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, 1998 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 2, 1998, 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 $107,442,000

At November 2, 1998, the registrant had units outstanding as follows:

Heritage Propane Partners, L.P.	4,876,725	Common Units
	3,702,943	Subordinated Units

Documents Incorporated by Reference: None

HERITAGE PROPANE PARTNERS, L.P.

1998 FORM 10-K ANNUAL REPORT

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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"). The Company 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. In addition the Company owns approximately 3.4% of the Common Units in the Partnership (Common Units represent limited partnership interests in the Partnership). 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 sixth largest retail marketer of propane in the United States, serving more than 240,000 active residential, commercial, industrial and agricultural customers from 144 district locations in 26 states. The Partnership's operations have been concentrated in large part in the western, upper midwest and southeastern regions of the United States, with expansion into the northeastern United States in the last two 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. Through August 31, 1998, 47 acquisitions had been completed for an aggregate purchase price of approximately $203 million. Volumes of propane sold to retail customers has more than doubled from 63.2 million gallons for the fiscal year ended August 31, 1992 to 146.7 million gallons for the fiscal year ended August 31, 1998. Since August 31, 1998, the Partnership has acquired another propane company.

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 1994-1995, 1996-1997 and the El Nino winter of 1997-1998. 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 comprise approximately 35% of industry 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, 1998, 47 acquisitions had been completed for an aggregate purchase price of approximately $203 million. The Partnership has completed an additional acquisition 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, that any acquisition will not be dilutive to earnings and distributions or that any additional debt incurred to finance an acquisition will not affect the ability of the Partnership to make distributions to Unitholders.

In order to facilitate the Partnership acquisition strategy, the Operating Partnership entered into the Bank Credit Facility. The Bank Credit Facility currently consists of the $30.0 million Acquisition Facility to be used for acquisitions and improvements and the $20.0 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 957 full-time employees as of August 31, 1998, only 47, or approximately 5%, 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:

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Retail Propane Gallons Sold (in millions)	37.5	48.2	63.2	73.4	79.7	98.3	118.2	125.6	146.7

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.

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. Propane competes primarily with natural gas, electricity and fuel oil as an energy source, principally on the basis of price, availability and portability. Propane is more expensive than natural gas on an equivalent BTU basis in locations served by natural gas, but serves as an alternative to natural gas in rural and suburban areas where natural gas is unavailable or portability of product is required. Historically, the expansion of natural gas into traditional propane markets has been inhibited by the capital costs required to expand pipeline and retail distribution systems. 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. Propane is generally less expensive to use than electricity for space heating, water heating, clothes drying and cooking. Due to the current diversity of location of the Partnership's operations, fuel oil has not been a significant competitor.

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 9.5 billion gallons annually, that the 10 largest retailers, including the Partnership, account for approximately 35% 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 1998, the Partnership's domestic wholesale operations (excluding M-P Energy Partnership, formerly M-P Oils Partnership) accounted for only 7.2% 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 144 district locations in 26 states. The Partnership's operations are concentrated in large part in the western, upper midwest and southeastern regions of the United States, with expansion over the last two years into the northeastern part of the United States. The Partnership's serves more than 240,000 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 concentrated in the Partnership's first and second fiscal quarters. Cash flows from operations, however, are 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 93% of the domestic gallons sold by the Partnership in fiscal 1998 were to retail customers and approximately 7% were to wholesale customers. Of the retail gallons sold by the Partnership in fiscal 1998, 55% were to residential customers, 26% were to industrial, commercial and agricultural customers, and 19% were to all other retail users. Sales to residential customers in fiscal 1998 accounted for 51% of total domestic gallons sold inclusive of domestic wholesale but 67% 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 20% of the Partnership's gross profit from propane sales for fiscal year 1998, with all other retail users accounting for 12%. 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 1998.

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, however, 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. In addition, the Partnership makes purchases on the spot market from time to time to take advantage of favorable pricing. Most of the propane purchased by the Partnership is fiscal 1998 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, with few containing "take or pay" provisions. The Partnership receives its supply of propane predominately through railroad tank cars and common carrier transport.

Supplies of propane from the Partnership's sources historically have been readily available. In the fiscal year ended August 31, 1998, Dynegy Liquids Marketing and Trade ("Dynegy") provided approximately 33% 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, 1998. 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 1998, the Partnership purchased approximately 77% 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. These records are subject to periodic review by the internal audit staff as well as sent to the accounting offices of the Partnership in Helena, Montana each month.

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 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, automotive waste products, such as waste oil, generated by the Partnership's truck fleet, as well as "hazardous substances" 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 or impose liability for remediation costs. Also, 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.

In connection with all acquisition of retail propane businesses that involve the acquisition 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 at which the Partnership presently or formerly operates and is suspected to be located on or adjacent to one additional site. 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 four 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 United States Department of Transportation ("DOT") published its Final Rule HM-225 (49 CFR 171.5) which adopts temporary requirements for cargo tank motor vehicles used to transport propane. The Final Rule, which currently is not being generally enforced, basically requires that such vehicles be equipped with remote control equipment capable of shutting off the flow of propane in the event of a break in the vehicle's delivery hose or piping. The Partnership is currently in the process of installing and testing these remote shut off devices. The Final Rule also contains a statement that a pre-existing regulation (Hazardous Materials Regulation 177.834(i)) requires operators of cargo tank vehicles to maintain an "unobstructed view" of the vehicle itself when making deliveries to customer tanks. This regulation could require either two people attending customer deliveries or one attendant remaining at a mid-point between bobtails and customer tanks. On October 15, 1997, a suit was filed against the DOT in United States District court seeking to enjoin enforcement of the Final Rule. On February 13, 1998, the court preliminarily enjoined the DOT from enforcing the Final Rule pending the final outcome of the litigation. The Partnership cannot determine the outcome of the litigation or the long-term impact it may have on the Partnership and its results of operations.

Future developments, such as stricter environmental, health, or safety laws and regulations promulgated thereunder, could affect Partnership operations. 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, 1998, the Partnership had 957 full time employees, of whom 47 were general and administrative and 910 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 144 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 1998, the Partnership leased approximately 10.9 million gallons of underground storage facilities in two states (5.0 million gallons of storage in Alto, Michigan and 5.9 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 and Mammoth Lakes, California, Reno and other locations in Nevada. Nine 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, 1998, 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 425 bobtails and 690 other delivery and service vehicles, all of which are owned by the Partnership. As of August 31, 1998, the Partnership owned approximately 209,000 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, 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, 1998.

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 Sock Exchange Composite Tape, and the amount of cash distributions paid per Common Unit.

	Price Range		Cash
	High	Low	Distribution
1997 FISCAL YEAR			
First Quarter Ended November 30, 1996	$21.375	$20.000	$0.50
Second Quarter Ended February 28, 1997	$21.875	$19.875	$0.50
Third Quarter Ended May 31, 1997	$21.375	$20.000	$0.50
Fourth Quarter Ended August 31, 1997	$22.938	$20.875	$0.50
1998 FISCAL YEAR			
First Quarter Ended November 30, 1997	$25.000	$22.675	$0.50
Second Quarter Ended February 28, 1998	$25.000	$23.250	$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

As of September 30, 1998, there were approximately 307 record holders of the Partnership's Common Units, representing approximately seven thousand individual common unitholders. The Partnership also has 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). After review of the Partnership's past financial performance, the Board of Directors of the General Partner announced its intention to increase the annual distribution to $2.05 per unit commencing with the first quarter of fiscal year 1999. This announcement assumes that the Partnership experiences normal weather patterns and continued success in internal growth and accreative acquisitions. Restrictions on the Partnership's distributions required by Item 5 is incorporated herein by reference to Note 8 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, the Partnership issued 45,195 Units 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 a propane company. 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. The Units issued in connection with the acquisition were issued utilizing the Partnership's Registration Statement No. 333-40407 on Form S-4.

ITEM 6. SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

The following table sets forth, for the periods and as of the dates indicated, selected historical financial and operating data for Heritage. The selected historical balance sheet data as of August 31, 1998 and August 31, 1997, respectively, and the selected operating data for the years ended August 31, 1998 and 1997, for the two month period ended August 31, 1996, and for the ten month period ended June 30, 1996, 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, August 31, 1995 and August 31, 1994 and the selected operating data for the years ended August 31, 1995 and 1994, have been derived from Heritage's audited financial statements not included herein. 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.

	Years Ended August 31,		For the Year Ended August 31, 1996		Years Ended August 31,	
	1994 (e)	1995(e)	10 Months(e) Ended June 30, 1996	Two Months Ended August 31,1996	1997	1998
Statements of Operating Data:						
Revenues	$ 103,971	$ 131,508	$ 144,623	$ 18,477	$ 199,785	$ 185,987
Gross Profit(a)	48,601	55,841	55,634	6,314	73,838	89,103
Depreciation and amortization	8,711	8,896	7,581	1,733	11,124	13,680
Operating income (loss)	9,905	12,675	15,755	(1,956)	16,919	22,929
Interest expense	8,761	12,201	10,833	1,962	12,063	14,599
Income (loss) before income taxes, minority interest and extraordinary items	1,296	759	6,084	(4,087)	5,625	9,266
Provision for income taxes	668	666	2,735	--	--	--
Net income (loss)	315	(211)	2,921	(8,423)	5,177	8,790
Net income (loss) per Unit(b)	--	--	--	(1.06)	0.64	1.04

	August 31,				
	1994(e)	1995(e)	1996	1997	1998
Balance Sheet Data (end of period):					
Current assets	$ 17,134	$ 21,293	$ 24,014	$ 27,951	$ 26,185
Total assets	118,330	163,423	187,850	203,799	239,964
Current liabilities	19,646	35,825	24,728	34,426	35,444
Long-term debt	81,373	103,412	132,521	148,453	177,431
Redeemable preferred stock	11,737	12,337	--	--	--
Stockholders' deficit	(6,301)	(6,975)	--	--	--
Partner's capital - General Partner	--	--	307	208	273
Partners' capital - Limited Partner (g)...	--	--	30,294	20,712	26,816

	Years Ended August 31,				
	1994(e)	1995(e)	1996(f)	1997	1998
Operating Data:					
EBITDA(c)	$ 18,616	$ 21,672	$ 24,365	$ 28,718	$ 37,561
Capital Expenditures(d)					
Maintenance and growth	6,194	8,634	7,244	7,170	9,359
Acquisition	--	27,879	16,665	14,549	23,276
Retail propane gallons sold ..	79,669	98,318	118,200	125,605	146,747

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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 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.

(d) The Partnership's capital expenditures fall generally into three categories: (i) maintenance capital expenditures of approximately $3.6 and $2.3 million in fiscal 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, 1998, Heritage and the Partnership completed 47 acquisitions for an aggregate purchase price of approximately $203 million. The Partnership has completed 18 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 the sixth largest retail marketer of propane in the United States, based on retail gallons sold, serving more than 240,000 residential, industrial/commercial and agricultural customers in 26 states through 144 retail outlets. Annual retail propane sales volumes in gallons were 146.7 million, 125.6 million and 118.2 million for the fiscal years ended August 31, 1998, 1997 and 1996, 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% 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.

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 bases the assumption 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 1998, the Partnership consummated seven acquisitions for a total purchase price of $37.1 million. In fiscal 1997 and 1996, the Partnership consummated seven and eight acquisitions for total purchase prices of $14.5 million and $22.0 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% of the results of M-P Energy Partnership, formerly named M-P Oils Partnership, a general partnership in which the Partnership owns a 60% interest. Because M-P Energy Partnership is primarily engaged in lower-margin wholesale distribution, its contribution to the Partnership's net income and EBITDA is not significant.

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 revenues decreased $6.4 million or 54.7% from $11.7 million reported in fiscal 1997. Foreign 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 revenues was attributable to both decreased volumes and sales prices. The increase in domestic retail revenues resulted from increased volumes and offset somewhat by decreased sales prices.

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 was $37.6 million for fiscal 1998, an increase of $8.9 million or 31.0% over last year'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 this year's EBITDA.

FISCAL YEAR 1997 COMPARED TO FISCAL YEAR 1996

Volume. During fiscal 1997, the Partnership sold 125.6 retail gallons, an increase of 7.4 million retail gallons or 6.3% from the 118.2 million retail gallons sold in fiscal 1996. This increase was primarily attributable both to the volume increases from acquisitions and internal growth, offset by warmer than normal weather during the heating season in the Partnership's southeast and southwest areas of operations.

The partnership also sold 112.6 million wholesale gallons in fiscal 1997, a decrease of 7.9 million gallons or 7.9% from the 120.5 million wholesale gallons in fiscal 1996. This decrease was mainly attributable to the decrease in wholesale volumes in the foreign operations of M-P Oils Partnership.

Revenues. Total revenues for fiscal 1997 increased $36.7 million or 22.5% to $199.8 million, as compared to $163.1 million for fiscal 1996. Domestic revenues increased $31.1 million or 24.4% to $158.5 million for fiscal 1997, as compared to $127.4 million for fiscal 1996. Foreign revenues increased $5.6 million to $41.3 million for fiscal 1997, an increase of 15.7%, as compared to $35.7 million for fiscal 1996. The increase in foreign revenues was attributable to an increase in the selling price. The increase in domestic revenues was attributable to higher selling prices and greater volumes associated with acquisitions and internal growth.

Cost of Sales. Total cost of sales increased $24.8 million to $126.0 million for fiscal 1997, an increase of 24.5%, as compared to $101.2 million for fiscal 1996. Domestic cost of sales increased $19.3 million or 29.0% for fiscal 1997 to $85.9 million as compared to $66.6 for fiscal 1996. Foreign cost of sales increased $5.5 million or 15.9% from $34.6 million for fiscal 1996 to $40.1 million for fiscal 1997. During fiscal 1997, the propane industry witnessed the most volatile propane market since 1989, with the wholesale cost of propane raising rapidly during the heating season. The increase in foreign cost of sales is primarily attributable to higher propane costs. The increase in domestic cost of sales is attributable to the increase in propane costs for fiscal 1997 and the increase in retail volumes.

Gross Profit. Gross profit increased $11.9 million or 19.2% to $73.8 million for fiscal 1997, as compared to $61.9 million for fiscal 1996. In spite of the rapid increases in propane costs during the heating season in fiscal 1997, the Partnership was able to retain strong margins. The strong margins experienced in fiscal 1997 and the increased retail volumes were responsible for the increase in gross profit over fiscal 1996.

Operating Expenses. Operating expenses increased $5.4 million or 15.4% to $40.4 million for fiscal 1997 as compared to $35.0 million for fiscal 1996. The majority of this increase was attributable to an increase in wages and plant operations resulting from acquisitions. Vehicle expenses also contributed to this increase, with the majority of the Partnership's vehicles operating on propane, due to higher own use fuel costs associated with higher propane prices and volumes.

Selling, General and Administrative. Selling, general and administrative expenses were $5.3 million for fiscal 1997, an increase of $1.4 million or 35.9% as compared to $3.9 million for fiscal 1996. This increase resulted from costs associated with changing to and operating as a public master limited partnership.

Depreciation and Amortization. Depreciation and amortization increased $2.0 million or 22.0% to $11.1 million for fiscal 1997 as compared to $9.1 million for fiscal 1996. This increase was the result of additional depreciation and amortization associated with the increase in property, plant, and equipment along with intangible assets from the acquisitions the Partnership has made.

Operating Income. Operating income increased $3.2 million to $17.0 million, a 23.2% increase in fiscal 1997 as compared to $13.8 million in fiscal 1996. This increase was due to the Partnership having increased volumes related to acquisitions and retaining strong margins on these volumes, offset by the acquisition related increases in operating expenses and depreciation and amortization costs.

Net Income. Net income increased $10.7 million to $5.2 million in fiscal 1997, a 194.5% increase as compared to fiscal 1996's net loss of $5.5 million. This increase is the result of higher operating income in fiscal 1997 and as well as conversion to a partnership form during fiscal 1996. The Partnership is not subject to federal income tax whereas the Company provided a $2.7 million income tax provision in fiscal 1996. The Partnership also experienced an extraordinary loss of $4.4 million on the early extinguishment of debt in fiscal year 1996.

EBITDA. Earnings before interest, taxes, depreciation and amortization increased $4.3 million, or 17.8% to $28.7 million for fiscal 1997, as compared to $24.4 million for fiscal 1996. This increase was due to the increase in domestic margins, plus volumes related to acquisitions and internal growth partially offset by the related increase in operating expenses.

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 on 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

Cash provided by operating activities for fiscal 1998, was $24.5 million compared to $15.4 million in fiscal 1997. The cash flows from operations for fiscal 1998 consisted primarily of net income of $8.8 million and noncash charges of $13.1 million, principally depreciation and amortization.

Cash used in investing activities during fiscal 1998 included capital expenditures for acquisitions amounting to $23.3 million, net of cash received plus $9.4 million spent for maintenance needed to sustain operations at current levels, new customer tanks to support growth of operations and other miscellaneous capitalized items. These amounts were partially offset by the proceeds from asset sales of $5.5 million.

Cash provided by financing activities during fiscal 1998 of $2.4 million resulted primarily from a net increase in long-term debt of $20.7 million used for acquisitions. This increase was offset by cash distributions to unitholders of $16.7 million and a net reduction in the working capital facility of $1.6 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 $20.0 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 $30.0 million of borrowings to be used for acquisitions and improvements. See page F-12, "Notes to Consolidated Financial Statements--4. Working Capital Facilities and Long-Term Debt."

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 $23.3 million for fiscal year 1998, as compared to $14.5 million during fiscal 1997. In addition to the $23.3 million of cash expended for acquisitions during fiscal 1998, $13.8 million of Common Units were issued in connection with certain acquisitions.

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-12, "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-12, "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 incurrence 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 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 and along with outside consultants, has conducted a detailed assessment of its Year 2000 compliance and readiness. The Partnership has put a comprehensive program in place to prepare for its year 2000 readiness.

The Partnership is reviewing and evaluating both their information technology ("IT") and non-IT systems. A complete and detailed inventory list of the Partnership's hardware and software systems has been established enabling them 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 of the software at these district locations is currently underway. The hardware necessary to accommodate the software upgrades will be replaced as needed. Completion of this phase is anticipated by March 1999. The Partnership's central accounting system, payroll system and miscellaneous applications used are also in the process of being upgraded with completion anticipated January 1999. The upgraded software in both the district locations and at the administration level is scheduled for testing and user training starting December 1998 and to be completed in early spring 1999. The non-IT systems such as telephones, fax machines, and photocopiers will be investigated for the date critical Year 2000 and will be replaced or updated as needed for operation.

The Partnership has identified major vendors and suppliers on whom it depends upon for services and product to assess their Year 2000 readiness to assure there are no interruptions in operations. A Year 2000 compliance letter and questionnaire is being sent to these third parties with responses anticipated by December 1998. Interruption of the supply and delivery of gas products could have a material adverse affect 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. In the fiscal year ended August 31, 1998, Dynegy Liquids Marketing and Trade provided approximately 33% 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, 1998. Furthermore, no single customer accounted for 5% or more of the Partnership's revenues during fiscal year 1998 alleviating the risk of adverse affects if some but not all customers are not Year 2000 compliant. The Partnership's banking facilities are also being contacted to insure that the collection and transfer of funds will not be interrupted and that extension of working capital will be available as needed. Acquisition candidates are supplied with a compliance letter and questionnaire also to assess the potential needs of their systems.

The Partnership does expect the costs to modify its computer-based systems to have a material effect on the Partnership's results of operations. The current estimates of the amount of time, personnel, and costs to modify the current systems to be Year 2000 compliant is less than $.5 million. A portion of these costs is expected to be capitalized as they relate to adding new software and hardware to enhance current operations. Costs related directly to becoming Year 2000 compliant will be expensed as incurred. Estimated costs to date have not been specifically tracked but are estimated to be immaterial.

The Partnership expects that its IT and non-IT systems will be compliant by the target dates listed. A contingency plan is being developed to deal with system failures. The Partnership will primarily focus on one of the systems currently being tested that would be compliant. If other systems fail during the testing, they will be upgraded to the compliant system. The success it 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 due to Year 2000 failures could have a material adverse affect on its operations and cash flows.

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 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 accreative to the Partnership's EBITDA.

- 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.

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

The Partnership has no material exposures of a quantitative and qualitative nature related to market risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Financial statements set forth on pages F-1 to F-15 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, 1998, the General Partner employed 957 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
R. C. Mills	Executive Vice President and Chief Operating Officer
G. A. Darr	Vice President - Corporate Development
H. Michael Krimbill	Vice President and Chief Financial Officer, Treasurer and Secretary
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 56, has 23 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 23 years, and is currently President of the Association.

R. C. Mills. Mr. Mills, age 61, has 40 years of experience in the propane industry. Mr. Mills joined Heritage in 1991 as Executive Vice President and Chief Operating Officer. Before coming to Heritage, Mr. Mills spent 25 years with Texgas Corporation and its successor, Suburban Propane, Inc. At the time he left Suburban in 1991, Mr. Mills was Vice President of Supply and Wholesale.

G. A. Darr. Mr. Darr, age 65, has over 40 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.

H. Michael Krimbill. Before joining Heritage in 1990 as Vice President and Chief Financial Officer, Mr. Krimbill, age 45, was Treasurer of Total Petroleum, Inc. ("Total"). Total was a publicly traded, fully integrated oil company located in Denver, Colorado.

Bradley K. Atkinson. Mr. Atkinson, age 43 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 41, 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 October 1, 1996.

Bill W. Byrne. Mr. Byrne, age 68, 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 National Propane Gas Association.

J. Charles Sawyer. Mr. Sawyer, age 61, 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 National Propane Gas 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, 1998, 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 for two prior periods and one late filing for Heritage Holdings, Inc. for three prior periods.

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, 1998, 1997 and 1996.

SUMMARY COMPENSATION TABLE

	ANNUAL COMPENSATION			LONG TERM COMPENSATION AWARDS	
	YEAR	SALARY	BONUS	SECURITIES UNDERLYING OPTIONS/SARS	ALL OTHER COMPENSATION(1)
James E. Bertelsmeyer	1998	$355,756	$ --	--	$2,048
Chairman of the Board and	1997	341,756	--	--	2,619
Chief Executive Officer	1996	241,756	100,000	--	1,140
R. C. Mills	1998	225,000	--	--	2,201
Executive Vice President and	1997	215,000	--	--	2,316
Chief Operating Officer	1996	165,400	50,000	10,000	2,250
G. A. Darr	1998	150,756	--	--	1,933
Vice President - Corporate	1997	134,756	--	--	1,193
Development	1996	104,756	30,000	6,000	913
H. Michael Krimbill	1998	185,000	--	--	357
Vice President, Chief Financial	1997	175,000	--	--	616
Officer, Treasurer and Secretary	1996	135,000	40,000	10,000	510
Bradley K. Atkinson (2)	1998	125,000	--	--	--
Vice-President Administration	1997	--	--	--	--
	1996	--	--	--	--

(1) Consists of life insurance premiums.

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

STOCK OPTION PLANS

Certain key employees of the General Partner and its subsidiaries participated in the 1995 Stock Option Plan (the "1995 Plan") and the 1989 Stock Option Plan (the "1989 Plan"). Options to purchase the General Partner's Common Stock were granted under the plans by action of the General Partner's Board of Directors. The terms of individual option grants, including whether such options constitute incentive stock options under Section 422A of the Code, are determined by the Board subject to certain limitations. No option to purchase shares may be exercisable more than 10 years following the date of the initial grant. Under the 1995 Plan, the maximum aggregate number of options to purchase shares which may be granted to any key employee during any calendar year is 20,000 options and no more than 75,000 options to purchase shares may be outstanding under such plan at any given time. The 1995 Plan also allows for a disinterested committee of the General Partner's Board of Directors to grant outright up to 3,000 shares of the General Partner's Common Stock to any non-employee director. The 1989 Plan provided that no more than 180,000 options to purchase shares may be outstanding at any given time. As of June 28, 1996, all Stock Option Plans were terminated, therefore, no Option/SAR grant table is presented.

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 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, 1998, 38,200 Restricted Units had been granted to non-employee directors and key employees. Compensation expense of $215,000 and $93,000 was recorded in the Partner's financial statements for fiscal years 1998 and 1997, respectively. See Note 8 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 that may result in the issuance of Common Units under the Restricted Unit Plan to the executive officers of the Company:

LONG-TERM INCENTIVE PLANS-AWARDS IN LAST FISCAL YEAR

Name	Number of Shares, Units or Other Rights(#)	Performance or Other Period Until Maturation or Payout	Threshold (#)	Target (#)	Maximum (#)
James E. Bertelsmeyer	750	September 1, 2000	750	750	750
	750	June 1, 2001	750	750	750
R. C. Mills	750	September 1, 2000	750	750	750
	750	June 1, 2001	750	750	750
G. A. Darr	1,000	September 1, 2000	1,000	1,000	1,000
	1,000	June 1, 2001	1,000	1,000	1,000
H. Michael Krimbill	750	September 1, 2000	750	750	750
	750	June 1, 2001	750	750	750
Bradley K. Atkinson	2,500	April 27, 2001	2,500	2,500	2,500
	2,500	June 1, 2001	2,500	2,500	2,500

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, 1998, 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)	38,401	*
	R. C. Mills	9,000	*
	G. A. Darr	600	*
	H. Michael Krimbill (2)	10,800	*
	Bradley K. Atkinson	5,000	*
	Bill W. Byrne	6,000	*
	J. Charles Sawyer	2,000	*
	J. T. Atkins	2,000	*
	All directors and executive officers as a group (8 persons)	71,400	1.5%
	Heritage Holdings, Inc.	167,294	3.4%
Subordinated Units (3)	Heritage Holdings, Inc. (4)	3,702,943	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	10.0
	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.

(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 24,1998
/s/ J. T. Atkins J. T. Atkins	Director	November 24, 1998
/s/ Bill W. Byrne Bill W. Byrne	Director	November 24, 1998
/s/ J. Charles Sawyer J. Charles Sawyer	Director	November 24, 1998
/s/ H. Michael Krimbill H. Michael Krimbill	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	November 24, 1998

INDEX TO FINANCIAL STATEMENTS

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES PAGE

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. (the Partnership) and subsidiaries as of August 31, 1998 and 1997, the related consolidated statements of operations and cash flows for the years ended August 31, 1998 and 1997 and for the two months ended August 31, 1996, and for the ten months ended June 30, 1996 (Predecessor), and for the related consolidated statements of Partners' Capital for the years ended August 31, 1998 and 1997 and the period from inception (April 24, 1996) to August 31, 1996. 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, 1998 and 1997, and the results of their operations and their cash flows for the years ended August 31, 1998 and 1997, and for the two months ended August 31, 1996 and for the ten months ended June 30, 1996 (Predecessor), in conformity with generally accepted accounting principles.

Tulsa, Oklahoma
October 15, 1998

/s/ Arthur Andersen LLP

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands)

ASSETS	August 31, 1998	August 31, 1997
CURRENT ASSETS:		
Cash	$ 1,837	$ 2,025
Accounts receivable, net of allowance for doubtful accounts of $436 for 1998 and 1997	10,444	11,170
Inventories	12,545	13,361
Prepaid expenses	1,359	1,395
Total current assets	26,185	27,951
PROPERTY, PLANT AND EQUIPMENT, net	139,490	117,962
INVESTMENT IN AFFILIATES	4,739	4,097
INTANGIBLES AND OTHER ASSETS, net	69,550	53,789
Total assets	$ 239,964	$ 203,799
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Working capital facility	$ 10,600	$ 12,250
Accounts payable	13,952	14,000
Accrued and other current liabilities	9,689	7,376
Current maturities of long-term debt	1,203	800
Total current liabilities	35,444	34,426
LONG-TERM DEBT, less current maturities	177,431	148,453
Total liabilities	212,875	182,879
COMMITMENTS AND CONTINGENCIES		
PARTNERS' CAPITAL PER ACCOMPANYING STATEMENTS:		
Common unitholders	20,775	11,295
Subordinated unitholders	6,041	9,417
General partner	273	208
Total partners' capital	27,089	20,920
Total liabilities and partners' capital	$ 239,964	$ 203,799

The accompanying notes are an integral part of these consolidated balance sheets.

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

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

	For the Year Ended August 31, 1998	For the Year Ended August 31, 1997	For the Year Ended August 31, 1996 — Two Months Ended August 31, 1996	For the Year Ended August 31, 1996 — Ten Months Ended June 30, 1996 (Predecessor)
REVENUES:				
Retail	$ 136,301	$ 129,673	$ 9,920	$ 92,668
Wholesale	30,254	53,019	6,467	39,090
Other	19,432	17,093	2,090	12,865
Total revenues	185,987	199,785	18,477	144,623
COSTS AND EXPENSES:				
Cost of products sold	96,884	125,947	12,163	88,989
Operating expenses	47,010	40,444	5,839	29,134
Depreciation and amortization	13,680	11,124	1,733	7,581
Selling, general and administrative	5,484	5,351	698	3,164
Total costs and expenses	163,058	182,866	20,433	128,868
OPERATING INCOME (LOSS)	22,929	16,919	(1,956)	15,755
OTHER INCOME (EXPENSE):				
Interest expense	(14,599)	(12,063)	(1,962)	(10,833)
Equity in earnings (losses) of affiliates	707	487	(119)	662
Gain on disposal of assets	534	372	57	170
Other	(305)	(90)	(107)	330
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY LOSS	9,266	5,625	(4,087)	6,084
Provision for income taxes	--	--	--	(2,735)
Minority interest	(476)	(448)	25	(428)
INCOME (LOSS) BEFORE EXTRAORDINARY LOSS	8,790	5,177	(4,062)	2,921
Extraordinary loss on early extinguishment of debt, net of minority interest of $44	--	--	(4,361)	--
NET INCOME (LOSS)	8,790	5,177	(8,423)	$ 2,921
GENERAL PARTNER'S INTEREST IN NET INCOME (LOSS)	88	52	(84)	
LIMITED PARTNERS' INTEREST IN NET INCOME (LOSS)	$ 8,702	$ 5,125	$ (8,339)	
BASIC NET INCOME (LOSS) PER LIMITED PARTNER UNIT				
Income (loss) before extraordinary loss	$ 1.04	$ .64	$ (.51)	
Extraordinary loss	--	--	(.55)	
	$ 1.04	$ .64	$ (1.06)	
BASIC WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	8,332,351	7,987,943	7,864,336	
DILUTED NET INCOME (LOSS) PER LIMITED PARTNER UNIT	$ 1.04	$ .64	$ (1.06)	
DILUTED WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	8,365,334	8,005,943	7,864,336	

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	Subordinated	Common Unitholders	Subordinated Unitholders	General Partner	Total Partners' Capital
BALANCE, APRIL 24, 1996	--	--	$ --	$ --	$ --	$ --
Contribution of net assets of predecessor	--	3,702,943	19,334	16,397	361	36,092
Issuance of Units to public	4,285,000	--	42,729	36,236	798	79,763
Net senior notes transferred from predecessor	--	--	(41,159)	(34,904)	(768)	(76,831)
Net Loss	--	--	(4,512)	(3,827)	(84)	(8,423)
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 Common Units in connection with 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

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 Year Ended August 31, 1998	For the Year Ended August 31, 1997	For the Year Ended August 31, 1996: Two Months Ended August 31, 1996	For the Year Ended August 31, 1996: Ten Months Ended June 30, 1996 (Predecessor)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ 8,790	$ 5,177	$ (8,423)	$ 2,921
Reconciliation of net income (loss) to net cash provided by (used in) operating activities-				
Depreciation and amortization	13,680	11,124	1,733	7,581
Provision for losses on accounts receivable	435	699	133	261
Gain on disposal of assets	(534)	(372)	(55)	(170)
Issuance of stock for services rendered and compensatory appreciation in Warrants	--	--	--	(164)
Deferred compensation on restricted units	215	93	--	--
Undistributed earnings of affiliates	(642)	(411)	330	(471)
Increase in deferred income taxes	--	--	--	2,680
Extraordinary loss on early extinguishment of debt	--	--	4,361	--
Minority interest	(15)	130	(69)	428
Changes in assets and liabilities, net of effect of acquisitions:				
Accounts receivable	1,476	(622)	(332)	(2,444)
Inventories	1,789	(1,694)	(2,859)	2,056
Prepaid expenses	149	(194)	1,058	(1,389)
Intangibles and other assets	(989)	(581)	(235)	(381)
Accounts payable	(1,025)	740	(917)	3,720
Accrued and other current liabilities	1,203	1,295	2,328	644
Net cash provided by (used in) operating activities	24,532	15,384	(2,947)	15,272
CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash paid for acquisitions, net of cash acquired	(23,276)	(14,549)	(8,298)	(8,367)
Capital expenditures	(9,359)	(7,170)	(1,092)	(6,152)
Proceeds from asset sales	5,511	1,619	50	282
Net cash used in investing activities	(27,124)	(20,100)	(9,340)	(14,237)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from borrowings	129,147	69,782	21,603	159,645
Principal payments on debt	(110,119)	(49,260)	(6,850)	(37,884)
Unit distribution	(16,765)	(14,951)	--	--
Payment of financing and organization costs	--	--	(4,331)	--
Issuance of common stock	--	--	--	76
Repurchase of common and preferred stock	--	--	--	(61,156)
Net proceeds from issuance of common units	--	--	79,763	--
Cash contribution by General Partner	141	--	4,296	(4,296)
Net proceeds transferred from issuance of senior note debt	--	--	43,169	(43,169)
Repayment of long-term debt, working capital facilities and prepayment penalty	--	--	(124,193)	--
Net cash provided by financing activities	2,404	5,571	13,457	13,216
INCREASE (DECREASE) IN CASH	(188)	855	1,170	14,251
CASH, beginning of period	2,025	1,170	--	1,237
CASH, end of period	$ 1,837	$ 2,025	$ 1,170	$ 15,488
NONCASH FINANCING ACTIVITIES:				
Notes payable incurred on noncompete agreements	$ 6,393	$ 1,961	$ 1,655	$ 500
5% Preferred stock dividend	--	--	--	523
Net senior notes transferred from predecessor	--	--	76,831	--
Issuance of Common Units in connection with acquisitions	13,788	--	--	--
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid during the year for interest	$ 13,045	$ 11,873	$ 1,682	$ 10,151

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 amounts)

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.

On June 28, 1996, the Partnership completed its initial public offering (the IPO) of 4,025,000 Common Units, representing limited partner interests in the Partnership, to the public at a price of $20.25 a unit. Concurrent with the closing of the IPO, the Company issued $120,000 principal amount of Senior Secured Notes (the Notes) to certain institutional investors in a private placement. The Company conveyed substantially all of its assets (other than approximately $76,831 in proceeds from the issuance of the Notes) to the Operating Partnership in exchange for a general partner interest and all of the limited partner interests in the Operating Partnership and the assumption by the Operating Partnership of substantially all of the liabilities of the Company. The Company conveyed all of its limited partner interest in the Operating Partnership to the Partnership in exchange for 3,702,943 Subordinated Units and a general partner interest in the Partnership. On July 26, 1996, the underwriters exercised their option to purchase an additional 260,000 Common Units and the Partnership received proceeds of approximately $4,898 in exchange thereof on July 29, 1996. As a result, the Company received ownership of a 45.4 percent limited partner interest and an aggregate two percent general partner interest in the Partnership and the Operating Partnership.

In contemplation of the offering, the Company entered into a letter agreement with its nonmanagement/director shareholders. Pursuant to the terms of the agreement, the Company together with certain members of management and directors repurchased equity interests of the nonmanagement/director shareholders. The members of management issued notes aggregating $5,000 in connection with the repurchase. Additionally, the Company used approximately $61,156 of the proceeds of the Notes to finance the repurchase of equity interests in the Company including the preferred stock plus unpaid cumulative dividends.

The Partnership contributed the net proceeds of approximately $79,763 from the IPO to the Operating Partnership. The Operating Partnership applied the net proceeds, together with approximately $40,898 in cash contributed by the Company to finance the repayment of all of the indebtedness of the Company to the Prudential Insurance Company of America (Prudential). The Operating Partnership paid a prepayment penalty in the amount of $3,500 in connection with the early retirement of the Prudential debt.

The Operating Partnership entered into a Bank Credit Facility, which includes a Working Capital Facility, providing for up to $15,000 of borrowings to be used for working capital and other general partnership purposes, and an Acquisition Facility, providing for up to $35,000 of borrowings to be used for acquisitions and improvements (see Note 4). The Partnership utilized the Bank Credit Facility in order to repay amounts previously borrowed in connection with certain acquisitions (see Note 3) and other bank debt outstanding at the time of the closing of the IPO.

The Operating Partnership sells propane and propane-related products to approximately 240,000 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:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Partnership, its subsidiaries, including Heritage Operating Partnership, and a majority owned partnership. The Partnership accounts for its 50 percent partnership interest in 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 and 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 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, 1998	August 31, 1997
Fuel	$ 7,939	$ 9,468
Appliances, parts and fittings	4,606	3,893
	$ 12,545	$ 13,361

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. Components and useful lives of property, plant and equipment are as follows:

	August 31, 1998	August 31, 1997
Land and improvements	$ 7,809	$ 7,298
Buildings and improvements (10 to 30 years)	13,374	11,415
Bulk storage, equipment and facilities (3 to 30 years)	20,173	17,974
Tanks and other equipment (5 to 30 years)	104,764	84,664
Vehicles (5 to 7 years)	22,818	18,743
Furniture and fixtures (5 to 10 years)	4,578	4,049
Other	1,214	1,126
	174,730	145,269
Less-accumulated depreciation	(35,240)	(27,307)
	$ 139,490	$ 117,962

INTANGIBLES AND OTHER ASSETS

Intangibles and other assets are stated at cost net of amortization computed on the straight-line and effective interest methods. Components and useful lives of intangibles and other assets are as follows:

	August 31, 1998	August 31, 1997
Goodwill (30 years)	$ 45,514	$ 31,666
Noncompete agreements (10 to 15 years)	25,181	24,233
Customer lists (15 years)	12,110	11,885
Other	6,672	5,373
	89,477	73,157
Less-accumulated amortization	(19,927)	(19,368)
	$ 69,550	$ 53,789

It is the Partnership's policy to review intangible 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 intangible assets is not recoverable, it is the Partnership's policy to reduce the carrying amount of such assets to fair value. It is the policy of the Partnership to eliminate from their balance sheet any fully amortized intangibles and the related accumulated amortization.

ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities consist of the following:

	August 31, 1998	August 31, 1997
Interest payable	$ 3,629	$ 2,075
Wages and payroll taxes	1,914	1,048
Deferred tank rent	1,204	925
Taxes other than income	501	519
Minority interest	280	295
Customer deposits	1,492	1,999
Other	669	515
	$ 9,689	$ 7,376

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.

During the Predecessor period, the Company applied the provisions of SFAS No. 109, Accounting for Income Taxes, which uses the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities. The deferred tax assets and liabilities are measured using the current tax rates and laws. The significant temporary differences and related deferred tax provisions relate primarily to net operating loss carryforwards and depreciation.

EXTRAORDINARY ITEM

In connection with the repayment of the Prudential debt (see Note 1), the Partnership incurred a prepayment penalty of $3,500 and wrote-off the unamortized balance of $905 of deferred financing costs associated with the Prudential debt. These amounts are reflected as an extraordinary loss in the consolidated statement of operations for the two months ended August 31, 1996.

INCOME (LOSS) PER LIMITED PARTNER UNIT

The Partnership adopted Statement of Financial Accounting Standard (SFAS) No. 128, Earnings per Share, effective December 15, 1997, and all net income (loss) per unit amounts disclosed herein have been calculated under the provisions of SFAS No. 128. 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. A reconciliation of net income (loss) and weighted average units used in computing basic and diluted earnings per unit is as follows:

	Year Ended August 31, 1998	Year Ended August 31, 1997	Two Months Ended August 31, 1996
BASIC NET INCOME (LOSS) PER LIMITED PARTNER UNIT:			
Basic limited partner's interest in net income (loss)	$ 8,702	$ 5,125	$ (8,339)
Weighted average limited partner units	8,332,351	7,987,943	7,864,336
Basic net income (loss) per limited partner unit	$ 1.04	$ .64	$ (1.06)
DILUTED NET INCOME (LOSS) PER LIMITED PARTNER UNIT:			
Limited partner's interest in net income (loss)	$ 8,702	$ 5,125	$ (8,339)
Weighted average limited partner units	8,332,351	7,987,943	7,864,336
Dilutive effect of phantom units	32,983	18,000	--
Weighted average limited partner units, assuming dilutive effect of phantom units	8,365,334	8,005,943	7,864,336
Dilutive net income (loss) per limited partner unit	$ 1.04	$ .64	$ (1.06)

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, 1998, of the Partnership's long-term debt approximates the aggregate carrying amount.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement. Companies must formally document, designated, and assess the effectiveness of transactions that receive hedge accounting. The adoption of this statement did not have any material effect on the Partnership's financial statements.

3. ACQUISITIONS:

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. Subsequent to August 31, 1998, the Company purchased all of the outstanding stock of S.R. Young, Inc., and conveyed the net assets to the Partnership.

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 was financed primarily with the acquisition facility.

During the two months ended August 31, 1996, the Partnership purchased certain assets of Tri-Gas of Benzie, Inc. and Spring Lake Super Flame Gas & Oil, Inc. The Company purchased all of the outstanding stock of Liberty Propane Gas, Inc. and Kingston Propane, Inc., and conveyed the net assets to the Partnership. The acquisitions totaled approximately $10,091, including noncompete agreements for periods ranging from five to ten years totaling $1,655, which was financed primarily with the acquisition facility.

During the ten months ended June 30, 1996, the Company purchased certain assets of Bi-State Propane, Century Propane, and Turner Gas Company locations in Nevada and California. The aggregate purchase price of the acquisitions totaled approximately $9,693, including noncompete agreements for a period of ten years totaling $2,290, which was financed primarily with lines of credit available at the time.

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 legal and other costs 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 FACILITIES AND LONG-TERM DEBT:

Long-term debt consists of the following:

	August 31, 1998	August 31, 1997
8.55% Senior Secured Notes	$ 120,000	$ 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	600	25,000
Notes Payable on noncompete agreements with interest imputed at rates averaging 8%, due in installments through 2008, collateralized by a first security lien on certain assets of the Partnership	9,088	3,278
Other	1,946	975
	178,634	149,253
Current maturities of long-term debt	(1,203)	(800)
	$ 177,431	$ 148,453

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 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, 1998, 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. This agreement was amended September 30, 1997. The amended credit agreement extended the terms of the Senior Revolving Working Capital Facility and the Acquisition Facility by one year and increased the Senior Revolving Acquisition Facility by $10,000. On October 15, 1998, this agreement was amended to shift $5,000 from the Acquisition Facility to the Working Capital Facility. The amended credit agreement consists of the following:

A $20,000 Senior Revolving Working Capital Facility, expiring June 30, 2000, with $10,600 outstanding at August 31, 1998. 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 6.925 percent and 7.59 percent for amounts outstanding at August 31, 1998 and 1997, respectively. 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 $30,000 Senior Revolving Acquisition Facility is available through December 31, 1999, at which time the outstanding amount must be paid in ten equal quarterly installments, beginning March 31, 2000. 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 7.0273 percent and 7.38 percent for amounts outstanding at August 31, 1998 and 1997, respectively. A commitment fee of .375 percent is paid on the unused portion of the facility.

Future maturities of long-term debt for each of the next five fiscal years and thereafter are $1,203 in 1999; $2,369 in 2000; $1,852 in 2001; $14,269 in 2002; $14,278 in 2003 and $144,663 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 $1,593 for fiscal 1998, $1,359 for fiscal 1997 and $1,010 and $226 for the ten months ended June 30, 1996 and the two months ended August 31, 1996, respectively. Fiscal year future minimum lease commitments for such leases are $1,598 in 1999; $851 in 2000; $667 in 2001; $565 in 2002; $454 in 2003 and $879 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 1999.

6. PARTNERS' CAPITAL:

Partners' capital consists of 4,876,725 Common Units representing a 55.7 percent limited partner interest, 3,702,943 Subordinated Units owned by the General Partner representing a 42.3 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 1998, the Partnership issued 591,725 Common Units in connection with certain acquisitions. 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.

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. Prior to the end of the Subordination Period, 925,736 Subordinated Units will convert to Common Units after May 31, 1999 and another 925,736 Subordinated Units will convert to Common Units after May 31, 2000, if distributions of Available Cash on the Common Units and Subordinated Units equal or exceed the MQD for each of the three consecutive four-quarter periods preceding such date. 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 May 31, 1998. The fourth quarter MQD for fiscal 1998 was declared on September 24, 1998, payable on October 15, 1998, to the Common and Subordinated Unitholders of record as of October 5, 1998. Subsequent to August 31, 1998, the Partnership announced its intent to increase the quarterly distribution to $.5125 per unit, ($2.05 annually) effective with the distribution for the first quarter of fiscal 1999, payable on January 14, 1999.

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. During fiscal 1998, 20,200 of these Phantom Units with a market value of $23.50 per unit on the date of grant, were granted to non-employee directors and key employees. During fiscal 1997, 18,000 of these Phantom Units with a market value of $20.25 per unit on the date of grant, were granted to non-employee directors and key employees. Compensation cost and directors' fee expense of $215 and $93 was recorded for fiscal 1998 and 1997, respectively, related to the issuance of the units.

7. REGISTRATION STATEMENT:

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.

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, 1998 and 1997, and the periods ended August 31, 1996, was $375, $325 and $300, 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 $33,870 and $28,659 for the years ended August 31, 1998 and 1997, respectively and $4,127 for the two months ended August 31, 1996, include compensation and benefits paid to officers and employees of the General Partner.

10. DOMESTIC AND FOREIGN OPERATIONS:

The following table presents revenues, operating income (loss) and identifiable assets attributable to the Partnership's domestic and foreign operations.

	For the Year Ended August 31, 1998	For the Year Ended August 31, 1997	For the Two Months Ended August 31, 1996	For the Ten Months Ended June 30, 1996 (Predecessor)
Revenues:				
Domestic	$ 161,058	$ 158,508	$ 13,182	$ 114,257
Foreign				
Affiliated	14,696	20,764	1,261	10,394
Unaffiliated	24,929	41,277	5,295	30,366
Elimination	(14,696)	(20,764)	(1,261)	(10,394)
	$ 185,987	$ 199,785	$ 18,477	$ 144,623
Operating Income (Loss):				
Domestic	$ 22,598	$ 16,541	$ (1,991)	$ 15,440
Foreign				
Affiliated	196	186	8	111
Unaffiliated	331	378	35	315
Elimination	(196)	(186)	(8)	(111)
	$ 22,929	$ 16,919	$ (1,956)	$ 15,755
Identifiable Assets:				
Domestic	$ 236,854	$ 198,935	$ 184,469	$ n/a
Foreign	3,110	4,864	3,381	n/a
	$ 239,964	$ 203,799	$ 187,850	$ n/a

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.
(1)	10.1	Form of Bank Credit Facility
(3)	10.1.1	Amendment of Bank Credit Facility dated as of July 9, 1996
(4)	10.1.2	Amendment of Bank Credit Facility dated as of February 28, 1997
(5)	10.1.3	Third Amendment to Credit Agreement dated as of September 30, 1997
(1)	10.2	Form of Note Purchase Agreement
(3)	10.2.1	Amendment of Note Purchase Agreement dated as of July 25, 1996
(4)	10.2.2	Amendment of Note Purchase Agreement dated as of March 11, 1997
(*)	10.2.3	Amendment of Note Purchase Agreement dated as of October 15, 1998
(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)	10.4	1989 Stock Option Plan
(1)	10.5	1995 Stock Option Plan
(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
(*)	10.11	Employment Agreement for Bradley K. Atkinson
(6)	10.16	Note Purchase Agreement dated as of November 19, 1997
(*)	10.16.1	Amendment dated October 15, 1998 to November 19, 1997 Note Purchase Agreement
(*)	23.3	Consent of Arthur Andersen LLP
(*)	21.1	List of Subsidiaries
	27.1	Financial Data Schedule - Filed with EDGAR version only

(1) Incorporated by reference to the same numbered Exhibit to Registrant's Registration Statement of Form S-3, File No. 333-4018, 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. 333-4018, 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-K for the year ended August 31, 1997.

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

(*) Filed Herewith.

EXHIBIT 10.2.3

HERITAGE OPERATING, L.P.

FIRST AMENDMENT AGREEMENT

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

Dated as of
October 15, 1998

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

Ladies and Gentlemen:

Reference is made to

(i) the Note Purchase Agreement dated as of June 25, 1996 (the "Outstanding 1996 Agreement"), among Heritage Operating, L.P., a Delaware limited partnership (the "Company") and the Purchasers named in the Purchaser Schedule attached thereto, 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, 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 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 "$15,000,000" set forth in Section 6B(ii) of the Outstanding 1996 Agreement is hereby deleted and "$20,000,000" shall be substituted therefor.

I-B. The reference to "$35,000,000" set forth in Section 6B(iii) of the Outstanding 1996 Agreement is hereby deleted and "$30,000,000" shall be substituted therefor.

I-C. Section 7A(v) of the Outstanding 1996 Agreement is hereby amended and restated in its entirety to read as follows:

"(v) the Company fails to perform, observe or comply with any agreement contained in Section 6 or Section 5A(v); or"

I-D. The definition of the term "Reinvestment Yield" set forth in Section 10A of the Outstanding 1996 Agreement is hereby amended and restated in its entirety to read as follows:

"`Reinvestment Yield'" shall mean, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the yields reported, as of 10:00 a.m. (New York City time) on the third Business Day next preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page 678" on the Telerate Service (or such other display as may replace Page 678 on the Telerate Service) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable, (ii) the Treasury Constant Maturity Series yields reported, for the latest day for which such yields shall have been so reported as of the third Business Day next preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining

Average Life of such Called Principal as of such Settlement Date. Such implied yield shall be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between yields reported for various maturities if no maturity corresponds to the applicable Remaining Average Life."

I-E. The reference to "$35,000,000" contained in the definition of the term "Acquisition Facility" set forth in Section 10B of the Outstanding 1996 Agreement is hereby deleted and "$30,000,000" shall be substituted therefor.

I-F. The references to "$15,000,000" 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 "$20,000,000" shall be substituted therefor.

ARTICLE II
AMENDMENTS TO OUTSTANDING 1997 AGREEMENT

II-A. The reference to "$15,000,000" set forth in Section 6B(ii) of the Outstanding 1997 Agreement is hereby deleted and "$20,000,000" shall be substituted therefor.

II-B. The reference to "$35,000,000" set forth in Section 6B(iii) of the Outstanding 1997 Agreement is hereby deleted and "$30,000,000" shall be substituted therefor.

II-C. Section 7A(v) of the Outstanding 1997 Agreement is hereby amended and restated in its entirety to read as follows:

"(v) the Company fails to perform, observe or comply with any agreement contained in Section 6 or Section 5A(v); or"

II-D. The definition of the term "Reinvestment Yield" set forth in Section 10A of the Outstanding 1997 Agreement is hereby amended and restated in its entirety to read as follows:

"`Reinvestment Yield'" shall mean, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the yields reported, as of 10:00 a.m. (New York City time) on the third Business Day next preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page 678" on the Telerate Service (or such other display as may replace Page 678 on the Telerate Service) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable, (ii) the Treasury Constant Maturity Series yields reported, for the latest day for which such yields shall have been so reported as of the third Business Day next preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield shall be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between yields reported for various maturities if no maturity corresponds to the applicable Remaining Average Life."

II-E. The reference to "clause (xiv)" contained in the definition of the term "Priority Debt" set forth in Section 10B of the Outstanding 1997 Agreement is hereby deleted and "clause (xv)" shall be substituted therefor.

II-F. The reference to "$35,000,000" contained in the definition of the term "Acquisition Facility" set forth in Section 10B of the Outstanding 1997 Agreement is hereby deleted and "$30,000,000" shall be substituted therefor.

II-G. The references to "$15,000,000" 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 "$20,000,000" shall be substituted therefor.

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 First 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 /s/ H. Michael Krimbill

Its Vice President and CFO

The foregoing First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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 First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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 First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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 MUTUAL LIFE INSURANCE COMPANY

By

Its

By

Its

The foregoing First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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

Its

The foregoing First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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 First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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

   Its

The foregoing First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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 First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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 First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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 First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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

The foregoing First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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.

GENERAL AMERICAN LIFE INSURANCE COMPANY

By

Its

The foregoing First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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 First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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 First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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.

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 OCTOBER 15, 1998
John Hancock Mutual Life Insurance Company	$13,000,000
John Hancock Mutual Life Insurance Company	$ 8,000,000
John Hancock Variable Life Insurance Company	$ 1,000,000
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
Massachusetts Mutual Life Insurance Company	$15,000,000
Principal Mutual Life Insurance Company	$15,000,000
New York Life Insurance Company	$12,500,000
Teachers Insurance and Annuity Association of America	$12,500,000
Keyport Life Insurance Company	$10,000,000
MONY Life Insurance Company of America	$ 3,500,000
The Mutual Life Insurance Company of New York	$ 4,000,000
Pacific Mutual Life Insurance Company	$ 5,500,000
Phoenix Home Life Mutual Insurance Company	$ 5,000,000
ReliaStar Life Insurance Company	$ 5,000,000

General American Life Insurance Company	$ 4,000,000
Wisconsin National Life Insurance Company	$ 3,000,000
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 10.11

HERITAGE HOLDINGS, INC.
EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into as of April 15, 1998 ("Effective Date") by and between Heritage Holdings, Inc. ("Company") and Bradley K. Atkinson ("Employee").

WHEREAS, Employee is currently the Vice President Administration of the Company; and

WHEREAS, the Company desires for Employee to continue in such capacity with the Company and Employee is willing to continue serving in Employee's current capacity, on the terms and conditions herein set forth;

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties, and agreements contained herein, and for other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

Definitions and Interpretations

1.1. Definitions

For purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following terms shall have the following respective meanings:

"Base Salary" shall have the meaning specified in Section 3.1.

"Board" shall mean the Board of Directors of the Company.

"Confidential Information" shall have the meaning specified in Section 5.1(a).

"Continuation Period" shall have the meaning specified in Section 4.5(a).

"Disability" shall mean a physical or mental condition of Employee that, in the good faith judgment of not less than a majority of the entire membership of the Board, based upon certification by a licensed physician reasonably acceptable to Employee and the Board, (i) prevents Employee from being able to perform the services required under this Agreement, (ii) has continued for a period of at least 180 days during any 12-month period, and (iii) is expected to continue.

"Dispute" shall have the meaning specified in Article VI.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Expiration Date" shall have the meaning specified in Section 2.2.

"Good Reason" shall mean any of the following:

(i) the assignment to Employee of any duties inconsistent with Employee's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities, excluding for this purpose an isolated, unsubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by Employee. It is agreed and understood the Employee's title shall change to Vice President, Corporate Development upon the transfer of responsibilities from G. A. Darr.

(ii) the Company's requiring Employee to be based at any office other than the Company's Corporate Headquarters;

(iii) any termination by the Company of Employee's employment other than as expressly permitted by this Agreement;

(iv) any failure by the Company to comply with and satisfy Section 7.5 (requiring the Company to require any successor to expressly assume and agree to perform all obligations under this Agreement); or

"Misconduct" shall mean one or more of the following:

(i) the willful and continued failure by Employee to perform substantially his duties hereunder (other than any such failure resulting from Employee's incapacity due to physical or mental illness) after written notice of such failure has been given to Employee by the Company and Employee has had a reasonable period (not to exceed 15 days) to correct such failure;

(ii) conviction of Employee for any felony or any other crime involving dishonesty or moral turpitude which is materially detrimental to the Company;

(iii) any act or omission by Employee which materially damages the integrity, reputation or financial viability of the Company or its affiliates; or

(iv) a breach or violation by Employee of (a) any material provision of this Agreement or (b) any material Company employment policy, which, if capable of being remedied, remains unremedied for more than 15 days after written notice thereof is given to Employee by the Company.

For purposes of this definition, no act or failure to act on Employee's part shall be considered "Misconduct" if done or omitted to be done by Employee in good faith and in the reasonable belief that such act or failure to act was in the best interest the Company or in furtherance of Employee's duties and responsibilities hereunder.

"Notice of Discontinuance" shall have the meaning specified in Section 2.2.

"Notice of Termination" shall mean a notice purporting to terminate Employee's employment in accordance with Section 4.1 or 4.2. Such notice shall specify the effective date of such termination, which date shall not be less than 30 (10 in the case of a termination by the Company for Misconduct) nor more than 60 days after the date such notice is given. If such termination is by Employee for Good Reason or by the Company for Disability or Misconduct, such notice shall set forth in reasonable detail the reason for such termination and the facts and circumstances claimed to provide a basis therefor. Any notice purporting to terminate Employee's employment which is not in compliance with the requirements of this definition shall be ineffective.

"Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust and an unincorporated organization.

"Term" shall have the meaning specified in Section 2.2.

"Termination Date" shall mean the termination date specified in a Notice of Termination delivered in accordance with this Agreement.

1.2. Interpretations

(a) In this Agreement, unless a clear contrary intention appears, (i) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision, (ii) reference to any Article or Section, means such Article or Section hereof, (iii) the words "including" (and with correlative meaning "include") means including, without limiting the generality of any description preceding such term, and (iv) where any provision of this Agreement refers to action to be taken by either party, or which such party is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such party.

(b) The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

ARTICLE II

Employment; Term; Position and Duties; Etc.

2.1. Employment

The Company agrees to continue Employee's employment with the Company and Employee agrees to remain in the employment of the Company, in each case on the terms and conditions set forth in this Agreement.

2.2. Term of Employment

Unless sooner terminated pursuant to Article IV, the term of Employee's employment under this Agreement (the "Term") shall commence on the Effective Date and shall continue until April 30, 2000 (the "Expiration Date"); provided, however, that beginning on January 1, 2000 and on each January 1 thereafter, the Expiration Date shall be automatically extended one additional year unless, prior to any such January 1 either party (i) shall give written notice to the other (a "Notice of Discontinuance") that no such automatic extension shall occur after the date of such notice or (ii) shall give a Notice of Termination to the other party pursuant to Section 4.1 or 4.2, as the case may be. No Notice of Discontinuance given by the Company shall be effective unless given pursuant to instructions set forth in a resolution duly adopted by the affirmative vote of a least a majority of the entire membership of the Board.

2.3. Position and Duties

(a) While employed hereunder, Employee shall serve as Vice President Administration of the Company and shall have and may exercise all of the powers, functions, duties and responsibilities normally attributable to such position. Employee shall have such additional duties and responsibilities commensurate with such position as from time to time may be reasonably assigned to Employee by the Board or the Chief Executive Officer of the Company. While employed hereunder, Employee shall (i) report directly and exclusively to the Chief Executive Officer of the Company and (ii) observe and comply with all lawful policies, directions and instructions of the Board and the Chief Executive Officer of the Company which are consistent with the foregoing provisions of this paragraph (a).

(b) While employed hereunder, Employee shall devote substantially all of his business time, attention, skill and efforts to the faithful and efficient performance of his duties hereunder. Notwithstanding the foregoing, Employee may engage in the following activities so long as they do not interfere in any material respect with the performance of Employee's duties and responsibilities hereunder: (i) serve on corporate, civic, religious, educational and/or charitable boards or committees and (ii) manage his personal investments.

(c) While employed hereunder, Employee shall conduct himself in such a manner as not to knowingly prejudice, in any material respect, the reputation of the Company or any of its affiliates, including Heritage Propane Partners, L.P., or with the investment community or the public at large.

2.4. Place of Employment

Employee's place of employment hereunder shall be at the Company's Corporate Headquarters presently located in Tulsa, Oklahoma.

ARTICLE III

Compensation and Benefits

3.1. Base Salary

(a) For services rendered by Employee under this Agreement, the Company shall pay to Employee an annual base salary of $125,000 ("Base Salary"). 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 Employee.

(b) The Base Salary shall be payable in accordance with the Company's payroll practice for its executives as it is earned.

3.2. Vacation

While employed hereunder, Employee shall be entitled to vacation benefits in accordance with the vacation policy approved by the Board from time to time for the Company's executives in general. Employee shall not be entitled to accumulate and carryover unused vacation time from year to year, except to the extent permitted in accordance with the Company's vacation policy for executives in general, nor shall Employee be entitled to compensation for unused vacation time except as provided in Section 4.3(a).

3.3. Business Expenses

The Company shall, in accordance with the rules and policies that it may establish from time to time for executives, reimburse Employee for business expenses reasonably incurred in the performance of Employee's duties. Requests for reimbursement for such expenses must be accompanied by appropriate documentation.

Other Benefits

Employee shall be entitled to receive all employee benefits, fringe benefits and other perquisites that may be offered by the Company to its executives as a group, including, without limitation, participation by Employee and, where applicable, Employee's dependents, in the various employee benefit plans or programs (including, without limitation, pension plans, profit sharing and 401(k) plans, stock plans, health plans, life insurance and disability insurance) provided to executives of the Company in general, subject to meeting the eligibility requirements with respect to each of such benefit plans or programs. However, nothing in this Section 3.4 shall be deemed to prohibit the Company from making any changes in any of the plans, programs or benefits described herein. In addition, Employee shall be entitled to reasonable moving and relocation expenses if Employee is required to relocate by the Board.

ARTICLE IV

Termination of Employment

4.1. Termination by Employee

Employee may, at any time prior to the Expiration Date, terminate his employment hereunder for any reason by delivering a Notice of Termination to the Chief Executive Officer of the Company.

4.2. Termination by the Company

The Company may, at any time prior to the Expiration Date, terminate Employee's employment hereunder for any reason by delivering a Notice of Termination to Employee; provided, however, that in no event shall the Company be entitled to terminate Employee's employment prior to the Expiration Date unless the Board shall duly adopt, by the affirmative vote of at least a majority of the entire membership of the Board, a resolution authorizing such termination and stating that, in the opinion of the Board, sufficient reason exists therefor.

4.3. Payment of Accrued Base Salary, Vacation Pay, etc.

(a) Promptly upon the termination of Employee's employment for any reason (including death), the Company shall pay to Employee (or his estate) a lump sum amount for (i) any unpaid Base Salary earned hereunder prior to the termination date, (ii) all unused vacation time accrued by Employee as of the termination date in accordance with Section 3.2, (iii) all unpaid benefits earned or vested, as the case may be, by Employee as of the termination date under any and all incentive or deferred compensation plans or programs of the Company and (iv) any amounts in respect of which Employee has requested, and is entitled to, reimbursement in accordance with Section 3.3.

(b) A termination of Employee's employment in accordance with this Agreement shall not alter or impair any of Employee's rights or benefits under any employee benefit plan or program maintained by the Company, in each case except as provided therein or in any written agreement entered into between the Company and Employee pursuant thereto.

4.4. Disability Payments

If Employee incurs a Disability, the Company may terminate Employee's employment hereunder by delivering a Notice of Termination to Employee; provided, however, in such event the Company shall continue to pay to Employee, through the remainder of the Term (as determined without regard to its earlier termination upon Employee's termination due to Disability under this Section 4.4 and without any extension of the Term after such termination date), at such regularly scheduled times:

(A) the Base Salary in effect on the date of such termination,

minus

(B) any amount payable to Employee under any disability plan maintained by the Company for the benefit of Employee.

4.5. Other Benefits

The following provisions shall apply if Employee terminates his employment pursuant to Section 4.1 for Good Reason or if the Company terminates Employee's employment pursuant to Section 4.2 for any reason other than Misconduct or Disability:

(a) Base Salary Payments. For the remainder of the Term or until Employee's death, if earlier (the "Continuation Period"), the Company shall pay to Employee, at the regularly scheduled times, the Base Salary (as in effect on the date on which the relevant Notice of Termination is given in accordance with this Agreement). The amount payable to Employee under this paragraph (a) is in lieu of, and not in addition to, any severance payment due or to become due to Employee under any separate agreement or contract between Employee and the Company or pursuant to any severance payment plan, program or policy of the Company.

(b) Insurance Benefits, etc. The Company shall at all times during the Continuation Period cause Employee and Employee's eligible dependents to be covered by and to participate in, to the fullest extent allowable under the terms thereof, all group health insurance plans and programs that may be offered to the executives of the Company so that Employee will receive, at all times during the Continuation Period, the same benefits under such plans and programs that Employee would have been entitled to receive had he remained an executive of the Company; provided, however, (i) Employee must timely pay the "active" employee premium, if any, for such continued coverage and (ii) in the event Employee becomes covered during the Continuation Period by another employer's group health plan or programs which does not contain any exclusion or limitation with respect to any pre-existing conditions, then the Company's group health plans shall no longer be liable for any benefits under this paragraph (b).

(c) Release. Notwithstanding anything in this Section 4.5 to the contrary, as a condition to the receipt of any benefit under this Section 4.5, Employee must first execute and deliver to the Company a release in a form prepared by the Company, releasing the Company, its officers, the Board, employees and agents from any and all claims and from any and all causes of action of any kind or character that Employee may have arising out of Employee's employment with the Company or the termination of such employment, but excluding any claims and causes of action that Employee may have arising under or based upon this Agreement.

(d) Parachute Tax. To the extent that any payment made to Employee hereunder is subject to federal excise tax as a result of the "parachute" provisions of Section 280G and 4999(a) of the Internal Revenue Code of 1986, as amended, then the Company shall pay Employee an additional amount of cash (the "Additional Amount") such that the net amount received by Employee, after paying all applicable excise taxes and all other federal and state taxes on such Additional Amount, shall be equal to the net amount that Employee would have received if payments made hereunder were not subject to such parachute excise tax.

4.6. Non-exclusivity of Rights

Nothing in this Agreement shall prevent or limit Employee's continuing or future participation in any plan, program, policy or practice provided by the Company for which Employee may qualify, nor shall anything herein limit or otherwise affect such rights as Employee may have under any other contract or agreement with the Company. Amounts which are vested benefits or which Employee is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company at or subsequent to the Termination Date shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

ARTICLE V
Confidential Information and Non-Competition

5.1. Confidential Information

(a) Employee recognizes that the services to be performed by Employee hereunder are special, unique, and extraordinary and that, by reason of Employee's employment with the Company, Employee may acquire Confidential Information concerning the operation of the Company, the use or disclosure of which would cause the Company substantial loss and damages which could not be readily calculated and for which no remedy at law would be adequate. Accordingly, Employee agrees that Employee will not (directly or indirectly) at any time, whether during or after Employee's employment hereunder, (i) knowingly use for an improper personal benefit any Confidential Information that Employee may learn or has learned by reason of Employee's employment with the Company or (ii) disclose any such Confidential Information to any Person except (A) in the performance of Employee's obligations to the Company hereunder, (B) as required by applicable law, (C) in connection with the enforcement of Employee's rights under this Agreement, (D) in connection with any disagreement, dispute or litigation (pending or threatened) between Employee and the Company or (E) with the prior written consent of the Board. As used herein, "Confidential Information" includes information with respect to the Company's products, facilities and methods, research and development, trade secrets and other intellectual property, systems, patents and patent applications, procedures, manuals, confidential reports, product price lists, customer lists, financial information, business plans, prospects or opportunities; provided, however, that such term shall not include any information that (x) is or becomes generally known or available other than as a result of a disclosure by Employee or (y) is or becomes known or available to Employee on a nonconfidential basis from a source (other than the Company) which, to Employee's knowledge, is not prohibited from disclosing such information to Employee by a legal, contractual, fiduciary or other obligation to the Company.

(b) Employee confirms that all Confidential Information is the exclusive property of the Company. All business records, papers and documents kept or made by Employee while employed by the Company relating to the business of the Company shall be and remain the property of the Company at all times. Upon the request of the Company at any time, Employee shall promptly deliver to the Company, and shall retain no copies of, any written materials, records and documents made by Employee or coming into his possession while employed by the Company concerning the business or affairs of the Company other than personal materials, records and documents (including notes and correspondence) of Employee not containing proprietary information relating to such business or affairs. Notwithstanding the foregoing, Employee shall be permitted to retain copies of, or have access to, all such materials, records and documents relating to any disagreement, dispute or litigation (pending or threatened) between Employee and the Company.

5.2. Non-Competition

(a) While employed hereunder and for one year thereafter or the Continuation Period, if longer (the "Restricted Period"), Employee shall not, unless Employee receives the prior written consent of the Board, own an interest in, manage, operate, join, control, lend money or render financial or other assistance to or participate in or be connected with, as an officer, employee, partner, stockholder, consultant or otherwise, any Person which competes with the Company in the retail marketing of propane gas in the United States; provided, however, that the foregoing restriction shall apply only to (i) those areas where the Company was actually doing business on the Termination Date and (ii) those areas in respect of which the Company actively and diligently conducted at any time during the 12-month period ended on the Termination Date an analysis to determine whether or not it would commence doing business in such areas but, in the case of each such area, the foregoing restriction shall cease when the Company ceases to actively conduct business (disregarding any temporary stoppages) in such area or, if applicable, abandons its intent to conduct business in such area.

(b) Employee has carefully read and considered the provisions of this Section 5.2 and, having done so, agrees that the restrictions set forth in this Section 5.2 (including the Restricted Period, scope of activity to be restrained and the geographical scope) are fair and reasonable and are reasonably required for the protection of the interests of the Company, its officers, directors, employees, creditors and shareholders. Employee understands that the restrictions contained in this Section 5.2 may limit his ability to engage in a business similar to the Company's business, but acknowledges that he will receive sufficiently high remuneration and other benefits from the Company hereunder to justify such restrictions.

(c) During the Restricted Period, Employee shall not, whether for his own account or for the account of any other Person (excluding the Company), intentionally (i) solicit, endeavor to entice or induce any employee of the Company to terminate his employment with the Company or accept employment with anyone else or (ii) interfere in a similar manner with the business of the Company.

(d) In the event that any provision of this Section 5.2 relating to the Restricted Period and/or the areas of restriction shall be declared by a court of competent jurisdiction to exceed the maximum time period or areas such court deems reasonable and enforceable, the Restricted Period and/or areas of restriction deemed reasonable and enforceable by the court shall become and thereafter be the maximum time period and/or areas.

5.3. Stock Ownership

Nothing in this Agreement shall prohibit Employee from acquiring or holding any issue of stock or securities of any Person that has any securities registered under Section 12 of the Exchange Act, listed on a national securities exchange or quoted on the automated quotation system of the National Association of Securities Dealers, Inc. so long as (i) Employee is not deemed to be an "affiliate" of such Person as such term is used in paragraphs (c) and (d) of Rule 145 under the Securities Act of 1933, as amended, and (ii) Employee and members of his immediate family do not own or hold more than 3% of any voting securities of any such Person.

5.4. Injunctive Relief

Employee acknowledges that a breach of any of the covenants contained in this Article V may result in material irreparable injury to the Company for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach, any payments remaining under the terms of this Agreement shall cease and the Company shall be entitled to obtain a temporary restraining order and/or a preliminary or permanent injunction restraining Employee from engaging in activities prohibited by this Article V or such other relief as may required to specifically enforce any of the covenants contained in this Article V. Employee agrees to and hereby does submit to in personam jurisdiction before each and every such court for that purpose.

ARTICLE VI

Dispute Resolution

(a) In the event a dispute shall arise between the parties as to whether the provisions of this Agreement have been complied with (a "Dispute"), the parties agree to resolve such Dispute in accordance with the following procedure:

(1) A meeting shall be held promptly between the Parties, attended by (in the case of the Company) one or more individuals with decision-making authority regarding the Dispute, to attempt in good faith to negotiate a resolution of the Dispute.

(2) If, within 10 days after such meeting, the parties have not succeeded in negotiating a resolution of the Dispute, the parties agree to submit the Dispute to mediation in accordance with the Commercial Mediation Rules of the American Arbitration Association.

(3) The parties will jointly appoint a mutually acceptable mediator, seeking assistance in such regard from the American Arbitration Association if they have been unable to agree upon such appointment within 10 days following the 10-day period referred to in clause (2) above.

(4) Upon appointment of the mediator, the parties agree to participate in good faith in the mediation and negotiations relating thereto for 15 days.

(5) If the parties are not successful in resolving the Dispute through mediation within such 15-day period, the parties agree that the Dispute shall be settled by arbitration in accordance with the Expedited Procedures of the Commercial Arbitration Rules of the American Arbitration Association.

(6) The fees and expenses of the mediator/arbitrators shall be borne solely by the non-prevailing party or, in the event there is no clear prevailing party, as the mediator/arbitrators deem appropriate.

(7) Except as provided above, each party shall pay its own costs and expenses (including, without limitation, attorneys' fees) relating to any mediation/arbitration proceeding conducted under this Article VI.

(8) All mediation/arbitration conferences and hearings will be held in the Tulsa, Oklahoma area.

(b) In the event there is any disputed question of law involved in any arbitration proceeding, such as the proper legal interpretation of any provision of this Agreement, the arbitrators shall make separate and distinct findings of all facts material to the disputed question of law to be decided and, on the basis of the facts so found, express their conclusion of the question of law. The facts so found shall be conclusive and binding on the parties, but any legal conclusion reached by the arbitrators from such facts may be submitted by either party to a court of law for final determination by initiation of a civil action in the manner provided by law. Such action, to be valid, must be commenced within 20 days after receipt of the arbitrators' decision. If no such civil action is commenced within such 20-day period, the legal conclusion reached by the arbitrators shall be conclusive and binding on the parties. Any such civil action shall be submitted, heard and determined solely on the basis of the facts found by the arbitrators. Neither of the parties shall, or shall be entitled to, submit any additional or different facts for consideration by the court. In the event any civil action is commenced under this paragraph (b), the party who prevails or substantially prevails (as determined by the court) in such civil action shall be entitled to recover from the other party all costs, expenses and reasonable attorneys' fees incurred by the prevailing party in connection with such action and on appeal.

(c) Except as limited by paragraph (b) above, the parties agree that judgment upon the award rendered by the arbitrators may be entered in any court of competent jurisdiction. In the event legal proceedings are commenced to enforce the rights awarded in an arbitration proceeding, the party who prevails or substantially prevails in such legal proceeding shall be entitled to recover from the other party all costs, expenses and reasonable attorneys' fees incurred by the prevailing party in connection with such legal proceeding and on appeal.

(d) Except as provided above, (i) no legal action may be brought by either party with respect to any Dispute and (ii) all Disputes shall be determined only in accordance with the procedures set forth above.

ARTICLE VII
Miscellaneous

7.1. No Mitigation or Offset

The provisions of this Agreement are not intended to, nor shall they be construed to, require that Employee mitigate the amount of any payment provided for in this Agreement by seeking or accepting other employment, nor shall the amount of any payment provided for in this Agreement be reduced by any compensation earned by Employee as the result of employment by another employer or otherwise. Without limitation of the foregoing, the Company's obligations to make the payments to Employee required under this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set off (other than as provided in Section 4.5(a)), counterclaim, recoupment, defense or other claim, right or action that the Company may have against Employee.

7.2. Assignability

The obligations of Employee hereunder are personal and may not be assigned or delegated by Employee or transferred in any manner whatsoever, nor are such obligations subject to involuntary alienation, assignment or transfer. The Company shall have the right to assign this Agreement and to delegate all rights, duties and obligations hereunder as provided in Section 7.5.

7.3. Notices

All notices and all other communications provided for in the Agreement shall be in writing and addressed (i) if to the Company, at its principal office address or such other address as it may have designated by written notice to Employee for purposes hereof, directed to the attention of the Chief Executive Officer with a copy to the Secretary of the Company and (ii) if to Employee, at his residence address on the records of the Company or to such other address as he may have designated to the Company in writing for purposes hereof. Each such notice or other communication shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, except that any notice of change of address shall be effective only upon receipt.

7.4. Severability

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

7.5. Successors; Binding Agreement

(a) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance reasonable acceptable to Employee, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used herein, the term "Company" shall include any successor to its business and/or assets as aforesaid which executes and delivers the Agreement provided for in this Section 7.5 or which otherwise becomes bound by all terms and provisions of this Agreement by operation of law.

(b) This Agreement and all rights of Employee hereunder shall inure to the benefit of and be enforceable by Employee's personal or legal representatives, executors, administrators, successors, heirs, distributes, devisees and legatees. If Employee should die while any amounts are due him hereunder, all such amounts shall be paid in accordance with the terms of this Agreement to Employee's devisee, legatee, or other designee or, if there be no such designee, to Employee's estate.

7.6. Tax Withholdings

The Company shall withhold from all payments hereunder all applicable taxes (federal, state or other) which it is required to withhold therefrom unless Employee has otherwise paid (or made other arrangements satisfactory) to the Company the amount of such taxes.

7.7 Amendments and Waivers

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by Employee and such member of the Board as may be specifically authorized by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or in compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

7.8. Entire Agreement; Termination of Any Other Agreements

This Agreement is an integration of the parties' agreement and no agreement or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. This Agreement hereby expressly terminates, rescinds and replaces any prior agreement (written or oral) between the parties relating to the subject matter hereof.

7.9. Governing Law

THE VALIDITY, INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF OKLAHOMA WITHOUT REGARD TO ITS CONFLICT OF LAWS PROVISION.

7.10 Employment with Affiliates

For purposes of this Agreement, employment with any subsidiary of the Company, Heritage Propane Partners, L.P., Heritage Operating L.P. or with any of their respective subsidiaries shall be deemed to be employment with the Company.

7.11. Counterparts

This Agreement may be executed in or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date first above written.

HERITAGE HOLDINGS, INC.

By: /s/ J. E. Bertelsmeyer

Name: J. E. Bertelsmeyer

Title: Chief Executive Officer

EMPLOYEE

/s/ Bradley K. Atkinson

Bradley K. Atkinson

EXHIBIT 10.16.1

HERITAGE OPERATING, L.P.

FIRST AMENDMENT AGREEMENT

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

Dated as of
October 15, 1998

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

Ladies and Gentlemen:

Reference is made to

(i) the Note Purchase Agreement dated as of June 25, 1996 (the "Outstanding 1996 Agreement"), among Heritage Operating, L.P., a Delaware limited partnership (the "Company") and the Purchasers named in the Purchaser Schedule attached thereto, 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, 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 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 "$15,000,000" set forth in Section 6B(ii) of the Outstanding 1996 Agreement is hereby deleted and "$20,000,000" shall be substituted therefor.

I-B. The reference to "$35,000,000" set forth in Section 6B(iii) of the Outstanding 1996 Agreement is hereby deleted and "$30,000,000" shall be substituted therefor.

I-C. Section 7A(v) of the Outstanding 1996 Agreement is hereby amended and restated in its entirety to read as follows:

"(v) the Company fails to perform, observe or comply with any agreement contained in Section 6 or Section 5A(v); or"

I-D. The definition of the term "Reinvestment Yield" set forth in Section 10A of the Outstanding 1996 Agreement is hereby amended and restated in its entirety to read as follows:

"`Reinvestment Yield'" shall mean, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the yields reported, as of 10:00 a.m. (New York City time) on the third Business Day next preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page 678" on the Telerate Service (or such other display as may replace Page 678 on the Telerate Service) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable, (ii) the Treasury Constant Maturity Series yields reported, for the latest day for which such yields shall have been so reported as of the third Business Day next preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining

Average Life of such Called Principal as of such Settlement Date. Such implied yield shall be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between yields reported for various maturities if no maturity corresponds to the applicable Remaining Average Life."

I-E. The reference to "$35,000,000" contained in the definition of the term "Acquisition Facility" set forth in Section 10B of the Outstanding 1996 Agreement is hereby deleted and "$30,000,000" shall be substituted therefor.

I-F. The references to "$15,000,000" 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 "$20,000,000" shall be substituted therefor.

ARTICLE II
AMENDMENTS TO OUTSTANDING 1997 AGREEMENT

II-A. The reference to "$15,000,000" set forth in Section 6B(ii) of the Outstanding 1997 Agreement is hereby deleted and "$20,000,000" shall be substituted therefor.

II-B. The reference to "$35,000,000" set forth in Section 6B(iii) of the Outstanding 1997 Agreement is hereby deleted and "$30,000,000" shall be substituted therefor.

II-C. Section 7A(v) of the Outstanding 1997 Agreement is hereby amended and restated in its entirety to read as follows:

"(v) the Company fails to perform, observe or comply with any agreement contained in Section 6 or Section 5A(v); or"

II-D. The definition of the term "Reinvestment Yield" set forth in Section 10A of the Outstanding 1997 Agreement is hereby amended and restated in its entirety to read as follows:

"`Reinvestment Yield'" shall mean, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the yields reported, as of 10:00 a.m. (New York City time) on the third Business Day next preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page 678" on the Telerate Service (or such other display as may replace Page 678 on the Telerate Service) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable, (ii) the Treasury Constant Maturity Series yields reported, for the latest day for which such yields shall have been so reported as of the third Business Day next preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield shall be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between yields reported for various maturities if no maturity corresponds to the applicable Remaining Average Life."

II-E. The reference to "clause (xiv)" contained in the definition of the term "Priority Debt" set forth in Section 10B of the Outstanding 1997 Agreement is hereby deleted and "clause (xv)" shall be substituted therefor.

II-F. The reference to "$35,000,000" contained in the definition of the term "Acquisition Facility" set forth in Section 10B of the Outstanding 1997 Agreement is hereby deleted and "$30,000,000" shall be substituted therefor.

II-G. The references to "$15,000,000" 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 "$20,000,000" shall be substituted therefor.

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 First 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 /s/ H. Michael Krimbill

Its Vice President and CFO

The foregoing First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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 First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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 First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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 MUTUAL LIFE INSURANCE COMPANY

By

Its

By

Its

The foregoing First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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

Its

The foregoing First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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 First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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

Its

The foregoing First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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 First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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 First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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 First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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

The foregoing First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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.

GENERAL AMERICAN LIFE INSURANCE COMPANY

By

Its

The foregoing First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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 First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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 First Amendment Agreement and the amendments referred to therein are hereby accepted and agreed to as of October 15, 1998, and the undersigned hereby confirms that on October 15, 1998 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.

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 OCTOBER 15, 1998
John Hancock Mutual Life Insurance Company	$ 13,000,000
John Hancock Mutual Life Insurance Company	$ 8,000,000
John Hancock Variable Life Insurance Company	$ 1,000,000
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
Massachusetts Mutual Life Insurance Company	$ 15,000,000
Principal Mutual Life Insurance Company	$ 15,000,000
New York Life Insurance Company	$ 12,500,000
Teachers Insurance and Annuity Association of America	$ 12,500,000
Keyport Life Insurance Company	$ 10,000,000
MONY Life Insurance Company of America	$ 3,500,000
The Mutual Life Insurance Company of New York	$ 4,000,000
Pacific Mutual Life Insurance Company	$ 5,500,000
Phoenix Home Life Mutual Insurance Company	$ 5,000,000
ReliaStar Life Insurance Company	$ 5,000,000

General American Life Insurance Company	$ 4,000,000
Wisconsin National Life Insurance Company	$ 3,000,000
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
   - C & D Propane
   - Carolane Propane Gas
   - Covington Propane
   - Fallsburg 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
   - 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

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 report included in this Form 10-K, into the Partnership's previously filed Registration Statements file No. 333-40407.

Tulsa, Oklahoma
November 24, 1998

/s/ Arthur Andersen LLP

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1,000

YEAR
AUG-31-1998
SEP-01-1997
AUG-31-1998
1,837
0
10,880
436
12,545
26,185
174,730
35,240
239,964
35,444
177,431
0
0
0
27,089
239,964
185,987
185,987
96,884
163,058
(936)
0
14,599
9,266
0
9,266
0
0
0
8,790
1.04
1.04