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, 1997

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 October 14, 1997, 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 $107,486,000.

At October 14, 1997, the registrant had units outstanding as follows:

Heritage Propane Partners, L.P.	4,512,085	Common Units
	3,702,943	Subordinated Units

Documents Incorporated by Reference: None

HERITAGE PROPANE PARTNERS, L.P.

1997 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.

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. As General Partner of the Partnership, the Company performs all management functions required for the Partnership.

GENERAL

The Partnership is a Delaware limited partnership formed to acquire, own and operate the propane business and assets of Heritage. Heritage serves as the general partner of the Partnership. The Partnership believes it is the seventh largest retail marketer of propane in the United States, serving more than 220,000 active residential, commercial, industrial and agricultural customers from 132 district locations in 23 states. The Partnership's operations have been concentrated in large part in the western and southeastern regions of the United States, with expansion into the northeastern United States in the last year.

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, 1997, 40 acquisitions had been completed for an aggregate purchase price of approximately $179 million. Volumes of propane sold to retail customers almost doubled from 63.2 million gallons for the fiscal year ended August 31, 1992 to 125.6 million gallons for the fiscal year ended August 31, 1997. Since August 31, 1997, 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 winter of 1994-1995 and 1996-1997. 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, unlike many of its competitors, 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, 1997, 40 acquisitions had been completed for an aggregate purchase price of approximately $179 million. The Partnership has completed an additional acquisition since that time. Of these companies acquired, 11 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 consists of the $35.0 million Acquisition Facility to be used for acquisitions and improvements and the $15.0 million Working Capital Facility to be used for working capital and other general partnership purposes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Description of Indebtedness." The Partnership also has the ability to fund acquisitions through the issuance of additional partnership interests.

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 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 847 full-time employees as of August 31, 1997, only 39, or approximately 4%, were general and administrative. In addition, the Partnership plant bonus system encourages district employees at all levels to control costs and expand revenues.

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

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

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 less than 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 1997, the Partnership's domestic wholesale operations (excluding M-P Oils Partnership) accounted for 14.6% of total volumes but less than 2% of its gross profit. While the Partnership does not emphasize wholesale operations, 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 132 district locations in 23 states. The Partnership's operations are concentrated in large part in the western and southeastern regions of the United States, with recent expansion into the northeastern part of the United States. The Partnership's serves more than 220,000 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 85.4% of the domestic gallons sold by the Partnership in fiscal 1997 were to retail customers and approximately 14.6% were to wholesale customers. Of the retail gallons sold by the Partnership in fiscal 1997, 54% were to residential customers, 34% were to industrial, commercial and agricultural customers, and 12% were to all other retail users.

Sales to residential customers in fiscal 1997 accounted for 46% of total domestic gallons sold 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 22% of the Partnership's gross profit from propane sales for fiscal year 1997, with all other retail users accounting for 9%. Additional volumes sold to wholesale customers contributed the remaining 2% of gross profit from propane sales. No single customer accounted for 5% or more of the Partnership's revenues during fiscal year 1997.

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 40 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 in fiscal 1997 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, but none contain "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, 1997, Warren Petroleum Company ("Warren"), a division of Natural Gas Clearing House, provided approximately 28% of the Partnership's total domestic propane supply. The Partnership believes that, if supplies from Warren were interrupted, it would be able to secure adequate propane supplies from other sources without a material disruption of its operations. Aside from Warren, no single supplier provided more than 10% of the Partnership's total domestic propane supply in the fiscal year ended August 31, 1997. 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 1997 the Partnership purchased approximately 71% 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. hold a 60% interest in a Canadian partnership, M-P Oils 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 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 four sites at which the Partnership operates and are 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 five 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.

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, 1997, the Partnership had 847 full time employees, of whom 39 were general and administrative and 808 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 132 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 nine million gallons of above-ground storage capacity at its various plant sites. In addition, in 1997, the Partnership leased approximately 8.1 million gallons of underground storage facilities in two states (2.5 million gallons of storage in Alto, Michigan and 5.6 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 and Truckee, California, Reno and other locations in Nevada. Six Bi-State locations are included in the Partnership's site counts and all site, customer and other property descriptions contained herein include all Bi-State 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, 1997, the Partnership had a fleet of approximately 17 transport truck tractors and 22 transport trailers all of which are owned by the Partnership. In addition, the Partnership utilizes approximately 360 bobtails and approximately 611 other delivery and service vehicles, all of which are owned by the Partnership. As of August 31, 1997, the Partnership owned approximately 176,000 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 which 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 and Sawyer Gas, Keen Propane and Gibson Propane. 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.

A number of personal injury, property damage and product liability suits are pending or threatened against the Partnership. 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, and in some cases, punitive 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, a number involve property damage, and several involve serious personal injuries or deaths and the claims made are for relatively large amounts. 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, 1997.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S 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 High	Low	Cash Distribution
1996 Fiscal Year			
Fourth Quarter Ended August 31, 1996	$20.625	$19.875	$0.353*
1997 Fiscal Year			
First Quarter Ended November 30, 1996	$21.375	$20.000	$0.500
Second Quarter Ended February 28, 1997	$21.875	$19.875	$0.500
Third Quarter Ended May 31, 1997	$21.375	$20.000	$0.500
Fourth Quarter Ended August 31, 1997	$22.9375	$20.875	$0.500

* Prorated for the period between the closing of the Partnership's initial public offering ("IPO") on June 28, 1996 and the fourth quarter ended August 31, 1996.

As of September 30, 1997, there were approximately 244 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 $0.500 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. 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.

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, 1997 and August 31, 1996, respectively, and the selected operating data for the year ended August 31, 1997, for the two month period ended August 31, 1996, for the ten month period ended June 30, 1996, and for the year ended 1995, 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, 1994 and August 31, 1993 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.

	Year Ended August 31,			Year Ended August 31, 1996		Year Ended August 31,
	1993(e)	1994(e)	1995(e)	10 mos.(e)	2 mos.	1997
Statements of Operating Data						
Revenues	$ 102,291	$ 103,971	$ 131,508	$ 144,623	$ 18,477	$ 199,785
Gross Profit(a)	45,596	48,601	55,841	55,634	6,314	73,838
Depreciation and amortization	8,288	8,711	8,896	7,581	1,733	11,124
Operating income (loss)	8,669	9,905	12,675	15,755	(1,956)	16,919
Interest expense	8,786	8,761	12,201	10,833	1,962	12,063
Income (loss) before income taxes, minority interest and extraordinary items	(604)	1,296	759	6,084	(4,087)	5,625
Provision for income taxes	117	668	666	2,735	--	--
Net income (loss)	(721)	315	(211)	2,921	(8,423)	5,177
Net income (loss) per Unit(b)	--	--	--	--	(1.06)	0.64

	August 31,				
	1993(e)	1994(e)	1995(e)	1996	1997
Balance Sheet Data (end of period)					
Current assets	$ 16,924	$ 17,134	$ 21,293	$ 24,014	$ 27,951
Total assets	121,557	118,330	163,423	187,850	203,799
Current liabilities	18,734	19,646	35,825	24,728	34,426
Long-term debt	86,532	81,373	103,412	132,521	148,453
Redeemable preferred stock	11,167	11,737	12,337	--	--
Stockholders' deficit	(6,232)	(6,301)	(6,975)	--	--
Partner's capital - General Partner	--	--	--	307	208
Partners' capital - Limited Partner (g)	--	--	--	30,294	20,712

	Year Ended August 31,				
	1993(e)	1994(e)	1995(e)	1996(f)	1997
Operating Data					
EBITDA(c)	$ 16,957	$ 18,616	$ 21,672	$ 24,365	$ 28,718
Capital Expenditures(d)					
Maintenance and growth	3,802	6,194	8,634	7,244	7,170
Acquisition	8,149	--	27,879	16,665	14,549
Retail propane gallons sold	73,422	79,669	98,318	118,200	125,605

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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 $2.3 million in fiscal 1997, 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, 1997, Heritage and the Partnership completed 40 acquisitions for an aggregate purchase price of approximately $179 million. The Partnership completed 11 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 seventh largest retail marketer of propane in the United States, based on retail gallons sold, serving more than 220,000 residential, industrial/commercial and agricultural customers in 23 states through 132 retail outlets. Annual retail propane sales volumes in gallons were 125.6 million, 118.2 million and 98.3 million for the fiscal years ended August 31, 1997, 1996 and 1995, 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 1997, the Partnership consummated seven acquisitions for a total purchase price of $14.5 million. In fiscal 1995 and 1996, the Partnership consummated seven and eight acquisitions for total purchase prices of $39.6 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 Oils Partnership, a general partnership in which the Partnership owns a 60% interest. Because M-P Oils Partnership is primarily engaged in lower-margin wholesale distribution, its contribution to the Partnership's net income and EBITDA is not significant.

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 all 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 a $2.7 million income tax provision was provided by the Company 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.

FISCAL YEAR 1996 COMPARED TO FISCAL YEAR 1995

The following table provides gallons and certain financial information for Heritage Propane Partners, L.P.

HERITAGE PROPANE PARTNERS, L.P.
(IN THOUSANDS, EXCEPT AVERAGE SELLING PRICE)

	Pro Forma September 1, 1995 to August 31, 1996 (a)	September 1, 1994 to August 31, 1995
Gallons sold:		
Retail	118,200	98,300
Wholesale	120,500	93,400
	238,700	191,700
Revenues:		
Retail	$ 102,588	$ 86,142
Wholesale	45,557	31,114
Other	14,955	14,252
	$ 163,100	$ 131,508
Average selling price per gallon:		
Retail	$.87	$.88
Wholesale	$.38	$.33
Gross profit (b)	$ 61,948	$ 55,841
EBITDA (c)	$ 24,365	$ 21,672
Operating income	$ 14,042	$ 12,675

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

(b Revenues less related cost of sales.

(c) EBITDA (earnings before interest, taxes, depreciation and amortization) 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).

Volume. During fiscal 1996, the Partnership sold 118.2 million retail gallons, an increase of 19.9 million retail gallons or 20.2% from the 98.3 million gallons sold in fiscal 1995. Approximately half of this increase resulted from eight acquisitions completed after August 31, 1995, plus a full 12 months of the acquisitions competed in 1995, with internal growth and colder weather responsible for the remaining increase.

The Partnership also sold 120.5 million wholesale gallons in fiscal 1996, a 29.0% increase from the 93.4 million wholesale gallons sold in fiscal 1995. The increase in wholesale volumes was attributable to increased sales by M-P Oils Partnership in Canada.

Revenues. Total revenues increased $31.6 million or 24.0% to $163.1 million for fiscal 1996, as compared to $131.5 million for fiscal 1995. Approximately $14.5 million of the increase was attributable to low-margin wholesale revenues that may or may not recur in future periods with the balance attributable to volumes associated with acquisitions, colder weather and internal growth. Domestic revenues increased $16.6 million or 15.0% to $127.4 million for fiscal 1996, as compared to $110.8 million for fiscal 1995. Foreign revenues increased $15.0 million or 72.5% to $35.7 million for fiscal 1996, as compared to $20.7 million for fiscal 1995.

Cost of Sales. Total cost of sales increased $25.5 million or 33.7% to $101.2 million for fiscal 1996, as compared to $75.7 million for fiscal 1995. Approximately $10.8 million of the increase in cost of sales was attributable to wholesale activity. The actual cost of propane on a per gallon basis increased approximately $0.05 per gallon domestically in fiscal 1996, accounting for $5.4 million of the total increase. The remaining increase in cost of sales was attributable to higher retail volumes resulting from acquisitions, internal growth and colder weather. Domestic cost of sales increased $10.8 million or 19.4% to $66.6 million for fiscal 1996, as compared to $55.8 million for fiscal 1995. Foreign cost of sales increased $14.7 million or 73.9% to $34.6 million for fiscal 1996, as compared to $19.9 million for fiscal 1995.

Gross Profit. Gross profit increased $6.1 million or 10.9% to $61.9 million for fiscal 1996, as compared to $55.8 million for fiscal 1995. This increase was attributable to acquisition-related volumes, internal growth and colder weather partially offset by a decrease in gross profit per retail gallon resulting from competitive pressures.

Operating Expenses. Operating expenses increased $3.6 million or 11.5% to $35.0 million in fiscal 1996, as compared to $31.4 million in fiscal 1995. About two-thirds of this increase was attributable to higher volumes resulting from acquisitions, with the balance due to higher volumes generated by internal growth and colder weather partially offset by lower operating costs attributable to operations in place at the beginning of the fiscal year.

Selling, General and Administrative. SG&A expenses increased $1.0 million or 34.5% from $2.9 million in fiscal 1995 to $3.9 million in fiscal 1996. This increase was largely attributable to expenses associated with acquisitions.

Depreciation and Amortization. Depreciation and amortization increased approximately $0.2 million or 2.0% to $9.1 million for fiscal 1996 as compared to $8.9 million for fiscal 1995. This increase was attributable to additional depreciation and amortization associated with acquisitions offset by a reduction in amortization associated with the expiration of certain non-compete agreements.

Operating Income. Operating income increased $1.1 million or 8.7% to $13.8 million in fiscal 1996 from $12.7 million in fiscal 1995. This increase was primarily due to acquisition-related volumes, partially offset by lower margins. Domestic operating income increased $1.1 million or 9.0% to $13.5 million for fiscal 1996, as compared to $12.4 million for 1995. Foreign operating income increased $0.2 million.

Net Income. The Partnership posted a net loss of $5.5 million for fiscal 1996, as compared to net loss of $0.2 million in fiscal 1995. This increase in net loss was primarily the result of certain transactions associated with the initial public offering plus an increase in interest expense of $0.8 million in fiscal 1996, partially offset by an increase in operating income of approximately of $1.1 million.

EBITDA. EBITDA increased $2.7 million or 12.4%, to $24.4 million for fiscal 1996, as compared to $21.7 million for fiscal 1995. This increase was primarily due to an increase in volumes attributable to acquisitions, colder weather and internal growth, partially offset by a decline in gross margins.

LIQUIDITY AND CAPITAL RESOURCES

The statements contained herein are based on current expectation. These statements are forward looking and actual results may differ materially.

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 if credit, issues of additional Common Units or a combination thereof.

Cash Flows

Cash provided by operating activities for fiscal 1997, was $15.4 million compared to $12.3 million fiscal 1996. The cash flows from operations for fiscal 1997 consisted primarily of net income of $5.2 million and noncash charges of $11.1 million, principally depreciation and amortization.

Cash used in investing activities during fiscal 1997 included capital expenditures for acquisitions amounting to $14.5 million, net of cash received plus $7.2 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 $1.6 million.

Cash provided by financing activities during fiscal 1997 of $5.6 million reflects net working capital borrowings of $6.7 million for operating purposes under the credit facilities available to the Partnership and a net increase in long-term debt of $13.8 million used for acquisitions. These increases were offset by cash distributions to unitholders of $14.9 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 $15.0 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 $35.0 million of borrowings to be used for acquisitions and improvements. See page F-11, "Notes to Consolidated Financial Statements--4. Working Capital Facilities and Long-Term Debt."

The Partnership uses almost all of its cash provided by operating and financing activities 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 $14.5 million for fiscal year 1997, as compared to $16.7 million during fiscal 1996.

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-11, "Notes to Consolidated Financial Statements--4. Working Capital Facilities and Long-Term Debt."

The Note Purchase Agreement 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 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.

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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Financial statements set forth on pages F-1 to F-14 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 of 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, 1997, 847 full time individuals were employed by the General Partner.

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 , Chief Executive Officer and a Director of the General Partner
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
J. T. Atkins	Director of the General Partner
John D. Capps	Director of the General Partner, deceased
Bill W. Byrne	Director of the General Partner
J. Charles Sawyer	Director of the General Partner

James E. Bertelsmeyer. Mr. Bertelsmeyer, age 55, has 22 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 22 years, and is currently President Elect of the Association.

R. C. Mills. Mr. Mills, age 60, has 39 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 64, 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 44, was Treasurer of Total Petroleum, Inc. ("Total"). Total was a publicly traded, fully-integrated oil company located in Denver, Colorado.

J. T. Atkins. Mr. Atkins, age 40, is a managing director of Oppenheimer & Co., Inc., 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 October 1, 1996.

Bill W. Byrne. Mr. Byrne, age 67, 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.

John D. Capps. Mr. Capps, deceased, served as Executive Vice President of the National Propane Gas Association for 16 years before retiring in 1989. Mr. Capps then served as Chief Executive Officer of J.D. Capps, Inc., a propane industry executive search firm. Mr. Capps served as a Director of Heritage from 1989 until his death in June, 1997.

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, 1997, all filing requirements applicable to its officers, directors, and greater than 10 percent beneficial owners were met in a timely manner, with the exception of the following late filing of one Form 4 for Heritage Holdings, Inc.

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, 1997, 1996 and 1995.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION		LONG TERM COMPENSATION AWARDS	
	YEAR	SALARY	BONUS	SECURITIES UNDERLYING OPTIONS/SARS	ALL OTHER COMPENSATION(1)
James E. Bertelsmeyer	1997	$ 341,756	$ --	--	$ 2,619
Chairman of the Board and	1996	241,756	100,000	--	1,140
Chief Executive Officer	1995	230,800	100,000	--	1,140
R. C. Mills	1997	215,000	--	--	2,316
Executive Vice President and	1996	165,400	50,000	10,000	2,250
Chief Operating Officer	1995	158,000	50,000	--	2,250
G. A. Darr	1997	134,756	--	--	1,193
Vice President - Corporate	1996	104,756	30,000	6,000	913
Development	1995	99,800	30,000	6,000	688
H. Michael Krimbill	1997	175,000	--	--	616
Vice President, Chief Financial	1996	135,000	40,000	10,000	510
Officer, Treasurer and Secretary	1995	129,000	40,000	--	510

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(1) Consists of life insurance premiums.

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 and Krimbill, (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, 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 and $175,000 for each of Messrs. Bertelsmeyer, Mills, Darr and Krimbill, respectively. 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. 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, 1997, 18,000 Restricted Units had been granted to non-employee directors and key employees. Compensation expense of $93,000 was recorded in the Partner's financial statements for fiscal year 1997. 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	500	May 31, 1999	500	500	500
	500	May 31, 2000	500	500	500
	1,000	June 1, 2001	1,000	1,000	1,000
R. C. Mills	500	May 31, 1999	500	500	500
	500	May 31, 2000	500	500	500
	1,000	June 1, 2001	1,000	1,000	1,000
G. A. Darr	500	May 31, 1999	500	500	500
	500	May 31, 2000	500	500	500
	1,000	June 1, 2001	1,000	1,000	1,000
H. Michael Krimbill	500	May 31, 1999	500	500	500
	500	May 31, 2000	500	500	500
	1,000	June 1, 2001	1,000	1,000	1,000

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, 1997, 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 owing 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)	16,700	*
	R. C. Mills	1,000	*
	G. A. Darr	--	*
	H. Michael Krimbill (2)	7,800	*
	Bill W. Byrne	5,000	*
	J. Charles Sawyer	2,000	*
	J. T. Atkins	1,000	*
	All directors and executive officers as a group (7 persons)	33,500	*
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	41.9
	R. C. Mills (4)	53,729	10.0
	G. A. Darr (4)	35,386	6.6
	H. Michael Krimbill (2) (4)	51,364	9.6
	Bill W. Byrne	14,104	2.6
	J. Charles Sawyer	14,104	2.6
	J. T. Atkins	--	--
	All directors and executive officers as a group (7 persons)	393,245	76.5%

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

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

(a) 1. FINANCIAL STATEMENTS.

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

2. FINANCIAL STATEMENT SCHEDULES.

None.

3. EXHIBITS.

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

(b) REPORTS OF FORM 8-K.

None.

SIGNATURES

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

HERITAGE PROPANE PARTNERS, L.P.

By Heritage Holdings, Inc.
(General Partner)

By: /s/ James E. Bertelsmeyer

James E. Bertelsmeyer
Chairman and Chief Executive Officer

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

Signature	Title	Date
/s/ James E. Bertelsmeyer James E. Bertelsmeyer	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	October 21, 1997
/s/ J. T. Atkins J. T. Atkins	Director	October 21, 1997
/s/ Bill W. Byrne Bill W. Byrne	Director	October 21, 1997
/s/ J. Charles Sawyer J. Charles Sawyer	Director	October 21, 1997
/s/ H. Michael Krimbill H. Michael Krimbill	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	October 21, 1997

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Heritage Propane Partners, L.P. (formerly Heritage Holdings, Inc.) and subsidiaries as of August 31, 1997 and 1996, the related consolidated statements of operations and cash flows for the year ended August 31, 1997 and for the two months ended August 31, 1996 (Successor), for the ten months ended June 30, 1996 and for the year ended August 31, 1995 (Predecessor), and the related consolidated statements of Partners' Capital for the year ended August 31, 1997 and the period from inception (April 24, 1996) to August 31, 1996 (Successor) and for the year ended August 31, 1995 (Predecessor). 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, 1997 and 1996, Partners' capital for the year ended August 31, 1997, and for the period from inception (April 24, 1996) to August 31, 1996 (Successor), and for the year ended August 31, 1995 (Predecessor), and the results of their operations and their cash flows for the year ended August 31, 1997, and for the two months ended August 31, 1996 (Successor), for the ten months ended June 30, 1996 and the year ended August 31, 1995 (Predecessor), in conformity with generally accepted accounting principles.

Tulsa, Oklahoma
October 10, 1997

/s/ Arthur Anderson LLP

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)

ASSETS	August 31, 1997	August 31, 1996
CURRENT ASSETS:		
Cash	$ 2,025	$ 1,170
Accounts receivable, net of allowance for doubtful accounts of $436 and $315 in 1997 and 1996, respectively	11,170	10,859
Inventories	13,361	11,115
Prepaid expenses	1,395	870
Total current assets	27,951	24,014
PROPERTY, PLANT AND EQUIPMENT, net	117,962	110,342
INVESTMENT IN AFFILIATES	4,097	4,882
INTANGIBLES AND OTHER ASSETS, net	53,789	48,612
Total assets	$203,799	$187,850
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Working capital facilities	$ 12,250	$ 5,600
Accounts payable	14,000	13,155
Accrued and other current liabilities	7,376	5,730
Current maturities of long-term debt	800	243
Total current liabilities	34,426	24,728
LONG-TERM DEBT	148,453	132,521
Total liabilities	182,879	157,249
COMMITMENTS AND CONTINGENCIES		
PARTNERS' CAPITAL:		
Common unit holders (4,285,000 units outstanding)	11,295	16,392
Subordinated unit holders (3,702,943 units outstanding)	9,417	13,902
General Partner	208	307
Total partners' capital	20,920	30,601
Total liabilities and partners' capital	$203,799	$187,850

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

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

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

	For the 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)	For the Year Ended August 31, 1995 (Predecessor)
REVENUES:				
Retail	$ 129,673	$ 9,920	$ 92,668	$ 86,142
Wholesale	53,019	6,467	39,090	31,114
Other	17,093	2,090	12,865	14,252
Total revenues	199,785	18,477	144,623	131,508
COSTS AND EXPENSES:				
Cost of products sold	125,947	12,163	88,989	75,667
Depreciation and amortization	11,124	1,733	7,581	8,896
Selling, general and administrative	5,351	698	3,164	2,903
Operating expenses	40,444	5,839	29,134	31,367
Total costs and expenses	182,866	20,433	128,868	118,833
OPERATING INCOME (LOSS)	16,919	(1,956)	15,755	12,675
Gain on disposal of assets	372	57	170	215
Equity in earnings (losses) of affiliates	487	(119)	662	37
Other income (expense)	(90)	(107)	330	33
Interest expense	(12,063)	(1,962)	(10,833)	(12,201)
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY LOSS	5,625	(4,087)	6,084	759
Provision for income taxes	--	--	2,735	666
Minority interest	(448)	25	(428)	(304)
INCOME (LOSS) BEFORE EXTRAORDINARY LOSS	5,177	(4,062)	2,921	(211)
Extraordinary loss on early extinguishment of debt, net of minority interest of $44	--	(4,361)	--	--
NET INCOME (LOSS)	5,177	(8,423)	$ 2,921	$ (211)
GENERAL PARTNER'S INTEREST IN NET INCOME (LOSS)	52	(84)		
LIMITED PARTNERS' INTEREST IN NET INCOME (LOSS)	$ 5,125	$ (8,339)		
NET INCOME (LOSS) PER LIMITED PARTNER UNIT:				
Income (Loss) before extraordinary loss	$ .64	$ (.51)		
Extraordinary loss	--	(.55)		
	$ .64	$ (1.06)		
WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	7,987,943	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 share/unit data)

	Class A Common Stock (Voting) Number of Shares	Class A Common Stock (Voting) Amount	Class B Common Stock (Nonvoting) Number of Shares	Class B Common Stock (Nonvoting) Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
BALANCE, AUGUST 31, 1994 (Predecessor)	1,282,105	$13	357,500	$3	$ 3,903	$(10,220)	$(6,301)
Issuance of common stock	3,000	--	--	-	93	--	93
Repurchase of common stock	(1,000)	--	--	-	(16)	--	(16)
Compensatory appreciation in stock warrants	--	--	--	-	60	--	60
5% preferred stock dividend	--	--	--	-	--	(600)	(600)
Net loss	--	--	--	-	--	(211)	(211)
BALANCE, AUGUST 31, 1995 (Predecessor)	1,284,105	$13	357,500	$3	$ 4,040	$(11,031)	$(6,975)

	Number of Units Common	Number of Units Subordinated	Common	Subordinated	General Partner	Total Partners' Capital
BALANCE, APRIL 24, 1996	--	--	$ --	$ --	$ --	$ --
Contributions 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)
Deferred compensation on restricted units	--	--	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

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, 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)	For the Year Ended August 31, 1995 (Predecessor)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ 5,177	$ (8,423)	$ 2,921	$ (211)
Reconciliation of net income (loss) to net cash provided by (used in) operating activities-				
Depreciation and amortization	11,124	1,733	7,581	8,896
Provision for losses on accounts receivable	699	133	261	325
Gain on disposal of assets	(372)	(55)	(170)	(215)
Issuance of stock for services rendered and compensatory appreciation in warrants	--	--	(164)	60
Deferred compensation on restricted units	93	--	--	--
Undistributed earnings of affiliates	(411)	330	(471)	48
Increase in deferred income taxes	--	--	2,680	563
Extraordinary loss on early extinguishment of debt	--	4,361	--	--
Minority interest	130	(69)	428	304
Changes in assets and liabilities, net of effect of acquisitions:				
Accounts receivable	(622)	(332)	(2,444)	(877)
Inventories	(1,694)	(2,859)	2,056	(1,188)
Prepaid expenses	(194)	1,058	(1,389)	526
Intangibles and other assets	(581)	(235)	(381)	(1,789)
Accounts payable	740	(917)	3,720	728
Accrued and other current liabilities	1,295	2,328	644	447
Net cash provided by (used in) operating activities	15,384	(2,947)	15,272	7,617
CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash paid for acquisitions, net of cash acquired	(14,549)	(8,298)	(8,367)	(27,879)
Capital expenditures	(7,170)	(1,092)	(6,152)	(8,634)
Proceeds from asset sales	1,619	50	282	579
Net cash used in investing activities	(20,100)	(9,340)	(14,237)	(35,934)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from borrowings	69,782	21,603	159,645	62,375
Principal payments on debt	(49,260)	(6,850)	(37,884)	(33,933)
Unit distribution	(14,951)	--	--	--
Payment of financing and organization costs	--	(4,331)	--	--
Issuance of common stock	--	--	76	62
Repurchase of common and preferred stock	--	--	(61,156)	(16)
Net proceeds from issuance of common units	--	79,763	--	--
Cash contribution by General Partner	--	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	5,571	13,457	13,216	28,488
INCREASE IN CASH	855	1,170	14,251	171
CASH, beginning of period	1,170	--	1,237	1,066
CASH, end of period	$ 2,025	$ 1,170	$ 15,488	$ 1,237
NONCASH FINANCING ACTIVITIES:				
Notes payable incurred on noncompete agreements	$ 1,961	$ 1,655	$ 500	$ 6,281
5% Preferred stock dividend	--	--	523	600
Net senior notes transferred from predecessor	--	76,831	--	--
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid during the year for interest	$ 11,873	$ 1,682	$ 10,151	$ 11,581

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. 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 Heritage Holdings, Inc. (the Company or 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 owns 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 including the preferred stock plus unpaid cumulative dividends in the Company.

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 200,000 retail customers in 23 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 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.

CASH

The Partnership participates in cash management programs, and, as a result, disbursements in excess of bank balances of approximately $2,322 and $3,307 are included in accounts payable at August 31, 1997 and 1996, respectively.

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, 1997	August 31, 1996
Fuel	$ 9,468	$ 7,735
Appliances, parts and fittings	3,893	3,380
	$13,361	$11,115

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, 1997	August 31, 1996
Land and improvements	$ 7,298	$ 6,456
Buildings and improvements (10 to 30 years)	11,415	11,402
Bulk storage, equipment and facilities (3 to 30 years)	17,974	16,713
Tanks and other equipment (5 to 30 years)	84,664	76,756
Vehicles (5 to 7 years)	18,743	15,178
Furniture and fixtures (5 to 10 years)	4,049	3,786
Other	1,126	989
	145,269	131,280
Less-accumulated depreciation	(27,307)	(20,938)
	$ 117,962	$ 110,342

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, 1997	August 31, 1996
Goodwill (30 years)	$ 31,666	$ 27,885
Noncompete agreements (10 to 15 years)	24,233	25,597
Customer lists (15 years)	11,885	9,351
Other	5,373	4,933
	73,157	67,766
Less-accumulated amortization	(19,368)	(19,154)
	$ 53,789	$ 48,612

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.

ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities consist of the following:

	August 31, 1997	August 31, 1996
Interest payable	$2,075	$1,885
Wages and payroll taxes	1,048	966
Deferred tank rent	925	916
Taxes other than income	519	730
Minority interest	295	165
Customer deposits	1,999	821
Other	515	247
	$7,376	$5,730

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.

The Predecessor filed a consolidated federal income tax return. Deferred income taxes were recognized for the tax consequences of temporary differences between financial statement carrying amounts and the tax basis of existing assets and liabilities.

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 are reflected as extraordinary loss in the consolidated statement of operations for the two months ended August 31, 1996.

INCOME (LOSS) PER LIMITED PARTNER UNIT

Net income (loss) per limited partner unit is computed by dividing net income (loss), after considering the General Partner's one percent interest, by the weighted average number of Common and Subordinated Units outstanding.

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 reported period. Actual results could differ from those estimates.

FAIR VALUE

The carrying amounts of accounts receivable and accounts payable approximate 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, 1997, of the Partnership's long-term debt approximates the aggregate carrying amount.

RECLASSIFICATIONS

Certain prior-year amounts have been reclassified to conform with the current-year presentations. These reclassifications have no impact on net income.

3. ACQUISITIONS:

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. Subsequent to August 31, 1997, the Partnership purchased certain assets of Gibson Propane Co. and Gibson Homegas of Memphis, TN., and all of the outstanding stock of Tennessee Independent Propane Co. (TIPCO).

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.

During fiscal 1995, the Partnership purchased certain assets of Ballard, Inc., Balcom, Inc., San Luis Butane Distributors, Jerry's Propane Service, Inc., Greer Gas, Inc. and Paragon Energy Corporation, as well as the outstanding common stock of Carolane Propane Gas, Inc. The aggregate purchase price of the acquisitions totaled approximately $30,837, including noncompete agreements for periods ranging from 7 to 15 years totaling $8,760, which was financed primarily with the revolving senior acquisition facility.

The acquisitions have been accounted for by the purchase method and, accordingly, the purchase prices have been allocated to assets acquired and liabilities assumed based on the fair market values at the date of acquisitions. The Company capitalized as part of the purchase price allocation 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's and Partnership's consolidated financial statements from the date of acquisition, as appropriate.

4. WORKING CAPITAL FACILITIES AND LONG-TERM DEBT:

Long-term debt consists of the following:

	August 31, 1997	August 31, 1996
8.55% Senior Secured Notes	$ 120,000	$ 120,000
Senior Revolving Acquisition Facility	25,000	10,750
Notes payable on noncompete agreements with interest imputed at rates averaging 8%, due in installments through 2007, collateralized by a first security lien on certain assets of the Partnership	3,278	1,655
Other	975	359
	149,253	132,764
Current maturities of long-term debt	(800)	(243)
	$ 148,453	$ 132,521

The Notes mature at the rate of $12,000 on June 30 in each of the years 2002 to and including 2011. The Note Purchase Agreement contains restrictive covenants including limitations on substantial disposition of assets, changes in ownership of the Partnership, additional indebtedness and requires the maintenance of certain financial ratios. The Notes are secured by all receivables, contracts, equipment, inventory, general intangibles, any cash concentration account, and the common stock of the Partnership's subsidiaries.

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. The amended credit agreement consists of the following:

A $15,000 Senior Revolving Working Capital Facility, expiring June 30, 2000, with $12,250 outstanding at August 31, 1997. 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 7.59 percent and 8.08 percent for amounts outstanding at August 31, 1997 and 1996, respectively. The Partnership must be free of all working capital borrowings for 30 consecutive days each fiscal year. A commitment fee of .5 percent is paid on the unused portion of the facility.

A $35,000 Senior Revolving Acquisition Facility is available to 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 7.38 percent and 7.73 percent for amounts outstanding at August 31, 1997 and 1996, respectively. A commitment fee of .5 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 $800 in 1998; $790 in 1999; $5,500 in 2000; $10,540 in 2001; $22,322 in 2002 and $109,301 thereafter.

5. COMMITMENTS AND CONTINGENCIES:

Certain property and equipment is leased under noncancelable leases which require fixed monthly rental payments, and that expire at various dates through 2008. Rental expense under these leases totaled approximately $1,359 for fiscal 1997, $1,010 and $226 for the ten months ended June 30, 1996 and the two months ended August 31, 1996, respectively, and $1083 for the year ended August 31, 1995. Fiscal year future minimum lease commitments for such leases are $1,328 in 1998; $733 in 1999; $527 in 2000; $322 in 2001; $241 in 2002 and $644, 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 1998.

6. INCOME TAXES:

During the Predecessor period, the Company retroactively adopted 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.

The provision for income taxes includes the following components for the periods ended as follows:

	For the Ten Months Ended June 30, 1996	For the Year Ended August 31, 1995
Current	$ 55	$ 103
Deferred	2,680	563
	$2,735	$ 666

The reconciliation of the statutory income tax rate to the effective income tax rate for the periods ended is as follows:

	For the Ten Months Ended June 30, 1996	For the Year Ended August 31, 1995
Tax at statutory rates	$1,923	$155
Nondeductible amortization	360	390
State income taxes	226	18
Other	226	103
	$2,735	$666

7. STOCKHOLDERS' EQUITY:

In conjunction with the debt agreements with Prudential, the Company granted Prudential warrants for a maximum of 83,919 shares of the Company's Class B Common Stock. During the Predecessor period, Prudential exercised all warrants at the exercise price of $.10 per share. Additionally, the Company granted management warrants for Class A Common Stock for a maximum of 15,092 shares. During the Predecessor period, management exercised all warrants at the exercise price of $.01 per share. Compensation expense has been recorded based on the estimated market value of the management warrants.

8. PARTNERS' CAPITAL:

Partners' capital consists of 4,285,000 Common Units representing a 52.6 percent limited partner interest, 3,702,943 Subordinated Units owned by the General Partner representing a 45.4 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. 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 pro rata 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, February 28, 1997, and May 31, 1997. The fourth quarter MQD was declared on September 18, 1997, payable on October 15 to the Common and Subordinated Unitholders of record as of September 30, 1997.

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 1997, 18,000 of these Phantom Units were granted to non-employee directors and key employees. The market value of the Phantom Units issued was $20.25 on the date of grant. Compensation cost and directors' fees of $93 related to the issuance of the units is included in net income.

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

The Partnership 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, 1997, 1996, and 1995, was $325, $350 and $275 , respectively.

10. 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 $28,659 for the year ended August 31, 1997 and $4,127 for the two months ended August 31, 1996, include compensation and benefits paid to officers and employees of the General Partner.

11. DOMESTIC AND FOREIGN OPERATIONS:

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

	For the Year Ended August 31, 1997	For the Two Months Ended August 31, 1996	For the Ten Months Ended June 30, 1996 (Predecessor)	For the Year Ended August 31, 1995 (Predecessor)
Revenues:				
Domestic	$ 158,508	$ 13,182	$ 114,257	$ 110,773
Foreign				
Affiliated	20,764	1,261	10,394	10,540
Unaffiliated	41,277	5,295	30,366	20,735
Elimination	(20,764)	(1,261)	(10,394)	(10,540)
	$ 199,785	$ 18,477	$ 144,623	$ 131,508
Operating Income (Loss):				
Domestic	$ 16,541	$ (1,991)	$ 15,440	$ 12,491
Foreign				
Affiliated	186	8	111	93
Unaffiliated	378	35	315	184
Elimination	(186)	(8)	(111)	(93)
	$ 16,919	$ (1,956)	$ 15,755	$ 12,675
Identifiable Assets:				
Domestic	$ 198,935	$ 184,469	$ n/a	$ 161,097
Foreign	4,864	3,381	n/a	2,326
	$ 203,799	$ 187,850	$ n/a	$ 163,423

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.

10.1.3	Third Amendment to Credit Agreement dated as of September 30, 1997
27.1	Financial Data Schedule - Filed with EDGAR version only

EXHIBIT 10.1.3

HERITAGE OPERATING, L.P.

THIRD AMENDMENT TO CREDIT AGREEMENT

This Third Amendment to Credit Agreement, dated as of September 30, 1997, is among Heritage Operating, L.P., a Delaware limited partnership (the "Company"), the Banks party hereto, BankBoston, N.A. (formerly known as The First National Bank of Boston), as administrative agent (the "Administrative Agent") for itself and the other Banks, and Bank of Oklahoma, National Association, as documentation agent (the "Documentation Agent") for itself and the other Banks. The parties agree as follows:

1. Reference to Credit Agreement; Background.

1.1. Reference to Credit Agreement; Definitions. Reference is made to the Credit agreement dated as of June 25, 1996, as amended by the First Amendment to Credit Agreement dated as of July 25, 1996 and the Second Amendment to Credit Agreement dated as of February 28, 1997 (as so amended, the "Credit Agreement"), among the Company, the Banks from time to time party thereto, the Administrative Agent and the Documentation Agent. The Credit Agreement, as amended by the amendments set forth in Section 2 hereof (the "Amendment"), is referred to as the "Amended Credit Agreement." Terms defined in the Amended Credit Agreement and not otherwise defined herein are used herein with the meanings so defined.

1.2. Background. The Company and the Banks desire that Mercantile Bank National Association ("Mercantile") become a Bank party to the Credit Agreement with a Commitment of $10,000,000 and that the Maximum Amount of Acquisition Credit be increased from a total of $25,000,000 to a total of $35,000,000. In addition, the Company has requested that the Banks consent to a number of amendments of the Credit Agreement, as set forth in Section 2 hereof.

2. Amendments to Credit Agreement. Subject to all of the terms and conditions hereof and in reliance upon the representations and warranties set forth or incorporated by reference in Section 3 hereof, the Credit Agreement is amended as follows, effective as of September 30, 1997 (the "Amendment Closing Date".

2.1. Section 1.1 of the Credit Agreement is amended by amending the definition of "Applicable Commitment Fee Percentage" to read in its entirety as follows:

> "Applicable Commitment Fee Percentage" means, with respect to any Margin Period, (i) if the Leverage Ratio on the last day preceding the commencement of such Margin Period was equal to or greater than 4 to 1, .50% or (ii) if the Leverage Ratio on the last day preceding the commencement of such Margin Period was less than 4 to 1, .375%. Notwithstanding the foregoing, if any of the financial statements required pursuant to Section 7A.1(i) are not delivered within the time periods specified in Section

7A.1(i), the Applicable Commitment Fee Percentage shall be .50% until the date such statements are delivered.

2.2. Section 1.1 of the Credit Agreement is further amended by amending the definition of "Applicable Margin" to read in its entirety as follows:

"Applicable Margin". With respect to any Eurodollar Loan or with respect to any Base Rate Loan for any Margin Period, the rate of interest per annum determined as set forth below:

(a) if the Leverage Ratio on the last day preceding the commencement of such Margin Period was less than 3.75 to 1, the Applicable Margin will be 1.00% for Eurodollar Loans and zero for Base Rate Loans;

(b) if the Leverage Ratio on the last day preceding the commencement of such Margin Period was equal to or greater than 3.75 to 1 but less than 4.00 to 1, the Applicable Margin will be 1.25% for Eurodollar Loans and zero for Base Rate Loans;

(c) if the Leverage Ratio on the last day preceding the commencement of such Margin Period was equal to or greater than 4.00 to 1 but less than 4.50 to 1, the Applicable Margin will be 1.375% for Eurodollar Loans and zero for Base Rate Loans;

(d) if the Leverage Ratio on the last day preceding the commencement of such Margin Period was equal to or greater than 4.50 to 1 but less than 4.75 to 1, the Applicable Margin will be 1.625% for Eurodollar Loans and .125% for Base Rate Loans; and

(e) if the Leverage Ratio on the last day preceding the commencement of such Margin Period was equal to or greater than 4.75 to 1, the Applicable Margin will be 1.875% for Eurodollar Loans and .25% for Base Rate Loans.

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

2.3. Section 1.1 of the Credit Agreement is further amended by amending the definition of "Final Maturity Date" to read in its entirety as follows:

"Final Maturity Date" means (i) with respect to the Working Capital Loan, June 30, 2000, and (ii) with respect to the Acquisition Loan, June 30, 2002.

2.4 Section 1.1 of the Credit Agreement is further amended by adding thereto, in appropriate alphabetical order, a definition of the term "HHI Acquisition Note" reading in its entirety as follows:

"HHI Acquisition Notes" shall mean those certain promissory notes from Heritage payable to the order of the Banks as more particularly described and defined in the Letter Agreement among Heritage, the Banks and the Agents dated as of September 30, 1997, and any credit agreement among Heritage, the Banks and the Agents as contemplated by paragraph (ii) of such Letter Agreement.

2.5. Section 1.1 of the Credit Agreement is further amended to amend the definition of "Loan Documents" to read in its entirety as follows:

"Loan Documents" means this Agreement, the Intercreditor Agreement, the Administrative Agent Fee Letter, the Documentation Agent Fee Letter, the Security Documents and the HHI Acquisition Notes and each agreement of Heritage governing or securing the HHI Acquisition Notes.

2.6 Section 1.1 of the Credit Agreement is further amended by amending the definition of "Margin Period" to read in its entirety as follows:

"Margin Period" means each period commencing on (and including) the first day of any fiscal quarter of the Borrower and ending on (and including) the earlier of (i) the last day of such fiscal quarter of the Borrower or (ii) in the case of the Acquisition Facility, the Acquisition Conversion Date or, in the case of the Working Capital Facility, the Final Maturity Date with respect to the Working Capital Loans.

2.7 Section 1.1 of the Credit Agreement is further amended by adding thereto, in appropriate alphabetical order, a definition of the term "Mercantile" reading in its entirety as follows:

"Mercantile" means Mercantile Bank National Association.

2.8 Section 2.1.1 of the Credit Agreement is amended by deleting the date "December 31, 1998" and replacing it with the date "December 31, 1999".

2.9. Section 2.1.2 of the Credit Agreement is amended to read in its entirety as follows:

2.1.2 Maximum Amount of Acquisition Credit. The term "Maximum Amount of Acquisition Credit" means, on any date on or prior to the Acquisition Conversion Date, the remainder of (x) the lesser of (a) $35,000,000 or (b) the aggregate Acquisition Loan Commitments described in Section 10.1, as amended from time to time, minus (y) the aggregate outstanding principal amount of the HHI Acquisition Notes from time to time, or such lesser amount as the Borrower may specify from time to time by notice from the Borrower to the Administrative Agent and, after the Acquisition Conversion Date, zero.

2.10. Section 2.1.3 of the Credit Agreement is amended by amending the first sentence thereof to read in its entirety as follows:

The Borrower may from time to time request a loan under Section 2.1.1 by providing to the Administrative Agent either a notice in writing (with a copy to each Bank) or telephone notice promptly confirmed in writing (with a copy to each Bank).

2.11. Section 2.1.3 of the Credit Agreement is further amended by amending subclause (iii) thereof to read in its entirety as follows:

"(iii) a full and complete copy of Borrower's internal acquisition or capital expenditure model (in general form, content and detail as utilized by the General Partner or its Affiliates for similar acquisitions or capital expenditures prior to the Initial Closing Date), and, in the case of borrowings hereunder relating to acquisitions or capital expenditures costing in excess of $1,000,000 and in each other case in which the Required Banks shall so request, calculations demonstrating Borrower's continued compliance with the financial ratios of Section 7B.1(i) and (ii) hereof as of and following the closing of such proposed acquisition or capital expenditure (utilizing, for the purpose of such demonstration, and subject to the calculation of Consolidated EBITDA resulting from such proposed Asset Acquisition, including adjustments permitted thereby, the financial statements of the Borrower and of the acquired business or asset for the most recent period of twelve consecutive months (as opposed to the immediately preceding four full fiscal quarters) for which such statements are available), and ".

2.12. Section 2.2.3 of the Credit Agreement is amended by amending the first sentence thereof to read in its entirety as follows:

The Borrower may from time to time request a loan under Section 2.2.1 by providing to the Administrative Agent either a notice in writing (with a copy to each Bank) or telephonic notice promptly confirmed in writing (with a copy to each Bank).

2.13. Section 2.4.1 of the Credit Agreement is amended to read in its entirety as follows:

2.4.1. Acquisition Loan. The Borrower will apply the proceeds of the Acquisition Loan solely to finance acquisitions permitted pursuant to Section 2.1 and to finance capital expenditures for additions or improvements to the assets of the Borrower (as distinguished from maintenance capital expenditures).

2.14. Section 2.4.2 of the Credit Agreement is amended to read in its entirety as follows:

2.4.2. Working Capital Loan. The Borrower will apply the proceeds of the Working Capital Loan for working capital and other lawful purposes of the Borrower and its Subsidiaries; provided, however, that at no time shall more than $500,000 of the outstanding principal amount of the Working Capital Loan have been applied to the purposes of financing acquisitions permitted pursuant to Section 2.1 and/or capital expenditures for additions or improvements to the assets of the Borrower (as distinguished from maintenance capital expenditures).

2.15. Section 3.2.3 of the Credit Agreement is amended by amending subclause (ii) thereof to read in its entirety as follows:

(ii) no more than a total of six Eurodollar Pricing Options shall be outstanding at any one time with respect to the Loans;

2.16. Section 3.3 of the Credit Agreement is amended to read in its entirety as follows:

3.3 Commitment Fees.

3.3.1 Acquisition Financing Facility. In consideration of the Banks' Commitments to make the extensions of credit provided for in Section 2.1, while such commitments are outstanding, the Borrower will pay to the Administrative Agent for the account of the Banks in accordance with the Banks' respective Percentage Interests, within five (5) Banking Days following the end of each fiscal quarter of the Borrower prior to the Acquisition Conversion Date and on the Acquisition Conversion Date, an amount equal to interest computed at the rate per annum equal to the Applicable Commitment Fee Percentage multiplied by the amount by which (a) the average daily Maximum Amount of Acquisition Credit during the Margin Period or portion thereof ending on the last day of such fiscal quarter or the Acquisition Conversion Date exceeded (b) the average daily Acquisition Loan during such Margin Period or portion thereof.

3.3.2 Working Capital Facility. In consideration of the Banks' commitments to make the extensions of credit provided for in Section 2.2 while such commitments are outstanding, the Borrower will pay to the Administrative Agent for the account of the Banks in accordance with the Banks' respective Percentage Interests, within five (5) Banking Days following the end of each fiscal quarter of the Borrower and on the Final Maturity Date with respect to the Working Capital Loan, an amount equal to interest computed at the rate per annum equal to the Applicable Commitment Fee Percentage multiplied by the amount by which (a) the average daily Maximum Amount of Working Capital Credit during the Margin Period or portion thereof ending on the last day of such fiscal quarter or such Final Maturity Date exceeded (b) the average daily Working Capital Loan during such Margin Period or portion thereof.

2.17. Section 10.1 of the Credit Agreement is amended to read in its entirety as follows:

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

Bank	Maximum Acquisition Loan Commitments	Maximum Working Capital Loan Commitments	Maximum Commitment Amounts	Percentage Interests
BOk	$14,000,000	$ 6,000,000	$20,000,000	40%
Bank of Boston	14,000,000	6,000,000	20,000,000	40%
Mercantile	7,000,000	3,000,000	10,000,000	20%
TOTAL	$35,000,000	$15,000,000	$50,000,000	100%

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

3. Representations and Warranties. In order to induce the Banks to enter into this Amendment, the Company represents and warrants to each of the Banks that:

3.1. No Legal Obstacle to Agreements. Neither the execution and delivery of this Amendment or any other Loan Document, nor the making of any borrowing under the Amended Credit Agreement, nor the guaranteeing of the Credit Obligations, nor the securing of the Credit Obligations with the Collateral, nor the consummation of any transaction referred to in or contemplated by this Amendment, the Amended Credit Agreement or any other Loan Document, nor the fulfillment of the terms hereof or thereof or of any other agreement, instrument, deed or lease contemplated by this Amendment, the Amended Credit Agreement or any other Loan Document, has constituted or resulted in or will constitute or result in:

(a) any breach or termination of the provisions of any agreements, instrument, deed or lease to which the Company is a party or by which it is bound, or of the Partnership Agreement of the Company;

(b) the violation of any law, statute, judgment, decree or governmental order, rule or regulation applicable to the Company;

(c) The creation under any agreement, instrument, deed or lease of any Lien (other than Liens on the Collateral which secure the Credit Obligations and Liens permitted by Section 7B.3 of the Amended Credit Agreement) upon any of the assets of the Company; or

(d) any redemption, retirement or other repurchase obligation of the Company under the Partnership Agreement or other agreement, instrument, deed or lease.

No approval, authorization or other action by, or declaration to or filing with, any governmental or administrative authority or any other Person is required to be obtained or made by the Company in connection with the execution and delivery of this Amendment, the performance of this Amendment, the Amended Credit Agreement or any other Credit Document, the transactions contemplated hereby or thereby, the making of any borrowing under the Amended Credit Agreement, the guaranteeing of the Credit Obligations or the securing of the Credit Obligations with the Collateral.

3.2. Defaults. Immediately after giving effect to this Amendment, no default shall exist.

3.3. Incorporation of Representations and Warranties of Company. Immediately after giving effect to this Amendment, the representations and warranties set forth in Article VIII of the Amended Credit Agreement will be true and correct as if originally made on and as of the Amendment Closing Date (except to the extent of any representation or warranty which refers to a specific earlier date).

4. Conditions. The effectiveness of each of the amendments set forth in Section 2 hereof shall be subject to the satisfaction of the following conditions:

4.1. Officer's Certificate. The representations and warranties contained in Section 3 hereof shall be true and correct on and as of the Amendment Closing Date with the same force and effect as though originally made on and as of the Amendment Closing Date; immediately after giving effect to such amendments, no Default shall exist; no Material Adverse Change shall have occurred since August 31, 1996; and the Company shall have furnished to the Administrative Agent on behalf of the Banks on or before the Amendment Closing Date a certificate to these effects signed by a Financial Officer of the Company.

4.2. Replacement Notes. The Company shall have executed and delivered to the Administrative Agent for delivery to each of the Banks replacement Acquisition Notes and Working Capital Notes in the amount of each Bank's Percentage Interest in the Maximum Amount of Acquisition Credit and the Maximum Amount of Working Capital Credit, respectively.

4.3. Legal Opinion. The Administrative Agent shall have received from the Company's counsel, Doerner, Sanders, Daniel & Anderson, their favorable written opinion addressed to the Agents and the Banks with respect to this Amendment and the Amended Credit Agreement, satisfactory in form and substance to the Agents and their counsel.

4.4. Fees. The Company shall have paid to each of the Administrative Agent and Mercantile Bank the fees relating to this Amendment set forth in separate side letters from the Company to the Administrative Agent and Mercantile Bank, respectively, dated the date hereof.

4.5. Proper Proceedings. All proper proceedings shall have been taken by the Company to authorize this Amendment, the Amended Credit Agreement and the transactions contemplated hereby and thereby. On or before the Amendment Closing Date, the Agents shall have received copies of all documents, including legal opinions of counsel and records of corporate proceedings which the Agents may have requested in connection therewith, such documents, where appropriate, to be certified by proper corporate or governmental authorities.

4.6. Execution and Delivery. Each of the Company and the Banks shall have executed and delivered this Amendment.

5. Assignment and Acceptance.

5.1. Assignment of Acquisition Loan. Each of BOk and Bank of Boston (each sometimes hereinafter referred to as an "Assignor") hereby sells and assigns to Mercantile (sometimes hereinafter referred to as the "Assignee"), and the Assignee hereby purchases from each Assignor, a twenty percent (20%) interest in and to all of each Assignor's percentage interest in the Acquisition Loan outstanding on September 30, 1997 (the "Acquisition Date"), together with such percentage interest in all unpaid interest with respect to the Acquisition Loan accruing on and after the Acquisition Date.

5.2. Assignment of Working Capital Loan. Each Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from each Assignor, a twenty percent (20%) interest in and to all of each Assignor's interests, rights and obligations under the Working Capital Facility established under Section 2.2 of the Credit Agreement effective as of the Assignment Date, including without limitation such percentage interest in the Working Capital Loan outstanding on the Assignment Date and a participation in such percentage interest in the Letters of Credit outstanding on the Assignment Date, together with such percentage interest in all unpaid interest with respect to the Working Capital Loan accruing on and after the Acquisition Date and all fees with respect thereto arising under Sections 3.3.2 and 3.4 of the Credit Agreement accruing on and after the Assignment Date.

5.3 Payment for Loans. On the Acquisition Date the Assignee shall pay to each Assignor in immediately available funds an amount equal to the sum of the portions of the Acquisition Loan and the Working Capital Loan assigned hereunder to the Assignee by such Assignor.

5.4. Assignor's Representations and Warranties. Each Assignor:

(a) represents that as of the date hereof, the outstanding principal balance of its portion of the Acquisition Loan is $__________;

(b) represents that as of the date hereof, its Commitment allocable to the Working Capital Facility is $7,500,000, the outstanding principal balance of its portion of the Working Capital Loan is $________, and the outstanding balance of its participation in the Letters of Credit is $_________;

(c) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connections with the Amended Credit Agreement or the other Loan Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement or the other Loan Documents or any other instrument or document furnished pursuant thereto, other than that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; and

(d) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Company or the performance of any of the obligations of the Company under the Credit Agreement, any of the Loan Documents or any other instrument or document furnished pursuant hereto or thereto.

5.5. Assignee's Representations, Warranties and Agreements. The Assignee:

(a) represents and warrants that it is legally authorized to enter into this Amendment and the Amended Credit Agreement;

(b) confirms that it has received a copy of the Credit Agreement, the prior amendments thereto and certain other Loan Documents it has requested, together with copies of the most recent financial statements delivered pursuant to Section 7A.1 of the Credit Agreement and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter this Amendment and the Amended Credit Agreement;

(c) agrees that it will, independently and without reliance upon the Agents, the Assignors or any other Person which has become a Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Amended Credit Agreement and the other Loan Documents;

(d) agrees that it will be bound by the provisions of the Amended Credit Agreement and the other Loan Documents and will perform in accordance with their terms all the obligations which are required to be performed by it as a Bank; and

(e) agrees to appoint and authorize the Agents to take such action as agent on its behalf and to exercise such powers under the Amended Credit Agreement as are delegated to the Agents by the terms thereof, together with such powers as are reasonably incidental thereto.

5.6 Assignee Party to Credit Agreement; Assignor Release of Obligations. From and after the Assignment Date, (a) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Amendment, have the rights and obligations of a Bank thereunder and under the Loan Documents and (b) each Assignor shall, to the extent provided in this Section 5, relinquish its rights and be released from its obligations under the Credit Agreement and the other Loan Documents.

5.7. Notice Address. For the purpose of Section 12.1 of the Credit Agreement the initial notice address of Mercantile shall be as follows:

Mercantile Bank National Association
721 Locust Street
Tram 12-3
St. Louis, Missouri 63101
Attn: John Holland
Fax: (314) 418-8430

6. Intercreditor Agreement. The Company confirms that it has reviewed and approved the terms of the Intercreditor Agreement, including without limitation the setoff sharing provisions set forth in Section 13(c) thereof. The Company agrees that any setoffs shared under the terms of the Intercreditor Agreement with the Purchasers of the Private Placement Notes, to the extent of the portions so shared, will not be deemed to pay down the Loan.

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

8. General. The Amended Credit Agreement and all of the other Loan Documents are each confirmed as being in full force and effect. This Amendment, the Amended Credit Agreement and the other Loan Documents referred to herein or therein constitute the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior and current understandings and agreements, whether written or oral, with respect to such subject matter. The invalidity or unenforceability of any provision hereof shall not affect the validity and enforceability of any other term or provision hereof. The headings in this Amendment are for convenience of reference only and shall not alter, limit or otherwise affect the meaning hereof. Each of this Amendment and the Amended Credit Agreement is a Loan Document and may be executed in any number of counterparts, which together shall constitute one instrument, and shall bind and inure to the benefit of the parties and their respective successors and assigns, including as such successors and assigns all holders of any Note. This Amendment shall be governed by and construed in accordance with the laws (other than the conflict of law rules) of the State of Oklahoma.

Each of the undersigned has caused this Amendment to be executed and delivered by its duly authorized officer as an agreement under seal as of the date first above written.

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

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

By /s/ H. Michael Krimbill

H. Michael Krimbill, Vice President
and Chief Financial Officer

BANKBOSTON, N.A., individually and as
Administrative Agent for the Lenders

By /s/ H. Louis Bailey

Authorized Officer

BANK OF OKLAHOMA, NATIONAL
ASSOCIATION, individually and as
Documentation Agent

By /s/ Denise L. Maltby

Authorized Officer

MERCANTILE BANK NATIONAL
ASSOCIATION

By /s/ John Holland

John Holland, Vice President

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