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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED AUGUST 31, 1999

OR

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

For the Transition Period from __________ to__________

COMMISSION FILE NUMBER 1-11727

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

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes x No

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 3, 1999, 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 $121,825,000

At November 3, 1999, the registrant had units outstanding as follows:

Heritage Propane Partners, L.P.	7,065,174	Common Units
	2,777,207	Subordinated Units

Documents Incorporated by Reference: None

HERITAGE PROPANE PARTNERS, L.P.

1999 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

PART I

HERITAGE PROPANE PARTNERS, L.P.

1999 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

PART IV

PART I

ITEM 1. BUSINESS

BUSINESS OF HERITAGE PROPANE PARTNERS, L.P.

Heritage Propane Partners, L.P., (the "Master Limited Partnership" or the "MLP"), a publicly traded Delaware limited partnership, was formed in April of 1996. The MLP's activities are conducted through its subsidiary, Heritage Operating, L.P. (the "Operating Partnership" or the "OLP"). The MLP, with a 99% limited partner interest, is the sole limited partner of the Operating Partnership. The MLP and the OLP are together referred to herein as the "Partnership". The Operating Partnership accounts for nearly all of the MLP's consolidated assets, sales and operating earnings. The MLP's consolidated earnings also reflect interest expense related to $120 million of 8.55% Senior Secured Notes issued by the MLP in June 1996 and $47 million of additional Senior Secured Notes issued in 1997 and 1998 at yields ranging from 6.50% to 7.26%.

BUSINESS OF HERITAGE OPERATING, L.P.

The Operating Partnership, a Delaware limited partnership, was formed in April of 1996, to acquire, own and operate the propane business and assets of Heritage Holdings, Inc. (the "Company", "Heritage", and "General Partner"). As of November 3, 1999, there were 7,065,174 common units outstanding, representing an approximate 70% limited partner interest in the Partnership, and 2,777,207 subordinated units outstanding, representing an approximate 28% interest in the Partnership. The General Partner owns all of the subordinated units and 1,116,243 of the common units. The General Partner has retained a 1% general partner interest in the MLP and also holds a 1.0101% general partner interest in the Operating Partnership, representing a 2% general partner interest in the Partnership on a combined basis. The common units and the subordinated units represent limited partner interests in the Partnership, which entitle the holders thereof to participate in distributions and exercise the rights and privileges available to limited partners under the partnership agreement. As General Partner of the Partnership, the Company performs all management functions required for the Partnership.

GENERAL

The Partnership is a Delaware limited partnership formed to acquire, own and operate the propane business and assets of Heritage. Heritage serves as the general partner of the Partnership. The Partnership believes it is the seventh largest retail marketer of propane in the United States (as measured by retail gallons sold). Heritage currently serves more than 265,000 active residential, commercial, industrial and agricultural customers from 156 customer service locations in 26 states. The Partnership's operations extend from coast to coast with concentrations in the western, upper midwestern and southeastern regions of the United States, with expansion into the northeastern United States in the last three years.

The business of the Partnership, starting with the formation of Heritage in 1989, has grown primarily through acquisitions of retail propane operations and, to a lesser extent, through internal growth. Since its inception in 1989 through August 31, 1999, the Partnership and its predecessor have completed 59 acquisitions for a total purchase price of approximately $242 million. Volumes of propane sold to retail customers have increased steadily from 63.2 million gallons for the fiscal year ended August 31, 1992 to 159.9 million gallons for the fiscal year ended August 31, 1999. Since August 31, 1999, the Partnership has acquired five additional propane companies.

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

BUSINESS STRATEGY

The Partnership's strategy is to expand its operations and increase its retail market share in order to increase the funds available for distribution to its Unitholders. The three critical elements to this strategy are described below.

Acquisitions. Acquisitions will be the principal means of growth for the Partnership, as the retail propane industry is mature and overall demand for propane is expected to experience limited growth in the foreseeable future. The Partnership believes that the fragmented nature of the propane industry provides significant opportunities for growth through acquisition. Industry sources indicate that there are over 8,000 retail propane operations, of which the 10 largest retailers, including the Partnership, account for approximately 37% of the total retail sales. The Partnership follows a disciplined acquisition strategy that concentrates on companies (i) in geographic areas experiencing higher-than-average population growth, (ii) with a high percentage of sales to residential customers, (iii) with local reputations for quality service and (iv) with a high percentage of tank ownership. In addition the Partnership attempts to capitalize on the reputations of the companies it acquires by maintaining local brand names, billing practices and employees, thereby creating a sense of continuity and minimizing customer loss. The Partnership believes that this strategy has helped to make it an attractive buyer for many acquisition candidates from the seller's viewpoint.

Through August 31, 1999, the Partnership and its predecessor have completed 59 acquisitions for a total purchase price of approximately $242 million. The Partnership has completed five additional acquisitions since that time. Of these companies acquired, 13 represent "core acquisitions" with multiple plants in a specific geographic area, with the balance representing "blend-in companies" which operate in an existing region. The Partnership will focus on acquisition candidates in its existing areas of operations, but will consider core acquisitions in other higher-than-average population growth areas in order to further reduce the impact on the Partnership's operations of adverse weather patterns in any one region. While the Partnership is currently evaluating numerous acquisition candidates, there can be no assurance that the Partnership will identify attractive acquisition candidates in the future, that the Partnership will be able to acquire such businesses on economically acceptable terms or successfully integrate them into their existing operations and make cost-saving changes, that any acquisition will not dilute earnings and distributions to Unitholders or that any additional debt incurred to finance an acquisition will not adversely affect the ability of the Partnership to make distributions to Unitholders.

In order to facilitate the Partnership acquisition strategy, the Operating Partnership maintains a Bank Credit Facility. The Partnership recently amended their credit facility to increase the total amount available for borrowings from $50 million to $85 million. The Bank Credit Facility currently consists of the $50.0 million Acquisition Facility to be used for acquisitions and improvements and the $35.0 million Working Capital Facility to be used for working capital and other general partnership purposes. The Partnership also has the ability to fund acquisitions through the issuance of additional partnership interests and through the Medium Term Note Program. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Description of Indebtedness."

Internal Growth. In addition to pursuing expansion through acquisitions, the Partnership has aggressively focused on internal growth at its existing district locations. The Partnership believes that, by concentrating its operations in areas experiencing higher-than-average population growth, it is well positioned to achieve internal growth by adding new customers. The Partnership also believes that its decentralized structure, in which operational decisions are made at the district and regional level, together with a bonus system that allocates a significant portion of a district's EBITDA in excess of budget to district employees, has fostered an entrepreneurial environment that has allowed the Partnership to achieve its high rates of internal growth. The Partnership believes that its rate of internal growth exceeds the average internal growth rate in the industry.

Low Cost, Decentralized Operations. The Partnership focuses on controlling costs at the corporate and district levels. While the Partnership has realized certain economies of scale as a result of its acquisitions, it attributes its low overhead primarily to its decentralized structure. By delegating all customer billing and collection activities to the district level, the Partnership has been able to operate without a large corporate staff. Of the Partnership's 1,040 full-time employees as of August 31, 1999, only 42, or approximately 4%, were general and administrative. In addition, the Partnership plant bonus system encourages district employees at all levels to control costs and expand revenues.

As a result of the implementation of the strategy described above, the Partnership has achieved the retail sales volumes per fiscal year set forth below:

Retail Propane Gallons Sold (in millions) :

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
37.5	48.2	63.2	73.4	79.7	98.3	118.2	125.6	146.7	159.9

INDUSTRY BACKGROUND AND COMPETITION

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

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

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

In addition to competing with alternative energy sources, the Partnership competes with other companies engaged in the retail propane distribution business. Competition in the propane industry is highly fragmented and generally occurs on a local basis with other large full-service multi-state propane marketers, thousands of smaller local independent marketers and farm cooperatives. Based on industry publications, the Partnership believes that the domestic retail market for propane is approximately 8.6 billion gallons annually, that the 10 largest retailers, including the Partnership, account for approximately 37% of the total retail sales of propane in the United States, and that no single marketer has a greater than 10% share of the total retail market in the United States. Most of the Partnership's retail distribution branches compete with five or more marketers or distributors. Each retail distribution outlet operates in its own competitive environment because retail marketers tend to locate in close proximity to customers. The typical retail distribution outlet generally has an effective marketing radius of approximately 50 miles although in certain rural areas the marketing radius may be extended by a satellite location.

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

The wholesale propane business is highly competitive. For fiscal 1999, the Partnership's domestic wholesale operations (excluding M-P Energy Partnership) accounted for only 4.6% of total volumes and less than 1% of its gross profit. The Partnership does not emphasize wholesale operations, but it believes that limited wholesale activities enhance its ability to supply its retail operations.

PRODUCTS, SERVICES AND MARKETING

The Partnership distributes propane through a nationwide retail distribution network consisting of 156 customer service locations in 26 states. The Partnership's operations are concentrated in large part in the western, upper midwestern and southeastern regions of the United States, with expansion over the last three years into the northeastern part of the United States. The Partnership's serves more than 265,000 active customers. Historically, approximately two-thirds of the Partnership's retail propane volume and in excess of 80% of its EBITDA are attributable to sales during the six-month peak heating season from October through March, as many customers use propane for heating purposes. Consequently, sales and operating profits are normally concentrated in the Partnership's first and second fiscal quarters. Cash flows from operations, however, are generally greatest during the second and third fiscal quarters when customers pay for propane purchased during the six-month peak season. To the extent necessary, the Partnership will reserve cash from these periods for distribution to Unitholders during the warmer seasons.

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

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

Propane use falls into three broad categories: (i) residential applications, (ii) industrial, commercial and agricultural applications and (iii) other retail applications, including motor fuel sales. Approximately 95% of the domestic gallons sold by the Partnership in fiscal 1999 were to retail customers and approximately 5% were to wholesale customers. Of the retail gallons sold by the Partnership in fiscal 1999, 57% were to residential customers, 34% were to industrial, commercial and agricultural customers, and 9% were to other retail users. Sales to residential customers in fiscal 1999 accounted for 54% of total domestic gallons sold inclusive of domestic wholesale but 68% of the Partnership's gross profit from propane sales. Residential sales have a greater profit margin and a more stable customer base than other markets served by the Partnership. Industrial, commercial and agricultural sales accounted for 23% of the Partnership's gross profit from propane sales for fiscal year 1999, with all other retail users accounting for 8%. Additional volumes sold to wholesale customers contributed the remaining 1% of gross profit from propane sales. No single customer accounted for 5% or more of the Partnership's revenues during fiscal year 1999.

The propane business is very seasonal with weather conditions significantly affecting demand for propane. The Partnership believes that the geographic diversity of its operations helps to minimize its nationwide exposure to regional weather. Although overall demand for propane is affected by climate, changes in price and other factors, the Partnership believes its residential and commercial business to be relatively stable due to the following characteristics: (i) residential and commercial demand for propane has been relatively unaffected by general economic conditions due to the largely non-discretionary nature of most propane purchases by the Partnership's customers, (ii) loss of customers to competing energy sources has been low, (iii) the tendency of the Partnership's customers to remain with the Partnership due to the product being delivered pursuant to a regular delivery schedule and to the Partnership's ownership of over 87% of the storage tanks utilized by its customers, and (iv) the historic ability of the Partnership to more than offset customer losses through internal growth of its customer base in existing markets. Since home heating usage is the most sensitive to temperature, residential customers account for the greatest usage variation due to weather. Variations in the weather in one or more regions in which the Partnership operates can significantly affect the total volumes of propane sold by the Partnership and the margins realized thereon and, consequently, the Partnership's results of operations. The Partnership believes that sales to the commercial and industrial markets, while affected by economic patterns, are not as sensitive to variations in weather conditions as sales to residential and agricultural markets.

PROPANE SUPPLY AND STORAGE

The Partnership's propane supply is purchased from over 50 oil companies and natural gas processors at numerous supply points located in the United States and Canada. Most of the propane purchased by the Partnership is fiscal 1999 was purchased pursuant to one year agreements subject to annual renewal, but the percentage of contract purchases may vary from year to year as determined by the Partnership. Supply contracts generally provide for pricing in accordance with posted prices at the time of delivery or the current prices established at major delivery points. Most of these agreements provide maximum and minimum seasonal purchase guidelines. The Partnership enters into such contracts to meet normal purchase requirements. The Partnership is required to take delivery of contracted volumes and no settlement provisions exist. The Partnership receives its supply of propane predominately through railroad tank cars and common carrier transport. In addition, the Partnership makes purchases on the spot market and takes physical delivery from time to time to take advantage of favorable pricing.

Supplies of propane from the Partnership's sources historically have been readily available. In the fiscal year ended August 31, 1999, Dynegy Liquids Marketing and Trade ("Dynegy") provided approximately 14% of the Partnership's total domestic propane supply. The Partnership believes that, if supplies from Dynegy were interrupted, it would be able to secure adequate propane supplies from other sources without a material disruption of its operations. Aside from Dynegy, no single supplier provided more than 10% of the Partnership's total domestic propane supply in the fiscal year ended August 31, 1999. Although no assurance can be given that supplies of propane will be readily available in the future, the Partnership expects a sufficient supply to continue to be available. However, increased demand for propane in periods of severe cold weather, or otherwise, could cause future propane supply interruptions or significant volatility in the price of propane.

During fiscal 1999, the Partnership purchased approximately 63% of its propane supplies from domestic suppliers with the remainder being procured through M-P Oils, Ltd., a wholly owned subsidiary of the Partnership. M-P Oils, Ltd. holds a 60% interest in a Canadian partnership, M-P Energy Partnership, which buys and sells propane for its own account as well as supplies the Partnership's volume requirements in the northern states. Those volumes are included in the sources of propane set forth in the immediately preceding paragraph.

The market price of propane is subject to volatile changes as a result of supply or other market conditions over which the Partnership will have no control. Since rapid increases in the wholesale cost of propane may not be immediately passed on to customers, such increases could reduce the Partnership's gross profits. Since 1992, the Partnership and its predecessor have generally been successful in maintaining retail gross margins on an annual basis despite changes in the wholesale cost of propane. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--General." However, there may be times when the Partnership will be unable to pass on fully such price increases to its customers. Consequently, the Partnership's profitability will be sensitive to changes in wholesale propane prices.

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

PRICING POLICY

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

BILLING AND COLLECTION PROCEDURES

Customer billing and account collection responsibilities are retained at the district level. The Partnership believes that this decentralized approach is beneficial for several reasons: (i) the customer is billed on a timely basis; (ii) the customer is more apt to pay a "local" business; (iii) cash payments are received faster, and (iv) district personnel have a current account status available to them at all times to answer customer inquiries.

GOVERNMENT REGULATION

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

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

Petroleum-based contamination or environmental wastes are known to be located on or adjacent to three sites which the Partnership presently or formerly operates. 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 three cases, the Partnership obtained indemnification for expenses associated with any remediation from the former owners or related entities. Based on information currently available to the Partnership, such projects are not expected to have a material adverse effect on the Partnership's financial condition or results of operation.

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

On August 16, 1997, the Department of Transportation ("DOT") stated in a Temporary Regulation (49 CFR 171.5), that existing regulations required the operators of cargo tank vehicles to maintain an unobstructed view of the vehicle when making customer deliveries. Under the DOT's ruling, the regulations required two people to attend customer deliveries or required the attendant to remain at a point midway between the vehicle and the point of delivery. Two separate lawsuits were filed against the DOT by parties affected by the regulations and by industry organizations in an effort to prevent enforcement of the temporary regulation. In response to this industry action and as part of its negotiated rulemaking process, the DOT proposed revisions to its Hazardous Material Regulations and the "unobstructed view" requirement. Under the Final Rule adopted on May 24, 1999, Section 171.5 was removed and the Hazardous Material Regulations as they relate to the unloading of liquefied compressed gasses from cargo tank motor vehicles were revised to require delivery vehicles to be fitted with off-truck remote shut-off capability. The DOT's revisions require that installation of such remote shut-offs be completed by July 1, 2001. Heritage has completed installation of remote shut-offs in all of its bobtail delivery vehicles.

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

EMPLOYEES

As of August 31, 1999, the Partnership had 1,040 full time employees, of whom 42 were general and administrative and 998 were operational employees. None of the Partnership's employees are represented by a labor union. The Partnership believes that its relations with its employees are satisfactory. The Partnership has hired as many as 100 seasonal workers to meet peak winter demands.

ITEM 2. PROPERTIES

The Partnership operates bulk storage facilities at 156 district sites, of which approximately 80% are owned or under long-term lease and the balance are subject to renewal in the ordinary course of business during the next ten years. The Partnership believes that the increasing difficulty associated with obtaining permits for new propane distribution locations makes its high level of site ownership and control a competitive advantage. The Partnership owns approximately ten million gallons of aboveground storage capacity at its various plant sites. In addition, in 1999, the Partnership leased approximately 10.3 million gallons of underground storage facilities in two states (5.0 million gallons of storage in Alto, Michigan and 5.3 million gallons in Bumstead, Arizona). The

Partnership does not own or operate any underground storage facilities (excluding customer and local distribution tanks) or pipe line transportation assets (excluding local delivery systems).

The Partnership also owns 50% of Bi-State Propane, a California general partnership that conducts business in South Lake Tahoe, Truckee, Mammoth Lakes and other locations in California and in Reno and other Nevada locations. The Bi-State Propane locations are included in the Partnership's site counts and all site, customer and other property descriptions contained herein include all Bi-State Propane information on a gross basis.

The transportation of propane requires specialized equipment. The trucks and railroad tank cars utilized for this purpose carry specialized steel tanks that maintain the propane in a liquefied state. As of August 31, 1999, the Partnership had a fleet of 17 transport truck tractors and 25 transport trailers, all of which are owned by the Partnership. In addition, the Partnership utilizes approximately 440 bobtails and 740 other delivery and service vehicles, all of which are owned by the Partnership. As of August 31, 1999, the Partnership owned approximately 226,000 customer storage tanks with typical capacities of 120 to 1,000 gallons. These customer storage tanks are collateral to secure the obligations of the Partnership under its borrowings from its banks and noteholders.

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

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

ITEM 3. LEGAL PROCEEDINGS.

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

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

No matters were submitted to a vote of the security holders of the Partnership during the fiscal year ended August 31, 1999.

PART II

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

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

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

	Price Range		Cash
	High	Low	Distribution (1)
1998 FISCAL YEAR			
First Quarter Ended November 30, 1997	$ 25.500	$ 22.625	$ 0.50
Second Quarter Ended February 28, 1998	$ 25.000	$ 23.125	$ 0.50
Third Quarter Ended May 31, 1998	$ 24.250	$ 22.500	$ 0.50
Fourth Quarter Ended August 31, 1998	$ 24.375	$ 22.000	$ 0.50
1999 FISCAL YEAR			
First Quarter Ended November 30, 1998	$ 23.750	$ 20.813	$ 0.5000
Second Quarter Ended February 28, 1999	$ 24.000	$ 20.875	$ 0.5125
Third Quarter Ended May 31, 1999	$ 23.375	$ 21.500	$ 0.5625
Fourth Quarter Ended August 31, 1999	$ 23.375	$ 21.875	$ 0.5625

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

As of October 22, 1999 there were approximately 372 holders of the Partnership's Common Units, including common units held in street name, representing approximately seven thousand individual common unitholders. The Partnership also has 2,777,207 Subordinated Units, all of which are held by the General Partner, for which there is no established public trading market. The Partnership will distribute to its partners on a quarterly basis, all of its Available Cash in the manner described herein. Available Cash generally means, with respect to any quarter of the Partnership, all cash on hand at the end of such quarter less the amount of cash reserves that are necessary or appropriate in the reasonable discretion of the General Partner to (i) provide for the proper conduct of the Partnership's business, (ii) comply with applicable law or any Partnership debt instrument or other agreement, or (iii) provide funds for distributions to Unitholders and the General Partner in respect of 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. previously filed as an exhibit. The Partnership Agreement defines Minimum Quarterly Distributions as $0.50 per Unit for each full fiscal quarter. Distributions of Available Cash to the holder of the Subordinated Units are subject to the prior rights of the holders of the Common Units to receive Minimum Quarterly Distributions for each quarter during the subordination period, and to receive any arrearages in the distribution of Minimum Quarterly Distributions on the Common Units for prior quarters during the subordination period. The subordination period will not end earlier than June 1, 2001 (Subordination Period). Restrictions on the Partnership's distributions required by Item 5 is incorporated herein by reference to Note 6 of the Partnership's Consolidated Financial Statements which begin on page F-1 of this Report, and to Management's Discussion and Analysis of Financial Condition and Results of Operations - Description of Indebtedness.

CHANGES IN SECURITIES AND USE OF PROCEEDS

On August 6, 1998, the Partnership issued 60,606 Common Units ("Units") in exchange for substantially all of the assets of a propane company, for a total value of $1.4 million. On August 31, 1998 and April 2, 1999, the Partnership issued 45,195 and 23,213 Units, respectively, to Heritage Holdings, Inc., the Partnership's General Partner in connection with the assumption of certain liabilities by the General Partner from the Partnership's acquisition of certain assets of two propane companies. The General Partner's 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. Subsequent to August 31, 1999, the Partnership issued 56,578 Units in exchange for certain assets in connection with the acquisitions of certain propane businesses, for a total value of $1.3 million. The Units issued in connection with the acquisitions were issued utilizing the Partnership's Registration Statement No. 333-40407 on Form S-4.

On October 25, 1999, the Partnership issued a prospectus supplement offering 1,200,000 Common Units, representing limited partner interests in Heritage Propane Partners, L.P. utilizing the Partnership's Registration Statement No. 333-86057 on Form S-3 dated September 13, 1999. The underwriters delivered the Common Units to purchasers on October 28, 1999, at a public offering price of $22.00 per Common Unit. The net proceeds of approximately $24 million were used to repay a portion of the outstanding indebtedness under the acquisition facility that was incurred to acquire propane businesses.

ITEM 6. SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

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

The selected historical balance sheet data as of August 31, 1999 and August 31, 1998, respectively, and the selected operating data for the years ended August 31, 1999, 1998 and 1997 respectively, have been derived from the financial statements appearing elsewhere herein which have been audited by Arthur Andersen LLP, independent public accountants. The selected historical balance sheet data as of August 31, 1996 and August 31, 1995 and the selected operating data for the two month period ended August 31, 1996, for the ten month period ended June 30, 1996, and for the year ended August 31, 1995 have been derived from Heritage's audited financial statements not included herein.

	Year Ended August 31, 1995(e)	Ten Months Ended June 30, 1996(e)	Two Months Ended August 31, 1996	Years Ended August 31,		
				1997	1998	1999
Statements of Operating Data:						
Revenues...........................	$ 131,508	$ 144,623	$ 18,477	$ 199,785	$ 185,987	$ 184,020
Gross profit(a)....................	55,841	55,634	6,314	73,838	89,103	96,753
Depreciation and amortization.......	8,896	7,581	1,733	11,124	13,680	14,749
Operating income (loss)............	12,675	15,755	(1,956)	16,919	22,929	24,567
Interest expense...................	12,201	10,833	1,962	12,063	14,599	15,915
Income (loss) before income taxes,.. minority interest and extraordinary items............................	455	6,084	(4,087)	5,625	9,266	10,116
Provision for income taxes..........	666	2,735	--	--	--	--
Net income (loss)..................	(211)	2,921	(8,423)	5,177	8,790	9,662
Net Income (loss) per Unit (b)......	--	--	(1.06)	0.64	1.04	1.11

	August 31, 1995(e)	1996(e)	1997	1998	1999
Balance Sheet Data (end of period):					
Current Assets	$ 21,293	$ 24,014	$ 27,951	$ 26,185	$ 29,219
Total Assets	163,423	187,850	203,799	239,964	262,958
Current Liabilities	35,825	24,728	34,426	35,444	47,680
Long-term debt	103,412	132,521	148,453	177,431	196,216
Redeemable preferred stock	12,337	--	--	--	--
Stockholders' deficit	(6,975)	--	--	--	--
Partner's capital - General Partner	--	307	208	273	176
Partners' capital - Limited Partner (g)	--	30,294	20,712	26,816	18,886

	Years Ended August 31, 1995(e)	1996(f)	1997	1998	1999
Operating Data:					
EBITDA (c)	$ 21,672	$ 24,365	$ 28,718	$ 37,792	$ 41,047
Capital expenditures (d):					
Maintenance and growth	8,634	7,244	7,170	9,359	14,974
Acquisition	27,879	16,665	14,549	23,276	17,931
Retail propane gallons sold	98,318	118,200	125,605	146,747	159,938

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

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

(c) EBITDA is defined as operating income plus non-cash compensation, depreciation and amortization (including the EBITDA of investees). EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations), but provides additional information for evaluating the Partnership's ability to make the Minimum Quarterly Distribution. EBITDA for the year ended August 31, 1998 was restated to account for non-cash compensation. The minority interest of MP Energy Partnership, a majority owned partnership, is deducted from the EBITDA calculation.

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

(e) Information for the Partnership's predecessor, Heritage Holdings, Inc.

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

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

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

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

GENERAL

Since its formation in 1989, Heritage has grown primarily through acquisitions of retail propane operations and, to a lesser extent, through internal growth. Through August 31, 1999, Heritage and the Partnership completed 59 acquisitions for an aggregate purchase price of approximately $242 million. The Partnership has completed 31 of these acquisitions since going public on June 25, 1996. The Partnership engages in the sale, distribution and marketing of propane and other related products. The Partnership derives its revenue primarily from the retail propane marketing business. The General Partner believes that the Partnership is one of the largest retail marketers of propane in the United States, based on retail gallons sold, serving more than 265,000 residential, industrial/commercial and agricultural customers in 26 states through 156 retail outlets. Annual retail propane sales volumes in gallons were 159.9 million, 146.7 million and 125.6 million for the fiscal years ended August 31, 1999, 1998 and 1997, respectively.

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

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

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

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

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

ANALYSIS OF HISTORICAL RESULTS OF OPERATIONS

The following discussion reflects for the periods indicated the results of operations and operating data for the Partnership. Most of the increases in the line items discussed below result from the acquisitions made by the

Partnership during the periods discussed. In fiscal 1999, the Partnership consummated six acquisitions for a total purchase price of $22.7 million. In fiscal 1998 and 1997, the Partnership consummated seven acquisitions in each of the years for total purchase prices of $37.1 million and $14.5 million, respectively. These acquisitions affect the comparability of prior period financial matters, as the volumes are not included in the prior period's results of operations. Amounts discussed below reflect 100 percent of the results of M-P Energy Partnership, formerly named M-P Oils Partnership, a general partnership in which the Partnership owns a 60 percent interest. Because M-P Energy Partnership is primarily engaged in lower-margin wholesale distribution, its contribution to the Partnership's net income is not significant and the minority interest of this partnership is excluded from the EBITDA calculation.

FISCAL YEAR 1999 COMPARED TO FISCAL YEAR 1998

Volume. The Partnership sold 159.9 million retail gallons, an increase of 13.2 million gallons or 9.0% from the 146.7 million gallons sold in fiscal 1998 primarily as a result of acquisitions. The increases in the Partnership's volumes were net of the effects of one of the warmest winters this century.

The Partnership also sold approximately 81.1 million wholesale gallons during fiscal 1999, a decrease of 5.1 million gallons from fiscal 1998's 86.2 million gallons. The decrease in the wholesale volumes was attributable to a decline of 1.5 million gallons in the foreign operations of M-P Energy Partnership and the decline of 3.6 million gallons in the U.S. wholesale operations. The warm weather experienced by the Partnership this past heating season was the main factor in the decline in these volumes.

Revenues. Total revenues for the Partnership decreased $2.0 million to $184.0 million from last year's total revenues of $186.0 million. Retail fuel revenues increased $1.1 million to $137.4 million while domestic wholesale fuel revenues decreased $1.9 million and foreign wholesale revenues decreased $4.4 million. The increase in retail fuel revenues due to increased volumes was partially offset by the effects of lower cost of fuel this fiscal year. The decreases in the U.S. and foreign wholesale revenues correspond primarily to the decrease in volumes. Other revenues increased $3.2 million primarily as a result of acquisitions and to a lesser extent internal growth.

Cost of Sales. Total cost of sales decreased $9.7 million, or 10.0% to $87.2 million for the fiscal year ended August 31, 1999 as compared to $96.9 million for fiscal year ended August 31, 1998. Domestic cost of sales decreased $5.0 million, or 6.8% to $68.1 million and foreign cost of sales decreased $4.7 million, or 19.7% to $19.1 million. Retail fuel cost of sales decreased $4.4 million to $57.6 in fiscal 1999 due to the lower cost of propane realized in 1999 which offset the increase in volumes. Domestic wholesale and foreign cost of sales both decreased due to the lower cost of fuel realized in fiscal 1999 and the decrease in volumes.

Gross Profit. Total gross profit for fiscal 1999 was $96.8 million, a $7.7 million increase or 8.6% over fiscal 1998's gross profit of $89.1 million. The reduction in the cost of fuel this fiscal year was the primary contributing factor in the increase in gross profit along with the increase in other revenues.

Operating Expenses. Operating expenses for fiscal 1999 increased $4.2 million or 8.9% to $51.2 million as compared to $47.0 million in fiscal 1998. This increase is primarily the result of increased costs related to acquisitions.

Selling, General and Administrative. Selling, general and administrative expense increased $.7 million or 12.7% to $6.2 million for fiscal 1999 as compared to $5.5 million for fiscal 1998. The increase is the result of additional expenses to support business growth.

Depreciation and Amortization. Depreciation and amortization was $14.7 million for fiscal 1999, a $1.0 million increase over fiscal 1998's $13.7 million. This increase is the result of additional depreciation and amortization costs on the fixed assets and intangibles recorded in relation to acquisitions.

Operating Income. Operating income increased 7.4% to $24.6 million in fiscal 1999, a $1.7 million increase over fiscal 1998's $22.9 million. The increased gross profit described above offset by the increases in operating and other expenses, also described above, resulted in this increase.

Net Income. Net income for the fiscal year ended August 31, 1999, increased $.9 million, or 10.2% to $9.7 million as compared to fiscal 1998's net income of $8.8 million. This increase is the result of increased operating income partially offset by increased interest costs related to acquisition debt.

EBITDA. Earnings before interest, taxes, depreciation and amortization increased $3.2 million or 8.5% to $41.0 million for fiscal 1999 as compared to the restated 1998 EBITDA of $37.8 million. Fiscal 1998's EBITDA was restated to account for the non-cash compensation expense that was previously included. The Partnership's EBITDA includes the EBITDA of investees, but does not include the EBITDA of the minority interest of M-P Energy Partnership. EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligation), but provides additional information for evaluating the Partnership's ability to make the Minimum Quarterly Distribution.

FISCAL YEAR 1998 COMPARED TO FISCAL YEAR 1997

Volume. The Partnership sold 146.7 million retail gallons, an increase of 21.1 million gallons or 16.8% from the 125.6 million gallons sold in fiscal 1997. This increase was primarily attributable to acquisition related volumes offset, to a certain extent, by the effects of the warmer weather pattern of El Nino.

The Partnership also sold approximately 86.2 million wholesale gallons during fiscal 1998, a decrease of 26.4 million wholesale gallons or 23.4% from the 112.6 million wholesale gallons sold in fiscal 1997. The decrease in wholesale volumes was attributable to a decline of 16.4 million gallons in the foreign operations of M-P Energy Partnership and 10.0 million gallons in U.S. wholesale operations, both primarily due to warmer than normal weather in those areas of operations.

Revenues. Total revenues decreased $13.8 million or 6.9% to $186.0 million for fiscal 1998 as compared to $199.8 million for fiscal 1997. Domestic retail fuel revenues increased $6.6 million or 5.1% in fiscal 1998 to $136.3 million, as compared to $129.7 million for fiscal 1997. U.S. wholesale fuel revenues decreased $6.4 million or 54.7% from $11.7 million reported in fiscal 1997. Foreign fuel revenues decreased $16.3 million or 39.5% to $25.0 million for fiscal 1998, as compared to $41.3 million for fiscal 1997. The decrease in U.S. and foreign wholesale fuel revenues was attributable to both decreased volumes and sales prices. The increase in domestic retail fuel revenues resulted from increased volumes and offset somewhat by decreased sales prices. Other revenues increased $2.3 million primarily as a result of acquisitions and to a lesser extent internal growth.

Cost of Sales. Total cost of sales decreased $29.1 million or 23.1% to $96.9 million for fiscal 1998, as compared to fiscal 1997's $126.0 million. Domestic cost of sales decreased $12.8 million or 14.9% to $73.1 million for fiscal 1998, as compared to $85.9 million for fiscal 1997. Foreign cost of sales decreased $16.3 million or 40.6% to $23.8 million for fiscal 1998, as compared to $40.1 million for fiscal 1997. The decrease in foreign cost of sales was attributable to decreased volumes sold and a decrease in the cost per gallon of propane. The decrease in domestic cost of sales was also due to a decrease in the cost per gallon of propane and the decrease in domestic wholesale volumes for fiscal 1998, offset by the increased volumes of retail fuel.

Gross Profit. Total gross profit increased $15.3 million or 20.7% to $89.1 million in fiscal 1998 as, compared to $73.8 million in fiscal 1997. This increase was attributable to the acquisition related increase in retail volumes sold, the impact of higher margins and an increase in other propane related gross profit.

Operating Expenses. Operating expenses increased $6.6 million or 16.3% to $47.0 million in fiscal 1998, as compared to $40.4 million in fiscal 1997. The increase was primarily attributable to costs associated with acquisitions.

Selling, General and Administrative. Selling, general and administrative expenses were $5.5 million for fiscal 1998 a slight increase as compared to $5.3 million in fiscal 1997.

Depreciation and Amortization. Depreciation and amortization increased approximately $2.6 million or 23.4% to $13.7 million in fiscal 1998, as compared to $11.1 million for fiscal 1997. This increase was primarily the result of additional depreciation and amortization associated with acquisitions.

Operating Income. Operating income increased $5.9 million or 34.7% to $22.9 million in fiscal 1998, as compared to $17.0 million for fiscal 1997. This increase was the result of the increase in gross profit offset by the acquisition related increase in operating expenses and depreciation and amortization.

Net Income. Net income increased $3.6 million or 69.2% to $8.8 million in fiscal 1998, as compared to $5.2 million for fiscal 1997. This increase is due to higher operating income for fiscal 1998 as compared to 1997, offset partially by increased interest costs in fiscal 1998.

EBITDA. Earnings before interest, taxes, depreciation and amortization for fiscal 1998 was $37.8 million, as restated to account for non-cash compensation expense, an increase of $9.1 million or 31.7% over fiscal 1997's EBITDA of $28.7 million. Increased gross profit for fiscal 1998, offset by the acquisition related increase in operating expenses attributed to the increase in EBITDA. The Partnership's EBITDA includes the EBITDA of investees, but does not include the EBITDA of the minority interest of M-P Energy Partnership. EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligation), but provides additional information for evaluating the Partnership's ability to make the Minimum Quarterly Distribution.

LIQUIDITY AND CAPITAL RESOURCES

The ability of the partnership to satisfy its obligations will depend on its future performance, which will be subject to prevailing economic, financial, business and weather conditions and other factors, many of which are beyond its control. Future capital needs of the Partnership are expected to be provided by various sources as follows:

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

b) payment of interest cost, and other debt services, will be provided by the annual cash flow from operations

c) required maintenance capital, predominantly vehicle replacement, will also be provided by the annual cash flow from operations

d) growth capital, mainly for customer tanks, expended will be financed by the revolving acquisition bank line of credit

e) acquisition capital expenditures will be financed with additional indebtedness on the revolving acquisition bank line of credit, other lines of credit, issues of additional Common Units or a combination thereof.

Cash Flows

Operating Activities. Cash provided by operating activities for fiscal 1999, was $23.6 million compared to $24.5 million in fiscal 1998. The cash flows from operations for fiscal 1999 consisted primarily of net income of $9.7 million and noncash charges of $14.1 million, principally depreciation and amortization.

Investing Activities. Cash used in investing activities during fiscal 1999 included capital expenditures for acquisitions amounting to $17.9 million, net of cash received plus $15.0 million spent for maintenance needed to sustain operations at current levels, customer tanks to support growth of operations, the purchase of land previously under lease arrangements and other miscellaneous capitalized items. These investing activities were offset by proceeds from asset sales of $2.1 million, which was principally from the non-recurring sale of certain idle property. The proceeds from asset sales were used to purchase property in certain areas of the Partnership's operations that were previously leased and fund purchases of capital assets used in the business.

Financing Activities. Cash provided by financing activities during fiscal 1999 of $7.0 million is primarily the result of an increase in the working capital facility of $9.3 million and a net increase in long-term debt of $16.3 million to fund acquisitions. These increases were offset by cash distributions to unitholders of $18.6 million.

Financing and Sources of Liquidity

The Partnership has a Bank Credit Facility, which includes a Working Capital Facility, a revolving credit facility providing for up to $35.0 million of borrowings to be used for working capital and other general partnership purposes, and an Acquisition Facility, a revolving credit facility providing for up to $50.0 million of borrowings to be used for acquisitions and improvements. See page F-10, "Notes to Consolidated Financial Statements--4. Working Capital Facilities and Long-Term Debt." On October 28, 1999, the Partnership used the net proceeds of $25.1 million from a public offering to repay a portion of the outstanding indebtedness under the acquisition facility that was incurred to acquire propane businesses. See page F-13, "Notes to Consolidated Financial Statements--7. Registration Statements."

The Partnership uses its cash provided by operating and financing activities to provide distributions to unitholders and to fund acquisition, maintenance and growth capital expenditures. Acquisition capital expenditures, which include expenditures related to the acquisition of retail propane operations and intangibles associated with such acquired businesses, were $17.9 million for fiscal year 1999, as compared to $23.3 million during fiscal 1998. In addition to the $17.9 million of cash expended for acquisitions during fiscal 1999, $.5 million of Common Units and $3.3 million for notes payable on non-compete agreements were issued in connection with certain acquisitions.

The Partnership increased its distribution to Unitholders two times during the past fiscal year to a current annual level of $2.25 per unit. Under the Partnership Agreement of Heritage, the Partnership will distribute to its partners, 45 days after the end of each fiscal quarter, an amount equal to all of its Available Cash for such quarter. Available cash generally means, with respect to any quarter of the Partnership, all cash on hand at the end of such quarter less the amount of cash reserves established by the General Partner in its reasonable discretion that is necessary or appropriate to provide for future cash requirements. The Partnership's commitment to its unitholders is to distribute the increase in its cash flow while maintaining prudent reserves for the Partnership's operations. The decision to increase the quarterly distribution resulted from a review of Heritage's past financial performance and current projections for available cash. The current distribution level includes incentive distributions payable to the General Partner to the extent the quarterly distribution exceeds $.55 per unit ($2.20 annually).

The assets utilized in the propane business do not typically require lengthy manufacturing process time nor complicated, high technology components. Accordingly, the Partnership does not have any significant financial commitments for capital expenditures. In addition, the Partnership has not experienced any significant increases attributable to inflation in the cost of these assets or in its operations.

DESCRIPTION OF INDEBTEDNESS

The Operating Partnership assumed $120 million principal amount of 8.55% Senior Secured Notes (the "Notes") at the formation of the Partnership in a private placement with institutional investors. Interest is payable semi-annually in arrears on each December 31 and June 30. The Notes have a final maturity of 15 years, with ten equal mandatory repayments of principal beginning on June 30, 2002. See page F-10, "Notes to Consolidated Financial Statements--4. Working Capital Facilities and Long-Term Debt."

On November 19, 1997, the Partnership entered into a Note Purchase Agreement ("Medium Term Note Program"), that provides for the issuance of up to $100 million of senior secured promissory notes if certain conditions are met. An initial placement of $32 million (Series A and B) at an average interest rate of 7.23% with an average 10 year maturity was completed at the closing of the Medium Term Note Program. Interest is payable semi-annually in arrears on each November 19 and May 19. An additional placement of $15 million (Series C, D and E) at an average interest rate of 6.59% with an average 12 year maturity was completed in March 1998. Interest is payable on Series C, D and E semi-annually in arrears on each September 13 and March 13. The proceeds of the placements were used to refinance amounts outstanding under the Acquisition Facility. See page F-10, "Notes to Consolidated Financial Statements--4. Working Capital Facilities and Long-Term Debt."

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

The Operating Partnership is in compliance with all requirements, tests, limitations and covenants related to the Notes and Bank Credit Facility.

YEAR 2000 MATTERS

The Year 2000 issue arose because many computer programs use only the last two digits to indicate the year; hence, they may not correctly interpret dates beyond the year 1999. The Partnership has recognized the potential impact of this problem that could cause computer applications to fail or create erroneous results disrupting business operations. The Partnership along with outside consultants has conducted a detailed assessment of its Year 2000 (Y2K) compliance and readiness issues. The Partnership has put a comprehensive program in place to prepare for its Y2K readiness and designates the following information as our "Year 2000 Readiness Disclosure".

The scope of the Partnership's program includes the review and evaluation of (1) its information technology ("IT") such as hardware and software utilized in the Partnership's operations; (2) non-IT systems or embedded technology such as micro-controllers contained in various equipment, facilities and vehicles; and (3) the readiness of third parties which includes key fuel suppliers, vendors and banking facilities. A complete and detailed inventory list of the Partnership's hardware and software systems has been completed enabling us to evaluate the state of readiness of these systems.

The Partnership's district operations use a variety of external software that has been evaluated for Year 2000 compliance. The upgrade to the Y2K software at these district locations is complete. The hardware necessary to accommodate the software upgrades was replaced as needed. The Partnership's central accounting software, which encompasses general ledger, financial reporting, and accounts payable, has been upgraded and successfully tested as Y2K compliant. The Partnership's payroll, fixed asset and wholesale fuel supply and distribution systems are completed. Miscellaneous applications have also been evaluated and upgrades are completed. The non-IT systems such as telephones, fax machines, and photocopiers were investigated for the date critical Year 2000 and were replaced or updated as needed for operation.

The Partnership has identified major vendors and suppliers on whom it depends upon for services and products to assess their Year 2000 readiness to assure there are no interruptions in operations. A Year 2000 compliance letter and questionnaire was sent to these third parties and our evaluation of these key third parties is complete. While none of the Partnership's products are directly date sensitive, interruption of the supply and delivery of gas products or other services could have a material adverse effect on the operations of the Partnership. By contacting these third parties to assess their state of readiness and developing an appropriate contingency plan if necessary, the Partnership is hoping to minimize these risks. The Partnership contacted their bank facilities to ensure that the collection and transfer of funds will not be interrupted and that extension of working capital will be available as needed. The Partnership does not have any customers that accounted for 5% or more of the Partnership's revenues during fiscal 1999 thus reducing the risk if some but not all customers are not Y2K compliant.

Estimated costs to modify its computer-based systems to date have not been specifically tracked but are estimated to be immaterial. A portion of these costs was capitalized as they relate to adding new software and hardware to enhance current operations. Other costs related directly to becoming Year 2000 compliant have been expensed as incurred.

A contingency plan has been developed to deal with system failures and disruptions of service arising from third party Y2K failures. The contingency plan for the Partnership's district operations is primarily focused on one system that already has been successfully tested and is Y2K compliant. This system affects two-thirds of our district operations and if other systems fail during the testing, they will be upgraded to this compliant system. The success the Partnership has with dealing with the issues of the Year 2000 and its vendor and supplier's success in the matter will affect the Partnership's future operations. Interruptions in the Partnership's operations or those of its major suppliers and vendors due to Year 2000 failures could have a material adverse affect on its operations and cash flows. In addition to the business risks noted above there are other Y2K risks, which include but are not limited to utility and telecommunication systems failure to provide service, which are beyond the Partnership's control and could have adverse effects on our operations.

FORWARD-LOOKING STATEMENTS

Certain matters discussed in this report, excluding historical information, include certain forward-looking statements. Although Heritage believes such forward-looking statements are based on reasonable assumptions, no assurance can be given that every objective will be reached. Such statements are made in reliance on the "safe harbor" protections provided under the Private Securities Litigation Reform Act of 1995.

As required by that law, the Partnership hereby identifies the following important factors that could cause actual results to differ materially from any results projected, forecasted, estimated or budgeted by the Partnership in forward-looking statements.

- Risks and uncertainties impacting the Partnership as a whole relate to changes in general economic conditions in the United States; the availability and cost of capital; changes in laws and regulations to which the Partnership is subject, including tax, environmental and employment laws and regulations; the cost and effects of legal and administrative claims and proceedings against the Partnership or which may be brought against the Partnership and changes in general and economic conditions and currencies in foreign countries.

- The uncertainty of the ability of the Partnership to sustain its rate of internal sales growth and its ability to locate and acquire other propane companies at prices that are accretive to the Partnership.

- Risks and uncertainties related to energy prices and the ability of the Partnership to develop expanded markets and products offerings as well as their ability to maintain existing markets. In addition, future sales will depend on the cost of propane compared to other fuels, competition from other propane retailers and alternate fuels, the general level of petroleum product demand, and weather conditions, among other things.

- The Partnership's success in dealing with the Year 2000 issues and those of its vendors, suppliers and other third parties, many of which are beyond the Partnership's control.

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

The Partnership has very little cash flow exposure due to rate changes for long-term debt obligations. The Partnership primarily enters debt obligations to support general corporate purposes including capital expenditures and working capital needs. The Partnership's long-term debt instruments are typically issued at fixed interest rates. When these debt obligations mature, the Partnership may refinance all or a portion of such debt at then-existing market interest rates which may be more or less than the interest rates on the maturing debt. Commodity price risk arises from the risk of price changes in the propane inventory that the Partnership buys and sells. The market price of propane is often subject to volatile changes as a result of supply or other market conditions over which the Partnership will have no control. In the past, price changes have generally been passed along to the Partnership's customers to maintain gross margins, mitigating the commodity price risk. The Partnership in the past has on occasion purchased significant volumes of propane during periods of low demand, which generally occur during the summer months, at the then current market price, for storage both at its service centers and in major storage facilities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Financial statements set forth on pages F-1 to F-16 of this Report are incorporated herein by reference.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

PARTNERSHIP MANAGEMENT

The General Partner manages and operates the activities of the Partnership. Unitholders do not directly or indirectly participate in the management or operation of the Partnership.

In October of 1996, the Board of Directors of the General Partner appointed J. T. Atkins to serve on the Independent Committee with the authority to review specific matters as to which the Board of Directors believes there may be a conflict of interest in order to determine if the resolution of such conflict proposed by the General Partner is fair and reasonable to the Partnership. Any matters approved by the Independent Committee will be conclusively deemed to be fair and reasonable to the Partnership, approved by all partners of the Partnership and not a breach by the General Partner or its Board of Directors of any duties they may owe the Partnership or the Unitholders. In addition, the General Partner's Board of Directors serves as the Audit Committee to review external financial reporting of the Partnership, to engage the Partnership's independent accountants and review the Partnership's procedures for internal auditing and the adequacy of the Partnership's internal accounting controls.

The Partnership does not directly employ any of the persons responsible for managing or operating the Partnership. At August 31, 1999, the General Partner employed 1,040 full time individuals.

DIRECTORS AND EXECUTIVE OFFICERS OF THE GENERAL PARTNER

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

Name	Position with General Partner
James E. Bertelsmeyer	Chairman of the Board and Chief Executive Officer
H. Michael Krimbill	President and Chief Financial Officer, Treasurer and Secretary
R. C. Mills	Executive Vice President and Chief Operating Officer
G. A. Darr	Vice President - Corporate Development
Bradley K. Atkinson	Vice President - Administration
J. T. Atkins	Director of the General Partner
Bill W. Byrne	Director of the General Partner
J. Charles Sawyer	Director of the General Partner

James E. Bertelsmeyer. Mr. Bertelsmeyer, age 57, has 24 years of experience in the propane industry, including six years as President of Buckeye Gas Products Company, at the time the nation's largest retail propane marketer. Mr. Bertelsmeyer has served as Chief Executive Officer of Heritage since its formation. Mr. Bertelsmeyer began his career with Conoco Inc. where he spent ten years in positions of increasing responsibility in the pipeline and gas products departments. Mr. Bertelsmeyer has been a Director of the National Propane Gas Association, (the "Association"), for the past 24 years, and is a past president of the Association.

R. C. Mills. Mr. Mills, age 62, has 41 years of experience in the propane industry. Mr. Mills joined Heritage in 1991 as Executive Vice President and Chief Operating Officer. Before coming to Heritage, Mr. Mills spent 25 years with Texgas Corporation and its successor, Suburban Propane, Inc. At the time he left Suburban in 1991, Mr. Mills was Vice President of Supply and Wholesale.

G. A. Darr. Mr. Darr, age 66, has over 41 years of experience in the propane industry. Mr. Darr came to Heritage in June 1989, as Director of Corporate Development and was promoted to Vice President, Corporate Development in 1990. Prior to joining Heritage, Mr. Darr served for 10 years as Director of Corporate Development with CalGas Corporation and its successor, AmeriGas Propane, Inc. Mr. Darr began his career in the propane division of Phillips Petroleum Company. Mr. Darr is a Director of the National Propane Gas Association (the "Association").

H. Michael Krimbill. Before joining Heritage in 1990 as Vice President and Chief Financial Officer, Mr. Krimbill, age 46, was Treasurer of Total Petroleum, Inc. ("Total"). Total was a publicly traded, fully integrated oil company located in Denver, Colorado. Mr. Krimbill was promoted to President of Heritage April 1999. Mr. Krimbill is a Director of the Association.

Bradley K. Atkinson. Mr. Atkinson, age 44 joined Heritage on April 16, 1998 as Vice President Administration. Prior to joining Heritage, Mr. Atkinson was with MAPCO/Thermogas for 12 years, eight of which were in the acquisitions and business development of Thermogas. Mr. Atkinson is a CPA and received an undergraduate business degree form Pittsburgh State University and an MBA from Oklahoma State University.

J. T. Atkins. Mr. Atkins, age 42, is a managing director of CIBC Oppenheimer Corp., investment bankers. Prior to his joining Oppenheimer in July of 1995, he held a similar position with the investment-banking firm of Houlihan, Lokey, Howard & Zukin, Inc. Mr. Atkins was elected a director of Heritage on October 1, 1996.

Bill W. Byrne. Mr. Byrne, age 69, served as Vice President of Warren Petroleum Company, the gas liquids division of Chevron Corporation, from 1982-1992. Since that time Mr. Byrne has served as the principal of Byrne & Associates, L.L.C., a gas liquids consulting group based in Tulsa, Oklahoma. Mr. Byrne has been a Director of Heritage since 1992. Mr. Byrne is a past president and Director of the Association.

J. Charles Sawyer. Mr. Sawyer, age 62, has served as President and Chief Executive Officer of Computer Energy, Inc., a provider of software of the propane industry, since 1981. Mr. Sawyer was formerly Chief Executive Officer of Sawyer Gas Co., a regional propane distributor that was purchased by Heritage in 1991. Mr. Sawyer has served as a director of Heritage since 1991. Mr. Sawyer is a past president and Director of the Association.

COMPENSATION OF THE GENERAL PARTNER.

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

The General Partner has a 2% general partner interest in the combined operations of the Partnership and the Operating Partnership.

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

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

Based solely on its review of the copies of such forms received by the General Partner, or written representations from certain reporting persons that no Form 5's were required for those persons, the General Partner believes that during fiscal year ending August 31, 1999, all filing requirements applicable to its officers, directors, and greater than 10 percent beneficial owners were met in a timely manner other than one late filing for Mr. Bertelsmeyer and Heritage Holdings, Inc. each for one prior period.

ITEM 11. EXECUTIVE COMPENSATION.

The following table sets forth the annual salary, bonus and all other compensation awards and payouts earned by the General Partner's Chief Executive Officer and the other executive officers for services rendered to the General Partner and its subsidiaries during the fiscal years ended August 31, 1999, 1998 and 1997.

	Year	Salary	All Other Compensation (1)
James E. Bertelsmeyer	1999	$ 356,150	$ 1,078
Chairman of the Board and	1998	355,756	2,048
Chief Executive Officer	1997	341,756	2,619
H. Michael Krimbill	1999	211,255	267
President, Chief Financial	1998	185,000	357
Officer, Treasurer and Secretary	1997	175,000	616
R.C. Mills	1999	234,770	1,257
Executive Vice President and	1998	225,000	2,201
Chief Operating Officer	1997	215,000	2,316
G.A. Darr	1999	136,570	1,071
Vice President -	1998	150,756	1,933
Corporate Development	1997	134,756	1,193
Bradley K. Atkinson	1999	128,910	48
Vice President -	1998 (2)	125,000	--
Administration	1997	--	--

(1) Consists of life insurance premiums.

(2) Mr. Atkinson joined Heritage in April 1998, but his salary is presented on an annualized basis.

EMPLOYMENT AGREEMENTS

The General Partner has entered into employment agreements (the "Employment Agreements") with Messrs. Bertelsmeyer, Mills, Darr, Krimbill and Atkinson, (each an "Executive"). The summary of such Employment Agreements contained herein does not purport to be complete and is qualified in its entirety by reference to the Employment Agreements, which have been filed as exhibits to this Report.

The Employment Agreements have an initial term of five years for Mr. Bertelsmeyer and three years for each of Messrs. Mills, Darr and Krimbill, and two years for Mr. Atkinson, but will be automatically extended for successive one year periods, respectively, unless earlier terminated by the affirmative vote of at least a majority of the entire membership of the Board of Heritage upon a finding that a sufficient reason exists for such termination or by the Executive for any reason or otherwise terminated in accordance with the Employment Agreements. The Employment Agreements do provide for an annual base salary of $341,000, $215,000, $134,000, $175,000 and $125,000 ("Base Salary") for each of Messrs. Bertelsmeyer, Mills, Darr, Krimbill and Atkinson, respectively. The Board shall review the Base Salary at least annually and may adjust the amount of the Base Salary at any time as the Board may deem appropriate in its sole discretion; provided, however, that in no event may the Base Salary be decreased below the above stated amount without the prior written consent of the Employee. The Employment Agreements do not provide for an annual bonus for the Executives, but certain of the agreements do provide for other benefits, including a car allowance and the payment of life insurance premiums. The Employment Agreements also provide for the Executive and, where applicable, the Executive's dependents, to have the right to participate in benefit plans made available to other executives of Heritage including the Restricted Unit Plan described below.

The Employment Agreements provide that in the event an Executive (i) is involuntarily terminated (other than for "misconduct" or "disability") or (ii) voluntarily terminates employment for "good reason" (as defined in the agreements), such Executive will be entitled to continue receiving his base salary and to participate in all group health insurance plans and programs that may be offered to executives of the General Partner for the remainder of the term of the Employment Agreement or, if earlier, the Executive's death. Each Employment Agreement also provides that if any payment received by an Executive is subject to the 20% federal excise tax under Section 4999(a) of the Code of the Internal Revenue Service, the Payment will be grossed up to permit the Executive to retain a net amount on an after-tax basis equal to what he would have received had the excise tax and all other federal and state taxes on such additional amount not been payable. In addition, each Employment Agreement contains non-competition and confidentiality provisions.

RESTRICTED UNIT PLAN

The General Partner has adopted a restricted unit plan (the "Restricted Unit Plan") for its non-employee directors and key employees of the General Partner and its affiliates. The Plan covers rights to acquire 146,000 Common Units. The right to acquire the Common Units under the Restricted Unit Plan, including any forfeiture or lapse of rights are available for grant to key employees on such terms and conditions (including vesting conditions) as the Compensation Committee of the General Partner shall determine. Each non-employee director shall automatically receive a grant with respect to 500 Common Units on each September 1 that such person continues as a non-employee director. Newly elected non-employee directors are also entitled to receive a grant with respect to 2,000 Common Units upon election or appointment to the Board. 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 Partnership's Subordinated Units to Common Units shall vest on such terms as the Committee may establish, which may include the achievement of performance objectives. In the event of a "change of control" (as defined in the Restricted Unit Plan), all rights to acquire Common Units pursuant to the Restricted Unit Plan will immediately vest.

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

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

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, 1999, 59,500 Restricted Units had been granted to non-employee directors and key employees. Compensation expense of $358,000, $215,000 and $93,000 was recorded in the Partnership's financial statements for fiscal years 1999, 1998 and 1997, respectively. See Note 6 of the of the Partnership's Consolidated Financial Statements which begin on page F-1 of this Report.

The following table sets forth the number of grants awarded in the last fiscal year that may result in the issuance of Common Units under the Restricted Unit Plan to the executive officers of the Company:

Name	Number of Shares, Units or Other Rights(#)	Performance or Other Period Until Maturation or Payout	Threshold (#)	Target (#)	Maximum (#)
James E. Bertelsmeyer	2,000	(1)	2,000	2,000	2,000
H. Michael Krimbill	2,000	(1)	2,000	2,000	2,000
	5,000	(2)	5,000	5,000	5,000
R.C. Mills	2,000	(1)	2,000	2,000	2,000
G.A. Darr	2,000	(1)	2,000	2,000	2,000
Bradley K. Atkinson	700	(1)	700	700	700

(1) In accordance with the Restricted Unit Plan, each grant will specify the terms and conditions for the Participant to become vested in the Phantom Units. Unless earlier terminated, the rights to acquire the Phantom Units granted October 27, 1998, will vest on the later of the third anniversary of this grant or the attainment of $55 million of EBITDA for Heritage Propane Partners, L.P. In addition, all of the Partnership's subordinated units must convert to common units.

(2) Unless earlier terminated, the rights to acquire the Phantom Units granted May 11, 1999, will vest on the later of the third anniversary of this grant or the attainment of a $30 average per common unit trading price for 40 trading days for Heritage Propane Partners, L.P. In addition, all of the Partnership's subordinated units must convert to common units.

COMPENSATION OF DIRECTORs

Heritage currently pays no additional remuneration to its employees for serving as directors. Under the Restricted Unit Plan, non-employee directors will be awarded 500 of these Restricted Units annually, and newly elected directors receive an initial award of 2,000 Restricted Units. The General Partner will pay each of its non-employee directors $10,000 annually, plus $1,000 per Board meeting attended and $500 per committee meeting attended. All expenses associated with compensation of directors will be reimbursed to Heritage by the Partnership.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Compensation of the executive officers of Heritage is determined by its board of directors. Mr. Bertelsmeyer, Heritage's Chairman of the Board and Chief Executive Officer, participated in deliberations of Heritage's board of directors concerning executive officer compensation, but did not participate in deliberations concerning his own compensation.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of August 31, 1999, regarding the beneficial ownership by certain beneficial owners, all directors and named executive officers of the General Partner and the Partnership, each of the named executive officers and all directors and executive officers of the General Partner as a group, of (i) the Common and Subordinated Units of the MLP, and (ii) the Common Stock of the General Partner. The General Partner knows of no other person beneficially owning more than 5% of the Common Units.

MLP UNITS

Title of Class	Name and Address of Beneficial Owner	Beneficially Owned (1)	Percent of Class
Common Units	James E. Bertelsmeyer (2)	44,551	*
	H. Michael Krimbill (2)	11,000	*
	R.C. Mills	9,500	*
	G.A. Darr	790	*
	Bradley K. Atkinson	4,700	*
	Bill W. Byrne	10,000	*
	J. Charles Sawyer	2,000	*
	J.T. Atkins	2,000	*
	All Directors and Executive Officers as a group (8 persons)	84,541	1.45%
	Heritage Holdings, Inc.	1,116,243	19.16%
Subordinated Units (3)	Heritage Holdings, Inc. (4)	2,777,207	100%

HERITAGE HOLDINGS, INC. COMMON STOCK

Title of Class	Name and Address of Beneficial Owner	Beneficially Owned (1)	Percent of Class
Common Stock	James E. Bertelsmeyer (2) (4)	224,558	41.90%
	R.C. Mills (4)	53,729	10.00
	G.A. Darr (4)	35,386	6.60
	H. Michael Krimbill (2) (4)	51,364	9.60
	Bradley K. Atkinson (4)	--	--
	Bill W. Byrne	14,104	2.60
	J. Charles Sawyer	14,104	2.60
	J. T. Atkins	--	--
	All Directors and Executive Officers as a group (8 persons)	393,245	76.5

* Less than one percent (1%)

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

(2) Each of Messrs. Bertelsmeyer and Krimbill shares Voting and Investment Power with his wife.

(3) Messrs. Bertelsmeyer, Byrne, Sawyer and Atkins, as directors of the General Partner, share Voting and Investment Power of the Subordinated Units.

(4) The address for Heritage Holdings, Inc., Mr. Krimbill and Mr. Atkinson is 8801 S. Yale, Suite 310, Tulsa, Oklahoma 74137. The address for each of Messrs. Bertelsmeyer and Mills is 7162 Phillips Highway, Jacksonville, Florida 32256. The address for Mr. Darr is 2830 Halle Parkway, Collierville, Tennessee 38017.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

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

(a) 1. FINANCIAL STATEMENTS.

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

2. FINANCIAL STATEMENT SCHEDULES.

None.

3. EXHIBITS.

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

(B) REPORTS OF FORM 8-K.

None.

SIGNATURES

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

HERITAGE PROPANE PARTNERS, L.P.

By Heritage Holdings, Inc.
(General Partner)

By: /s/ James E. Bertelsmeyer
James E. Bertelsmeyer
Chairman 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/ James E. Bertelsmeyer James E. Bertelsmeyer	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	November 19, 1999
/s/ H. Michael Krimbill H. Michael Krimbill	President and Chief Financial Officer (Principal Financial and Accounting Officer)	November 23, 1999
/s/ Bill W. Byrne Bill W. Byrne	Director	November 23, 1999
/s/ J. Charles Sawyer J. Charles Sawyer	Director	November 23, 1999
/s/ J. T. Atkins J.T. Atkins	Director	November 23, 1999

INDEX TO FINANCIAL STATEMENTS

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 as of August 31, 1999 and 1998, and the related consolidated statements of operations, partners' capital and cash flows for each of the three years in the period ended August 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 generally accepted auditing standards. 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 at August 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 1999 in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

Tulsa, Oklahoma
October 8, 1999 (except with
respect to the matters discussed
in Notes 3 and 7, as to which the
date is October 28, 1999)

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)

ASSETS	August 31, 1999	August 31, 1998
CURRENT ASSETS:		
Cash	$ 1,679	$ 1,837
Accounts receivable	11,635	10,444
Inventories	14,784	12,545
Prepaid expenses	1,169	1,431
Total current assets	29,267	26,257
PROPERTY, PLANT AND EQUIPMENT, net	155,219	139,490
INVESTMENT IN AFFILIATE	5,202	4,667
INTANGIBLES AND OTHER ASSETS, net	73,270	69,550
Total assets	$262,958	$239,964
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Working capital facility	$ 19,900	$ 10,600
Accounts payable	17,268	13,952
Accrued and other current liabilities	8,490	9,689
Current maturities of long-term debt	2,022	1,203
Total current liabilities	47,680	35,444
LONG-TERM DEBT, less current maturities	196,216	177,431
COMMITMENTS AND CONTINGENCIES		
Total liabilities	243,896	212,875
PARTNERS' CAPITAL:		
Common unitholders (5,825,674 and 4,876,725 units issued and outstanding at August 31, 1999 and 1998, respectively)	17,077	20,775
Subordinated unitholders (2,777,207 and 3,702,943 units issued and outstanding at August 31, 1999 and 1998, respectively)	1,809	6,041
General partner	176	273
Total partners' capital	19,062	27,089
Total liabilities and partners' capital	$262,958	$239,964

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

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

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

	For the Years Ended August 31,		
	1999	1998	1997
REVENUES:			
Retail fuel	$ 137,403	$ 136,301	$ 129,673
Wholesale fuel	24,018	30,254	53,019
Other	22,599	19,432	17,093
Total revenues	184,020	185,987	199,785
COSTS AND EXPENSES:			
Cost of products sold	87,267	96,884	125,947
Operating expenses	51,201	47,010	40,444
Depreciation and amortization	14,749	13,680	11,124
Selling, general and administrative	6,236	5,484	5,351
Total costs and expenses	159,453	163,058	182,866
OPERATING INCOME	24,567	22,929	16,919
OTHER INCOME (EXPENSE):			
Interest expense	(15,915)	(14,599)	(12,063)
Equity in earnings of affiliates	1,005	707	487
Gain on disposal of assets	722	534	372
Other	(263)	(305)	(90)
INCOME BEFORE MINORITY INTEREST	10,116	9,266	5,625
Minority interest	(454)	(476)	(448)
NET INCOME	9,662	8,790	5,177
GENERAL PARTNER'S INTEREST IN NET INCOME	97	88	52
LIMITED PARTNERS' INTEREST IN NET INCOME	$ 9,565	$ 8,702	$ 5,125
BASIC NET INCOME PER LIMITED PARTNER UNIT	$ 1.11	$ 1.04	$ 0.64
BASIC WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	8,589,335	8,332,351	7,987,943
DILUTED NET INCOME PER LIMITED PARTNER UNIT	$ 1.11	$ 1.04	$ 0.64
DILUTED WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	8,645,958	8,365,334	8,005,943

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

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

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

	NUMBER OF UNITS Common	NUMBER OF UNITS Subordinated	Common Unitholders	Subordinated Unitholders	General Partner	Total Partners' Capital
BALANCE, AUGUST 31, 1996	4,285,000	3,702,943	$ 16,392	$ 13,902	$ 307	$ 30,601
Unit distribution	--	--	(7,939)	(6,861)	(151)	(14,951)
Other	--	--	93	--	--	93
Net income	--	--	2,749	2,376	52	5,177
BALANCE, AUGUST 31, 1997	4,285,000	3,702,943	11,295	9,417	208	20,920
Unit distribution	--	--	(9,192)	(7,406)	(167)	(16,765)
Issuance of restricted Common Units in connection with certain acquisitions	591,725	--	13,788	--	--	13,788
Capital contribution from General Partner in connection with issuance of Common Units	--	--	--	--	141	141
Other	--	--	75	137	3	215
Net income	--	--	4,809	3,893	88	8,790
BALANCE, AUGUST 31, 1998	4,876,725	3,702,943	20,775	6,041	273	27,089
Unit distribution	--	--	(12,428)	(5,924)	(202)	(18,554)
Issuance of restricted Common Units in connection with certain acquisitions	23,213	--	502	--	--	502
Capital contribution from General Partner in connection with issuance of Common Units	--	--	--	--	5	5
Conversion of Subordinated Units to Common Units	925,736	(925,736)	1,510	(1,510)	--	--
Other	--	--	240	115	3	358
Net income	--	--	6,478	3,087	97	9,662
BALANCE, AUGUST 31, 1999	5,825,674	2,777,207	$ 17,077	$ 1,809	$ 176	$ 19,062

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

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Years Ended August 31,		
	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 9,662	$ 8,790	$ 5,177
Reconciliation of net income to net cash provided by operating activities-			
Depreciation and amortization	14,749	13,680	11,124
Provision for losses on accounts receivable	338	435	699
Gain on disposal of assets	(722)	(534)	(372)
Deferred compensation on restricted units	358	215	93
Undistributed earnings of affiliates	(534)	(642)	(411)
Minority Interest	(92)	(15)	130
Changes in assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(848)	1,476	(622)
Inventories	(1,718)	1,789	(1,694)
Prepaid expenses	310	149	(194)
Intangibles and other assets	883	(989)	(581)
Accounts payable	2,947	(1,025)	740
Accrued and other current liabilities	(1,720)	1,203	1,295
Net cash provided by operating activities	23,613	24,532	15,384
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash paid for acquisitions, net of cash acquired	(17,931)	(23,276)	(14,549)
Capital expenditures	(14,974)	(9,359)	(7,170)
Proceeds from asset sales	2,106	5,511	1,619
Net cash used in investing activities	(30,799)	(27,124)	(20,100)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings	85,250	129,147	69,782
Principal payments on debt	(59,673)	(110,119)	(49,260)
Unit distribution	(18,554)	(16,765)	(14,951)
Capital contribution from General Partner	5	141	--
Net cash provided by financing activities	7,028	2,404	5,571
INCREASE (DECREASE) IN CASH	(158)	(188)	855
CASH, beginning of period	1,837	2,025	1,170
CASH, end of period	$ 1,679	$ 1,837	$ 2,025
NONCASH FINANCING ACTIVITIES:			
Notes payable incurred on noncompete agreements	$ 3,332	$ 6,393	$ 1,961
Issuance of restricted common units in connection with certain acquisitions	$ 502	$ 13,788	$ --
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for interest	$ 15,655	$ 13,045	$ 11,873

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

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

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

1. OPERATIONS AND ORGANIZATION:

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

The Operating Partnership sells propane and propane-related products to approximately 265,000 retail customers in 26 states throughout the United States. The Partnership is also a wholesale propane supplier in the southwestern United States and in Canada, the latter through participation in M-P Energy Partnership. M-P Energy Partnership is a Canadian partnership primarily engaged in lower-margin wholesale distribution in which the Partnership owns a 60 percent interest. The Partnership grants credit to its customers for the purchase of propane and propane-related products.

2. SIGNIFICANT ACCOUNTING POLICIES AND BALANCE SHEET DETAIL:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Partnership, its subsidiaries, including Heritage Operating Partnership and M-P Energy Partnership. The Partnership 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 interest in the Operating Partnership is accounted for in the consolidated financial statements as a minority interest.

REVENUE RECOGNITION

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

INVENTORIES

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

	August 31, 1999	August 31, 1998
Fuel	$ 9,341	$ 7,939
Appliances, parts and fittings	5,443	4,606
	$ 14,784	$ 12,545

PROPERTY, PLANT AND EQUIPMENT

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

	August 31, 1999	August 31, 1998
Land and improvements	$ 8,778	$ 7,809
Buildings and improvements (10 to 30 years)	16,719	13,374
Bulk storage, equipment and facilities (3 to 30 years)	19,109	20,173
Tanks and other equipment (5 to 30 years)	115,608	104,764
Vehicles (5 to 7 years)	32,421	22,818
Furniture and fixtures (5 to 10 years)	5,021	4,578
Other	1,312	1,214
	198,968	174,730
Less-accumulated depreciation	(43,749)	(35,240)
Property, plant, and equipment, net	$ 155,219	$ 139,490

INTANGIBLES AND OTHER ASSETS

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

	August 31, 1999	August 31, 1998
Goodwill (30 years)	$ 48,672	$ 45,514
Noncompete agreements (10 to 15 years)	30,647	25,181
Customer lists (15 years)	15,597	12,110
Other	5,820	6,672
	100,736	89,477
Less-accumulated amortization	(27,466)	(19,927)
Intangibles and other assets, net	$ 73,270	$ 69,550

LONG-LIVED ASSETS

The Partnership reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such a review should indicate that the carrying amount of long-lived assets is not recoverable, the Partnership reduces the carrying amount of such assets to fair value.

ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities consist of the following:

	August 31, 1999	August 31, 1998
Interest payable	$ 3,442	$ 3,629
Wages and payroll taxes	1,116	1,914
Deferred tank rent	1,450	1,204
Customer deposits	826	1,492
Other	1,656	1,450
Intangibles and other assets, net	$ 8,490	$ 9,689

INCOME TAXES

The Partnership is a limited partnership. As a result, the Partnership's earnings or loss for federal income tax purposes is included in the tax returns of the individual partners. Accordingly, no recognition has been given to income taxes in the accompanying financial statements of the Partnership. Net earnings for financial statement purposes may differ significantly from taxable income reportable to unitholders as a result of differences between

the tax basis and financial reporting basis of assets and liabilities and the taxable income allocation requirements under the Partnership agreement.

INCOME PER LIMITED PARTNER UNIT

Basic net income per limited partner unit is computed by dividing net income, after considering the General Partner's one percent interest, by the weighted average number of Common and Subordinated Units outstanding. Diluted net income per limited partner unit is computed by dividing net income, after considering the General Partner's one percent interest, by the weighted average number of Common and Subordinated Units outstanding and the weighted average number of Restricted Units ("Phantom Units") granted under the Restricted Unit Plan (see Note 6). A reconciliation of net income and weighted average units used in computing basic and diluted earnings per unit is as follows:

	Years Ended August 31,		
	1999	1998	1997
BASIC NET INCOME PER LIMITED PARTNER UNIT:			
Limited partners' interest in net income	$ 9,565	$ 8,702	$ 5,125
Weighted average limited partner units	8,589,335	8,332,351	7,987,943
Basic net income per limited partner unit	$ 1.11	$ 1.04	$ 0.64
DILUTED NET INCOME PER LIMITED PARTNER UNIT:			
Limited partners' interest in net income	$ 9,565	$ 8,702	$ 5,125
Weighted average limited partner units	8,589,335	8,332,351	7,987,943
Dilutive effect of Phantom Units	56,623	32,983	18,000
Weighted average limited partner units, assuming dilutive effect of Phantom Units	8,645,958	8,365,334	8,005,943
Diluted net income per limited partner unit	$ 1.11	$ 1.04	$ 0.64

USE OF ESTIMATES

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

FAIR VALUE

The carrying amount of accounts receivable and accounts payable approximates their fair value. Based on the estimated borrowing rates currently available to the Partnership for long-term loans with similar terms and average maturities, the aggregate fair value at August 31, 1999 of the Partnership's long-term debt approximates the aggregate carrying amount.

3. ACQUISITIONS:

During fiscal 1999, the Partnership acquired certain assets of Claredon Gas Company in Manning, SC, Blue Flame Gas Corporation of Richmond, VT and one other small company. The Company also purchased all of the outstanding stock of S.R. Young, Inc. of Springfield, VT, Pioneer LPG Corporation of Madera, CA and Foster's Gas, Inc. of Leitchfield, KY, and conveyed the net assets to the Partnership. The acquisitions totaled $22,743, which includes notes payable on noncompete agreements of $3,332 for periods ranging from three to ten years. These acquisitions were financed primarily with the acquisition facility and the issuance of $502 of Common Units. Subsequent to August 31, 1999, the Company purchased all of the outstanding stock of Eaves Oil Company, Inc. of New Ellenton, SC, Blue Flame Gas Co. Inc. of Charleston, SC and Cumberland LP Gas, Inc. of Cookeville, TN and conveyed the net assets to the Partnership. The Partnership purchased certain assets of two smaller propane businesses subsequent to August 31, 1999. The total purchase price of these acquisitions was approximately $20 million which were financed primarily with the acquisition facility, notes payable on noncompete agreements and the issuance of Common Units.

During fiscal 1998, the Partnership acquired certain assets of Gibson Propane Co. and Gibson Homegas of Memphis, TN, Fallsburg Gas Service, Inc. of Fallsburg, NY and six smaller companies. The Company also purchased all of the outstanding stock of Tennessee Independent Propane Co. (TIPCO), John E. Foster & Son, of Leitchfield, KY, and Rural Bottle Gas and Appliance, Inc. of Greenville, MI, and conveyed the net assets to the Partnership. The acquisitions totaled $37,401, including noncompete agreements of $6,393 for periods ranging from five to ten years. These acquisitions were financed primarily with the acquisition facility, issuance of notes under the Medium Term Note Program and with the issuance of $13,788 of Common Units.

During fiscal 1997, the Partnership purchased certain assets of Horizon Gas, Inc., Horizon Gas of Palm Bay, Inc., Horizon Gas of Hudson, Inc., Waynesville Gas Service, Inc., Keen Compressed Gas Co., and three small companies. Guilford Gas Service, Inc., a corporation in which the Partnership owned a one-third interest, entered into a stock redemption agreement with its other shareholders to purchase the remaining two-thirds of the stock. Guilford Gas Service, Inc. then purchased certain assets of Lancaster Gas Service, Inc. The acquisitions totaled approximately $17,353, including noncompete agreements for periods ranging from seven to fifteen years totaling $1,961, which were financed primarily with the acquisition facility.

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

The results of operations of the acquired entities have been included in the Company and Partnership's consolidated financial statements from the date of acquisition.

4. WORKING CAPITAL FACILITY AND LONG-TERM DEBT:

Long-term debt consists of the following:

	August 31,	
	1999	1998
8.55% Senior Secured Notes	$ 120,000	$ 120,000
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	5,000	5,000
6.59% Series D Senior Secured Notes	5,000	5,000
6.67% Series E Senior Secured Notes	5,000	5,000
Senior Revolving Acquisition Facility	18,300	600
Notes Payable on noncompete agreements with interest imputed at rates averaging 8%, due in installments through 2009, collateralized by a first security lien on certain assets of the Partnership	11,486	9,088
Other	1,452	1,946
	198,238	178,634
Current maturities of long-term debt	(2,022)	(1,203)
	$ 196,216	$ 177,431

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

8.55% Senior Notes: Senior Notes: mature at the rate of $12,000 on June 30 in each of the years 2002 to and including 2011.

Series A Notes:	mature at the rate of $2,400 on November 19 in each of the years 2005 to and including 2009.
Series B Notes:	mature at the rate of $2,000 on November 19 in each of the years 2003 to and including 2012.
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.
Series D Notes:	mature at the rate of $556 on March 13 in each of the years 2002 to and including 2010.
Series E Notes:	mature at the rate of $714 on March 13 in each of the years 2007 to and including 2013.

The Note Purchase Agreement and the Medium Term Note Program contain restrictive covenants including limitations on substantial disposition of assets, changes in ownership of the Partnership, additional indebtedness and require the maintenance of certain financial ratios. At August 31, 1999, the Partnership was in compliance with all covenants. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the common stock of the Partnership's subsidiaries secure the Notes.

As of June 25, 1996, the Partnership entered into a credit agreement with various financial institutions. Effective July 2, 1999, the Partnership entered into the First Amended and Restated Credit Agreement (the "Agreement"). The Agreement replaced one of the financial institutions from the previous amended credit agreement and extended the maturities, leaving all the terms essentially unchanged. Subsequent to August 31, 1999, the Partnership entered into the First Amendment to the First Amended and Restated Credit Agreement the terms of which are as follows:

A $35,000 Senior Revolving Working Capital Facility, expiring June 30, 2002, with $19,900 outstanding at August 31, 1999. The interest rate and interest payment dates vary depending on the terms the Partnership agrees to when the money is borrowed. The weighted average interest rates were 6.6875 percent and 6.925 percent for amounts outstanding at August 31, 1999 and 1998, respectively. The Partnership 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 .375 percent.

A $50,000 Senior Revolving Acquisition Facility is available through December 31, 2001, at which time the outstanding amount must be paid in ten equal quarterly installments, beginning March 31, 2002. The interest rate and interest payment dates vary depending on the terms the Partnership agrees to when the money is borrowed. The average interest rates were 7.0 percent and 7.0273 percent for amounts outstanding at August 31, 1999 and 1998, respectively. The maximum commitment fee payable on the unused portion of the facility is .375 percent.

Future maturities of long-term debt for each of the next five fiscal years and thereafter are $2,022 in 2000; $2,122 in 2001; $18,217 in 2002; $21,892 in 2003; $24,086 in 2004 and $129, 899 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 2008. Rental expense under these leases totaled approximately $1,554 for fiscal 1999, $1,593 for fiscal 1998 and $1,359 for fiscal 1997, respectively. Fiscal year future minimum lease commitments for such leases are $1,138 in 2000; $710 in 2001; $601 in 2002; $515 in 2003; $420 in 2004 and $844 thereafter.

The Partnership is a party to various legal proceedings incidental to its business. Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Partnership. 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 the Partnership.

The Partnership has entered into several purchase and supply commitments with varying terms as to quantities and prices, which expire at various dates through March 2000.

6. PARTNERS' CAPITAL:

As of August 31, 1999, Partners' capital consisted of 5,825,674 Common Units representing a 66.4 percent limited partner interest, 2,777,207 Subordinated Units owned by the General Partner representing a 31.6 percent limited partner interest and a two percent general partner interest. Subsequent to August 31, 1999, the Partnership issued an additional 56,578 Common Units under Form S-4 registration statement in connection with the purchase of other propane businesses, 4,500 Common Units in regards to the vesting rights under the Restricted Unit Plan (see below "Restricted Unit Plan") and 1,200,000 Common Units under Form S-3 registration statement (see note 7 "Registration Statements"). After the issuance of these Common Units, there were 7,086,752 Common Units outstanding representing a 70.41 percent limited partner interest, 2,777,207 Subordinated Units representing a 27.59 percent limited partner interest and a two percent general partner interest.

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

During the Subordination Period (as defined below), the Partnership may issue up to 2,012,500 additional Common Units (excluding Common Units issued in connection with conversion of Subordinated Units into Common Units) or an equivalent number of securities ranking on a parity with the Common Units and an unlimited number of partnership interests junior to the Common Units without a Unitholder vote. The Partnership may also issue additional Common Units during the Subordination Period in connection with certain acquisitions or the repayment of certain indebtedness. During fiscal 1999, the Partnership issued 23,213 Common Units to Heritage Holdings, Inc., the Partnership's General Partner. These Units were issued in connection with the assumption of certain liabilities by the General Partner from the Partnership's prior acquisition of certain assets of a propane company. After the Subordination Period, the Partnership Agreement authorizes the General Partner to cause the Partnership to issue an unlimited number of limited partner interests of any type without the approval of any Unitholders. Pursuant to the terms of the Partnership Agreement, 925,736 Subordinated Units held by the General Partner converted to Common Units on July 7, 1999.

QUARTERLY DISTRIBUTIONS OF AVAILABLE CASH

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

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

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

The Partnership is expected to make distributions of its Available Cash within 45 days after the end of each fiscal quarter ending November, February, May and August to holders of record on the applicable record date. A prorata MQD of $.353 per Common and Subordinated Unit was made on October 15, 1996 for the two month period between the Partnership's initial public offering and the fourth quarter ended August 31, 1996. The MQD was made to the Common and Subordinated Unitholders for the quarters ended November 30, 1996 through August 31, 1998. For the quarters ended November 30, 1998, February 28, 1999 and May 31, 1999 quarterly distributions of $.5125, $.5625 and $.5625, respectively, were paid to the Common and Subordinated Unitholders. The distribution of $.5625 per Common and Subordinated Unit for the fourth quarter ended August 31, 1999, was declared on September 17, 1999, payable on October 15, 1999, to Unitholders of record as of October 1, 1999. The quarterly distributions for the quarters ended February 28, 1999, May 31, 1999 and August 31, 1999 included incentive distributions payable to the General Partner to the extent the quarterly distribution exceeded $.55 per unit.

RESTRICTED UNIT PLAN

The General Partner adopted a restricted unit plan (the Plan) for its non-employee directors and key employees of the General Partner and its affiliates effective June 1996. Rights to acquire 146,000 Common Units (Phantom Units) are available under the Plan and may be granted to employees from time to time at the discretion of the Plan Committee. Commencing on September 1, 1996 and on each September 1 thereafter that the Plan is in effect, each director who is in office automatically receives 500 units. The Phantom Units vest upon, and in the same proportions as (1) the conversion of the Partnership's Subordinated Units into Common Units or (2) if later, the third anniversary of their grant date, and (3) terms and conditions specified by each grant. During fiscal 1999, 21,300 of these Phantom Units were granted to non-employee directors and key employees. During fiscal 1998 and 1997, 20,200 and 18,000, respectively, of these Phantom Units were granted to non-employee directors and key employees. As of August 31, 1999, Phantom Units with a value of $1,346 have been awarded and the compensation cost related to such units will be recognized over the vesting period of the related awards. The Partnership applies APB Opinion No. 25, "Accounting for Stock Issued to Employees". Compensation cost and directors' fee expense of $358, $215 and $93 was recorded for fiscal 1999, 1998 and 1997, respectively, related to the issuance of the units. Subsequent to August 31, 1999, 4,500 of Phantom Unit grants vested pursuant to the vesting rights of the Plan. The Partnership 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.

7. REGISTRATION STATEMENTS:

Effective November 19, 1997, the Partnership registered 2,000,000 additional Common Units on Form S-4 that may be issued from time to time by the Partnership by means of a prospectus delivered in connection with its negotiations for acquisition of other businesses, properties or securities in business combination transactions. On August 6, 1998, 60,606 Common Units were issued from this registration statement in connection with the acquisition of certain assets of another propane company. Subsequent to August 31, 1999, 56,578 Common Units were issued from this registration statement in connection with the acquisition of certain assets of subsequent acquisitions.

Effective September 13, 1999, the Partnership registered $150,000,000 of Common Units and Debt Securities on Form S-3 that may be offered for sale in one or more offerings. On October 25, 1999, the Partnership issued a prospectus supplement offering 1,200,000 Common Units, representing limited partner interests in the Partnership. The underwriters delivered the Common Units to purchasers on October 28, 1999 at a public offering price of $22.00 per Common Unit. The underwriters may also purchase up to an additional 180,000 Common Units on the same terms within 30 days from the date of the prospectus supplement to cover over-allotments, if any. The Partnership used the net proceeds of approximately $24.0 million from this offering to repay a portion of the outstanding indebtedness under its acquisition facility that was incurred to acquire propane businesses.

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

The Company sponsors a defined contribution profit sharing and 401(k) savings plan (the Plan), which covers all employees subject to service period requirements. Contributions are made to the Plan at the discretion of the Board of Directors. Total expense under the profit sharing provision of the Plan during the years ended August 31, 1999, 1998 and 1997, was $425, $375 and $325, respectively. At August 31, 1999 and 1998, accounts payable included amounts payable from the Partnership to the General Partner of $1,964 and $1,192, respectively.

9. RELATED PARTY TRANSACTIONS:

The Partnership 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 the Partnership, and all other necessary or appropriate expenses allocable to the Partnership or otherwise reasonably incurred by the General Partner in connection with operating the Partnership's business. These costs, which totaled approximately $38,314, $33,870 and $28,659 for the years ended August 31, 1999, 1998 and 1997, respectively, include compensation and benefits paid to officers and employees of the General Partner.

10. REPORTABLE SEGMENTS:

The Partnership has adopted SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information which requires the reporting of certain financial information by business segment. The Partnership financial statements reflect three reportable segments: the domestic retail operations of Heritage Propane Partners, the domestic wholesale operations of Heritage Propane Partners, and the foreign wholesale operations of M-P Energy Partnership, a majority owned partnership. The Partnership's reportable segments are strategic business units that sell products and services to different types of users; retail and wholesale customers. M-P Energy Partnership is a 60 percent owned Canadian wholesale supplier that the Partnership consolidates. Intersegment sales by the foreign wholesale segment to the domestic segment are priced in accordance with the partnership agreement. The Partnership manages these segments separately as each segment involves different distribution, sale and marketing strategies. The Partnership 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 $6,236, $5,484 and $5,351 for the years ended 1999, 1998 and 1997, respectively.

The following table presents financial information by segment for the years ended August 31,

	1999	1998	1997
Gallons:			
Domestic retail	159,938	146,747	125,606
Domestic wholesale	7,795	11,413	21,431
Foreign wholesale			
Affiliated	56,869	44,133	45,886
Unaffiliated	73,337	74,807	91,165
Elimination	(56,869)	(44,133)	(45,886)
Total	231,070	232,967	238,202
Revenues:			
Domestic retail fuel	$ 137,403	$ 136,301	$ 129,674
Domestic wholesale fuel	3,409	5,345	11,766
Foreign wholesale			
Affiliated	16,903	14,696	20,764
Unaffiliated	20,628	24,929	41,277
Elimination	(16,903)	(14,696)	(20,764)
Other domestic revenues	22,580	19,412	17,068
Total	$ 184,020	$ 185,987	$ 199,785

Operating Income:			
Domestic retail	$ 29,659	$ 27,242	$ 20,969
Domestic wholesale fuel	162	227	264
Foreign wholesale			
Affiliated	494	196	186
Unaffiliated	982	944	1,037
Elimination	(494)	(196)	(186)
Total	$ 30,803	$ 28,413	$ 22,270
Total Assets:			
Domestic retail	$ 236,215	$ 212,537	$ 174,636
Domestic wholesale	2,803	4,401	4,443
Foreign wholesale	4,566	3,110	4,864
Corporate	19,374	19,916	19,856
Total	$ 262,958	$ 239,964	$ 203,799
Depreciation and amortization:			
Domestic retail	$ 14,691	$ 13,603	$ 11,033
Domestic wholesale	45	59	76
Foreign	13	18	15
Total	$ 14,749	$ 13,680	$ 11,124

11. SIGNIFICANT INVESTEE:

At August 31, 1999, the Partnership held a 50 percent interest in Bi-State Partnership. The Partnership accounts for its 50 percent interest in Bi-State Partnership under the equity method. The Partnership's investment in Bi-State Partnership totaled $5,202 and $4,667 at August 31, 1999 and 1998 respectively. The Partnership received distributions from Bi-State Partnership in the amount of $470, $100 and $100 for the years ended August 31, 1999, 1998 and 1997, respectively.

Bi-State Partnership's financial position at August 31, 1999 and 1998 is summarized below:

	1999	1998
Current assets	$ 1,533	$ 2,533
Noncurrent assets	14,281	13,752
	$ 15,814	$ 16,285
Current liabilities	$ 2,333	$ 2,306
Long-term debt	4,804	6,516
Partners' capital:		
Heritage	5,202	4,667
Other partner	3,475	2,796
	$ 15,814	$ 16,285

Bi-State Partnership's results of operations for fiscal years ended August 31, 1999, 1998 and 1997 are summarized below:

	1999	1998	1997
Revenues	$ 12,627	$ 10,708	$ 9,162
Gross profit	7,356	5,944	4,058
Net income:			
Heritage	1,005	707	328
Other partner	1,149	878	462

12. QUARTERLY FINANCIAL DATA (UNAUDITED):

Fiscal 1999:

	Nov. 30	Feb. 28	May 31	Aug. 31
Revenues	$ 41,558	$ 68,498	$ 43,150	$ 30,814
Operating income (loss)	4,563	18,070	5,009	(3,075)
Net income (loss)	1,215	14,404	1,344	(7,301)
Net income (loss) per unit- basic and diluted	0.14	1.66	0.15	(0.84)

Fiscal 1998:

	Nov. 30	Feb. 28	May 31	Aug. 31
Revenues	$ 45,906	$ 71,656	$ 42,285	$ 26,140
Operating income (loss)	3,999	17,932	3,989	(2,991)
Net income (loss)	494	14,627	419	(6,750)
Net income (loss) per unit- basic and diluted	0.06	1.74	0.05	(0.79)

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

INDEX TO EXHIBITS

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

	Exhibit Number	Description
(1)	3.1	Agreement of Limited Partnership of Heritage Propane Partners, L.P.
(7)	10.1	First Amended and Restated Credit Agreement with Banks Dated May 31, 1999
(*)	10.1.1	First Amendment to the First Amended and Restated Credit Agreement dated as of October 15, 1999
(1)	10.2	Form of Note Purchase Agreement (June 25, 1996)
(3)	10.2.1	Amendment of Note Purchase Agreement (June 25, 1996) dated as of July 25, 1996
(4)	10.2.2	Amendment of Note Purchase Agreement (June 25, 2996) dated as of March 11, 1997
(6)	10.2.3	Amendment of Note Purchase Agreement (June 25, 1996) dated as of October 15, 1998
(*)	10.2.4	Second Amendment Agreement dated September 1, 1999 to June 25, 1996 Note Purchase Agreement
(1)	10.3	Form of Contribution, Conveyance and Assumption Agreement among Heritage Holdings, Inc., Heritage Propane Partners, L.P. and Heritage Operating, L.P.
(1)	10.6	Restricted Unit Plan
(4)	10.6.1	Amendment of Restricted Unit Plan dated as of October 17, 1996
(2)	10.7	Employment Agreement for James E. Bertelsmeyer
(1)	10.8	Employment Agreement for R. C. Mills
(1)	10.9	Employment Agreement for G.A. Darr
(1)	10.10	Employment Agreement for H. Michael Krimbill
(6)	10.11	Employment Agreement for Bradley K. Atkinson
(7)	10.12	First Amended and Restated Revolving Credit Agreement between Heritage Service Corp. and Banks Dated May 31, 1999
(5)	10.16	Note Purchase Agreement dated as of November 19, 1997
(6)	10.16.1	Amendment dated October 15, 1998 to November 19, 1997 Note Purchase Agreement
(*)	10.16.2	Second Amendment Agreement dated September 1, 1999 to November 19, 1997 Note Purchase Agreement and June 25, 1996 Note Purchase Agreement

(*)	Exhibit Number	Description
(*)	21.1	List of Subsidiaries
(*)	23.3	Consent of Arthur Andersen LLP
	27.1	Financial Data Schedule - Filed with EDGAR version only
(*)	99.1	Balance Sheet of Heritage Holdings, Inc. as of August 31, 1999

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(1) Incorporated by reference to the same numbered Exhibit to Registrant's Registration Statement of Form S-1, File No. 333-04018, filed with the Commission on June 21, 1996.

(2) Incorporated by reference to Exhibit 10.11 to Registrant's Registration Statement on Form S-1, File No. 333-04018, filed with the Commission on June 21, 1996.

(3) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended November 30, 1996.

(4) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended February 28, 1997.

(5) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended May 31, 1998.

(6) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 1998.

(7) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 1999.

(*) Filed Herewith.

EXHIBIT 10.1.1

FIRST AMENDMENT TO
FIRST AMENDED AND RESTATED CREDIT AGREEMENT

THIS FIRST AMENDMENT TO FIRST AMENDED AND RESTATED CREDIT AGREEMENT, dated effective as of October 15, 1999 (the "First Amendment"), is entered into between and among HERITAGE OPERATING, L.P., a Delaware limited partnership (the "Borrower") and BANK OF OKLAHOMA, NATIONAL ASSOCIATION ("BOk"), MERCANTILE BANK NATIONAL ASSOCIATION ("Mercantile") and LOCAL OKLAHOMA BANK, N. A. ("Local") (BOk, Mercantile and Local, together with each other Person that becomes a Bank pursuant to Article XI of the Credit Agreement (hereinafter defined) collectively referred to herein as the "Banks"), BOk, as administrative agent for the Banks (in such capacity, the "Administrative Agent") and Mercantile, as co-agent for the Banks (in such capacity, the "Co-Agent").

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

WHEREAS, the Borrower has requested the Banks, the Administrative Agent and the Co-Agent to increase (i) the maximum outstanding amount of the Working Capital Loan pursuant to the Working Capital Facility from $20,000,000.00 to $35,000,000.00 and (ii) the maximum outstanding amount of the Acquisition Loan pursuant to the Acquisition Facility from $30,000,000.00 to $50,000,000.00 and to amend and modify certain other provisions of the Credit Agreement concerning interest rates and fees.

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

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

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

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

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

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

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

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

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

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

3. The definition of "Intercreditor Agreement" in the Credit Agreement shall be amended by adding at the end thereof the phrase "or the Credit Agreement, as amended."

4. The definition of "Note Purchase Agreement" in the Credit Agreement is deleted in its entirety and replaced by the following:

> "Note Purchase Agreements" means that certain (i) Note Purchase Agreement between Heritage, Borrower and the Note Purchasers named in the Purchaser Schedule annexed as Schedule I thereto dated as of June 25, 1996, as amended, and (ii) Note Purchase Agreement between Borrower and the Note Purchasers named in the Initial Purchaser Schedule annexed thereto dated as of November 19, 1997, as amended.

5. The definition of "Private Placement Notes" in the Credit Agreement is deleted in its entirety and replaced by the following:

> "Private Placement Notes" means (i) the $120,000,000 senior secured notes issued pursuant to the Memorandum, sold to the Purchasers and described and defined in the Note Purchase Agreement dated as of June 25, 1996, as amended, and (ii) the $47,000,000 senior secured notes described and defined in the Note Purchase Agreement dated as of November 19, 1997, as amended.

6. Section 2.1.2(a) of the Existing Credit Agreement is amended by deleting "$30,000,000" and inserting in lieu thereof "$50,000,000." The form of Exhibits 2.1.3 (Acquisition Loan Advance Request) and 2.1.4 (Acquisition Notes) annexed to the Existing Credit Agreement are replaced with the form of Exhibits 2.1.3 and 2.1.4 annexed to this First Amendment.

7. Section 2.2.2 of the Existing Credit Agreement is amended by deleting "$20,000,000" and inserting in lieu thereof "$35,000,000." The form of Exhibits 2.2.3 (Loan Advance Request [Working Capital Credit Loans]) and 2.2.4 (Working Capital Notes) annexed to the Existing Credit Agreement are replaced with the form of Exhibits 2.2.3 and 2.2.4 annexed to this First Amendment.

8. Section 3.1 of the Existing Credit Agreement is amended by deleting "June 30, 1999" and inserting in lieu thereof "October 31, 1999."

9. A new Section 3.12 "Facility Fees" shall be added to the Existing Credit Agreement as follows:

> 3.12 Facility Fees. The Borrower shall pay to (a) BOk a one time facility fee in the amount of $250,000 and (b) Mercantile a one time facility fee of $100,000, each due on the Closing Date of this First Amendment.

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

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

11. Section 7B.2(ii)(x) of the Existing Credit Agreement is amended by deleting "$20,000,000" and inserting in lieu thereof "$35,000,000."

12. Section 7B.2(iii) of the Existing Credit Agreement is amended by deleting "$30,000,000" and inserting in lieu thereof "$50,000,000."

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

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

Bank	Maximum Acquisition Loan Commitments	Maximum Working Capital Loan Commitments	Maximum Commitments Amount	Percentage Interest
BOk	$ 26,470,588.24	$ 18,529,411.76	$45,000,000.00	52.9411%
Mercantile	$ 14,705,882.35	$ 10,294.117.65	$25,000,000.00	29.4118%
Local	$ 8,823,529.41	$ 6,176,470.59	$15,000,000.00	17.6471%
Total	$ 50,000,000.00	$ 35,000,000.00	$85,000,000.00	100.0000%

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

14. Section 11.4 of the Existing Credit Agreement is deleted in its entirety and replaced by the following:

11.4 Sale of Certain Participations. The Borrower, the Agents and the Banks recognize and acknowledge that BOk is selling participating interests in its Notes to Stillwater National Bank and Trust Company ($8,000,000.00) and MidFirst Bank ($10,000,000.00), respectively.

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

16. Intercreditor Agreement/Security Agreement. The Borrower confirms that it has reviewed and approved the terms of the Intercreditor Agreement, including without limitation, the setoff sharing provisions set forth in Section 13(c) thereof. The Borrower agrees that any setoffs shared under the terms of the Intercreditor Agreement with the Purchasers of the Private Placement Notes, to the extent of the portions so shared, will not be deemed to pay down the Loan. The Borrower further confirms and represents to the Banks, the Administrative Agent and the Co-Agent that (i) the additional $35,000,000.00 available under the Commitments ($15,000,000.00 under the Working Capital Loan Facility and $20,000,000.00 under the Acquisition Facility) are secured by the Security Agreement and (ii) any amendments to or modifications of the Security Agreement or the Intercreditor Agreement and any notice to or consent of the Collateral Agent required by virtue of the increased Commitments or other transactions contemplated by this First Amendment have been duly and validly consummated, given or obtained, as the case may be, and that such amendments, modifications or consents remain in full force and effect.

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

18. General. The Existing Credit Agreement and all of the other Loan Documents are each confirmed as being in full force and effect. This First Amendment, the Existing Credit Agreement and the other Loan Documents referred to herein or therein constitute the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior and current understandings and agreements, whether written or oral, with respect to such subject matter. The invalidity or unenforceability of any provision hereof shall not affect the validity and enforceability of any other term or provision hereof. The headings in this First Amendment are for convenience of reference only and shall not alter, limit or otherwise affect the meaning

hereof. Each of this First Amendment and the Existing Credit Agreement is a Loan Document and may be executed in any number of counterparts, which together shall constitute one instrument, and shall bind and inure to the benefit of the parties and their respective successors and assigns including as such successors and assigns all holders of any Note. This First Amendment shall be governed by and construed in accordance with the laws (other than the conflict of law rules) of the State of Oklahoma.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

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

"Borrower"

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

By: Heritage Holdings, Inc., a Delaware
corporation, general partner

By /s/ H. MICHAEL KRIMBILL

H. Michael Krimbill
President

"Banks"

BANK OF OKLAHOMA, NATIONAL
ASSOCIATION

By
Denise L. Maltby, Senior Vice President

MERCANTILE BANK NATIONAL
ASSOCIATION

By
Jeffrey A. Nelson, Vice President

LOCAL OKLAHOMA BANK, N.A.

By
Elisabeth F. Blue, Senior Vice President

"Administrative Agent"

BANK OF OKLAHOMA, NATIONAL
ASSOCIATION

By
Denise L. Maltby, Senior Vice President

"Co-Agent"

MERCANTILE BANK NATIONAL ASSOCIATION

By
Jeffrey A. Nelson, Vice President

EXHIBIT 10.2.4

HERITAGE OPERATING, L.P.

SECOND AMENDMENT AGREEMENT

Re: Note Purchase Agreement dated as of June 25, 1996
Note Purchase Agreement dated as of November 19, 1997

Dated as of
September 1, 1999

To each of the Holders named
in Schedule 1 to this Second
Amendment Agreement

Ladies and Gentlemen:

Reference is made to

(i) the Note Purchase Agreement dated as of June 25, 1996 (the "Original 1996 Agreement"), among Heritage Operating, L.P., a Delaware limited partnership (the "Company") and the Purchasers named in the Purchaser Schedule attached thereto, as amended by a First Amendment Agreement (the "First Amendment Agreement") dated as of October 15, 1998 (said Original 1996 Agreement, as amended, being hereinafter referred to as the "Outstanding 1996 Agreement") under and pursuant to which the Company issued, and there are presently outstanding, $120,000,000 aggregate principal amount of its 8.55% Senior Secured Notes due 2011 (the "1996 Notes"); and

(ii) the Note Purchase Agreement dated as of November 19, 1997 (the "Basic 1997 Agreement"), among the Company and the Purchasers named in the Initial Purchaser Schedule attached thereto, as amended by the First Amendment Agreement (said Basic 1997 Agreement, as so amended, being hereinafter referred to as the "Amended Basic 1997 Agreement"), under and pursuant to which the Company issued, and there are presently outstanding, $12,000,000 aggregate principal amount of its 7.17% Series A Senior Secured Notes due November 19, 2009 (the "Series A Notes") and $20,000,000 aggregate principal amount of its 7.26% Series B Senior Secured Notes due November 19, 2012 (the "Series B Notes"), as supplemented by the First Supplemental Note Purchase Agreement dated as of March 13, 1998 the "First Supplemental Agreement" among the Company and the Purchasers named in the Supplemental Purchaser Schedule attached thereto, under and pursuant to which the Company issued, and there are presently outstanding, (x) $5,000,000 aggregate principal amount of its 6.50% Series C Senior Secured Notes due March 13, 2007 (the "Series C Notes"), (y) $5,000,000 aggregate principal amount of its 6.59% Series D Senior Secured Notes due March 13, 2010 (the "Series D Notes") and (z) $5,000,000 aggregate principal amount of its 6.67% Series E Senior Secured Notes due March 13, 2013 (the "Series E Notes").

The Amended Basic 1997 Agreement, as supplemented by the First Supplemental Agreement is hereinafter sometimes referred to as the "Outstanding 1997 Agreement". The Outstanding 1996 Agreement and the Outstanding 1997 Agreement are hereinafter sometimes collectively referred to as the "Outstanding Agreements". The 1996 Notes, Series A Notes, Series B Notes, Series C Notes, Series D Notes and Series E Notes are hereinafter sometimes collectively referred to as the "Outstanding Notes."

The Company now desires to amend certain provisions of the Outstanding Agreements. You are the owner and holder of the Outstanding Notes set forth opposite your name on Schedule 1 hereto. The Company hereby requests that from and after your acceptance hereof in the manner hereinafter provided and upon receipt by the Company of similar acceptances from the holders of the requisite percentage of each issue of the Outstanding Notes, said Outstanding Agreements shall be amended in the respects, but only in the respects, hereinafter set forth.

ARTICLE I
AMENDMENTS TO OUTSTANDING 1996 AGREEMENT

I-A. The reference to "$20,000,000" set forth in Section 6B(ii) of the Outstanding 1996 Agreement is hereby deleted and "$35,000,000" shall be substituted therefor.

I-B. The reference to "$30,000,000" set forth in Section 6B(iii) of the Outstanding 1996 Agreement is hereby deleted and the phrase "the Contracted Dollar" shall be substituted therefor.

I-C. The reference to "$30,000,000" contained in the definition of the term "Acquisition Facility" set forth in Section 10B of the Outstanding 1996 Agreement is hereby deleted and the phrase "the Contracted Dollar" shall be substituted therefor.

I-D. The references to "$20,000,000" contained in the definition of the term "Revolving Working Capital Facility" set forth in Section 10B of the Outstanding 1996 Agreement are hereby deleted and "$35,000,000" shall be substituted therefor.

I-E. Section 10B of the Outstanding 1996 Agreement is hereby amended by adding thereto a new definition, in the proper alphabetical position, to be entitled "Contracted Dollar" and to read as follows:

" `Contracted Dollar' shall mean the sum of:

(a) $50,000,000; plus

(b) $45,000,000 from and after any date, occurring on or prior to March 31, 2000, on which the Company or any Subsidiary shall purchase the retail propane properties and underground propane storage facilities of SCANA Corporation which are being offered for sale by such corporation on September 1, 1999; minus (to the extent that the amount of `Contracted Dollar' is not reduced below $50,000,000)

(c) the net cash proceeds to the Company or any Subsidiary resulting from any sale of Capital Stock of the Company or any Subsidiary to any Person (other than the Company or a Subsidiary), on or prior to August 1, 2001."

ARTICLE II
AMENDMENTS TO OUTSTANDING 1997 AGREEMENT

II-A. The reference to "$20,000,000" set forth in Section 6B(ii) of the Outstanding 1997 Agreement is hereby deleted and "$35,000,000" shall be substituted therefor.

II-B. The reference to "$30,000,000" set forth in Section 6B(iii) of the Outstanding 1997 Agreement is hereby deleted and the phrase "the Contracted Dollar" shall be substituted therefor.

II-C. The reference to "$30,000,000" contained in the definition of the term "Acquisition Facility" set forth in Section 10B of the Outstanding 1997 Agreement is hereby deleted and the phrase "the Contracted Dollar" shall be substituted therefor.

II-D. The references to "$20,000,000" contained in the definition of the term "Revolving Working Capital Facility" set forth in Section 10B of the Outstanding 1997 Agreement are hereby deleted and "$35,000,000" shall be substituted therefor.

II-E. Section 10B of the Outstanding 1997 Agreement is hereby amended by adding thereto a new definition, in the proper alphabetical position, to be entitled "Contracted Dollar" and to read as follows:

" `Contracted Dollar' shall mean the sum of:

(a) $50,000,000; plus

(b) $45,000,000 from and after any date, occurring on or prior to March 31, 2000, on which the Company or any Subsidiary shall purchase the retail propane properties and underground propane storage facilities of SCANA Corporation which are being offered for sale by such corporation on September 1, 1999; minus (to the extent that the amount of `Contracted Dollar' is not reduced below $50,000,000)

(c) the net cash proceeds to the Company or any Subsidiary resulting from any sale of Capital Stock of the Company or any Subsidiary to any Person (other than the Company or a Subsidiary), on or prior to August 1, 2001."

ARTICLE III

MISCELLANEOUS

III-A. If the foregoing is acceptable to you, kindly note your acceptance in the space provided below and upon receipt by the Company of similar acceptances signed by the holders of the requisite percentage of each issue of the Outstanding Notes, the Outstanding Agreements shall be amended and restated as set forth above, but all other terms and provisions of the Outstanding Agreements shall remain unchanged and are in all respects ratified, confirmed and approved.

III-B. By your acceptance hereof you also agree that you shall, prior to any sale, assignment, transfer, pledge or other disposition by you of any Outstanding Notes, either (i) place on the Outstanding Notes so to be disposed of an appropriate endorsement referring to this Second Amendment Agreement as binding upon the parties hereto and upon any and all future holders of such Outstanding Notes, or (ii) (at your option) surrender such Outstanding Notes for new notes modified to reflect the changes set forth herein. All expenses for the preparation of such new notes and the exchange of such Outstanding Notes are to be borne by the Company.

Very truly yours,

HERITAGE OPERATING L.P.

By Heritage Holdings, Inc., General Partner

By
Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY

By

Its

JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY

By

Its

MELLON BANK, N.A., solely in its capacity as Trustee for the Long-Term Investment Trust (as directed by John Hancock Mutual Life Insurance Company), and not in its individual capacity

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

PRINCIPAL LIFE INSURANCE COMPANY
(f/k/a Principal Mutual Life Insurance Company)

By

Its

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

NEW YORK LIFE INSURANCE COMPANY

By

Its

NEW YORK LIFE INSURANCE AND ANNUITY
CORPORATION

By: New York Life Insurance Company

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

TEACHERS INSURANCE AND ANNUITY
ASSOCIATION OF AMERICA

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

KEYPORT LIFE INSURANCE COMPANY

By Stein Roe & Farnham Incorporated, as agent

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

J. ROMEO & CO.

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

PACIFIC LIFE INSURANCE COMPANY
(formerly Pacific Mutual Life Insurance Company)

By

Its

By

Its

PACIFIC LIFE INSURANCE COMPANY

By

Its

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

PHOENIX HOME LIFE MUTUAL INSURANCE
COMPANY

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

RELIASTAR LIFE INSURANCE COMPANY

By

Its

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GENERAL AMERICAN LIFE INSURANCE COMPANY

By: Conning Asset Management

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

WISCONSIN NATIONAL LIFE INSURANCE COMPANY

By

Its

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

ALLSTATE LIFE INSURANCE COMPANY

By ________________________________
Name:

By ________________________________
Name:
Authorized Signatories

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

JEFFERSON PILOT FINANCIAL INSURANCE COMPANY

(FKA Chubb Life Insurance Company of America)

By

Its

SCHEDULE 1

NAME OF HOLDER OF OUTSTANDING NOTES	PRINCIPAL AMOUNT AND SERIES OF OUTSTANDING NOTES HELD AS OF SEPTEMBER 1, 1999
John Hancock Mutual Life Insurance Company	$13,000,000 1996 Notes
John Hancock Mutual Life Insurance Company	$ 8,000,000 1996 Notes
John Hancock Variable Life Insurance Company	$ 1,000,000 1996 Notes
Mellon Bank, N.A., Trustee Under Master Trust Agreement of AT&T Corporation dated January 1, 1984 for Employee Pension Plans - AT&T - John Hancock - Private Placement	$ 3,000,000 1996 Notes
Massachusetts Mutual Life Insurance Company	$15,000,000 1996 Notes
Principal Mutual Life Insurance Company	$15,000,000 1996 Notes
New York Life Insurance Company	$12,500,000 1996 Notes
Teachers Insurance and Annuity Association of America	$12,500,000 1996 Notes
Keyport Life Insurance Company	$10,000,000 1996 Notes
MONY Life Insurance Company of America	$ 3,500,000 1996 Notes
The Mutual Life Insurance Company of New York	$ 4,000,000 1996 Notes
Pacific Mutual Life Insurance Company	$ 5,500,000 1996 Notes
Phoenix Home Life Mutual Insurance Company	$ 5,000,000 1996 Notes
ReliaStar Life Insurance Company	$ 5,000,000 1996 Notes
General American Life Insurance Company	$ 4,000,000 1996 Notes
Wisconsin National Life Insurance Company	$ 3,000,000 1996 Notes

Pacific Life Insurance Company	$12,000,000 Series A Notes
Pacific Life Insurance Company	$ 8,000,000 Series B Notes
New York Life Insurance Company	$ 5,000,000 Series B Notes
New York Life Insurance and Annuity Corporation	$ 7,000,000 Series B Notes
Allstate Life Insurance Company	$ 5,000,000 Series C Notes
Chubb Life Insurance Company of America	$ 5,000,000 Series D Notes
MONY Life Insurance Company of America	$ 5,000,000 Series E Notes

EXHIBIT 10.16.2

HERITAGE OPERATING, L.P.

SECOND AMENDMENT AGREEMENT

Re: Note Purchase Agreement dated as of June 25, 1996
Note Purchase Agreement dated as of November 19, 1997

Dated as of
September 1, 1999

To each of the Holders named
in Schedule 1 to this Second
Amendment Agreement

Ladies and Gentlemen:

Reference is made to

(i) the Note Purchase Agreement dated as of June 25, 1996 (the "Original 1996 Agreement"), among Heritage Operating, L.P., a Delaware limited partnership (the "Company") and the Purchasers named in the Purchaser Schedule attached thereto, as amended by a First Amendment Agreement (the "First Amendment Agreement") dated as of October 15, 1998 (said Original 1996 Agreement, as amended, being hereinafter referred to as the "Outstanding 1996 Agreement") under and pursuant to which the Company issued, and there are presently outstanding, $120,000,000 aggregate principal amount of its 8.55% Senior Secured Notes due 2011 (the "1996 Notes"); and

(ii) the Note Purchase Agreement dated as of November 19, 1997 (the "Basic 1997 Agreement"), among the Company and the Purchasers named in the Initial Purchaser Schedule attached thereto, as amended by the First Amendment Agreement (said Basic 1997 Agreement, as so amended, being hereinafter referred to as the "Amended Basic 1997 Agreement"), under and pursuant to which the Company issued, and there are presently outstanding, $12,000,000 aggregate principal amount of its 7.17% Series A Senior Secured Notes due November 19, 2009 (the "Series A Notes") and $20,000,000 aggregate principal amount of its 7.26% Series B Senior Secured Notes due November 19, 2012 (the "Series B Notes"), as supplemented by the First Supplemental Note Purchase Agreement dated as of March 13, 1998 the "First Supplemental Agreement" among the Company and the Purchasers named in the Supplemental Purchaser Schedule attached thereto, under and pursuant to which the Company issued, and there are presently outstanding, (x) $5,000,000 aggregate principal amount of its 6.50% Series C Senior Secured Notes due March 13, 2007 (the "Series C Notes"), (y) $5,000,000 aggregate principal amount of its 6.59% Series D Senior Secured Notes due March 13, 2010 (the "Series D Notes") and (z) $5,000,000 aggregate principal amount of its 6.67% Series E Senior Secured Notes due March 13, 2013 (the "Series E Notes").

The Amended Basic 1997 Agreement, as supplemented by the First Supplemental Agreement is hereinafter sometimes referred to as the "Outstanding 1997 Agreement". The Outstanding 1996 Agreement and the Outstanding 1997 Agreement are hereinafter sometimes collectively referred to as the "Outstanding Agreements". The 1996 Notes, Series A Notes, Series B Notes, Series C Notes, Series D Notes and Series E Notes are hereinafter sometimes collectively referred to as the "Outstanding Notes."

The Company now desires to amend certain provisions of the Outstanding Agreements. You are the owner and holder of the Outstanding Notes set forth opposite your name on Schedule 1 hereto. The Company hereby requests that from and after your acceptance hereof in the manner hereinafter provided and upon receipt by the Company of similar acceptances from the holders of the requisite percentage of each issue of the Outstanding Notes, said Outstanding Agreements shall be amended in the respects, but only in the respects, hereinafter set forth.

ARTICLE I
AMENDMENTS TO OUTSTANDING 1996 AGREEMENT

I-A. The reference to "$20,000,000" set forth in Section 6B(ii) of the Outstanding 1996 Agreement is hereby deleted and "$35,000,000" shall be substituted therefor.

I-B. The reference to "$30,000,000" set forth in Section 6B(iii) of the Outstanding 1996 Agreement is hereby deleted and the phrase "the Contracted Dollar" shall be substituted therefor.

I-C. The reference to "$30,000,000" contained in the definition of the term "Acquisition Facility" set forth in Section 10B of the Outstanding 1996 Agreement is hereby deleted and the phrase "the Contracted Dollar" shall be substituted therefor.

I-D. The references to "$20,000,000" contained in the definition of the term "Revolving Working Capital Facility" set forth in Section 10B of the Outstanding 1996 Agreement are hereby deleted and "$35,000,000" shall be substituted therefor.

I-E. Section 10B of the Outstanding 1996 Agreement is hereby amended by adding thereto a new definition, in the proper alphabetical position, to be entitled "Contracted Dollar" and to read as follows:

"`Contracted Dollar' shall mean the sum of:

(a) $50,000,000; plus

(b) $45,000,000 from and after any date, occurring on or prior to March 31, 2000, on which the Company or any Subsidiary shall purchase the retail propane properties and underground propane storage facilities of SCANA Corporation which are being offered for sale by such corporation on September 1, 1999; minus (to the extent that the amount of `Contracted Dollar' is not reduced below $50,000,000)

(c) the net cash proceeds to the Company or any Subsidiary resulting from any sale of Capital Stock of the Company or any Subsidiary to any Person (other than the Company or a Subsidiary), on or prior to August 1, 2001."

ARTICLE II
AMENDMENTS TO OUTSTANDING 1997 AGREEMENT

II-A. The reference to "$20,000,000" set forth in Section 6B(ii) of the Outstanding 1997 Agreement is hereby deleted and "$35,000,000" shall be substituted therefor.

II-B. The reference to "$30,000,000" set forth in Section 6B(iii) of the Outstanding 1997 Agreement is hereby deleted and the phrase "the Contracted Dollar" shall be substituted therefor.

II-C. The reference to "$30,000,000" contained in the definition of the term "Acquisition Facility" set forth in Section 10B of the Outstanding 1997 Agreement is hereby deleted and the phrase "the Contracted Dollar" shall be substituted therefor.

II-D. The references to "$20,000,000" contained in the definition of the term "Revolving Working Capital Facility" set forth in Section 10B of the Outstanding 1997 Agreement are hereby deleted and "$35,000,000" shall be substituted therefor.

II-E. Section 10B of the Outstanding 1997 Agreement is hereby amended by adding thereto a new definition, in the proper alphabetical position, to be entitled "Contracted Dollar" and to read as follows:

" `Contracted Dollar' shall mean the sum of:

(a) $50,000,000; plus

(b) $45,000,000 from and after any date, occurring on or prior to March 31, 2000, on which the Company or any Subsidiary shall purchase the retail propane properties and underground propane storage facilities of SCANA Corporation which are being offered for sale by such corporation on September 1, 1999; minus (to the extent that the amount of `Contracted Dollar' is not reduced below $50,000,000)

(c) the net cash proceeds to the Company or any Subsidiary resulting from any sale of Capital Stock of the Company or any Subsidiary to any Person (other than the Company or a Subsidiary), on or prior to August 1, 2001."

ARTICLE III

MISCELLANEOUS

III-A. If the foregoing is acceptable to you, kindly note your acceptance in the space provided below and upon receipt by the Company of similar acceptances signed by the holders of the requisite percentage of each issue of the Outstanding Notes, the Outstanding Agreements shall be amended and restated as set forth above, but all other terms and provisions of the Outstanding Agreements shall remain unchanged and are in all respects ratified, confirmed and approved.

III-B. By your acceptance hereof you also agree that you shall, prior to any sale, assignment, transfer, pledge or other disposition by you of any Outstanding Notes, either (i) place on the Outstanding Notes so to be disposed of an appropriate endorsement referring to this Second Amendment Agreement as binding upon the parties hereto and upon any and all future holders of such Outstanding Notes, or (ii) (at your option) surrender such Outstanding Notes for new notes modified to reflect the changes set forth herein. All expenses for the preparation of such new notes and the exchange of such Outstanding Notes are to be borne by the Company.

Very truly yours,

HERITAGE OPERATING L.P.

By Heritage Holdings, Inc., General Partner

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

JOHN HANCOCK MUTUAL LIFE INSURANCE
COMPANY

By

Its

JOHN HANCOCK VARIABLE LIFE INSURANCE
COMPANY

By

Its

MELLON BANK, N.A., solely in its capacity as
Trustee for the Long-Term Investment Trust
(as directed by John Hancock Mutual Life Insurance
Company), and not in its individual capacity

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

MASSACHUSETTS MUTUAL LIFE INSURANCE
COMPANY

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

PRINCIPAL LIFE INSURANCE COMPANY
(f/k/a Principal Mutual Life Insurance Company)

By

Its

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

NEW YORK LIFE INSURANCE COMPANY

By

Its

NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION

By: New York Life Insurance Company

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

TEACHERS INSURANCE AND ANNUITY
ASSOCIATION OF AMERICA

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

KEYPORT LIFE INSURANCE COMPANY

By Stein Roe & Farnham Incorporated, as agent

By

Its

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J. ROMEO & CO.

By

Its

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PACIFIC LIFE INSURANCE COMPANY
(formerly Pacific Mutual Life Insurance Company)

By

Its

By

Its

PACIFIC LIFE INSURANCE COMPANY

By

Its

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

PHOENIX HOME LIFE MUTUAL INSURANCE
COMPANY

By

Its

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RELIASTAR LIFE INSURANCE COMPANY

By

Its

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GENERAL AMERICAN LIFE INSURANCE COMPANY

By: Conning Asset Management

By

Its

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

WISCONSIN NATIONAL LIFE INSURANCE COMPANY

By

Its

By

Its

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ALLSTATE LIFE INSURANCE COMPANY

By

Name:

By

Name:
Authorized Signatories

The foregoing Second Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of September 1, 1999, and the undersigned hereby confirms that on September 1, 1999 it held the aggregate principal amount of Outstanding Notes of the Company set forth on Schedule 1 hereto and that on the date of execution hereof it continues to hold such Outstanding Notes.

JEFFERSON PILOT FINANCIAL INSURANCE COMPANY

(FKA Chubb Life Insurance Company of America)

By

Its

SCHEDULE 1

NAME OF HOLDER OF OUTSTANDING NOTES	PRINCIPAL AMOUNT AND SERIES OF OUTSTANDING NOTES HELD AS OF SEPTEMBER 1, 1999
John Hancock Mutual Life Insurance Company	$13,000,000 1996 Notes
John Hancock Mutual Life Insurance Company	$8,000,000 1996 Notes
John Hancock Variable Life Insurance Company	$1,000,000 1996 Notes
Mellon Bank, N.A., Trustee Under Master Trust Agreement of AT&T Corporation dated January 1, 1984 for Employee Pension Plans - AT&T - John Hancock - Private Placement	$3,000,000 1996 Notes
Massachusetts Mutual Life Insurance Company	$15,000,000 1996 Notes
Principal Mutual Life Insurance Company	$15,000,000 1996 Notes
New York Life Insurance Company	$12,500,000 1996 Notes
Teachers Insurance and Annuity Association of America	$12,500,000 1996 Notes
Keyport Life Insurance Company	$10,000,000 1996 Notes
MONY Life Insurance Company of America	$3,500,000 1996 Notes
The Mutual Life Insurance Company of New York	$4,000,000 1996 Notes
Pacific Mutual Life Insurance Company	$5,500,000 1996 Notes
Phoenix Home Life Mutual Insurance Company	$5,000,000 1996 Notes
ReliaStar Life Insurance Company	$5,000,000 1996 Notes
General American Life Insurance Company	$4,000,000 1996 Notes
Wisconsin National Life Insurance Company	$3,000,000 1996 Notes

Pacific Life Insurance Company	$12,000,000 Series A Notes
Pacific Life Insurance Company	$8,000,000 Series B Notes
New York Life Insurance Company	$5,000,000 Series B Notes
New York Life Insurance and Annuity Corporation	$7,000,000 Series B Notes
Allstate Life Insurance Company	$5,000,000 Series C Notes
Chubb Life Insurance Company of America	$5,000,000 Series D Notes
MONY Life Insurance Company of America	$5,000,000 Series E Notes

EXHIBIT 21.1

SUBSIDIARIES

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

- Balgas
- Blue Flame Gas of Charleston
- Blue Flame Gas of Mt. Pleasant
- Blue Flame Gas of Vermont
- C & D Propane
- Carolane Propane Gas
- Claredon Gas
- Covington Propane
- Cumberland LP Gas
- Eaves Oil
- Fallsburg Gas
- Foster Gas
- Gas Service Co.
- Gibson Propane
- Greer Gas Co.
- Harris Propane Gas
- Heritage Propane
- Holton's L.P. Gas
- Horizon Gas
- Horizon Gas of Palm Bay
- Hydratane of Athens
- Ikard & Newson
- Jerry's Propane Service
- John E. Foster & Son
- Keen Propane
- Kingston Propane
- Liberty Propane Gas
- Lyons Propane
- Modern Propane
- Myers Propane Service
- New Mexico Propane
- Northern Energy
- Northwestern Propane
- Pioneer Gas
- Propane Gas Ind.
- Rasnick Gas
- Rural Bottled Gas and Appliance
- Sawyer Gas
- Spring Lake Super Flame
- Tri-Gas of Benzie
- Wakulla L.P.G.
- Wurtsboro Propane Gas
- Waynesville Gas Service
- Young's Propane

EXHIBIT 21.1

SUBSIDIARIES

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

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

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

    - M-P Oils Ltd.
    - M-P Energy Partnership

4. Guilford Gas Service, Inc.

EXHIBIT 23.3

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

/s/ Arthur Andersen LLP

Tulsa, Oklahoma
November 23, 1999

YEAR
AUG-31-1999
SEP-01-1998
AUG-31-1999
1,679
0
11,934
299
14,784
29,267
198,968
43,749
262,958
47,680
196,216
0
0
0
19,062
262,958
184,020
184,020
87,267
159,453
(1,464)
0
15,915
10,116
0
9,662
0
0
0
9,662
1.11
1.11

EXHIBIT 99.1

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of
Heritage Holdings, Inc.:

We have audited the accompanying consolidated balance sheet of Heritage Holdings, Inc. and subsidiaries (the Company) as of August 31, 1999. This balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

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

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the consolidated financial position of Heritage Holdings, Inc. and subsidiaries as of August 31, 1999, in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

Tulsa, Oklahoma
October 8, 1999 (except with respect to the matters discussed in Note 7, as to which the date is October 28, 1999)

HERITAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
(in thousands, except share and per share amounts)

	August 31, 1999
ASSETS	
CURRENT ASSETS:	
Cash	$ 2,050
Marketable securities	4,233
Accounts receivable, net	11,635
Inventories	14,784
Prepaid expenses	1,169
Assets held in trust	1,341
Total current assets	35,212
PROPERTY, PLANT AND EQUIPMENT, net	155,246
ASSETS HELD IN TRUST	2,341
INVESTMENT IN AFFILIATE	5,202
INTANGIBLES AND OTHER ASSETS, net	73,719
Total assets	$ 271,720
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES:	
Working capital facility	$ 19,900
Accounts payable	15,311
Accrued and other current liabilities	10,799
Current maturities of long-term debt	3,136
Total current liabilities	49,146
LONG-TERM DEBT, less current maturities	197,983
MINORITY INTEREST	71,404
DEFERRED TAXES	72,604
	391,137
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIT:	
Common stock, $.01 par value, 600,000 shares authorized, 534,788 shares issued and outstanding	5
Additional paid-in capital	11,889
Accumulated deficit	(125,613)
Other comprehensive income	1,444
Notes receivable from sale of common stock	(7,142)
Total stockholders' deficit	(119,417)
Total liabilities and stockholders' deficit	$ 271,720

The accompanying notes are an integral part of this consolidated balance sheet.

HERITAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED BALANCE SHEET
(Dollars in thousands, except per share/unit amounts)

1. OPERATIONS AND ORGANIZATION:

The accompanying consolidated balance sheet includes the accounts of Heritage Holdings, Inc., its subsidiaries, including Heritage Propane Partners, L.P. and Heritage Operating, L.P., and M-P Energy Partnership. The Company accounts for its 50 percent partnership interest in Bi-State Partnership, another propane retailer, under the equity method. All significant intercompany transactions and accounts have been eliminated in consolidation.

The Company has an unrealized gain of approximately $57,414 representing the difference between the net liabilities of $38,905 transferred to Heritage Operating, L.P. and its underlying equity in the Partnership at the initial public offering (IPO) date of $18,509.

The limited partner units received by the Company are subordinated to the Common Units sold to the public as the Common Units have preferential distribution rights during the Subordination Period. After the Subordination Period (see Note 6), the Company will recognize a gain in income of $57,414. The unrealized gain is recorded as minority interest in the consolidated balance sheet.

The Operating Partnership sells propane and propane-related products to approximately 265,000 retail customers in 26 states throughout the United States. The Partnership is also a wholesale propane supplier in the southwestern United States and in Canada, the latter through participation in a Canadian partnership. The Partnership grants credit to its customers for the purchase of propane and propane-related products.

2. SIGNIFICANT ACCOUNTING POLICIES AND BALANCE SHEET DETAIL:

MARKETABLE SECURITIES

The Company determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation at each balance sheet date. Marketable securities that have been classified as available-for-sale are carried at fair value, with unrealized gains and losses reported as other comprehensive income. Securities available for sale consist of equity securities with historical costs of $2,789, net unrealized gains of $1,444 and a market value of $4,233 at August 31, 1999.

INVENTORIES

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

	August 31, 1999
Fuel	$ 9,341
Appliances, parts and fittings	5,443
	$ 14,784

PROPERTY, PLANT AND EQUIPMENT

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

	August 31, 1999
Land and improvements	$ 8,778
Buildings and improvements (10 to 30 years)	16,732
Bulk storage, equipment and facilities (3 to 30 years)	19,109
Tanks and other equipment (5 to 30 years)	115,608
Vehicles (5 to 7 years)	32,481
Furniture and fixtures (5 to 10 years)	5,087
Other	1,312
	199,107
Less-accumulated depreciation	(43,861)
	$ 155,246

INTANGIBLES AND OTHER ASSETS

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

	August 31, 1999
Goodwill (30 years)	$ 48,672
Noncompete agreements (10 to 15 years)	30,647
Customer lists (15 years)	15,597
Other	6,269
	101,185
Less-accumulated amortization	(27,466)
	$ 73,719

LONG-LIVED ASSETS

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such a review should indicate that the carrying amount of long-lived assets is not recoverable, the Company reduces the carrying amount of such assets to fair value.

ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities consist of the following:

	August 31, 1999
Interest payable	$ 3,615
Wages and benefits	3,330
Deferred tank rent	1,450
Taxes other than income	641
Customer deposits	826
Other	937
	$ 10,799

INCOME TAXES

Effective September 1, 1996, the Company elected to be treated as an S Corporation for tax reporting purposes. This election results in the Company no longer operating as a taxable entity for federal and state tax reporting purposes. As an S Corporation, the taxable income of the Company is included in the taxable income of its shareholders. Deferred taxes are recorded for the estimated liability for income tax on built-in gains related to the difference between the estimated fair value and book value of the investment in Partnership. These deferred taxes will not be paid unless the Company disposes of its partnership units held on September 1, 1996, before September 1, 2006. At that time, the deferred income taxes would be eliminated from the balance sheet and be recorded as retained earnings.

OTHER COMPREHENSIVE INCOME

The Company applies Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," which requires companies to report all nonowner changes in equity during a period in the financial statements for the period in which they are recognized. The Company includes unrealized gains and losses on available-for-sale securities in other comprehensive income.

USE OF ESTIMATES

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

FAIR VALUE

The carrying amount of accounts receivable and accounts payable approximates their fair value. Based on the estimated borrowing rates currently available to the Company for long-term loans with similar terms and average maturities, the aggregate fair value at August 31, 1999, of the Company's long-term debt approximates the aggregate carrying amount.

3. ASSETS HELD IN TRUST:

In connection with the IPO, the Company retained $9,613 from the proceeds of the Notes. These proceeds were placed in various trusts to be paid to the noteholders of noncompete agreements entered into by the Company prior to the IPO. The proceeds are disbursed monthly from the trust in accordance with the noncompete agreements. The Company retains all earnings from the trust assets.

4. WORKING CAPITAL FACILITIES AND LONG-TERM DEBT:

Long-term debt consists of the following:

	August 31, 1999
8.55% Senior Secured Notes	$ 120,000
Medium Term Note Program:	
7.17% Series A Senior Secured Notes	12,000
7.26% Series B Senior Secured Notes	20,000
6.50% Series C Senior Secured Notes	5,000
6.59% Series D Senior Secured Notes	5,000
6.67% Series E Senior Secured Notes	5,000
Senior Revolving Acquisition Facility	18,300
Notes Payable on noncompete agreements with interest imputed at rates averaging 8%, due in installments through 2009, collateralized by a first security lien on certain assets of the Partnership	14,367
Other	1,452
	201,119
Current maturities of long-term debt	(3,136)
	$ 197,983

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

8.55% Senior Notes: mature at the rate of $12,000 on June 30 in each of the years 2002 to and including 2011.

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

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

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.

Series D Notes: mature at the rate of $556 on March 13 in each of the years 2002 to and including 2010.

Series E Notes: mature at the rate of $714 on March 13 in each of the years 2007 to and including 2013.

The Notes and the Medium Term Note Program contain restrictive covenants, including limitations on substantial disposition of assets, changes in ownership of the Partnership, additional indebtedness and require the maintenance of certain financial ratios. At August 31, 1999, the Partnership was in compliance with all covenants. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the common stock of the Partnership's subsidiaries secure the Notes, and the noteholders have recourse against the Company.

The Partnership maintains a credit agreement with various financial institutions with a Senior Revolving Working Capital Facility and Acquisition Facility. Subsequent to August 31, 1999, this agreement was amended and restated. The amended and restated credit agreement consists of the following:

A $35,000 Senior Revolving Working Capital Facility, expiring June 30, 2002, with $19,900 outstanding at August 31, 1999. The interest rate and interest payment dates vary depending on the terms the Partnership agrees to when the money is borrowed. The weighted average interest rate was 6.7 percent at August 31, 1999. The Partnership must be free of all working capital borrowings for 30 consecutive days each fiscal year. A commitment fee of .375 percent is paid on the unused portion of the facility.

A $50,000 Senior Revolving Acquisition Facility is available through December 31, 2001, at which time the outstanding amount must be paid in ten equal quarterly installments, beginning March 31, 2002. The interest rate and interest payment dates vary depending on the terms the Partnership agrees to when the money is borrowed. The average interest rate was 7.0 percent for amounts outstanding at August 31, 1999. A commitment fee of .375 percent is paid on the unused portion of the facility.

Future maturities at August 31, 1999, of long-term debt for each of the next five fiscal years and thereafter are $3,136 in 2000; $2,488 in 2001; $18,491 in 2002; $22,159 in 2003; $24,317 in 2004 and $130,528 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 2008. At August 31, 1999, fiscal year future minimum lease commitments for such leases are $1,138 in 2000; $710 in 2001; $601 in 2002; $515 in 2003; $420 in 2004 and $844 thereafter.

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

The Partnership has entered into several purchase and supply commitments with varying terms as to quantities and prices, which expire at various dates through March 2000.

6. PARTNERSHIP UNITS:

The Partnership's capital consists of 5,825,674 Common Units representing a 66.4 percent limited partner interest, 2,777,207 Subordinated Units owned by the General Partner representing a 31.6 percent limited partner interest and a two percent general partner interest.

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

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

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

The Partnership is expected to make distributions of its Available Cash within 45 days after the end of each fiscal quarter ending November, February, May and August to holders of record on the applicable record date. A prorata MQD of $.353 per Common and Subordinated Unit was made on October 15, 1996 for the two month period between the IPO and the fourth quarter ended August 31, 1996. The MQD was made to the Common and Subordinated Unitholders for the quarters ended November 30, 1996 through May 31, 1999. For the quarters ended February 28, 1999 and May 31, 1999, the Partnership increased its quarterly distribution to $.5625. The distribution of $.5625 per Common and Subordinated Unit for the fourth quarter ended August 31, 1999, was declared on September 17, 1999, payable on October 15, 1999, to Unitholders of record on October 1, 1999. The quarterly distributions for the quarters ended February 28, 1999, May 31, 1999 and August 31, 1999, included incentive distributions payable to the General Partner to the extent the quarterly distribution exceeded $.55 per unit.

RESTRICTED UNIT PLAN

The General Partner adopted a restricted unit plan (the Plan) for its nonemployee directors and key employees of the General Partner and its affiliates effective June 1996. Rights to acquire 146,000 Common Units (Phantom Units) are available under the plan and may be granted to employees from time to time at the discretion of the Plan Committee. Commencing on September 1, 1996, and on each September 1 thereafter that the Plan is in effect, each director who is in office automatically receives 500 units. The Phantom Units vest upon, and in the same proportions as (1) the conversion of the Partnership's Subordinated Units into Common Units, or (2) if later, the third anniversary of their grant date, and (3) terms and conditions specified by each grant. As of August 31, 1999, 59,500 Phantom Units with a value of $1,346 have been granted. Subsequent to August 31, 1999, 4,500 of Phantom Unit grants vested pursuant to the vesting rights of the plan.

7. REGISTRATION STATEMENTS:

Effective November 19, 1997, the Partnership registered 2,000,000 additional Common Units that may be issued from time to time by the Partnership by means of a prospectus delivered in connection with its negotiations for acquisition of other businesses, properties or securities in business combination transactions. On August 6, 1998, 60,606 Common Units were issued from this registration statement in connection with the acquisition of certain assets of another propane company. Subsequent to August 31, 1999, 56,578 Common Units were issued from this registration statement in connection with acquisitions of other propane companies.

Effective September 13, 1999, the Partnership registered $150,000 of Common Units and Debt Securities on a Form S-3 registration statement that may be offered for sale in one or more offerings. On October 25, 1999, the Partnership issued a prospectus supplement offering 1,200,000 Common Units, representing limited partner interests in the Partnership. The underwriters delivered the Common Units to purchasers on October 28, 1999, at a public offering price of $22.00 per Common Unit. The underwriters may also purchase up to an additional 180,000 Common Units on the same terms within 30 days from the date of the prospectus supplement to cover over-allotments, if any. The Partnership used the net proceeds of approximately $24 million from this offering to repay the outstanding indebtedness under its acquisition facility.

8. NOTES RECEIVABLE:

At August 31, 1999, notes receivable from sale of common stock consist of notes issued by various members of management to exercise stock options. In connection with the IPO, members of management issued $5,000 of notes to third parties to repurchase the equity interest of nonmanagement/director shareholders of the Company. In December 1998, the third-party notes were refinanced through the Company and include the noteholders' shares of common stock of the Company as collateral. The notes bear interest at 7-8%, payable each December 30, and mature in June 2011. Sinking fund payments equal to 33 1/3% of the original principal amount of the notes are due June 28, 2003, 2004 and 2005. Prior to maturity, interest and sinking fund payments shall be payable only out of distributions from the Company.

9. SUPPLEMENTAL INFORMATION:

The following balance sheet of the Company includes its investment in the Partnership on an equity basis. Such presentation is included to provide additional information with respect to the Company's financial position on a stand alone basis:

	August 31, 1999
ASSETS	
CURRENT ASSETS:	
Cash	$ 371
Marketable securities	4,233
Receivable from Partnership	1,964
Assets held in trust	1,341
Total current assets	7,909
ASSETS HELD IN TRUST	2,341
OTHER ASSETS	476
Total assets	$ 10,726
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	$ 2,492
Current maturities of long-term debt	1,114
Total current liabilities	3,606
LONG-TERM DEBT, less current portion	1,767
NEGATIVE INVESTMENT IN PARTNERSHIP	52,166
DEFERRED TAXES	72,604
Total liabilities	130,143
STOCKHOLDER'S DEFICIT:	
Common stock $.01 par value, 600,000 shares authorized, 534,788 shares issued and outstanding	5
Additional paid-in capital	11,889
Accumulated deficit	(125,613)
Other comprehensive income	1,444
Notes receivable from sale of common stock	(7,142)
Total stockholders' deficit	(119,417)
Total liabilities and stockholders' deficit	$ 10,726