanying notes.

THE EASTERN COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
July 4, 2015

Note A – Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements. Refer to the Company’s consolidated financial statements and notes thereto included in its Form 10-K for the year ended January 3, 2015 for additional information.

The accompanying condensed consolidated financial statements are unaudited. However, in the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of operations for interim periods have been reflected therein. All intercompany accounts and transactions are eliminated. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year.

The condensed consolidated balance sheet as of January 3, 2015 has been derived from the audited consolidated balance sheet at that date.

Note B – Earnings Per Share

The denominators used in the earnings per share computations follow:

	Six Months Ended		Three Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Basic:				
Weighted average shares outstanding	6,244,250	6,222,444	6,244,451	6,222,676
Diluted:				
Weighted average shares outstanding	6,244,250	6,222,444	6,244,451	6,222,676
Dilutive stock options	-	17,063	-	17,190
Denominator for diluted earnings per share	6,244,250	6,239,507	6,244,451	6,239,866

Note C – Inventories

The components of inventories follow:

	July 4, 2015	January 3, 2015
Raw material and component parts	$ 9,354,057	$ 9,219,341
Work in process	7,190,058	7,074,950

Finished goods	18,359,081	18,107,906
	$ 34,903,196	$ 34,402,197

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Note D – Segment Information

Segment financial information follows:

	Six Months Ended		Three Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Revenues:				
Sales to unaffiliated customers:				
Industrial Hardware	$ 29,906,612	$ 29,195,398	$ 15,119,946	$ 15,064,647
Security Products	29,536,240	24,967,882	15,435,324	12,420,846
Metal Products	14,471,687	16,465,619	6,482,427	7,294,280
	$ 73,914,539	$ 70,628,899	$ 37,037,697	$ 34,779,773
Income before income taxes:				
Industrial Hardware	$ 1,369,091	$ 2,566,403	$ 637,546	$ 1,470,569
Security Products	1,436,293	1,445,451	650,002	890,165
Metal Products	(577,879)	1,073,203	(431,526)	427,206
Operating Profit	2,227,505	5,085,057	856,022	2,787,940
Interest expense	(100,570)	(133,195)	(47,745)	(64,626)
Other income	26,967	23,966	19,960	16,683
	$ 2,153,902	$ 4,975,828	$ 828,237	$ 2,739,997

Note E – Recent Accounting Pronouncements

In January 2015, the FASB issued authoritative guidance that modifies reporting of extraordinary items in the income statement. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of the new guidance is not expected to have a material impact on the consolidated financial statements of the Company.

In February 2015, the FASB issued authoritative guidance which amends certain requirements for determining whether a variable interest entity must be consolidated. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of the new guidance is not expected to have a material impact on the consolidated financial statements of the Company.

In April 2015, the FASB issued authoritative guidance which simplifies the presentation of debt issuance costs. The amendments in this accounting standard update require debt issuance costs be presented on the balance sheet as a direct reduction from the carrying amount of the related debt liability. The amendments in this accounting standard update are to be applied retrospectively and are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of the new guidance is not expected to have a material impact on the consolidated financial statements of the Company.

The Company has implemented all new accounting pronouncements that are in effect and that could impact its consolidated financial statements and does not believe that there are any other new accounting pronouncements that have been issued, but are not yet effective, that might have a material impact on the consolidated financial statements of the Company.

Note F – Debt

On January 29, 2010, the Company signed a secured Loan Agreement (the "Loan Agreement") with People's United Bank which included a $5,000,000 term portion (the "Original Term Loan") and a $10,000,000 revolving credit portion. On January 25, 2012, the Company amended the loan agreement by taking an additional $5,000,000 term loan (the "2012 Term Loan"). Interest on the Original Term Loan portion of the Loan Agreement is fixed at 4.98%. Interest on the 2012 Term Loan is fixed at 3.90%. The interest rate on the revolving credit portion of the Loan Agreement varied based on the LIBOR rate or People's Prime rate plus a margin spread of 2.25%, with a floor rate of 3.25% and a maturity date of January 31, 2014. On January 23, 2014, the Company signed an amendment to its secured Loan Agreement with People's United Bank ("People's") which extended the maturity date of the $10,000,000 revolver portion of the Loan Agreement to July 1, 2016 and changed the interest rate to LIBOR plus 2.25%, eliminating the floor previously in place.

The Company has loan covenants under the Loan Agreement which required the Company to maintain a fixed charge coverage ratio of at least 1.1 to 1, a leverage ratio of no more than 1.75 to 1, and minimum tangible net worth of $43 million as of the end of Fiscal 2010 increasing each year by 50% of consolidated net income. As part of the amendment signed on January 23, 2014, the leverage ratio was eliminated and the minimum tangible net worth covenant was modified to a fixed $55 million, effective as of March 29, 2014. In addition, the Company has restrictions on, among other things, new capital leases, purchases or redemptions of its capital stock, mergers and divestitures, and new borrowing. The Company was in compliance with all covenants in 2014 and for the six month period ended July 4, 2015.

Note G – Goodwill

The following is a roll-forward of goodwill from year-end 2014 to the end of the second quarter 2015:

	Industrial Hardware Segment	Security Products Segment	Metal Products Segment	Total
Beginning balance	$ 1,901,312	$ 13,059,042	$ —	$ 14,960,354
Foreign exchange	(162,797)	—	—	(162,797)
Ending balance	$ 1,738,515	$ 13,059,042	$ —	$ 14,797,557

Note H – Intangibles

Patents are recorded at cost and are amortized using the straight-line method over the lives of the patents. Technology and licenses are recorded at cost and are generally amortized on a straight-line basis over periods ranging from 5 to 17 years. Customer relationships, non-compete agreements and intellectual property are being amortized using the straight-line method over a period of 5 years. Trademarks are not amortized as their lives are deemed to be indefinite.

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The gross carrying amount and accumulated amortization of amortizable intangible assets:

	Industrial Hardware Segment	Security Products Segment	Metal Products Segment	Total	Weighted-Average Amortization Period (Years)
2015 Gross Amount					
Patents and developed technology	$ 2,429,839	$ 1,042,307	$ --	$ 3,472,146	15.6
Customer relationships	--	449,706	--	449,706	5.0
Non-compete agreements	--	407,000	--	407,000	5.0
Intellectual property	--	307,370	--	307,370	5.0
Total Gross Intangibles	$ 2,429,839	$ 2,206,383	$ --	$ 4,636,222	12.6
2015 Accumulated Amortization					
Patents and developed technology	$ 1,639,193	$ 566,382	$ --	$ 2,205,575	
Customer relationships	--	44,971	--	44,971	
Non-compete agreements	--	40,700	--	40,700	
Intellectual property	--	30,737	--	30,737	
Accumulated Amortization	$ 1,639,193	$ 682,790	$ --	$ 2,321,983	
Net July 4, 2015 per Balance Sheet	$ 790,646	$ 1,523,593	$ --	$ 2,314,239	

	Industrial Hardware Segment	Security Products Segment	Metal Products Segment	Total	Weighted-Average Amortization Period (Years)
2014 Gross Amount					
Patents and developed technology	$ 2,494,261	$ 1,025,303	$ --	$ 3,519,564	15.7
Customer relationships	--	449,706	--	449,706	5.0
Non-compete agreements	--	407,000	--	407,000	5.0
Intellectual property	--	307,370	--	307,370	5.0
Total Gross Intangibles	$ 2,494,261	$ 2,189,379	$ --	$ 4,683,640	12.7
2014 Accumulated Amortization					
Patents and developed technology	$ 1,649,655	$ 535,415	$ --	$ 2,185,070	
Customer relationships	--	--	--	--	
Non-compete agreements	--	--	--	--	
Intellectual property	--	--	--	--	
Accumulated Amortization	$ 1,649,655	$ 535,415	$ --	$ 2,185,070	
Net January 3, 2015 per Balance Sheet	$ 844,606	$ 1,653,964	$ --	$ 2,498,570	

Note I – Retirement Benefit Plans

The Company has non-contributory defined benefit pension plans covering certain U.S. employees. Plan benefits are generally based upon age at retirement, years of service and, for its salaried plan, the level of compensation. The Company also sponsors unfunded nonqualified supplemental retirement plans that provide certain current and former officers with benefits in excess of limits imposed by federal tax law.

The Company also provides health care and life insurance for retired salaried employees in the United States who meet specific eligibility requirements.

Significant disclosures relating to these benefit plans for the second quarter and first six months of fiscal 2015 and 2014 follow:

	Pension Benefits			
	Six Months Ended		Three Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Service cost	$ 1,929,975	$ 1,396,848	$ 964,988	$ 698,424
Interest cost	1,718,476	1,658,557	859,217	829,258
Expected return on plan assets	(2,575,828)	(2,405,262)	(1,287,914)	(1,202,630)
Amortization of prior service cost	109,293	109,293	54,646	54,646
Amortization of the net loss	945,456	472,065	472,728	236,032
Net periodic benefit cost	$ 2,127,372	$ 1,231,501	$ 1,063,665	$ 615,730

	Postretirement Benefits			
	Six Months Ended		Three Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Service cost	$ 108,785	$ 86,951	$ 54,393	$ 44,951
Interest cost	77,458	78,741	38,729	38,491
Expected return on plan assets	(45,968)	(47,406)	(22,984)	(25,156)
Amortization of prior service cost	(11,944)	(11,945)	(5,972)	(5,945)
Amortization of the net loss	9,402	--	4,701	--
Net periodic benefit cost	$ 137,733	$ 106,341	$ 68,867	$ 52,341

The Company's funding policy with respect to its qualified plans is to contribute at least the minimum amount required by applicable laws and regulations. In 2015, the Company expects to contribute $3.0 million into its pension plans and $150,000 into its postretirement plan. As of July 4, 2015, the Company has made contributions totaling approximately $1.2 million into its pension plans and $57,000 to its postretirement plan and will make the remaining contributions as required during the second half of the year.

The Company has a contributory savings plan under Section 401(k) of the Internal Revenue Code covering substantially all U.S. non-union employees. The plan allows participants to make voluntary contributions of up to 100% of their annual compensation on a pretax basis, subject to IRS limitations. The plan provides for contributions by the Company at its discretion. The Company made contributions of $55,660 and $107,926 in the second quarter and first six months of 2015, respectively and $50,964 and $103,455 in the second quarter and first six months of 2014, respectively.

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Note J – Stock Based Compensation and Stock Options

The Company has a stock option plan for officers, other key employees, and non-employee directors. As of July 4, 2015 the 2010 plan had 500,000 shares reserved for future grant and issuance. Incentive stock options granted under the 2010 plan must have exercise prices that are not less than 100% of the fair market value of the stock on the dates the options are granted. Restricted stock awards may also be granted to participants under the 2010 plan with restrictions determined by the Compensation Committee of the Company's Board of Directors. Under the 2010 plan, nonqualified stock options granted to participants will have exercise prices determined by the Compensation Committee of the Company's Board of Directors. No options or restricted stock were granted in the first six months of 2015 or 2014.

At July 4, 2015, there were no outstanding or exercisable options.

Note K – Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2011 and non-U.S. income tax examinations by tax authorities prior to 2009.

The Company repatriated approximately $1.2 million and $2.8 million in cash from its foreign subsidiaries in the first six months of 2015 and 2014, respectively. The impact on the effective tax rate was less than 1% in 2015 and approximately 2.4% in 2014.

The total amount of unrecognized tax benefits could increase or decrease within the next twelve months for a number of reasons, including the closure of federal, state and foreign tax years by expiration of the statute of limitations and the recognition and measurement considerations under FASB Accounting Standards Codification ("ASC") 740. There have been no significant changes to the amount of unrecognized tax benefits during the six months ended July 4, 2015. The Company believes that it is reasonably possible that the total amount of unrecognized tax benefits will not increase or decrease significantly over the next twelve months.

Note L - Financial Instruments and Fair Value Measurements

Financial Risk Management Objectives and Policies

The Company is exposed primarily to credit, interest rate and currency exchange rate risks which arise in the normal course of business.

Credit Risk

Credit risk is the potential financial loss resulting from the failure of a customer or counterparty to settle its financial and contractual obligations to the Company, as and when they become due. The primary credit risk for the Company is its receivable accounts with customers. The Company has established credit limits for customers and monitors their balances to mitigate the risk of loss. At July 4, 2015 and January 3, 2015, there were no significant concentrations of credit risk. No one customer represented more than 10% of the Company's net trade receivables at July 4, 2015 or at January 3, 2015. The maximum exposure to credit risk is primarily represented by the carrying amount of the Company's accounts receivable.

Interest Rate Risk

On July 4, 2015, the Company has no exposure to the risk of changes in market interest rates as the interest rate on the outstanding debt is fixed at 4.98% and 3.90%.

Fair Value Measurements

Assets and liabilities that require fair value measurement are recorded at fair value using market and income valuation approaches and considering the Company's and counterparty's credit risk. The Company uses the market approach and the income approach to value assets and liabilities as appropriate. There are no assets or liabilities requiring fair value measurements on July 4, 2015 or January 3, 2015.

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

The following discussion is intended to highlight significant changes in the Company's financial position and results of operations for the twenty-six weeks ended July 4, 2015. The interim financial statements and this Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements and Notes thereto for the fiscal year ended January 3, 2015 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2015.

Certain statements set forth in this discussion and analysis of financial condition and results of operations are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. They use such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect manageme current expectations regarding future events and operating performance and speak only as of the date of this release. These forward-looking statements involve a number of risks and uncertainties, and actual future results and trends may differ materially depending on a variety of factors, including changing customer preferences, lack of success of new products, loss of customers, competition, increased raw material prices, problems associated with foreign sourcing of parts and products, changes within our industry segments and in the overall economy, litigation and legislation. In addition, terrorist threats and the possible responses by the U.S. government, the effects on consumer demand, the financial markets, the travel industry, the trucking industry and other conditions increase the uncertainty inherent in forward-looking statements. Forward-looking statements reflect the expectations of the Company at the time they are made, and investors should rely on them only as expressions of opinion about what may happen in the future and only at the time they are made. The Company undertakes no obligation to update any forward-looking statement. Although the Company believes it has an appropriate business strategy and the resources necessary for its operations, future revenue and margin trends cannot be reliably predicted and the Company may alter its business strategies to address changing conditions.

In addition, the Company makes estimates and assumptions that may materially affect reported amounts and disclosures. These relate to valuation allowances for accounts receivable and for excess and obsolete inventories, accruals for pensions and other postretirement benefits (including forecasted future cost increases and returns on plan assets), provisions for depreciation (estimating useful lives), uncertain tax positions, and, on occasion, accruals for contingent losses.

Overview

Sales in the second quarter of 2015 increased 7% compared to the second quarter of 2014, and was primarily the result of a sales increase of 9% in new products to the many diverse markets we serve. The increase was offset in part by a decrease of 2% in sales of existing products. In the second quarter of 2015 Industrial Hardware sales increased less than 1%, Security Products sales increased 24% and Metal Products sales decreased 11% compared to the prior year period.

Sales in the first six months of 2015 increased 5% compared to the prior year period, and was primarily the result of a sales increase of 9% in new products to the many diverse markets we serve. The increase was offset in part by a decrease of 4% in sales of existing products. Compared to the prior year period, sales increased in the first six months of 2015 by 2% in the Industrial Hardware segment and by 18% in the Security Products segment, while sales decreased by 12% in the Metal Products segment resulting in a 5% increase.

Gross margin as a percentage of sales for both the three months and first six months ended July 4, 2015 was 21% compared to the 22% in the prior year period. This decrease was primarily the negative result of decreased sales volume of mining products in the Metal Products segment causing lower utilization of the Company's production capacity in the 2015 period, the favorable impact of the Argo acquisition which is included in 2015 but not in 2014, and the mix of products produced and sold.

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Selling and administration costs increased $2.1 million or 42% in the second quarter and $2.8 million or 28% in the first half of 2015 compared to the prior year period. The increase is primarily the result of legal and administrative costs totaling approximately $1.4 million in the second quarter and $2.0 million in the first six months of 2015 related to the proxy contest initiated by Barington Companies Equity Partners, L.P. and certain of its affiliates ("Barington"), reimbursement of Barington Companies Management, LLC costs for winning the proxy contest, and the legal and settlement costs associated with the settlement of a lawsuit initiated by Barington Companies Equity Partners, L.P.

Raw material prices have generally increased compared to the prior year periods. The Company, through price increases, is recovering these additional costs from our customers, wherever possible. The Company expects that raw material prices will continue to increase as worldwide economic conditions improve, which may have a negative impact on future operating margins if not recovered by price increases and productivity improvements. Currently, there is no indication that the Company will be unable to obtain supplies of all the raw materials that it requires.

Cash flow from operations in the first six months of 2015 decreased compared to the same period in 2014. This decrease was abnormally primarily impacted due to the Company's legal and administrative expenses associated with the proxy contest initiated by Barington, reimbursement of proxy contest costs to Barington Companies Management, LLC for winning the proxy contest, and the legal and settlement costs associated with the settlement of the lawsuit initiated by Barington Companies Equity Partners, L.P. The decrease was also impacted by timing differences in the collection of accounts receivable, payments of liabilities, and changes in inventories. Cash on hand and cash flow from operations, along with controlling discretionary expenditures, should enable the Company to meet all its existing obligations and continue its quarterly dividend payments.

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A more detailed analysis of the Company's results of operations and financial condition follows:

Results of Operations

The following table shows, for the periods indicated, selected line items from the condensed consolidated statements of operations as a percentage of net sales, by segment:

	Three Months Ended July 4, 2015			
	Industrial Hardware	Security Products	Metal Products	Total
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	74.6%	75.9%	94.7%	78.6%
Gross margin	25.4%	24.1%	5.3%	21.4%
Selling and administrative expense	21.2%	19.9%	12.0%	19.1%
Operating profit	4.2%	4.2%	-6.7%	2.3%

	Three Months Ended June 28, 2014			
	Industrial Hardware	Security Products	Metal Products	Total
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	74.4%	76.3%	86.7%	77.7%
Gross margin	25.6%	23.7%	13.3%	22.3%
Selling and administrative expense	15.9%	16.5%	7.5%	14.3%
Operating profit	9.7%	7.2%	5.8%	8.0%

The following table shows the amount of change for the second quarter of 2015 compared to the second quarter of 2014 in sales, cost of products sold, gross margin, selling and administrative expenses and operating profit, by segment (dollars in thousands):

	Industrial Hardware	Security Products	Metal Products	Total
Net sales	$ 55	$ 3,015	$ (812)	$ 2,258
Volume	-9.2%	12.2%	-12.3%	-2.2%
Prices	0.3%	-0.3%	0.0%	0.0%
New products	9.3%	12.4%	1.2%	8.7%
	0.4%	24.3%	-11.1%	6.5%
Cost of products sold	$ 80	$ 2,227	$ (185)	$ 2,122
	0.7%	23.5%	-2.9%	7.9%
Gross margin	$ (25)	$ 788	$ (627)	$ 136
	-0.6%	26.8%	-64.4%	1.7%
Selling and administrative expenses	$ 808	$ 1,028	$ 232	$ 2,068

	33.8%	50.2%	42.4%	41.5%
Operating profit	$ (833)	$ (240)	$ (859)	$(1,932)
	-56.6%	-27.0%	-201.0%	-69.3%

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The following table shows, for the periods indicated, selected line items from the condensed consolidated statements of income as a percentage of net sales, by segment:

	Six Months Ended July 4, 2015			
	Industrial Hardware	Security Products	Metal Products	Total
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	75.6%	76.1%	93.8%	79.4%
Gross margin	24.4%	23.9%	6.2%	20.6%
Selling and administrative expense	19.8%	19.0%	10.2%	17.6%
Operating profit	4.6%	4.9%	-4.0%	3.0%

	Six Months Ended June 28, 2014			
	Industrial Hardware	Security Products	Metal Products	Total
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	74.6%	77.6%	86.2%	78.4%
Gross margin	25.4%	22.4%	13.8%	21.6%
Selling and administrative expense	16.6%	16.6%	7.3%	14.4%
Operating profit	8.8%	5.8%	6.5%	7.2%

The following table shows the amount of change for the first six months of 2015 compared to the first six months of 2014 in sales, cost of products sold, gross margin, selling and administrative expenses and operating profit, by segment (dollars in thousands):

	Industrial Hardware	Security Products	Metal Products	Total
Net sales	$ 711	$ 4,569	$ (1,994)	$ 3,286
Volume	-4.8%	4.2%	-14.2%	-3.7%
Prices	0.2%	-0.2%	0.0%	0.0%
New products	7.0%	14.3%	2.1%	8.4%
	2.4%	18.3%	-12.1%	4.7%
Cost of products sold	$ 829	$ 3,113	$ (614)	$ 3,328
	3.8%	16.1%	-4.3%	6.0%
Gross margin	$ (118)	$ 1,456	$ (1,380)	$ (42)
	-1.6%	26.0%	-60.7%	-0.3%
Selling and administrative expenses	$ 1,080	$ 1,465	$ 271	$ 2,816
	22.2%	35.3%	22.6%	27.6%
Operating profit	$(1,198)	$ (9)	$ (1,651)	$(2,858)

	-46.7%	-0.6%	-153.8%	-56.2%

Industrial Hardware Segment

Net sales in the Industrial Hardware segment were up less than 1% in the second quarter and 2% in the first half of 2015 compared to the prior year periods. The increase in sales in both the second quarter and first half of 2015 primarily reflect sales from the introduction of new products which was reduced by lower sales of our lightweight composite panels to the Class 8 truck market and the Mexican market compared to the prior year periods.

Sales of existing products increased in both the second quarter and first half of 2015 to the distribution, trailer, service body, military, Class 8 truck and fire and rescue markets. This increase was reduced by lower sales to the bus and off-highway markets as well as lower sales of our lightweight composite panels to the Class 8 truck market and the Mexican market in 2015 compared to the prior year periods, both of which are the result of scheduling changes by customers. Our new lightweight composite panel facility in North Carolina made its initial shipments of sleeper cabs in March 2015 and continues to increase its daily build rate for the new lightweight composite sleeper cabs for the Class 8 truck market to meet customer demand. We expect the North Carolina facility to be accretive to earnings for fiscal year 2015 and to open new opportunities for its products now that Eastern has four panel making facilities in North America.

All of the new products were developed internally and included a cab door handle, a paddle assembly, a trigger latch, a rod assembly and a new sleeper, manufactured from our lightweight composite panel material in our new North Carolina facility, for the Class 8 truck market; a two-stage rotary, a handle latch and a gate latch for the off-highway market; a rear door lock for the bus market; a locking handle assembly, an adjustable draw latch and a heavy duty t-handle for the distribution market; a latch and an ergonomic t handle for the service body market; as well as a variety of locking and latching products for the many markets we serve.

Cost of products sold for the Industrial Hardware segment increased $0.1 million or 1% in the second quarter and $0.8 million or 4% in the first half of 2015 compared to the same periods in 2014.

The most significant factors resulting in changes to the cost of products sold in the second quarter of 2015 compared to the 2014 second quarter included:

- an increase of $0.2 million or 7% in costs for payroll and payroll related charges;
- an increase of $0.1 million or 100% in rental equipment;
- an increase of $0.1 million or 151% in foreign exchange;
- an increase of $0.1 million or 48% from the sale of scrap;
- a decrease of $0.3 million or 4% in raw materials;
- and a decrease of $0.1 million or 94% in fire and liability insurance.

The most significant factors resulting in changes to the cost of products sold in the first half of 2015 compared to the 2014 first half included:

- an increase of $0.5 million or 8% in costs for payroll and payroll related charges;
- an increase of $0.1 million or 1% in raw materials;
- an increase of $0.1 million or 37% from the sale of scrap;
- an increase of $0.1 million or 66% for property taxes;
- an increase of $0.1 million or 19% in freight and shipping expenses;
- an increase of $0.1 million or 47% in rent expense;
- a decrease of $0.1 million or 61% in engineering expenses;
- and a decrease of $0.1 million or 1,656% in foreign exchange.

Gross margin as a percentage of sales for the Industrial Hardware segment decreased in the second quarter to 25% in 2015 from 26% in the prior year period and in the first half to 24% from 25% in the prior year period. The decreases in both the second quarter and first half of 2015 reflect the mix of products produced and the changes to cost of products sold discussed above.

Selling and administrative expenses in the Industrial Hardware segment increased $0.8 million or 34% in the second quarter of 2015 and $1.1 million or 22% in the first half of 2015 as compared to the 2014 periods.

The most significant factor resulting in changes in selling and administrative expenses in the Industrial Hardware segment in the second quarter of 2015 compared to the 2014 second quarter included:

- an increase of $0.6 million in allocated charges resulting from the proxy contest initiated by Barington in the first quarter of 2015;
- and an increase of $0.2 million or 9% in costs for payroll and payroll related charges.

The most significant factors resulting in changes in selling and administrative expenses in the Industrial Hardware segment in the first half of 2015 compared to the 2014 first half included:

- an increase of $0.8 million in allocated charges resulting from the proxy contest initiated by Barington in the first quarter of 2015;
- an increase of $0.2 million or 6% in costs for payroll and payroll related charges
- and an increase of $0.1 million or 31% in other administrative expenses.

Security Products Segment

Net sales in the Security Products segment increased 24% in the second quarter and increased 18% in the first half of 2015 compared to the 2014 periods. The increase in sales in both the second quarter and first half of 2015 was the result of the Argo acquisition which was not in the 2014 results; an increase in sales of existing products including money boxes and card systems to the commercial laundry market, and lock products to the travel, OEM, vehicle, furniture and cash management markets; as well as the introduction of new products.

Sales of new products included printed circuit board assemblies resulting from the Argo acquisition; a detach latch and a mini tubular cam lock for the vehicular markets; a passive keyless entry system for truck saddle boxes, and a short length cam lock with stainless steel tumblers for the storage market; and a mini tubular self-retaining lock for the computer market.

Cost of products sold for the Security Products segment increased $2.2 million or 24% in the second quarter and $3.1 million or 16% in the first half of 2015 compared to the same periods in 2014. The changes in dollars and percentages identified below primarily reflect the acquisition of Argo which was included in the 2015 periods but was not included in the comparable periods for 2014.

The most significant factors resulting in changes in cost of products sold in the second quarter of 2015 compared to the 2014 second quarter included:

- an increase of $1.4 million or 23% in raw materials
- an increase of $0.5 million or 28% in costs for payroll and payroll related charges;
- an increase of $0.2 million or 103% in freight and shipping expenses;
- an increase of $0.1 million or 21% in engineering expense;
- and a decrease of $0.1 million or 38% in costs for supplies and tools.

The most significant factors resulting in changes in cost of products sold in the first half of 2015 compared to the 2014 first half included:

- an increase of $1.8 million or 14% in raw materials;
- an increase of $1.1 million or 28% in costs for payroll and payroll related charges;
- an increase of $0.2 million or 35% in freight and shipping expenses;
- an increase of $0.1 million or 38% in depreciation expense;
- an increase of $0.1 million or 13% in engineering expense;
- an increase of $0.1 million or 55% in rental equipment;
- an increase of $0.1 million or 91% in maintenance and repair costs;
- a decrease of $0.2 million or 35% in costs for supplies and tools;
- a decrease of $0.1 million or 58% in miscellaneous taxes;
- and a decrease of $0.1 million or 38% in fire and liability insurance.

Gross margin as a percentage of sales for the Security Products segment in the second quarter was 24% in 2015 and was comparable to the 2014 period, and increased in the first half to 24% from 22% in the prior year period. The increase in the first half of 2015 was primarily due to the gross margin contribution from the Argo acquisition which is included in the 2015 period when compared to the same period in 2014 which was prior to the acquisition.

Selling and administrative expenses in the Security Products segment increased $1.0 million or 50% in the second quarter and $1.5 million or 35% in the first half of 2015 as compared to the 2014 periods.

The most significant factors resulting in changes in selling and administrative expenses in the Security Products segment in the second quarter of 2015 compared to the 2014 second quarter included:

- an increase of $0.6 million in allocated charges resulting from the proxy contest initiated by Barington in the first quarter of 2015;
- an increase of $0.3 million or 24% in costs for payroll and payroll related charges;
- and an increase of $0.1 million or 210% for in amortization costs primarily resulting from the acquisition of Argo in 2014.

The most significant factors resulting in changes in selling and administrative expenses in the Security Products segment in the first half of 2015 compared to the 2014 first half included:

- an increase of $0.8 million in allocated charges resulting from the proxy contest initiated by Barington in the first quarter of 2015;
- an increase of $0.4 million or 16% in costs for payroll and payroll related charges;
- an increase of $0.1 million or 271% for in amortization costs primarily resulting from the acquisition of Argo in 2014;
- an increase of $0.1 million or 86% in insurance costs;
- and an increase of $0.1 million or 11% in other administrative expenses.

Metal Products Segment

Net sales in the Metal Products segment decreased 11% in the second quarter and 12% in the first half of 2015 as compared to the prior year periods. Sales of mining products were down 13% in the second quarter and 14% in the first half of 2015 compared to the prior year levels. The lower sales in both the second quarter and first half of 2015 primarily reflect significant sales reductions of 33% during the first half of 2015 to our largest customer who sells significant volumes into the Eastern (Appalachian) region thermal and metallurgical coal mining market. The remainder of the U.S. mining market is experiencing reductions of 10-15%, which is being partially offset by the Canadian market which has realized significant growth.

While the mining industry continues to be impacted by lower natural gas prices, excess coal inventories and stricter EPA regulations, it still represents approximately 30-35% of U.S. energy consumption and has historically fluctuated depending on natural gas prices.

The introduction of new products, including a shell and a small hole flange nut, helped offset some of the decrease in sales of mining products. In addition, sales of contract castings increased 8% in the second quarter and 4% in the first half of 2015 from the prior year levels. The increase in sales of contract castings was primarily due to new products, including nuts produced for gas fittings used in the utility industry. Sales of existing products used in the Class 8 truck market increased but were offset by timing issues of other products, principally in relation to a solar panel producer who sells through contract on major solar installations. We are working with several new customers in the contract casting markets, which should have a positive impact on the second half of 2015 and future.

Cost of products sold for the Metal Products segment decreased $0.2 million or 3% in the second quarter and $0.6 million or 4% in the first half of 2015 compared to the same periods in 2014.

The most significant factors resulting in changes in cost of products sold in the second quarter of 2015 compared to the 2014 second quarter included:

- an increase of $0.8 million or 87% in raw materials;
- a decrease of $0.6 million or 20% in costs for payroll and payroll related charges;
- a decrease of $0.2 million or 33% in costs for maintenance and repairs;
- a decrease of $0.1 million or 96% for pattern costs;
- and a decrease of $0.1 million or 13% in costs for supplies and tools.

The most significant factors resulting in changes in cost of products sold in the first half of 2015 compared to the 2014 first half included:

- an increase of $0.7 million or 27% in raw materials;
- an increase of $0.1 million or 63% from the sale of scrap;
- a decrease of $0.7 million or 12% in costs for payroll and payroll related charges;
- a decrease of $0.3 million or 25% related to costs for maintenance and repairs;
- a decrease of $0.2 million or 12% in costs for supplies and tools;
- a decrease of $0.1 million or 5% in utility costs;
- and a decrease of $0.1 million or 93% for pattern costs.

Gross margin as a percentage of net sales for the Metal Products segment decreased from 13% to 5% in the second quarter and decreased from 14% to 6% in the first half of 2015 as compared to the 2014 periods. The decreases in both the second quarter and first half of 2015 are primarily due to the lower sales volume causing lower utilization of the Company's production capacity in 2015 as compared to the 2014 periods.

Selling and administrative expenses in the Metal Products segment increased $0.2 million or 42% in the second quarter and $0.3 million or 23% in the first half of 2015 as compared to the 2014 periods.

The most significant factor resulting in changes in selling and administrative expenses in the Metal Products segment in the second quarter of 2015 compared to the 2014 second quarter included:

- an increase of $0.2 million in allocated charges resulting from the proxy contest initiated by Barington in the first quarter of 2015.

The most significant factors resulting in changes in selling and administrative expenses in the Metal Products segment in the first half of 2015 compared to the 2014 first half included:

- an increase of $0.4 million in allocated charges resulting from the proxy contest initiated by Barington in the first quarter of 2015;
- and a decrease of $0.1 million or 11% in costs for payroll and payroll related charges.

Other Items

Interest expense decreased 26% in the second quarter and 25% in the first six months of 2015 compared to the prior year period due to the decreased level of debt in 2015.

Other income was not material to the financial statements.

Income taxes reflected the change in operating results. The effective tax rates in the second quarter and first six months of 2015 were 29% and 32%, respectively, compared to 38% and 36%, respectively in the 2014 periods. The lower than expected effective rates are the result of decreased earnings estimates from our US sources (primarily related to the costs of the proxy contest during the first half of the year) compared to earnings estimates from foreign sources that have lower overall tax rates. The higher rates in 2014 also reflect taxes paid on the repatriation of approximately $2.8 million of cash from foreign subsidiaries.

Liquidity and Sources of Capital

The Company generated $1.4 million of cash from its operations during the first six months of 2015 compared to $3.1 million during the same period in 2014. The decrease in cash flows in the 2015 quarter compared to the prior year period was primarily the result of lower earnings during the period related to the cash expended for the proxy contest as well as the associated timing differences in the collections of accounts receivable, payments of liabilities, and changes in inventories. Cash flow from operations coupled with cash on hand at the beginning of the year was sufficient to fund capital expenditures, debt service, and dividend payments.

Additions to property, plant and equipment were $1.6 million for the first six months of 2015 and for the same period in 2014. Total capital expenditures for 2015 are expected to be approximately $3.2 million. As of July 4, 2015, there is approximately $200,000 of outstanding commitments for these capital expenditures.

The following table shows key financial ratios at the end of each period:

	Second Quarter 2015	Second Quarter 2014	Year End 2014
Current ratio	5.5	5.5	5.3
Average days' sales in accounts receivable	49	49	49
Inventory turnover	3.4	3.6	3.1
Total debt to shareholders' equity	4.8%	6.4%	5.7%

The following table shows important liquidity measures as of the balance sheet date for each period below (in millions):

		Second Quarter 2015	Second Quarter 2014	Year End 2014
Cash and cash equivalents				
- Held in the United States	$	3.6$	11.3$	5.6
- Held by a foreign subsidiary		9.7	8.1	10.2
		13.3	19.4	15.8
Working capital		58.3	59.2	57.8
Net cash provided by operating activities		1.4	3.1	9.3
Change in working capital impact on net cash used in operating activities		(3.2)	(2.5)	(2.2)
Net cash used in investing activities		(1.6)	(1.6)	(8.6)
Net cash used in financing activities		(2.1)	(2.1)	(4.5)

U.S. income taxes have not been provided on the undistributed earnings of the Company's foreign subsidiaries except where required under U.S. tax laws. The Company would be required to accrue and pay United States income taxes to repatriate the funds held by foreign subsidiaries not otherwise provided. The Company intends to reinvest these earnings outside the United States indefinitely.

All cash held by foreign subsidiaries is readily convertible into other currencies, including the U.S. Dollar.

Total inventories remained fairly constant at $34.9 million on July 4, 2015 compared to $34.4 million at year end 2014 and increased approximately 13% from $30.8 million at the end of the second quarter of 2014. Management has made inventory control a priority in 2015, and has been able to hold inventory fairly level in the first six months of the year. Accounts receivable were $19.9 million compared to $17.1 million at year end 2014 and $18.3 million at the end of the second quarter of 2014. The increase from year end is related to higher revenues in the first six months of the current year.

Cash on hand, cash flow from operating activities and funds available under the revolving credit portion of the Company's Loan Agreement are expected to be sufficient to cover future foreseeable working capital requirements.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from what was reported in the 2014 Annual Report on Form 10-K.

ITEM 4 – CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures:

As of the end of the quarter ended July 4, 2015, the Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Chief Executive Officer (the “CEO”) and Chief Financial Officer (the “CFO”), of the effectiveness of the design and operation of the Company’s disclosure controls and procedures pursuant to Exchange Act Rule 240.13a-15. As defined in Exchange Act Rules 240.13a-15(e) and 240.15d-15(e), “the term disclosure controls and procedures means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Act (15 U.S.C. 78a et seq.) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.” Based upon that evaluation, the CEO and CFO concluded that the Company’s current disclosure controls and procedures were effective as of the July 4, 2015 evaluation date.

The Company believes that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. The Company’s disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the CEO and CFO have concluded that these controls and procedures are effective at the “reasonable assurance” level.

Changes in Internal Controls:

During the period covered by this report, there have been no significant changes in the Company’s internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls.

PART II – OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

On April 17, 2015, Barington Companies Equity Partners, L.P. (“Barington”) filed a purported class action lawsuit against the Company and its board of directors (the “Board”) in the Superior Court of Waterbury, Connecticut (the “Action”). The Action alleged, among other things, that the Eastern Board breached its fiduciary duties by amending the Company’s bylaws to allow the Board to fill vacancies resulting from an expansion of the number of Board seats. The Action also challenged the Board’s announced intention to increase the size of the Board and appoint a new director after the May 20, 2015 Annual Meeting, and sought, among other things, injunctive relief preventing the Board from nominating a new director that is the result of an expansion of the number of Board seats without Shareholders voting on the appointment. On April 17, 2015, Barington filed a motion for expedited proceedings and discovery prior to the May 20, 2015 Annual Meeting. On April 29, 2015, the Court issued an Order holding that the Action is derivative, and staying the case until July 11, 2015 pursuant to Connecticut law. On July 13, 2015, the Court approved a Stipulation and Order of Dismissal (the "Stipulation") entered into by the parties in connection with the Action. The Stipulation provides for, among other things, the dismissal of the Action after the requisite notice period to shareholders has expired. The Company expensed $320,500 in legal fees and settlement costs during the second quarter of 2015 resulting from this lawsuit. All costs and fees related to this matter in excess of this amount have been paid by the Company's insurance carrier.

During the fourth quarter of 2010, the Company was contacted by the State of Illinois regarding potential ground contamination at our plant in Wheeling, Illinois. The Company enlisted into a voluntary remediation program in Illinois and has engaged an environmental clean-up company to perform testing and develop a remediation plan, if needed. Based on discussions to date with the environmental clean-up company, the Company does not expect any remediation cost to have a material impact on the consolidated financial statements. However, no estimate for the cost of remediation was available when this Form 10-Q was filed with the SEC.

There are no other legal proceedings, other than ordinary routine litigation incidental to the Company's business, to which either the Company or any of its subsidiaries is a party or to which any of their property is the subject.

ITEM 1A – RISK FACTORS

There have been no material changes in risk factors from what was reported in the 2014 Annual Report on Form 10-K.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There have been no sales of unregistered securities by the Company or purchases of registered equity securities by the Company during the period covered by this report.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 – OTHER INFORMATION

None

ITEM 6 – EXHIBITS

31) Certifications required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32) Certifications pursuant to Rule 13a-14(b) and 18 USC 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99(1)) The Registrant's Annual Report on Form 10-K for the fiscal year ended January 3, 2015 is incorporated herein by reference.

99(2)) Form 8-K filed on March 20, 2015 setting forth an amendment to the Company's bylaws and the press release reporting the Company's (i) director nominees for election at the Company's 2015 annual meeting of shareholders, (ii) intention to expand the size of the Board by one and appoint a new director to the resulting vacancy and (iii) filing of its preliminary proxy statement is incorporated herein by reference.

99(3)) Form 8-K filed on March 30, 2015 setting forth the press release reporting the engagement of Wells Fargo Securities as the Company's financial advisor is incorporated herein by reference.

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99(4)) Form 8-K filed on April 13, 2015 setting forth the press release reporting the release of the President's Letter from the Annual Report to Shareholders is incorporated herein by reference.

99(5)) Form 8-K filed on April 29, 2015 setting forth the press release reporting the Company's earnings for the quarter ended April 4, 2015 is incorporated herein by reference.

99(6)) Form 8-K filed on May 1, 2015 setting forth the promotion of Angelo Labbadia as the Company's Vice President and Chief Operating Officer is incorporated herein by reference.

99(7)) Form 8-K filed on May 26, 2015 setting forth the results of the vote at the annual meeting of shareholders of the Company which was held on May 20, 2015 is incorporated herein by reference.

99(8)) Form 8-K filed on May 29, 2015 setting forth the press release reporting the Company's intention to not appoint a sixth director to its Board of Directors without shareholder approval.

99(9)) Form 8-K filed on July 17, 2015 setting forth the Court approved Stipulation and Order of Dismissal (the "Stipulation") entered into by the parties in connection with a purported class action lawsuit filed on April 17, 2015 by the Barington Companies Equity Partners, L.P. The Stipulation required that notice of its terms be given to shareholders of the Company in the form of this Current Report on Form 8-K.

99(10)) Form 8-K filed on July 29, 2015 setting forth the press release reporting the Company's earnings for the quarter ended July 4, 2015 is incorporated herein by reference.

99(11)) Form 8-K filed on July 30, 2015 setting forth a letter issued from the Company's Chairman, President & CEO terminating the engagement of Wells Fargo Securities as the Company's financial advisor.

SIGNATURES

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.

	THE EASTERN COMPANY (Registrant)
DATE: July 31, 2015	/s/Leonard F. Leganza Leonard F. Leganza Chairman, President and Chief Executive Officer
DATE: July 31, 2015	/s/John L. Sullivan III John L. Sullivan III Vice President and Chief Financial Officer

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