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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended September 30, 2003

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: 000-32453

INERGY, L.P.

(Exact name of registrant as specified in its charter)

Delaware	**43-1918951**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

Two Brush Creek Boulevard, Suite 200, Kansas City, Missouri 64112
(Address of principal executive offices) (Zip Code)

(816) 842-8181
(Registrant's telephone number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
None	**N/A**

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
Common Units representing limited partnership interests
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

The aggregate market value of the 4,215,506 Common Units of the registrant held by non-affiliates computed by reference to the $46.99 closing price of such Common Units on December 1, 2003, was approximately $198.1 million. The aggregate market value of the 4,197,549 Common Units of the registrant held by non-affiliates computed by reference to the $32.07 closing price of such Common Units on March 31, 2003, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $134.6 million. As of December 1, 2003, the registrant had 5,522,411 Common Units outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference into the indicated parts of this report: None.

GUIDE TO READING THIS REPORT

The following information should help you understand some of the conventions used in this report.

- Throughout this report,
  - (1) when we use the terms “we,” “us,” “our company,” or “Inergy, L.P.,” we are referring either to Inergy, L.P., the registrant itself, or to Inergy, L.P. and its operating subsidiaries collectively, as the context requires, and
  - (2) when we use the term “our predecessor,” we are referring to Inergy Partners, LLC, the entity that conducted our business before our initial public offering, which closed on July 31, 2001. Inergy, L.P. was formed as a Delaware limited partnership on March 7, 2001 and did not have operations until the closing of our initial public offering. Our predecessor commenced operations in November 1996. The discussion of our business throughout this report relates to the business operations of Inergy Partners, LLC before Inergy, L.P.’s initial public offering and of Inergy, L.P. thereafter.
  - (3) when we use the term “operating company,” we are referring to Inergy Propane, LLC itself, or to Inergy Propane, LLC and its operating subsidiaries collectively, as the context requires.
  - (4) when we use the term “managing general partner,” we are referring to Inergy GP, LLC.
  - (5) when we use the term “non-managing general partner,” we are referring to Inergy Partners, LLC.
  - (6) when we use the term “general partners,” we are referring to our managing general partner and our non-managing general partner.
- We have a managing general partner and a non-managing general partner. Our managing general partner is responsible for the management of our company and its operations are governed by a board of directors. Our managing general partner does not have rights to allocations or distributions from our company and does not receive a management fee, but it is reimbursed for expenses incurred on our behalf. Our non-managing general partner owns a 2% non-managing general partner interest in our company.

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INERGY, L.P.

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PART I

Item 1. Business.

Recent Developments

In October 2003, we acquired from EOTT Energy, L.P. its West Coast NGL business, which includes gas processing, fractionation, 6.1 million gallons of above-ground NGL storage, truck and rail distribution facilities, and a 23-tractor NGL transportation fleet all located in south central California. In October 2003, we also acquired the assets of Smith Propane, with headquarters in La Crosse, Virginia and of Peoples Gas and Appliance, with headquarters in Beaufont, South Carolina. In November 2003, we acquired the assets of Pembroke Propane, with headquarters in Pembroke, Georgia. These four companies generated revenue during the 12 months ended September 30, 2003, of less than 10% of our consolidated revenue during fiscal 2003.

On December 10, 2003, our company announced a two-for-one unit split to be distributed on or about January 12, 2004, to unitholders of record on January 2, 2004. The stock split will require retroactive restatement of all historical per unit data in the first quarter ended December 31, 2003.

Unless required and specifically indicated otherwise, all information in this Form 10-K relates to the operations of Inergy, L.P. at or before September 30, 2003 and does not include the assets or operations of the acquisitions made after September 30, 2003.

General

Inergy, L.P., a publicly traded Delaware limited partnership, was formed on March 7, 2001 but did not conduct operations until the closing of our initial public offering, on July 31, 2001. We own and operate, principally through our operating company, Inergy Propane, LLC, a rapidly growing retail and wholesale propane marketing and distribution business. Since our predecessor's inception in November 1996 through September 30, 2003, we have acquired 25 companies for an aggregate purchase price of approximately $309 million, including working capital, assumed liabilities and acquisition costs. These acquisitions include twelve propane companies acquired during fiscal 2003 for an aggregate purchase price of approximately $80 million. For the fiscal year ended September 30, 2003, we sold and physically delivered approximately 119.7 million gallons of propane to retail customers and approximately 284.7 million gallons of propane to wholesale customers.

The address of our principal executive offices is Two Brush Creek Boulevard, Suite 200, Kansas City, Missouri, 64112 and our telephone number at this location is 816-842-8181. Our Common Units trade on the Nasdaq national market under the symbol "NRGY". We electronically file certain documents with the Securities and Exchange Commission (SEC). We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K (as appropriate), along with any related amendments and supplements. From time-to-time, we also may file registration and related statements pertaining to equity or debt offerings. You may read and download our SEC filings over the internet from several commercial document retrieval services as well as at the SEC's website at www.sec.gov. You may also read and copy our SEC filings at the SEC's public reference room located at Judiciary Plaza, 450 Fifth Street, N.W.,

Washington, D.C. 20549. Please call the SEC 1-800-SEC-0330 for further information concerning the public reference room and any applicable copy charges. In addition, our SEC filings are available at no cost as soon as reasonably practicable after the filing thereof on our website at www.inergypropane.com. Please note that any internet addresses provided in this Form 10-K are for information purposes only and are not intended to be hyperlinks. Accordingly, no information found and/or provided at such internet addresses is intended or deemed to be incorporated by reference herein.

We believe we are the seventh largest propane retailer in the United States, based on retail propane gallons sold. Our retail business includes the retail marketing, sale and distribution of propane, including the sale and lease of propane supplies and equipment, to residential, commercial, industrial and agricultural customers. We market our propane products primarily under eight regional brand names: Bradley Propane, Country Gas, Hancock Gas, Hoosier Propane, Independent Propane Company (IPC), McCracken, Pro Gas and United Propane. We serve approximately 240,000 retail customers in Arkansas, Delaware, Florida, Georgia, Illinois, Indiana, Maryland, Michigan, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas, Virginia and West Virginia from 131 customer service centers which have an aggregate of approximately 8.5 million gallons of above-ground propane storage capacity. In addition to our retail business, we operate a wholesale supply, marketing and distribution business, providing propane procurement, transportation and supply and price risk management services to our customer service centers, as well as to independent dealers, multistate marketers, petrochemical companies, refinery and gas processors and a number of other natural gas liquids (NGL) marketing and distribution companies in 35 states, primarily in the Midwest and Southeast.

We have grown primarily through acquisitions of propane operations and, to a lesser extent, through internal growth. Including our initial acquisition of McCracken Oil & Propane Company in 1996 and through September 30, 2003, we have completed 25 acquisitions in North Carolina, Tennessee, Illinois, Indiana, Michigan, Texas, Ohio, Florida, Canada and Maryland. The following chart sets forth information about each company we acquired during the fiscal year ended September 30, 2003, and the four recent acquisitions after September 30, 2003:

Acquisition Date	Company (1)	Location
October 2002	Hancock Gas Service, Inc.	Findlay, OH
December 2002	Central Carolina Gas Company, Inc.	Hamlet, NC
December 2002	Live Oak Gas Company, Inc.	Live Oak, FL
April 2003	Johnson and Johnson Propane, Inc.	Madison, FL
April 2003	Coleman’s Gas, Inc.	Hastings, FL
May 2003	Resource Energy Marketing, Ltd. (wholesale operations)	Calgary, Alberta, Canada

June 2003	Phillips Propane, Inc.	Leipsic, OH
July 2003	Nelson Propane	Tallahassee, FL
July 2003	Five locations of Large Regional Distributor	GA and Northern FL
July 2003	United Propane, Inc.	Millersville, MD
August 2003	Marshall Propane Supply, Inc.	Marshall, IN
August 2003	Mount Vernon Bottled Gas Company	Mount Vernon, OH

Acquisitions Subsequent to September 30, 2003

October 2003	EOTT Energy, LP's West Coast natural gas liquids (NGL) business	Bakersfield, CA
October 2003	Smith Propane	La Crosse, VA
October 2003	Peoples Gas and Appliance	Beaufont, SC
November 2003	Pembroke Propane	Pembroke, GA

(1) Name of acquired company or assets as of acquisition date.

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 stand-alone energy sources. Our retail propane business consists principally of transporting propane to our customer service centers and other distribution areas and then to tanks located on our customers' premises. Retail propane falls into three broad categories: residential, industrial and commercial, and agricultural. 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.

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. Propane is clean-burning, producing negligible amounts of pollutants when consumed.

The retail market for propane is seasonal because it is used primarily for heating in residential and commercial buildings. Approximately three-quarters of our retail propane volume is sold during the peak heating season from October through March. Consequently, sales and operating profits are generated mostly in the first and fourth calendar quarters of each calendar year.

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, we believe 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. Although propane is similar to fuel oil in certain applications and market demand, propane and fuel oil compete to a lesser extent than propane and natural gas, primarily because of the cost of converting to fuel oil. The costs associated with switching from appliances that use fuel oil to appliances that use propane are a significant barrier to switching. By contrast, natural gas can generally be substituted for propane in appliances designed to use propane as a principal fuel source.

In addition to competing with alternative energy sources, we compete 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, smaller local independent marketers and farm cooperatives. Based on industry publications, we believe that the ten largest retailers account for less than one-third 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 our customer service centers compete with several marketers or distributors. Each customer service center operates in its own competitive environment because retail marketers tend to locate in close proximity to customers. Our typical customer service center generally has an effective marketing radius of approximately 25 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. We believe that our safety programs, policies and procedures are more comprehensive than many of our smaller, independent competitors and give us a competitive advantage over such retailers. We also believe that our service capabilities and customer responsiveness differentiate us from many of these smaller competitors. Our employees are on call 24-hours and seven-days-a-week for emergency repairs and deliveries.

The wholesale propane business is highly competitive. Our competitors in the wholesale business include producers and independent regional wholesalers. We believe that our wholesale supply and distribution business provides us with a stronger regional presence and a reasonably secure, efficient supply base, and positions us well for expansion through acquisitions or start-up operations in new markets.

Retail propane distributors typically price retail usage based on a per gallon margin over wholesale costs. As a result, distributors generally seek to maintain their operating margins by passing costs through to customers, thus insulating themselves from volatility in wholesale propane prices. During periods of sudden price increases in propane at the wholesale level costs, distributors may be unable or unwilling to pass entire cost increases through to customers. In these cases, significant decreases in per gallon margins may result.

The propane distribution industry is characterized by a large number of relatively small, independently owned and operated local distributors. Each year a significant number of these local distributors have sought to sell their business for reasons that include retirement and estate planning. In addition, the propane industry faces increasing environmental regulations and escalating capital requirements needed to acquire advanced, customer-oriented technologies. Primarily as a result of these factors, the industry is undergoing consolidation, and we, as well as other national and regional distributors, have been active consolidators in the propane market. In recent years, an active, competitive market has existed for the acquisition of propane assets and businesses. We expect this acquisition market to continue for the foreseeable future.

Business Strategy

Our primary objective is to increase distributable cash flow for our unitholders, while maintaining the highest level of commitment and service to our customers. We intend to pursue this objective by capitalizing on what we believe are our competitive strengths as follows:

Proven Acquisition Expertise

Since our predecessor's inception and through September 30, 2003, we have acquired and successfully integrated 25 companies. Our executive officers and key employees, who average more than 15 years experience in the propane and energy-related industries, have developed business relationships with retail propane owners and businesses throughout the United States. These significant industry contacts have enabled us to negotiate most of our acquisitions on an exclusive basis. We believe that this acquisition expertise should allow us to continue to grow through strategic and accretive acquisitions. Our acquisition program will continue to seek:

- businesses in geographical areas experiencing higher-than-average population growth;
- established names with local reputations for customer service and reliability;
- high concentration of propane sales to residential customers; and
- the retention of key employees in acquired businesses.

Internal Growth

We consistently promote internal growth in our retail operations through a combination of marketing programs and employee incentives. We enjoy strong relationships with builders, mortgage companies and real estate agents which enable us to access customers as new residences are built. We also provide various financial incentives for customers who sign up for our automatic delivery program, including level payment, fixed price and price cap programs. We provide all customers with supply, repair and maintenance contracts and 24-hour customer service. In addition, we have an employee bonus program and other incentives that foster an

entrepreneurial environment by rewarding employees who expand revenues by attracting new customers while controlling costs. We intend to continue to aggressively seek new customers and promote internal growth through local marketing and service programs in our residential propane business.

Operations in High Growth Markets

A majority of our operations are concentrated in higher-than-average population growth areas, where natural gas distribution is not cost effective. These markets have experienced strong economic growth which has spurred the development of sizable, low density and relatively affluent residential communities which are significant consumers of propane. We intend to pursue acquisitions in similar high growth markets.

Regional Branding

We believe that our success in generating internal growth at our customer service centers results from our operation under established, locally recognized trade names. We attempt to capitalize on the reputation of the companies we acquire by retaining their local brand names and employees, thereby preserving the goodwill of the acquired business and fostering employee loyalty and customer retention. We expect our local branch management to continue to manage our marketing programs, new business development, customer service and customer billing and collections. We believe that our employee incentive programs encourage efficiency and allow us to control costs at the corporate and field levels.

High Percentage of Retail Sales to Residential Customers

Our retail propane operations concentrate on sales to residential customers. Residential customers tend to generate higher margins and are generally more stable purchasers than other customers. For the fiscal year ended September 30, 2003, sales to residential customers represented approximately 67% of our retail propane gallons sold. Although overall demand for propane is affected by weather and other factors, we believe that residential propane consumption is not materially affected by general economic conditions because most residential customers consider home space heating to be an essential purchase. In addition, we own over 70% of the propane tanks located at our customers' homes. In many states, fire safety regulations restrict the refilling of a leased tank solely to the propane supplier that owns the tank. These regulations, which require customers to switch propane tanks when they switch suppliers, help enhance the stability of our customer base because of the inconvenience and costs involved with switching tanks and suppliers.

Strong Wholesale Supply, Marketing and Distribution Business

One of our distinguishing strengths is our procurement and distribution expertise and capabilities. For the fiscal year ended September 30, 2003, we delivered approximately 284.7 million gallons of propane on a wholesale basis to independent dealers, multistate marketers, petrochemical companies, refinery and gas processors and a number of other natural gas liquids (NGL) marketing and distribution companies. These operations are significantly larger on a relative basis than the wholesale operations of most publicly traded propane businesses. We also provide transportation services to these distributors through our fleet of transport vehicles, and

price risk management services to our customers through a variety of financial and other instruments. The presence of our trucks serving our wholesale customers allows us to take advantage of various pricing and distribution inefficiencies that exist in the market from time to time. We believe our wholesale business enables us to obtain valuable market intelligence and awareness of potential acquisition opportunities. Because we sell on a wholesale basis to many residential and commercial retailers, we have an ongoing relationship with a large number of businesses that may be attractive acquisition opportunities for us. We believe that we will have an adequate supply of propane to support our growing retail operations at prices that are generally available only to large wholesale purchasers. This purchasing scale and resulting expertise also helps us avoid shortages during periods of tight supply to an extent not generally available to other retail propane distributors.

Flexible Financial Structure

We have a $150.0 million revolving credit facility for acquisitions and a $50.0 million revolving working capital facility. As of December 1, 2003, we had available capacity of approximately $109.3 million under our acquisition facility and approximately $12.9 million under our working capital facility. We believe our available capacity under these facilities combined with our ability to fund acquisitions through the issuance of additional partnership interests will provide us with a flexible financial structure that will facilitate our acquisition strategy.

Operations

Our operations reflect our two reportable segments; retail sales operations and wholesale sales operations.

Retail Operations

Customer Service Centers

We distribute propane to approximately 240,000 retail customers from 131 customer service centers in 15 states. We market propane primarily in rural areas, but also have a significant number of customers in suburban areas where energy alternatives to propane such as natural gas are generally not available.

We market our propane primarily in the eastern half of the United States through our customer service centers using eight regional brand names. The following table shows our customer service centers by state:

State	Number of Customer Service Centers
Arkansas	2
Delaware	1
Florida	7
Georgia	8
Illinois	2
Indiana	12

Maryland	10
Michigan	10
North Carolina	10
Ohio	7
Oklahoma	6
South Carolina	1
Tennessee	5
Texas	49
West Virginia	1
Total	131

From our customer service centers, we also sell, install and service equipment related to our propane distribution business, including heating and cooking appliances. Typical customer service centers consist of an office and service facilities, with one or more 12,000 to 30,000 gallon bulk storage tanks. Some of our customer service centers also have an appliance showroom. We have several satellite facilities that typically contain only large capacity storage tanks. We have approximately 8.5 million gallons of above-ground propane storage capacity at our customer service centers and satellite locations.

Customer Deliveries

Retail deliveries of propane are usually made to customers by means of our fleet of bobtail and rack trucks. Propane is pumped from the bobtail truck, which generally holds 2,500 to 3,000 gallons, into a stationary storage tank at the customer's premises. The capacity of these tanks ranges from 100 gallons to 1,200 gallons, with a typical tank having a capacity of 100 to 300 gallons in milder climates and 500 to 1,000 gallons in colder climates. We also deliver propane to retail customers in portable cylinders, which typically have a capacity of five to 35 gallons. These cylinders are picked up and replenished at our distribution locations, then returned to the retail customer. To a limited extent, we also deliver propane to certain customers in larger trucks known as transports, which have an average capacity of approximately 10,000 gallons. These customers include industrial customers, large-scale heating accounts and large agricultural accounts.

During the fiscal year ended September 30, 2003, we delivered approximately 30% and 70% of our propane volume of gallons to retail and wholesale customers, respectively. Our retail sales were made to residential, industrial and commercial, and agricultural customers as follows:

- approximately 67% to residential customers;
- approximately 26% to industrial and commercial customers; and
- approximately 7% to agricultural customers.

No single retail customer accounted for more than 1% of our revenue during the fiscal year ended September 30, 2003. During the fiscal year ended September 30, 2003, Louis Dreyfus Energy Services, L.P. accounted for approximately 6% of our revenue. No other single wholesale customer accounted for more than 5% of our revenue for the same period.

Nearly half of our residential customers receive their propane supply under an automatic delivery program. Under the automatic delivery program, we deliver propane to our heating customers approximately six times during the year. We determine the amount of propane delivered based on weather conditions and historical consumption patterns. Our automatic delivery program eliminates the customer's need to make an affirmative purchase decision, promotes customer retention by ensuring an uninterrupted supply and enables us to efficiently route deliveries on a regular basis. We promote this program by offering level payment billing, discounts, fixed price options and price caps. In addition, we provide emergency service 24 hours a day, seven days a week, 52 weeks a year. Over 70% of our retail propane customers lease their tanks from us. In most states, due to fire safety regulations, a leased tank may only be refilled by the propane distributor that owns that tank. The inconvenience and costs associated with switching tanks and suppliers greatly reduces a customer's tendency to change distributors. Our tank lease programs are valuable to us from the standpoint of retaining customers and maintaining profitability.

The propane business is seasonal with weather conditions significantly affecting demand for propane. We believe that the geographic diversity of our areas of operations helps to minimize our exposure to regional weather. Although overall demand for propane is affected by climate, changes in price and other factors, we believe our 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 our customers, (ii) loss of customers to competing energy sources has been low, (iii) the tendency of our customers to remain with us due to the product being delivered pursuant to a regular delivery schedule and to our ownership of over 70% of the storage tanks utilized by our customers and (iv) our ability to offset customer losses through internal growth of our 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 we operate, however, can significantly affect the total volumes of propane we sell and the margins we realize and, consequently, our results of operations. We believe 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.

Transportation Assets, Truck Fabrication and Maintenance

Our transportation assets are operated by L&L Transportation, LLC, a wholly-owned subsidiary of our operating company. The transportation of propane requires specialized equipment. Propane trucks carry specialized steel tanks that maintain the propane in a liquefied state. As of September 30, 2003, we owned a fleet of approximately 30 tractors, 85 transports, 425 bobtail and rack trucks and 335 other service and pick-up trucks. In addition to supporting our retail and wholesale propane operations, our fleet is also used to deliver butane and ammonia for third parties and to distribute natural gas for various processors and refiners.

We own truck fabrication and maintenance facilities located in Indiana, Florida, and Texas. We believe that our ability to build and maintain the trucks we use in our propane operations significantly reduces the costs we would otherwise incur in purchasing and maintaining our fleet of trucks. We also sell a limited number of trucks to third parties.

Pricing Policy

Our pricing policy is an essential element in our successful marketing of propane. We base our pricing decisions on, among other things, prevailing supply costs, local market conditions and local management input. We rely on our regional management to set prices based on these factors. Our local managers are advised regularly of any changes in the posted prices of our propane suppliers. We believe our propane pricing methods allow us to respond to changes in supply costs in a manner that protects our customer base and gross margins. In some cases, however, our ability to respond quickly to cost increases could cause our retail prices to rise more rapidly than those of our competitors, possibly resulting in a loss of customers.

Billing and Collection Procedures

We retain our customer billing and account collection responsibilities at the local level. We believe that this decentralized approach is beneficial for a number of reasons:

- customers are billed on a timely basis;
- customers are more likely to pay a local business;
- cash payments are received faster; and
- local personnel have current account information available to them at all times in order to answer customer inquiries.

Trademark and Tradenames

We use a variety of trademarks and tradenames which we own, including “Inergy” and “Inergy Services.” We believe that our strategy of retaining the names of the companies we acquire has maintained the local identification of such companies and has been important to the continued success of the acquired businesses. Our most significant tradenames are “Bradley Propane,” “Country Gas,” “Hancock Gas,” “Hoosier Propane,” “Independent Propane,” “McCracken,” “Pro Gas” and “United Propane.” We regard our trademarks, tradenames and other proprietary rights as valuable assets and believe that they have significant value in the marketing of our products.

Wholesale Supply, Marketing and Distribution Operations

We currently provide wholesale supply, marketing and distribution services to independent dealers, multi-state marketers, petrochemical companies, refinery and gas processors and a number of other natural gas liquids (NGL) marketing and distribution companies, primarily in the Midwest and Southeast. While our wholesale supply, marketing and distribution operations accounted for approximately 52% of total revenue, this business represented approximately 11% of our gross profit during the fiscal year ended September 30, 2003.

Marketing and Distribution

One of our distinguishing strengths is our procurement and distribution expertise and capabilities. Because of the size of our wholesale operations, we have developed significant procurement and distribution expertise. This is partly the result of the unique background of our

management team, which has significant experience in the procurement aspects of the propane business. We also offer transportation services to these distributors through our fleet of transport trucks and price risk management services to our customers through a variety of financial and other instruments. Our wholesale supply, marketing and distribution business provides us with a relatively stable and growing income stream as well as extensive market intelligence and acquisition opportunities. In addition, these operations provide us with more secure supplies and better pricing for our customer service centers. Moreover, the presence of our trucks across the Midwest and Southeast allows us to take advantage of various pricing and distribution inefficiencies that exist in the market from time to time.

Supply

We obtain a substantial majority of our propane from domestic suppliers, with our remaining propane requirements provided by Canadian suppliers. During the fiscal year ended September 30, 2003, a majority of our sales volume was purchased pursuant to contracts that have a term of one year; the balance of our sales volume was purchased on the spot market. The percentage of our contract purchases varies from year to year. Supply contracts generally provide for pricing in accordance with posted prices at the time of delivery or the current prices established at major storage points, and some contracts include a pricing formula that typically is based on such market prices. Some of these agreements provide maximum and minimum seasonal purchase guidelines.

No single supplier accounted for more than 10% of volume propane purchases during the past fiscal year. We believe that our diversification of suppliers will enable us to purchase all of our supply needs at market prices if supplies are interrupted from any of the sources without a material disruption of our operations.

Propane generally is transported from refineries, pipeline terminals, storage facilities and marine terminals to our approximately 200 storage facilities. We accomplish this by using our transports and contracting with common carriers, owner-operators and railroad tank cars. Our customer service centers and satellite locations typically have one or more 12,000 to 30,000 gallon storage tanks, generally adequate to meet customer usage requirements for seven days during normal winter demand. Additionally, we lease underground storage facilities from third parties under annual lease agreements.

We engage in risk management activities in order to reduce the effect of price volatility on our product costs and to help insure the availability of propane during periods of short supply. We are currently a party to propane futures transactions on the New York Mercantile Exchange and to forward and option contracts with various third parties to purchase and sell propane at fixed prices in the future. We monitor these activities through enforcement of our risk management policy.

For more information on our reportable business segments, see Note 11 to our Consolidated Financial Statements.

Employees

As of December 1, 2003, we had 1,025 full-time employees of which 65 were general and administrative and 960 were operational employees. Additionally, we employed 37 part-time employees, all of whom were operational employees. None of our employees is a member of a labor union. We believe that our relationship with our employees is satisfactory.

Government Regulation

We are subject to various federal, state and local environmental, health and safety laws and regulations related to our propane business as well as those related to our ammonia and butane transportation operations. Generally, these laws impose limitations on the discharge and emission of pollutants and establish standards for the handling of solid and hazardous wastes. These laws generally 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 or local 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. While propane is not a hazardous substance within the meaning of CERCLA, other chemicals used in our operations may be classified as hazardous. The laws and regulations referred to above could result in the imposition of civil or criminal penalties in cases of non-compliance or the imposition of liability for remediation costs. We have not received any notices that we have violated these laws and regulations in any material respect and we have not otherwise incurred any material liability thereunder.

For acquisitions that involve the purchase of real estate, we conduct due diligence investigations to attempt to determine whether any substance has been sold from, or stored on, or released or spilled from any of that real estate prior to its purchase. This due diligence includes questioning the seller, obtaining representations and warranties concerning the seller's compliance with environmental laws and performing site assessments. During these due diligence investigations, our employees, and, in certain cases, independent environmental consulting firms, review historical records and databases and conduct physical investigations of the property to look for evidence of hazardous substance contamination, compliance violations and the existence of underground storage tanks.

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 law in all of the states in which we operate. In some states these laws are administered by state agencies, and in others they are administered on a county or municipal level. Regarding the transportation of propane, ammonia and butane by truck, we are 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. We conduct ongoing training programs to help ensure that our operations are in compliance with applicable regulations. We maintain various permits that are necessary to operate some of our facilities, some of which may be material to our operations. Management believes that the procedures currently in effect at all of our facilities for the handling, storage and distribution of propane and the transportation of ammonia and butane 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 could affect our operations. It is not anticipated that our compliance with or liabilities under environmental, health and safety laws and regulations, including CERCLA, will have a material adverse effect on us. To the extent that any environmental liabilities, or environmental, health or safety laws, or regulations are made more stringent, there can be no assurance that our results of operations will not be materially and adversely affected.

Item 2. Properties.

As of September 30, 2003, we owned 67 of our 131 customer service centers and leased the balance. We refer you to "Retail Operations" under Item 1 for more information concerning the location of our customer service centers. We lease our Kansas City, Missouri headquarters. We lease underground storage facilities with an aggregate capacity of approximately 56 million gallons of propane at ten locations under annual lease agreements. We also lease capacity in several pipelines pursuant to annual lease agreements.

Tank ownership and control at customer locations are important components to our operations and customer retention. As of September 30, 2003, we owned the following:

- approximately 370 bulk storage tanks at approximately 200 locations with typical capacities of 12,000 to 30,000 gallons,
- approximately 175,000 stationary customer storage tanks with typical capacities of 100 to 1,200 gallons, and
- approximately 45,000 portable propane cylinders with typical capacities of up to 35 gallons.

We believe that we have satisfactory title or valid rights to use all of our material properties. Although some of these 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, we do not believe that any of these burdens will materially interfere with our continued use of these properties in our business, taken as a whole. Our obligations under our borrowings are secured by liens and mortgages on our real and personal property.

In addition, we believe that we have, or are in the process of obtaining, all required material approvals, authorizations, orders, licenses, permits, franchises and consents of, and have obtained or made all required material registrations, qualifications and filings with, the various state and local governmental and regulatory authorities which relate to ownership of our properties or the operations of our business.

Item 3. Legal Proceedings.

Our operations are subject to all operating hazards and risks normally incidental to handling, storing, transporting and otherwise providing for use by consumers of combustible liquids such as propane. As a result, at any given time we are a defendant in various legal proceedings and litigation arising in the ordinary course of business. We maintain insurance policies with insurers in amounts and with coverages and deductibles as the managing general partner believes are reasonable and prudent. However, we cannot assure that this insurance will be adequate to protect us from all material expenses related to potential future claims for personal and property damage or that these levels of insurance will be available in the future at economical prices. In addition, the occurrence of an explosion may have an adverse effect on the public's desire to use our products.

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted to a vote of the holders of our company's Common Units during the fourth quarter of the fiscal year ended September 30, 2003.

PART II

Item 5. Market for Registrant's Common Equity and Related Unitholder Matters.

Since July 31, 2001 our company's Common Units representing limited partner interests have been traded on Nasdaq's national market under the symbol "NRGY." The following table sets forth the range of high and low bid prices of the Common Units, as reported by Nasdaq, as well as the amount of cash distributions paid per common unit for the periods indicated.

Quarters Ended:	Low	High	Cash Distribution Per Unit
Fiscal 2003:			
September 30, 2003	$37.10	$42.25	$ 0.770
June 30, 2003	31.31	40.00	0.750
March 31, 2003	28.31	32.87	0.730
December 31, 2002	27.46	29.45	0.715
Fiscal 2002:			
September 30, 2002	$27.88	$30.75	$ 0.700
June 30, 2002	29.40	35.10	0.675
March 31, 2002	27.05	30.30	0.660
December 31, 2001	23.06	28.65	0.625

As of December 1, 2003, our company had issued and outstanding 5,522,411 Common Units, which were held of record by approximately 6,700 unitholders. In addition, as of that date our company had 3,567,626 Senior Subordinated Units representing limited partner interests and 572,542 Junior Subordinated Units representing limited partner interests. There is no established public trading market for our company's subordinated units.

Our company makes quarterly distributions to its partners within approximately 45 days after the end of each fiscal quarter in an aggregate amount equal to its available cash (as defined) for such quarter. Available cash generally means, with respect to each fiscal quarter, all cash on hand at the end of the quarter less the amount of cash that the managing general partner determines in its reasonable discretion is necessary or appropriate to:

- provide for the proper conduct of our business,
- comply with applicable law, any of our debt instruments, or other agreements, or
- provide funds for distributions to unitholders and to our non-managing general partner for any one or more of the next four quarters,

plus all cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter. Working capital borrowings are generally borrowings that are made under our working capital facility and in all cases are used solely for working capital purposes or to pay distributions to partners. The full definition of available cash is set forth in the Amended and Restated Agreement of Limited Partnership of Inergy, L.P., which is incorporated by reference herein as an exhibit to this report.

During the subordination period referred to below, our Common Units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of $0.60 per quarter, plus any arrearages in the payment of the minimum quarterly distribution on the Common Units from prior quarters, before any distributions of available cash from operating surplus may be made on any Junior or Senior Subordinated Units. There is no guarantee that we will pay the minimum quarterly distribution on the Common Units in any quarter, and we will be prohibited from making any distributions to unitholders if it would cause an event of default under our credit facility. The information concerning restrictions on distributions required by this Item 5 is incorporated herein by reference to “Management’s Discussion and Analysis of Financial Condition and Results of Operation— Description of Credit Facility” under Item 7 and Note 4 to our Consolidated Financial Statements. The subordination period generally will not end earlier than June 30, 2006 with respect to the Senior Subordinated Units and June 30, 2008 with respect to the Junior Subordinated Units.

On November 22, 2002, a shelf registration statement (File No. 333-101165) was declared effective by the SEC for the periodic sale by us of up to $300 million of Common Units, partnership securities and debt securities, or any combination thereof. In March 2003, we issued 805,000 Common Units pursuant to this registration statement. No other offerings of Common Units, partnership securities or debt securities under the shelf registration statement have been made since it was declared effective. See “Management’s Discussion and Analysis of Financial Condition and Results of Operation — Liquidity and Sources of Capital” under Item 7.

During fiscal 2003, we made the following issuances of Common Units in reliance on one or more exemptions from registration under the Securities Act:

- In June 2003, Inergy, L.P. issued 2,651 Common Units as a portion of the consideration for our acquisition of the assets from Phillips Propane, Inc. These Common Units were issued in reliance upon Section 4(2) of the Securities Act.

- In July 2003, Inergy, L.P. issued 889,906 Common Units and 254,259 Senior Subordinated Units to United Propane, Inc. in conjunction with our acquisition of substantially all the propane assets of United Propane, Inc. These Common Units and Senior Subordinated Units were issued in reliance upon Section 4(2) of the Securities Act.

See "Management's Discussion and Analysis of Financial Condition and Results of Operation — Liquidity and Sources of Capital" under Item 7.

The following table sets forth in tabular format, a summary of our company's equity plan information as of September 30, 2003:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	538,532	$ 26.19	329,018
Equity compensation plans not approved by security holders	—	—	—
Total	538,532	$ 26.19	329,018

Item 6. Selected Financial Data.

The following table sets forth selected financial data and other operating data of Inergy, L.P., and our predecessor, Inergy Partners, LLC. The selected historical financial data of Inergy Partners, LLC as of and for the years ended September 30, 2000 and 1999 are derived from the audited financial statements of Inergy Partners, LLC. The selected historical financial data of Inergy, L.P. as of and for the years ended September 30, 2003, 2002 and 2001 are derived from the audited financial statements of Inergy Partners, LLC and Inergy, L.P. The historical financial data of Inergy Partners, LLC and Inergy, L.P. include the results of operations of the Hoosier Propane Group from January 1, 2001, the effective date of the acquisition, which closed on January 12, 2001, the results of operations of Pro Gas from November 1, 2001, the effective date of acquisition, the results of operations of Independent Propane Company from December 20, 2001, the effective date of the acquisition, and the results of operations of United Propane, Inc. from July 31, 2003, the effective date of the acquisition.

"EBITDA" shown in the table below is defined as income before income taxes, plus interest expense and depreciation and amortization expense, less interest income. EBITDA should not be considered an alternative to net income, income before income taxes, cash flows from operating activities, or any other measure of financial performance calculated in accordance with generally accepted accounting principles as those items are used to measure operating performance, liquidity or ability to service debt obligations. We believe that EBITDA provides additional information for evaluating our ability to make the minimum quarterly distribution and is presented solely as a supplemental measure. EBITDA, as we define it, may not be comparable to EBITDA or similarly titled measures used by other corporations or partnerships.

The data in the following tables should be read together with and are qualified in their entirety by reference to, the historical consolidated financial statements and the accompanying notes included in this report. The tables should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Item 7.

	Inergy L.P. and Predecessor (a)				
	Years Ended September 30,				
	2003	2002	2001	2000	1999
	(in thousands except per unit data)				
Statement of Operations Data:					
Revenues(b)	$ 363,365	$ 208,700	$ 168,982	$ 63,512	$ 15,098
Cost of product sold(b)	266,094	134,242	128,425	51,553	9,641
Gross profit	97,271	74,458	40,557	11,959	5,457
Expenses:					
Operating and administrative(c)	60,165	46,057	23,501	8,990	4,119
Depreciation and amortization	13,843	11,444	6,532	2,286	690
Operating income	23,263	16,957	10,524	683	648
Other income (expense):					
Interest expense	(9,982)	(8,365)	(6,670)	(2,740)	(962)
Interest expense related to write-off of deferred financing costs	—	(585)	—	—	—
Gain (loss) on sale of property, plant and equipment	(91)	140	37	—	101
Finance charges	339	115	290	176	79
Other	86	140	168	59	5
Income (loss) before income taxes	13,615	8,402	4,349	(1,822)	(129)
Provision for income taxes	103	93	—	7	56
Net income (loss)	$ 13,512	$ 8,309	$ 4,349	$ (1,829)	$ (185)
Net income (loss) per limited partner unit:					
Basic	$ 1.59	$ 1.22	$ (0.40)(d)		
Diluted	$ 1.56	$ 1.20	$ (0.40)(d)		
Weighted average limited partners' units outstanding:					
Basic	8,338	6,658	5,726(d)		
Diluted	8,471	6,760	5,726(d)		
Cash distributions per unit	$ 2.90	$ 2.36	—		

Balance Sheet Data (end of period):					
Current assets	$ 73,953	$ 70,016	$ 36,920	$ 22,199	$ 11,390
Total assets	362,393	288,232	155,653	68,924	38,896
Long-term debt, including current portion	131,127	124,462	54,132	34,927	22,337
Redeemable preferred members' interest	—	—	—	10,896	—
Members' equity	—	—	—	2,972	5,269
Partners' capital	178,983	120,916	72,754	—	—
Other Financial Data:					
EBITDA (e) (unaudited)	$ 37,440	$ 28,796	$ 17,551	$ 3,204	$ 1,523
Net cash provided by (used in) operating activities	34,428	7,779	4,659	(222)	(774)
Net cash used in investing activities	(34,488)	(94,017)	(64,025)	(12,464)	(13,130)
Net cash provided by financing activities	1,491	86,155	60,164	13,907	14,056
Maintenance capital expenditures(f) (unaudited)	1,039	1,556	1,901	283	156
Other Operating Data (unaudited):					
Retail propane gallons sold	119,697	88,515	46,750	18,112	8,006
Wholesale propane gallons delivered	284,721	256,893	147,258	87,340	24,735
Reconciliation of Net Income (Loss) to EBITDA:					
Net income (loss)	$ 13,512	$ 8,309	$ 4,349	$ (1,829)	$ (185)
Plus:					
Income taxes	103	93	—	7	56
Interest expense	9,982	8,365	6,670	2,740	962
Interest expense related to write-off of deferred financing costs	—	585			
Depreciation and amortization expense	13,843	11,444	6,532	2,286	690
	37,440	28,796	17,551	3,204	1,523
Less:					
Interest Income	—	—	—	—	—
EBITDA (e)	$ 37,440	$ 28,796	$ 17,551	$ 3,204	$ 1,523

(a) Represents selected financial data of Inergy Partners, LLC. and subsidiaries prior to July 31, 2001 and Inergy, L.P. thereafter.

(b) New accounting standards affecting the reporting of gains or losses on certain contracts related to our risk management activities became effective in the past year requiring such contracts to be reported on a net basis in the income statement. The adoption of the new standards required that we reduce both revenue and cost of product sold by $69.6 million, $54.2 million, $30.1 million, and $4.1 million for the years ended September 30, 2002, 2001, 2000, and 1999, respectively. This reclassification had no impact on gross profit, net income or EBITDA.

(c) The historical financial statements include non-cash charges related to amortization of deferred compensation of $234,000, $79,000 and $78,000 for the years ended September 30, 2001, 2000 and 1999, respectively.

(d) Amounts relate to the net loss incurred by Inergy, L.P. and the weighted average limited partners' units outstanding for the period from July 31, 2001 (the closing date of our initial public offering) through September 30, 2001.

(e) EBITDA is defined as income before taxes, plus interest expense and depreciation and amortization expense, less interest income. EBITDA should not be considered an alternative to net income, income before income taxes, cash flows from operating activities, or any other measure of financial performance calculated in accordance with accounting principles generally accepted in the United States as those items are used to measure operating performance, liquidity or ability to service debt obligations. We believe that EBITDA provides additional information for evaluating our ability to make the minimum quarterly distribution and is presented solely as a supplemental measure. EBITDA, as we define it, may not be comparable to EBITDA or similarly titled measures used by other corporations or partnerships.

(f) Maintenance capital expenditures are defined as those capital expenditures which do not increase operating capacity or revenues from existing levels.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

We are a Delaware limited partnership formed to own and operate a rapidly growing retail and wholesale propane marketing and distribution business. For the fiscal year ended September 30, 2003, we sold approximately 119.7 million gallons of propane to retail customers and delivered approximately 284.7 million gallons of propane to wholesale customers. Our retail business includes the retail marketing, sale and distribution of propane, including the sale and lease of propane supplies and equipment, to residential, commercial, industrial and agricultural customers. In addition to our retail business, we operate a wholesale supply, marketing and distribution business, providing propane procurement, transportation, supply and price risk management services to our customer service centers, as well as to independent dealers, multistate marketers, petrochemical companies, refinery and gas processors and a number of other natural gas liquids (NGL) marketing and distribution companies.

The results of operations discussed below are those of Inergy, L.P. on and after July 31, 2001, the closing date of our initial public offering, and of our predecessor, Inergy Partners, LLC prior to July 31, 2001. Audited financial statements for Inergy, L.P. and Inergy Partners, LLC are included elsewhere in this Form 10-K.

Since the inception of our predecessor in November 1996 through September 30, 2003, we have acquired 25 propane companies for an aggregate purchase price of approximately $309 million, including working capital, assumed liabilities and acquisition costs.

The retail distribution business is largely seasonal due to propane's primary use as a heating source in residential and commercial buildings. As a result, cash flows from operations are highest from November through April when customers pay for propane purchased during the six-month peak heating season of October through March. We generally experience net losses in the six-month, off season of April through September.

Because a substantial portion of our propane is used in the weather-sensitive residential markets, the temperatures realized in our areas of operations, particularly during the six-month peak heating season, have a significant effect on our financial performance. In any given area, 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. Therefore, we use information on normal temperatures in understanding how historical results of operations are affected by temperatures that are colder or warmer than normal and in preparing forecasts of future operations, which are based on the assumption that normal weather will prevail in each of our regions. "Heating degree days" are a general indicator of weather impacting propane usage and are calculated by taking the number of days with a difference between 65 degrees and the average temperature of the day (if less than 65 degrees).

In determining actual and normal weather for a given period of time, we compare the actual number of heating degree days for such period to the average number of heating degree days for a longer time period assumed to more accurately reflect the average normal weather, in each case as such information is published by the National Oceanic and Atmospheric Administration, for each measuring point in each of our regions. When we discuss "normal"

weather in our results of operations presented below we are referring to a 30-year average consisting of the years 1973 through 2002. We then calculate weighted averages, based on retail volumes attributable to each measuring point, of actual and normal heating degree days within each region. Based on this information, we calculate a ratio of actual heating degree days to normal heating degree days, first on a regional basis and then on a partnership-wide basis.

The propane business is a “margin-based” business where the level of profitability is largely dependent on the difference between sales prices and product cost. The unit cost of propane is subject to volatile changes as a result of product supply or other market conditions. Propane unit cost changes can occur rapidly over a short period of time and can impact margins as sales prices may not change as rapidly. There is no assurance that we will be able to fully pass on product cost increases, particularly when product costs increase rapidly. We have generally been successful in passing on higher propane costs to our customers and have historically maintained or increased our gross margin per gallon in periods of rising costs. In periods of increasing costs, we have experienced a decline in our gross profit as a percentage of revenues. In periods of decreasing costs, we have experienced an increase in our gross profit as a percentage of revenues. Retail sales generate significantly higher margins than wholesale sales and sales to residential customers generally generate higher margins than sales to our other retail customers.

We believe our wholesale supply, marketing and distribution business complements our retail distribution business. Through our wholesale operations, we distribute propane and also offer price risk management services to propane retailers, resellers and other related businesses as well as energy marketers and dealers, through a variety of financial and other instruments, including:

- forward contracts involving the physical delivery of propane;
- swap agreements which require payments to (or receipt of payments from) counterparties based on the differential between a fixed and variable price for propane; and
- options, futures contracts on the New York Mercantile Exchange and other contractual arrangements.

We engage in hedging transactions to reduce the effect of price volatility on our product costs and to help ensure the availability of propane during periods of short supply. We attempt to balance our contractual portfolio by purchasing volumes only when we have a matching purchase commitment from our wholesale customers. However, we may experience net unbalanced positions from time to time which we believe to be immaterial in amount. In addition to our ongoing policy to maintain a balanced position, for accounting purposes we are required, on an ongoing basis, to track and report the market value of our purchase obligations and our sales commitments.

Results of Operations

Fiscal Year Ended September 30, 2003 Compared to Fiscal Year Ended September 30, 2002

Volume. During fiscal 2003, Inergy, L.P. sold 119.7 million retail gallons of propane, an increase of 31.2 million gallons, or 35%, from the 88.5 million retail gallons sold in fiscal 2002. The increase in retail sales volume was principally due to the November 2001 acquisition of Pro Gas, the December 2001 acquisition of Independent Propane Company, the October 2002 acquisition of Hancock Gas, and the July 2003 acquisition of United Propane. In addition, the weather was approximately 18% colder in fiscal 2003 as compared to fiscal 2002 in our retail areas of operations, and approximately 6% colder than normal.

Wholesale gallons delivered increased 27.8 million gallons, or 11%, to 284.7 million gallons in fiscal 2003 from 256.9 million gallons in fiscal 2002. This increase was primarily attributable to growth of our existing wholesale operations and partially due to the colder weather in 2003 in our wholesale areas of operations.

Revenues. Revenues in fiscal 2003 were $363.4 million, an increase of $154.7 million, or 74%, from $208.7 million of revenues in fiscal 2002.

Revenues from retail sales were $173.1 million in fiscal 2003 (after elimination of sales to our wholesale operations), an increase of $61.4 million, or 55%, from $111.7 million in fiscal 2002. This increase was primarily attributable to acquisition-related volume, higher selling prices of propane due to the higher cost of propane and volume increases at our existing locations primarily as a result of colder weather in fiscal 2003. These revenues consist of retail propane sales, transportation revenues, tank rentals, heating oil sales, appliance sales and service.

Revenues from wholesale sales were $190.3 million (after elimination of sales to our retail operations) in fiscal 2003, an increase of $ 93.3 million or 96%, from $97.0 million in fiscal 2002. This increase was primarily attributable to colder weather in 2003, thus higher wholesale volumes, and an increase in selling prices as a result of the higher cost of propane.

Cost of Product Sold. Retail cost of product sold in fiscal 2003 was $86.1 million, an increase of $43.8 million or 103%, from retail cost of product sold of $42.3 million in fiscal 2002. Wholesale cost of product sold in fiscal 2003 was $180.0 million, an increase of $88.1 million or 96%, from wholesale cost of product sold of $91.9 million in 2002. These increases were primarily attributable to an increase in the average cost of propane, retail acquisition related volume and higher wholesale volume.

Gross Profit. Retail gross profit was $87.0 million in fiscal 2003 compared to $69.4 million in fiscal 2002, an increase of $17.6 million, or 25%. This increase was primarily attributable to an increase in retail gallons sold due to acquisitions and from existing locations due to the colder weather, partially offset by lower margins per gallon. Wholesale gross profit was $10.3 million (after elimination of gross profit attributable to our retail operations) in fiscal 2003 compared to $5.1 million in fiscal 2002, an increase of $5.2 million or 102%. This increase was attributable to an increase in wholesale volume primarily due to the colder weather.

Operating and Administrative Expenses. Operating and administrative expenses increased $14.1 million, or 31%, to $60.2 million in fiscal 2003 as compared to $46.1 million in fiscal 2002. This increase resulted primarily from acquisitions, including an increase in personnel, transportation, and facility costs associated with the growth of our company.

Depreciation and Amortization. Depreciation and amortization increased $2.4 million, or 21%, to $13.8 million in fiscal 2003 from $11.4 million in fiscal 2002 primarily as a result of retail acquisitions.

Interest Expense. Interest expense increased $1.0 million, or 12%, to $10.0 million in fiscal 2003 as compared to $9.0 million, including interest expense related to write-off of deferred financing costs of $0.6 million, in fiscal 2002. This increase is the result of the higher interest rates associated with the senior secured notes issued in June 2002 and higher average borrowings outstanding during fiscal 2003 as compared to fiscal 2002 principally related to acquisition financing.

Net Income. Net income increased $5.2 million, or 63%, to $13.5 million in fiscal 2003 from $8.3 million in fiscal 2002. This increase in net income was attributable to the increase in retail and wholesale gross profit, partially offset by increases in operating expenses, depreciation and amortization, and interest expense, all primarily the result of acquisitions.

EBITDA. In fiscal 2003, income before interest, taxes, depreciation and amortization was $37.4 million compared to $28.8 million in fiscal 2002. The increase was primarily attributable to increased sales volumes partially offset by an increase in operating and administrative expenses. EBITDA is defined as income before taxes, plus interest expense and depreciation and amortization expense, less interest income. EBITDA should not be considered an alternative to net income, income before income taxes, cash flows from operating activities, or any other measure of financial performance calculated in accordance with generally accepted accounting principles as those items are used to measure operating performance, liquidity or ability to service debt obligations. We believe that EBITDA provides additional information for evaluating our ability to make the minimum quarterly distribution and is presented solely as a supplemental measure. EBITDA, as we define it, may not be comparable to EBITDA or similarly titled measures used by other corporations or partnerships.

	Year Ended September 30,	
EBITDA (in thousands)	**2003**	**2002**
EBITDA:		
Net income	**$ 13,512**	$ 8,309
Interest expense	**9,982**	8,365
Interest expense related to write-off of deferred financing costs	**—**	585
Provision for income taxes	**103**	93
Depreciation and amortization	**13,843**	11,444
EBITDA	**$ 37,440**	$ 28,796

Fiscal Year Ended September 30, 2002 Compared to Fiscal Year Ended September 30, 2001

Volume. During fiscal 2002, Inergy, L.P. sold 88.5 million retail gallons of propane, an increase of 41.7 million gallons, or 89%, from the 46.8 million retail gallons sold in fiscal 2001. The increase in retail sales volume was principally due to the January 2001 acquisition of Hoosier Propane Group, the November 2001 acquisition of Pro Gas, and the December 2001 acquisition of Independent Propane Company. The increases associated with these acquisitions were partially offset by weather that was approximately 17% warmer in fiscal 2002 as compared to fiscal 2001 in our retail areas of operations, and 13% warmer than normal.

Wholesale gallons delivered increased 109.6 million gallons, or 74%, to 256.9 million gallons in fiscal 2002 from 147.3 million gallons in fiscal 2001. This increase was primarily attributable to the growth of our existing wholesale operations, partially offset by a decrease due to the warmer weather in 2002 in our wholesale areas of operations.

Revenues. Revenues in fiscal 2002 were $208.7 million, an increase of $39.7 million, or 23%, from $169.0 million of revenues in fiscal 2001.

Revenues from retail sales were $111.7 million in fiscal 2002 (after elimination of sales to our wholesale operations), an increase of $40.4 million, or 57%, from $71.3 million in fiscal 2001. This increase was primarily attributable to acquisition related volume, partially offset by lower selling prices of propane due to the lower cost of propane and volume decreases at our existing locations as a result of warmer weather in fiscal 2002. These revenues consist of retail propane sales, transportation revenues, tank rentals, heating oil sales, appliance sales and service.

Revenues from wholesale sales were $97.0 million (after elimination of sales to our retail operations) in fiscal 2002, a decrease of $0.6 million, from $97.6 million in fiscal 2001. This decrease was primarily attributable to warmer weather in 2002 and a decrease in selling prices as a result of the lower cost of propane partially offset by higher wholesale volumes. During the fourth quarter of 2002, new accounting standards contained in Emerging Issues Task Force Issue No. 02-3 (EITF No. 02-3) affecting the reporting of gains or losses on energy trading contracts became effective, requiring such contracts to be reported on a net basis in the income statement, resulting in an equal reduction in revenue and cost of product sold. Adopting this standard also required reclassifying revenue and cost of product sold for past years. The adoption of the new standard required that we reduce both revenue and cost of product sold by $69.6 million and $54.2 million in the fiscal years ended September 30, 2002 and 2001, respectively. This reclassification had no impact on gross profit, net income or EBITDA. See Item 7, Recent Accounting Pronouncements for more details.

Cost of Product Sold. Retail cost of product sold in fiscal 2002 was $42.3 million, an increase of $5.6 million or 15%, from retail cost of product sold of $36.7 million in fiscal 2001. This increase was primarily attributable to retail acquisition related volume, offset by a decrease in the average cost of propane. Wholesale cost of product sold in fiscal 2002 was $91.9 million, an increase of $0.2 million from wholesale cost of product sold of $91.7 million in fiscal 2001.

Gross Profit. Retail gross profit was $69.4 million in fiscal 2002 compared to $34.6 million in fiscal 2001, an increase of $34.8 million, or 101%. This increase was primarily attributable to

an increase in retail gallons sold due to acquisitions and higher margins per gallon. Wholesale gross profit was $5.1 million (after elimination of gross profit attributable to our retail operations) in fiscal 2002 compared to $5.9 million in fiscal 2001, a decrease of $0.8 million. This decrease was attributable to a decrease in margin per gallon partially offset by an increase in wholesale volumes.

Operating and Administrative Expenses. Operating and administrative expenses increased $22.6 million, or 96%, to $46.1 million in fiscal 2002 as compared to $23.5 million in fiscal 2001. This increase resulted from acquisitions and, to a lesser extent, an increase in insurance costs as a result of higher premiums and self-insured retention amounts, and personnel costs associated with the growth of our company, including the completion of our initial public offering in July 2001.

Depreciation and Amortization. Depreciation and amortization increased $4.9 million, or 75%, to $11.4 million in fiscal 2002 from $6.5 million in fiscal 2001 primarily as a result of the Hoosier Propane Group, Pro Gas and Independent Propane Company acquisitions.

Interest Expense. Interest expense increased $2.3 million, or 34%, to $9.0 million in fiscal 2002 as compared to $6.7 million in fiscal 2001. This increase is the result of higher average borrowings outstanding during fiscal 2002 as compared to fiscal 2001 and a one-time charge of $0.6 million that was recorded in 2002 as a result of the write-off of deferred financing costs associated with the Independent Propane Company term note that was repaid with proceeds of a private placement of senior secured notes. These increases were partially offset by lower interest rates in fiscal 2002 associated with our credit agreement.

Net Income. Net income increased $4.0 million, or 93%, to $8.3 million in fiscal 2002 from $4.3 million in fiscal 2001. This increase in net income was attributable to the increase in retail gross profit, partially offset by increases in operating expenses, depreciation and amortization, and interest expense, all primarily the result of acquisitions.

EBITDA. In fiscal 2002, income before interest, taxes, depreciation and amortization was $28.8 million compared to $17.6 million in fiscal 2001. The increase was primarily attributable to increased sales volumes partially offset by an increase in operating and administrative expenses. EBITDA is defined as income before taxes, plus interest expense and depreciation and amortization expense, less interest income. EBITDA should not be considered an alternative to net income, income before income taxes, cash flows from operating activities, or any other measure of financial performance calculated in accordance with generally accepted accounting principles as those items are used to measure operating performance, liquidity or ability to service debt obligations. We believe that EBITDA provides additional information for evaluating our ability to make the minimum quarterly distribution and is presented solely as a supplemental measure. EBITDA, as we define it, may not be comparable to EBITDA or similarly titled measures used by other corporations or partnerships.

EBITDA (in thousands)	Year Ended September 30, 2002	2001
EBITDA:		
Net income	**$ 8,309**	$ 4,349
Interest expense	**8,365**	6,670
Interest expense related to write-off of deferred financing costs	**585**	—
Provision for income taxes	**93**	—
Depreciation and amortization	**11,444**	6,532
EBITDA	**$ 28,796**	$ 17,551

Liquidity and Sources of Capital

In March 2003, Inergy, L.P. issued 805,000 Common Units in a public offering, resulting in proceeds of $23.3 million, net of underwriter's discount, commission, and offering expenses. Inergy Partners, LLC contributed $0.5 million in cash to Inergy, L.P. in conjunction with the issuance in order to maintain its 2% non-managing general partner interest. These funds were used to repay borrowings under our credit agreement.

In June 2003, Inergy, L.P. issued 2,651 Common Units in conjunction with the acquisition of Phillips Propane, Inc. Inergy Partners, LLC contributed $2,000 in cash to Inergy, L.P. in conjunction with the issuance in order to maintain its 2% non-managing general partner interest.

In July 2003, Inergy, L.P. issued 889,906 Common Units and 254,259 Senior Subordinated Units to United Propane, Inc. in conjunction with the acquisition of substantially all the propane assets of United Propane, Inc. Inergy Partners, LLC contributed $0.9 million in cash to Inergy, L.P. in conjunction with the issuance in order to maintain its 2% non-managing general partner interest.

Cash flows provided by operating activities of $34.4 million in fiscal 2003 consisted primarily of: net income of $13.5 million; net non-cash charges of $16.2 million, principally related to depreciation and amortization of $13.8 million and $1.5 million related to the amortization of deferred financing costs; and $4.7 million associated with the changes in operating assets and liabilities, including net liabilities from price risk management activities. The cash provided by the changes in operating assets and liabilities is primarily due to a decrease in propane inventory resulting from our decision to reduce physical position in our wholesale operations due to higher propane costs, and an increase in accounts payable due primarily to acquisition related growth. These changes were partially offset by the effects of working capital used by the reduction in price risk management liabilities, consistent with the reduction in wholesale propane inventories, and an increase in accounts receivable related to the growth of our retail and wholesale operations. Cash flows provided by operating activities of $7.8 million in fiscal 2002 consisted primarily of: net income of $8.3 million; net non-cash charges of $13.6 million, principally related to depreciation and amortization of $11.4 million and $1.8 million related to the amortization and write-off of deferred financing costs; and uses of cash of $14.1 million associated with the changes in operating assets and liabilities, including net liabilities

from price risk management activities. The use of cash associated with the changes in operating assets and liabilities is primarily due to an increase in propane inventory attributable to our retail and wholesale growth partially offset by the effects of working capital provided by the increase in price risk management liabilities related to the effect of rising propane prices on our company's forward sales and purchases contracts, which are marked to market.

Cash used in investing activities was $34.5 million in fiscal 2003 as compared to $94.0 million in fiscal 2002. Fiscal 2003 investing activities included a use of cash of $25.9 million, net of cash acquired, for the acquisition of twelve retail propane companies. During fiscal 2002, $74.8 million was used for the acquisition of Independent Propane Company and $10.0 million for the acquisition of Pro Gas. Additionally, in fiscal 2003 and fiscal 2002, we expended $6.2 million and $6.4 million, respectively, for additions of property and equipment to accommodate our growing operations. Deferred financing costs of $3.0 million and $3.7 million were incurred in fiscal 2003 and 2002, respectively, related to debt incurred to complete the acquisitions.

Cash provided by financing activities was $1.5 million in fiscal 2003 and $86.2 million in fiscal 2002. Cash provided by financing activities in fiscal 2003 and fiscal 2002 included net borrowings of $1.9 million and $66.0 million, respectively, under debt agreements, including borrowings and repayments in conjunction with the June 2002 issuance of senior secured notes and borrowings and repayments of our revolving working capital facility. In addition, net proceeds were received from the issuance of Common Units of $23.3 million and $35.4 million in fiscal 2003 and 2002, respectively. Offsetting these cash sources were $25.2 million and $16.2 million of distributions in fiscal 2003 and fiscal 2002, respectively.

At September 30, 2003 and 2002, we had goodwill of $64.5 million and $46.1 million, representing approximately 18% and 16% of total assets, respectively. This goodwill is attributable to our acquisitions. We expect recovery of the goodwill through future cash flows associated with these acquisitions.

The following table summarizes our company's long-term debt and operating lease obligations as of September 30, 2003, in thousands of dollars:

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Aggregate amount of principal to be paid on the outstanding long-term debt	$ 131,127	$ 12,449	$ 30,737	$ 61,894	$ 26,047
Future minimum lease payments under noncancelable operating leases	12,919	3,285	5,144	3,932	558
Standby letters of credit	4,060	4,060	—	—	—

As of September 30, 2003, total propane contracts had an outstanding net fair value of $3.1 million, as compared to total propane contracts outstanding with a net fair value (liability) at September 30, 2002 of $(4.7 million). The net change of $7.8 million includes a net increase in fair value of $3.3 million from contracts settled during the 2003 fiscal year period, and a net

increase of $4.5 million from other changes in fair value related to net unrealized gains on contracts still outstanding at the end of fiscal 2003. Of the outstanding fair value as of September 30, 2003, contracts with a maturity of less than one year totaled $3.1 million, and contracts maturing between one and two years totaled less than $0.1 million.

On November 22, 2002, shelf registration statement (File No. 101165) was declared effective by the Securities and Exchange Commission for the periodic sale by us of up to $300 million of Common Units, partnership securities and debt securities, or any combination thereof. Pursuant to the shelf registration statement, we are permitted to issue these securities from time to time for general business purposes, including debt repayment, future acquisitions, capital expenditures and working capital, or for other potential uses identified in a prospectus supplement. In March 2003, we issued 805,000 Common Units, resulting in proceeds of $23.3 million net of underwriter's discount, commission, and offering expenses. Our non-managing general partner contributed $0.5 million in cash to our company in conjunction with the issuance in order to maintain its 2% non-managing general partner interest. No offerings of partnership securities or debt securities under the shelf registration statement have been made since it was declared effective.

We believe that anticipated cash from operations and borrowings under our amended and restated credit facility described below will be sufficient to meet our liquidity needs for the foreseeable future. If our plans or assumptions change or are inaccurate, or we make any acquisitions, we may need to raise additional capital. We may not be able to raise additional funds or may not be able to raise such funds on favorable terms.

Description of Credit Facility

Effective July 30, 2003, Inergy, L.P. executed an Amended and Restated Credit Agreement (the "Amended Facility") with its existing lenders in addition to others. The Amended Facility consists of a $50 million revolving working capital facility and a $150 million revolving acquisition facility. The Amended Facility expires in July 2006 and carries terms, conditions and covenants substantially similar to the previous credit agreement. The Amended Facility is guaranteed by Inergy, L.P. and its subsidiary. The July 2003 amendment has similar interest terms to the previous credit agreement amended in December 2001, and accrues interest at either prime rate or LIBOR plus applicable spreads, resulting in interest rates of between 3.11% and 4.00% at September 30, 2003. At September 30, 2003, borrowings outstanding under the credit facility were $41.0 million, including $15.5 million under the revolving working capital facility. Of the outstanding credit facility balance of $41.0 million, $29.5 million is classified as long-term in the accompanying 2003 consolidated balance sheet. At December 1, 2003, the borrowings outstanding under the credit facility were $73.7 million, including $33.0 million under the revolving working capital facility.

During each fiscal year beginning October 1, the outstanding balance of the revolving working capital facility must be reduced to $4.0 million or less for a minimum of 30 consecutive days during the period commencing March 1 and ending September 30 of each calendar year.

The obligations under the credit facility are secured by first priority liens on all assets of Inergy Propane and its subsidiaries, the pledge of all of Inergy Propane's equity interests in its subsidiaries and by a pledge of our membership interest in Inergy Propane.

Indebtedness under the credit facility bears interest at the option of Inergy Propane at either prime rate or LIBOR (preadjusted for reserves), plus in each case, an applicable margin. The applicable margin varies quarterly based on Inergy Propane's leverage ratio. Inergy Propane will incur a fee based on the average daily unused commitments under the credit facility.

Inergy Propane is required to use 100% of the net cash proceeds (that are not applied to purchase replacement assets) from asset dispositions (other than the sale of inventory and motor vehicles in the ordinary course of business) to reduce borrowings under the credit facility during any fiscal year in which unapplied net cash proceeds are in excess of $5 million. Any such mandatory prepayments are applied first to reduce borrowings under the acquisition facility and then under the working capital facility.

In addition, the credit facility contains various covenants limiting the ability of Inergy Propane and its subsidiaries to (subject to various exceptions), among other things:

- grant or incur liens;
- incur other indebtedness (other than permitted debt, including the senior secured notes which are secured on a pari passu basis);
- make investments, loans and acquisitions;
- enter into a merger, consolidation or sale of assets;
- enter into in any sale-leaseback transaction or enter into any new business;
- issue or modify the terms of any equity or other securities,
- enter into any agreement that conflicts with the credit facility or ancillary agreements;
- make any change in its principles and methods of accounting as currently in effect, except as such changes are permitted by GAAP;
- enter into certain affiliate transactions;
- pay dividends or make distributions if we are in default under the credit agreement;
- permit operating lease obligations to exceed $7.5 million in any fiscal year;
- enter into any debt which contains covenants more restrictive than those of the credit facility;
- enter into put agreements granting put rights with respect to equity interests of Inergy Propane or its subsidiaries; and
- modify their respective organizational documents.

In addition, Inergy, L.P. is prohibited from incurring indebtedness except its guarantee of the credit facility.

Furthermore, the credit facility contains the following financial covenants:

- the ratio of consolidated EBITDA (as defined in the credit facility) to consolidated interest expense (as defined in the credit facility) must be at least 2.5 to 1.0 for any fiscal quarter; and
- the ratio of total funded debt (as defined in the credit facility) to consolidated EBITDA may not exceed 4.75 to 1.0.

Each of the following is an event of default under the credit facility:

- default in payment of principal when due;
- default in payment of interest, fees or other amounts within three days of their due date;
- violation of specified affirmative and negative covenants;
- default in performance or observance of any term, covenant, condition or agreement contained in the credit facility or ancillary agreements;
- specified cross-defaults;
- bankruptcy and other insolvency events of Inergy Propane, its subsidiaries or Inergy, L.P.;
- impairment of the enforceability or the validity of agreements relating to the credit facility;
- judgments exceeding $2.5 million against Inergy Propane, its subsidiaries or Inergy, L.P. are undischarged or unstayed for 30 days;
- certain change of control events; and
- a condition or event occurs that could have a material adverse effect in the reasonable judgment of two-thirds of the credit facility lenders.

On June 7, 2002, we entered into a note purchase agreement with a group of institutional lenders pursuant to which it issued $85.0 million aggregate principal amount of senior secured notes with a weighted average interest rate of 9.07% and a weighted average maturity of 5.9 years. The senior secured notes consist of the following: $35.0 million principal amount of 8.85% senior secured notes with a 5-year maturity, $25.0 million principal amount of 9.10% senior secured notes with a 6-year maturity, and $25.0 million principal amount of 9.34% senior secured notes with a 7-year maturity. The senior secured notes have covenants similar to the credit agreement. The proceeds from the issuance of the senior secured notes were used to repay borrowings under our credit facilities to fund the Independent Propane Company and Pro Gas acquisitions earlier in fiscal 2002.

The notes represent senior secured obligations of our operating company and will rank at least *pari passu* in right of payment with all other present and future senior indebtedness of our operating company. The notes are secured, on an equal and ratable basis with the obligations of the operating company under the credit facility, by (i) a first priority lien on substantially all of the existing and future assets of the operating company and its current and future subsidiaries (as defined in the note purchase agreement), (ii) a lien on all of our existing and future equity and other interests in the operating company and (iii) a lien on all of the operating company's existing and future equity and other interests in each of its current and future subsidiaries.

The senior secured notes are guaranteed by our operating company's subsidiaries, IPCH Acquisition Corp., an affiliate of our managing partner, and us. See "Certain Relationships and Related Transactions" under Item 13. The IPCH Acquisition Corp. guaranty is limited to $35.0 million.

The senior secured notes are redeemable, at our operating company's option, at a purchase price equal to 100% of the principal amount together with accrued interest, plus a make-whole amount determined in accordance with the note purchase agreement.

Recent Accounting Pronouncements

The June 2002 consensus reached on EITF No. 02-3 codifies and reconciles existing guidance on the recognition and reporting of gains and losses on energy trading contracts and addresses other aspects of the accounting for contracts involved in energy trading and risk management activities. Among other things, the consensus requires that mark-to-market gains and losses on energy trading contracts should be shown net in the income statement, irrespective of whether the contract is physically settled. This presentation was effective for financial statements issued for periods ending after July 15, 2002. As such, we have reclassified all settled transactions that meet the definition of trading activities in the income statement to conform to the new presentation required under EITF No. 02-3. We had previously reported these transactions when settled in the income statement at their gross amounts in revenues and cost of product sold. The reclassified amounts for the fiscal years ended September 30, 2002 and 2001 were $69.6 million and $54.2 million, respectively. This required reclassification has no impact on previously reported gross profit, net income (loss) or cash provided by operating activities. Inergy physically delivered approximately 171.2 million and 91.4 million gallons related to transactions considered trading activities as defined by EITF No. 02-3 for the fiscal years ended September 30, 2002 and 2001, respectively.

In October 2002, the EITF reached a consensus in EITF No. 02-3 to rescind EITF No. 98-10, the basis for mark-to-market accounting used for recording energy trading activities by many companies, including ours. The October 2002 EITF consensus requires that all new energy-related contracts entered into subsequent to October 25, 2002 should not be accounted for pursuant to EITF No. 98-10. Instead, those contracts should be accounted for under accrual accounting and would not qualify for mark-to-market accounting unless the contracts meet the requirements stated under Statement of Financial Accounting Standards ("SFAS") No. 133. The October 2002 EITF consensus also provides that inventory will no longer be accounted for using mark-to-market accounting and must be accounted for at the lower of cost or market. Beginning in the first quarter of fiscal 2003, we have elected to use the special hedge accounting rules in SFAS No. 133 and hedge the fair value of certain inventory positions, whereby the hedged

inventory and the related derivative instruments are both marked to market. Inventories purchased under energy contracts subsequent to October 25, 2002, and not otherwise designated as being hedged, as discussed above, are carried at the lower-of-cost or market effective January 1, 2003.

The effective date for the full rescission of EITF No. 98-10 was for fiscal periods beginning after December 15, 2002. The effect of the rescission of EITF No. 98-10 did not have a material impact on our financial position or results of operations.

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities." Interpretation No. 46 requires that the assets, liabilities and results of the activity of variable interest entities be consolidated into the financial statements of the company that has the controlling financial interest. Interpretation No. 46 also provides the framework for determining whether a variable interest entity should be consolidated based on voting interests or significant financial support provided to it. Interpretation No. 46 became effective for us on October 1, 2003 for variable interest entities created prior to February 1, 2003. Our company does not expect the adoption of Interpretation No. 46 to have a material impact on its consolidated financial statements.

SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This statement is effective for the fiscal year ending September 30, 2004. Our company does not expect the adoption of SFAS No. 150 to have a material effect on its consolidated financial statements.

Critical Accounting Policies

Accounting for Price Risk Management. Our company, through its wholesale operations, sells propane to various propane users, retailers, resellers, petrochemical companies, refinery and gas processors and a number of other natural gas liquids (NGL) marketing and distribution companies and offers price risk management services to these customers as part of its marketing and distribution operations. Our wholesale operations also sells propane and offers certain price risk management services as part of our energy trading activities. Derivative financial instruments utilized in connection with these activities are accounted for using the mark-to-market method in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", EITF No. 02-3, "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities", as discussed below. Our overall objective for entering into such derivative financial instruments is to manage our exposure to fluctuations in commodity prices and changes in the fair market value of inventories.

SFAS No. 133 requires recognition of all derivative and hedging instruments in the balance sheets and measures them at fair value. If a derivative does not qualify for hedge accounting, it must be adjusted to fair value through earnings. As of September 30, 2003, certain of our commodity derivative financial instruments have been designated as hedges of inventory position, as defined in SFAS No. 133, both the derivative and related inventory is marked to market. The gain or loss associated with other derivatives has been recognized in earnings.

Under the mark-to-market method of accounting, these pronouncements require that derivative contracts including forwards, swaps, options and storage contracts be reflected at fair value, inclusive of reserves, and be shown in the consolidated balance sheet as assets and liabilities from price risk management activities. Unrealized gains and losses from newly originated contracts, contract restructuring and the impact of price movements have been recognized in cost of products sold. Changes in the assets and liabilities associated with those derivative contracts result primarily from changes in the market prices, newly originated transactions and the timing of settlement relative to the receipt of cash for certain contracts. The market prices used to value these transactions reflect management's best estimate considering various factors including closing exchange and over-the-counter quotations, recent transactions, time value and volatility factors underlying the commitments. The cash flow impact of financial instruments is reflected as cash flows from operating activities in the consolidated statements of cash flows.

In June 2002, a consensus was reached in EITF No. 02-3 which codifies and reconciles existing guidance on the recognition and reporting of gains and losses on energy trading contracts and addresses other aspects of the accounting for contracts involved in energy trading and risk management activities. Among other things, the consensus requires that mark-to-market gains and losses on energy trading contracts should be shown net in the income statement, irrespective of whether the contract is physically settled. This presentation is effective for financial statements issued for periods ending after July 15, 2002. We have reclassified all settled transactions that meet the definition of trading activities net in the income statement to conform to the new presentation required under EITF No. 02-3. We previously reported these transactions when settled in the income statement at their gross amounts in revenues and cost of product sold.

In October 2002, the EITF reached a consensus in EITF No. 02-3 to rescind EITF No. 98-10, the basis for mark-to-market accounting used for recording energy trading activities. The October 2002 EITF consensus requires that all new energy-related contracts entered into subsequent to October 25, 2002 should not be accounted for pursuant to EITF No. 98-10. Instead, those contracts should be accounted for under accrual accounting and would not qualify for mark-to-market accounting unless the contracts meet the requirements stated under SFAS No. 133. The October 2002 EITF consensus also provides that inventory will no longer be accounted for using mark-to-market accounting and must be accounted for at the lower of cost or market. As noted above, we have elected to use the special hedge accounting rules in SFAS No. 133 and hedge the fair value of certain of its inventory positions, whereby the hedged inventory and the related derivative instruments are both marked to market. Inventories purchased under energy contracts subsequent to October 25, 2002, and not otherwise designated as being hedged, as discussed above, are carried at the lower-of-cost or market effective January 1, 2003.

The effective date for the full rescission of EITF No. 98-10 was for quarterly periods beginning after December 15, 2002. The effect of the rescission of EITF No. 98-10 did not have a material impact on Inergy's financial position or results of operations.

Revenue Recognition. Sales of propane are recognized at the time product is shipped or delivered to the customer. Revenue from the sale of propane appliances and equipment is recognized at the time of sale or installation. Revenue from repairs and maintenance is recognized upon completion of the service.

Impairment of Long-Lived Assets. In June 2001, the FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting. Under SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill is subject to at least an annual assessment for impairment by applying a fair-value-based test. Additionally, an acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the acquirer's intent to do so. Those assets will be amortized over their useful lives, other than assets that have an indefinite life. SFAS No. 142 was required to be applied starting with fiscal years beginning after December 15, 2001, with early application permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements had not previously been issued.

We adopted SFAS No. 142 on October 1, 2001 and accordingly discontinued the amortization of goodwill existing at the time of adoption. Under the provisions of Statement No. 142, we completed the valuation of each of our operating segments and determined no impairment existed as of September 30, 2003.

SFAS No. 144 modifies the financial accounting and reporting for long-lived assets to be disposed of by sale and it broadens the presentation of discontinued operations to include more disposal transactions. We implemented SFAS No. 144 beginning in the fiscal year ending July 31, 2003, with no material effect on our financial position, results of operations and cash flows.

Self Insurance. We are insured by third parties, subject to varying retention levels of self-insurance, which management considers prudent. Such self-insurance relates to losses and liabilities primarily associated with workers' compensation claims and general, product and vehicle liability. Losses are accrued based upon management's estimates of the aggregate liability for claims incurred using certain assumptions followed in the insurance industry and based on past experience.

Forward-Looking Statements

This report, including information included or incorporated by reference in this report, contains forward-looking statements concerning the financial condition, results of operations, plans, objectives, future performance and business of our company and its subsidiaries. These forward-looking statements include:

- statements that are not historical in nature, but not limited to, our belief that our acquisition expertise should allow us to continue to grow though acquisitions; our belief that we will have adequate propane supply to support our retail operations; and our belief that our diversification of suppliers will enable us to meet supply needs, and

- statements preceded by, followed by or that contain forward-looking terminology including the words “believes,” “expects,” “may,” “will,” “should,” “could,” “anticipates,” “estimates,” “intends” or similar expressions.

Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- weather conditions;
- price and availability of propane, and the capacity to transport to market areas;
- costs or difficulties related to the integration of the business of our company and its acquisition targets may be greater than expected;
- governmental legislation and regulations;
- local economic conditions;
- labor relations;
- environmental claims;
- competition from the same and alternative energy sources;
- operating hazards and other risks incidental to transporting, storing, and distributing propane;
- energy efficiency and technology trends;
- interest rates; and
- large customer defaults.

We have described under “Factors That May Affect Future Results of Operations, Financial Condition or Business” additional factors that could cause actual results to be materially different from those described in the forward-looking statements. Other factors that we have not identified in this report could also have this effect. You are cautioned not to put undue reliance on any forward-looking statement, which speaks only as of the date it was made.

Factors That May Affect Future Results of Operations, Financial Condition or Business

- We may not be able to generate sufficient cash from operations to allow us to pay the minimum quarterly distribution.
- Since weather conditions may adversely affect the demand for propane, our financial condition and results of operations are vulnerable to, and will be adversely affected by, warm winters.
- If we do not continue to make acquisitions on economically acceptable terms, our future financial performance will be reliant upon internal growth and efficiencies.
- We cannot assure you that we will be successful in integrating our recent acquisitions.

- Sudden and sharp propane price increases that cannot be passed on to customers may adversely affect our profit margins.
- Our indebtedness may limit our ability to borrow additional funds, make distributions to unitholders or capitalize on acquisition or other business opportunities.
- The highly competitive nature of the retail propane business could cause us to lose customers, thereby reducing our revenues.
- If we are not able to purchase propane from our principal supplier, our results of operations would be adversely affected.
- Competition from alternative energy sources may cause us to lose customers, thereby reducing our revenues.
- Our business would be adversely affected if service at our principal storage facilities or on the common carrier pipelines we use is interrupted.
- Terrorist attacks, such as the attacks that occurred on September 11, 2001, have resulted in increased costs, and future war or risk of war may adversely impact our results of operations.
- We are subject to operating and litigation risks that could adversely affect our operating results to the extent not covered by insurance.
- Our results of operations and financial condition may be adversely affected by governmental regulation and associated environmental regulatory costs.
- Energy efficiency and new technology may reduce the demand for propane.
- Due to our lack of asset diversification, adverse developments in our propane business would reduce our ability to make distributions to our unitholders.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

We have long-term debt and a revolving line of credit subject to the risk of loss associated with movements in interest rates. At September 30, 2003, we had floating rate obligations totaling approximately $41.0 million for amounts borrowed under our credit agreement and an additional $35.0 million of floating rate obligations as a result of interest rate swap agreements executed in 2002 as discussed below. These floating rate obligations expose us to the risk of increased interest expense in the event of increases in short-term interest rates.

Our operating company has five interest rate swap agreements designed to hedge $35.0 million of our fixed rate senior secured notes, in order to manage interest rate risk exposure and attempt to reduce overall interest expense. The swap agreements, which expire on the same dates as the maturity dates of the related senior secured notes, require the counterparties to pay us an amount based on the stated fixed interest rate on the notes due every three months. In exchange, our operating company is required to make quarterly floating interest rate payments on the same dates to the counterparties based on an annual interest rate equal to the 3 month LIBOR interest rate plus an average spread of approximately 5.00% applied to the same notional amount of $35.0 million. The swap agreements have been recognized as fair value hedges. Amounts to be received or paid under the agreements are accrued and recognized over the life of the agreements as an adjustment to interest expense. At September 30, 2003, we recognized the approximate $1.3 million increase in the fair market value of the related senior secured notes with a corresponding increase in the fair value of its interest rate swaps, which is recorded in other non-current assets.

The swap agreements have been recognized as fair value hedges. If the floating rate were to increase by 100 basis points from September 2003 levels, our combined interest expense would increase by a total of approximately $0.8 million per year.

Propane Price, Market and Credit Risk

Inherent in our contractual portfolio are certain business risks, including market risk and credit risk. Market risk is the risk that the value of the portfolio will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers or financial counterparties to a contract. We take an active role in managing and controlling market and credit risk and have established control procedures, which are reviewed on an ongoing basis. We monitor market risk through a variety of techniques, including daily reporting of the portfolio's position to senior management. We attempt to minimize credit risk exposure through credit policies and periodic monitoring procedures. The counterparties associated with assets from price risk management activities as of September 30, 2003 and 2002 were propane retailers, resellers and consumers and energy marketers and dealers.

The propane industry is a "margin-based" business in which gross profits depend on the excess of sales prices over supply costs. As a result, our profitability will be sensitive to changes in wholesale prices of propane caused by changes in supply or other market conditions. When there are sudden and sharp increases in the wholesale cost of propane, we may not be able to pass on these increases to our customers through retail or wholesale prices. Propane is a commodity and the price we pay for it can fluctuate significantly in response to supply or other market conditions. We have no control over supply or market conditions. In addition, the timing of cost pass-throughs can significantly affect margins. Sudden and extended wholesale price increases could reduce our gross profits and could, if continued over an extended period of time, reduce demand by encouraging our retail customers to conserve or convert to alternative energy sources.

We engage in hedging transactions, including various types of forward contracts, options, swaps and future contracts, to reduce the effect of price volatility on our product costs, protect the value of our inventory positions, and to help ensure the availability of propane during periods of short supply. We attempt to balance our contractual portfolio by purchasing volumes only when we have a matching purchase commitment from our wholesale customers. However, we may experience net unbalanced positions from time to time which we believe to be immaterial in amount. In addition to our ongoing policy to maintain a balanced position, for accounting purposes we are required, on an ongoing basis, to track and report the market value of our purchase obligations and our sales commitments.

Notional Amounts and Terms

The notional amounts and terms of these financial instruments as of September 30, 2003 and 2002 include fixed price payor for 3.0 million and 3.7 million barrels of propane, respectively, and fixed price receiver for 4.8 million and 5.6 million barrels of propane, respectively. Notional amounts reflect the volume of transactions, but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure our exposure to market or credit risks.

Fair Value

The fair value of the derivative financial instruments related to price risk management activities as of September 30, 2003 and 2002 was assets of $8.9 million and $9.7 million related to propane, respectively, and liabilities of $5.8 million and $14.4 million related to propane, respectively. All intercompany transactions have been appropriately eliminated. The market prices used to value these transactions reflect management's best estimate considering various factors including closing exchange and over-the-counter quotations, recent transactions, time value and volatility factors underlying the commitments. The net change in unrealized gains and losses related to all price risk management activities and propane based financial instruments for the years ended September 30, 2003, 2002 and 2001 of $1.7 million, $(2.0) million and $2.2 million, respectively, are included in cost of product sold in the accompanying consolidated statements of operations.

The following table summarizes the change in the unrealized fair value of our propane contracts related to our risk management activities for the years ended September 30, 2003 and 2002 where settlement has not yet occurred (in thousands of dollars):

	Year Ended September 30, 2003	Year Ended September 30, 2002
Net unrealized gains and (losses) in fair value of contracts outstanding at beginning of period	**$ (4,653)**	$ 4,574
Other unrealized gains and (losses) recognized	**4,479**	(4,040)
Less: realized gains and (losses) recognized	**3,278**	(5,187)
Net unrealized gains and (losses) in fair value of contracts outstanding at September 30, 2003 and 2002	**$ 3,104**	$ (4,653)

Of the outstanding unrealized gain (loss) as of September 30, 2003 and 2002, contracts with a maturity of less than one year totaled $3.1 million and $(4.6) million, respectively. Contracts maturing in excess of one year totaled less than $0.1 million and $(0.1) million, respectively.

Sensitivity Analysis

A theoretical change of 10% in the underlying commodity value would result in an approximate $0.2 million change in the market value of the contracts as there were approximately 3.3 million gallons of net unbalanced positions at September 30, 2003.

Item 8. Financial Statements and Supplementary Data.

Reference is made to the financial statements and report of independent auditors included later in this report under Item 15.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures

Our company's management has evaluated, with the participation of our principal executive and principal financial officers, the effectiveness of our disclosure controls and procedures as of September 30, 2003. Based upon and as of the date of that evaluation, our principal executive and principal financial officers concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported as and when required. It should be noted that any system of disclosure controls and procedures, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any system of disclosure controls and procedures is based in part upon assumptions about the likelihood of future events. Because of these and other inherent limitations of any such system, there can be no assurance that any design will always succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

There has been no change in our company's internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2003 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Our Managing General Partner Manages Inergy, L.P.

Inergy GP, LLC, our managing general partner, manages our operations and activities. Our managing general partner is not elected by our unitholders and will not be subject to re-election on a regular basis in the future. Our managing general partner may not be removed unless that removal is approved by the vote of the holders of not less than 66 2/3% of the outstanding units, including units held by the general partners and their affiliates, and we receive an opinion of counsel regarding limited liability and tax matters. Any removal of the managing general partner is also subject to the approval of a successor managing general partner by the vote of the holders of a majority of the outstanding Common Units and subordinated units, voting as separate classes. Unitholders do not directly or indirectly participate in our management or operation. Our managing general partner owes a fiduciary duty to the unitholders. Our managing general partner is liable, as a general partner, for all of our debts (to the extent not paid from our assets), except for specific nonrecourse indebtedness or other obligations. Whenever possible, our managing general partner intends to incur indebtedness or other obligations that are nonrecourse.

Our managing general partner may appoint two independent directors to serve on a conflicts committee to review specific matters which the board of directors believes may involve conflicts of interest. A conflicts committee will determine if the resolution of any conflict of interest submitted to it is fair and reasonable to us. In addition to satisfying certain other requirements, the members of the conflicts committee must meet the independence standards for service on an audit committee of a board of directors, which standards are established by the Nasdaq stock market. Any matters approved by the conflicts committee will be conclusively deemed to be fair and reasonable to us, approved by all of our partners, and not a breach by our managing general partner of any duties it may owe us or our unitholders. Two members of the board of directors also serve on a compensation committee, which oversees compensation decisions for the officers of Inergy GP, LLC as well as the compensation plans described below. The members of the compensation committee are Warren H. Gfeller and David J. Schulte. In addition, three members of the board of directors serve on an audit committee. The audit committee's primary responsibilities are to monitor: (a) the integrity of our financial reporting process and internal control system; (b) the independence and performance of the outside auditors; and (c) the disclosure controls and procedures established by management. The members of the audit committee must meet the independence standards established by the Nasdaq national market. The members of the audit committee are Warren H. Gfeller, Arthur B. Krause and David J. Schulte. The board of directors of our managing general partner has determined that Mr. Gfeller is an audit committee financial expert. We believe that he is independent of management.

As is commonly the case with publicly-traded limited partnerships, we are managed and operated by our officers and are subject to the oversight of the directors of our managing general partner. The board of directors of our managing general partner is presently composed of six directors.

Directors and Executive Officers

The following table sets forth certain information with respect to the executive officers and members of the board of directors of our managing general partner. Executive officers and directors will serve until their successors are duly appointed or elected.

Executive Officers and Directors	Age	Position with the Managing General Partner
John J. Sherman	48	President, Chief Executive Officer and Director
Phillip L. Elbert	45	Executive Vice President—Operations and Director
David G. Dehaemers	43	Executive Vice President—Corporate Development
R. Brooks Sherman Jr.	38	Senior Vice President and Chief Financial Officer
Dean E. Watson	45	Senior Vice President—Wholesale, Supply Logistics & Transportation
Carl A. Hughes	49	Vice President—Business Development
Laura L. Ozenberger	45	Vice President—General Counsel & Secretary
Warren H. Gfeller	51	Director
Arthur B. Krause	62	Director
David J. Schulte	42	Director
Robert A. Pascal	69	Director

John J. Sherman. Mr. Sherman has served as President, Chief Executive Officer and a director of our managing general partner since March 2001, and of our predecessor from 1997 until July 2001. Prior to joining our predecessor, he was a vice president with Dynegy Inc. from 1996 through 1997. He was responsible for all downstream propane marketing operations, which at the time were the country's largest. From 1991 through 1996, Mr. Sherman was the president of LPG Services Group, Inc., a company he co-founded and grew to become one of the nation's largest wholesale marketers of propane before Dynegy acquired LPG Services in 1996. From 1984 through 1991, Mr. Sherman was a vice president and member of the management committee of Ferrellgas, which is one of the country's largest retail propane marketers.

Phillip L. Elbert. Mr. Elbert has served as Executive Vice President—Operations of our managing general partner since March 2001. He joined our predecessor as Executive Vice President—Operations in connection with our acquisition of the Hoosier Propane Group in January 2001. Mr. Elbert joined the Hoosier Propane Group in 1992 and was responsible for overall operations, including Hoosier's retail, wholesale, and transportation divisions. From 1987 through 1992, he was employed by Ferrellgas, serving in a number of management positions relating to retail, transportation and supply. Prior to joining Ferrellgas, he was employed by Buckeye Gas Products, a large propane marketer from 1981 to 1987.

David G. Dehaemers. Mr. Dehaemers has served as Executive Vice President – Corporate Development since November 2003. Prior to joining Inergy, Mr. Dehaemers served as the Vice President-Corporate Development of Kinder Morgan G.P., Inc. (the general partner of Kinder Morgan Energy Partners, L.P.) and Kinder Morgan, Inc. from 2000 until 2003. He served as Vice President and Chief Financial Officer of Kinder Morgan, Inc. from 1999 until 2000. He served as Vice President, Chief Financial Officer and Treasurer of Kinder Morgan G.P., Inc. from 1997 until 2000.

R. Brooks Sherman, Jr. Mr. Brooks Sherman, Jr. (no relation to Mr. John Sherman) has served as Senior Vice President since September 2002 and Chief Financial Officer of our managing general partner since March 2001. Mr. Sherman previously served as Vice President from March 2001 until September 2002. He joined our predecessor in December 2000 as Vice President and Chief Financial Officer. From 1999 until joining our predecessor, he served as chief financial officer of MCM Capital Group. From 1996 through 1999, Mr. Sherman was employed by National Propane Partners, a publicly traded master limited partnership, first as its controller and chief accounting officer and subsequently as its chief financial officer. From 1995 to 1996, Mr. Sherman served as chief financial officer for Berthel Fisher & Co. Leasing Inc. and prior to 1995, Mr. Sherman was in public accounting with Ernst & Young and KPMG Peat Marwick.

Dean E. Watson. Mr. Watson has served as Senior Vice President of Wholesale, Supply Logistics & Transportation of our managing general partner since September 2002. From 1999 to 2002 he served as President and CEO of Texas Encore Materials. From 1982 to 1999, Mr. Watson worked for Koch Industries. While at Koch, Mr. Watson served in a variety of roles, including President and CEO of Koch Agriculture from 1995 to 1999, President of Koch Nitrogen Company from 1992 to 1995 and Vice President of Koch Carbon, Inc. from 1988 to 1990.

Carl A. Hughes. Mr. Hughes has served as Vice President of Business Development of our managing general partner since March 2001. He joined our predecessor as Vice President of Business Development in 1998. From 1996 through 1998, he served as a regional manager for Dynegy Inc., responsible for propane activities in 17 midwest and northeastern states. From 1993 through 1996, Mr. Hughes served as a regional marketing manager for LPG Services Group. From 1985 through 1992, Mr. Hughes was employed by Ferrellgas where he served in a variety of management positions.

Laura L. Ozenberger. Ms. Ozenberger has served as Vice President - General Counsel & Secretary since February 2003. From 1990 to 2003, Ms Ozenberger worked for Sprint Corporation. While at Sprint, Ms. Ozenberger served in a number of management roles in the Legal and Finance departments, including Assistant Corporate Secretary from 1996 through 2003. Prior to 1996, Ms. Ozenberger was in a private legal practice.

Warren H. Gfeller. Mr. Gfeller has been a member of our managing general partner's board of directors since March 2001. He was a member of our predecessor's board of directors since January 2001 until July 2001. He has engaged in private investments since 1991. From 1984 to 1991, Mr. Gfeller served as president and chief executive officer of Ferrellgas, Inc., a retail and wholesale marketer of propane and other natural gas liquids. Mr. Gfeller began his career with Ferrellgas in 1983 as an executive vice president and financial officer. He also serves as a director of Zapata Corporation.

Arthur B. Krause. Mr. Krause has been a member of our managing general partner's board of directors since May 2003. Mr. Krause retired from Sprint Corporation in 2002, where he served as Executive Vice President and Chief Financial Officer from 1988 to 2002. He was President of United Telephone-Eastern Group from 1986 to 1988. From 1980 to 1986, he was Senior Vice President of United Telephone System. He also serves as a director of Westar Energy and Callnet Enterprises, Inc.

David J. Schulte. Mr. Schulte has been a member of our managing general partner's board of directors since March 2001. He was a member of our predecessor's board of directors from January 2001 until July 2001. He has been a managing director of private equity firm Kansas City Equity Partners since 1994. Prior to joining Kansas City Equity Partners, Mr. Schulte was an investment banker from 1989 to 1994. He also serves as a director of Elecsys Corp.

Robert A. Pascal. Mr. Pascal joined our managing general partner's board of directors in July 2003, upon our acquisition of the assets of United Propane, Inc. As the owner and Chief Executive Officer of United Propane, he has 40 years of industry experience.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our company's directors and executive officers, and persons who own more than 10% of any class of equity securities of our company registered under Section 12 of the Exchange Act, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership in such securities and other equity securities of our company. Securities and Exchange Commission regulations require directors, executive officers and greater than 10% unitholders to furnish our company with copies of all Section 16(a) reports they file.

To our company's knowledge, based solely on review of the copies of such reports furnished to our company and written representations that no other reports were required, during the fiscal year ended September 30, 2003, all Section 16(a) filing requirements applicable to our directors, executive officers and greater than 10% unitholders were complied with, except that William C. Gautreaux and Carl A. Hughes each were late in filing one statement of changes in beneficial ownership on Form 4, resulting in one purchase transaction not being reported on a timely basis for each of them. In addition, John J. Sherman was late in filing two statements of changes in beneficial ownership on Form 4, resulting in a total of two purchase transactions not being reported on a timely basis. Mr. Sherman's late filings were the result of transactions with respect to Junior and Senior Subordinated Units.

Code of Ethics

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions, as well as to all of our other employees. This code of ethics may be found on our website at www.inergypropane.com.

Item 11. Executive Compensation.

Executive Compensation

The following table sets forth for the periods indicated, the compensation paid or accrued (by Inergy, L.P., its predecessor and our managing general partner) to the chief executive officer of our managing general partner and five other executive officers for services rendered to Inergy, L.P. and its subsidiaries. In this report, we refer to these six individuals as the "named executive officers."

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation			Long Term Compensation Awards	All Other Compensation (3)
		Salary (1)	Bonus	Other Annual Compensation (2)	Securities Underlying Options	
John. J. Sherman	2003	$ 250,000	$ 150,000	$ —	—	$ —
President and Chief Executive Officer	2002	$ 250,000	$ 150,000	$ —	—	$ —
	2001	$ 175,000	$ 200,000	$ —	—	$ —
Phillip L. Elbert	2003	$ 200,000	$ 100,000	$ —	—	$ —
Executive Vice President Operations	2002	$ 200,000	$ 100,000	$ —	—	$ —
	2001	$ 115,160	$ 112,500	$ —	55,500	$ —
R. Brooks Sherman, Jr.	2003	$ 170,000	$ 100,000	$ —	—	$ —
Senior Vice President and Chief Financial Officer	2002	$ 143,750	$ 75,000	$ —	10,000	$ —
	2001	$ 98,958	$ 158,333	$ —	27,750	$ 63,275

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Name and Principal Position	Fiscal Year	Annual Compensation			Long Term Compensation Awards	
		Salary (1)	Bonus	Other Annual Compen-sation (2)	Securities Underlying Options	All Other Compen-sation (3)
Dean E. Watson	2003	$ 180,000	$ 90,000	$ —	—	$ —
Senior Vice President-	2002	$ 15,000	$ —	$ —	37,500	$ —
Wholesale, Supply, Logistics & Transportation	2001	$ —	$ —	$ —	—	$ —
William C. Gautreaux	2003	$ 135,000	$ 100,000	$ —	—	$ —
Vice President-Supply	2002	$ 135,000	$ 100,000	$ —	—	$ —
	2001	$ 108,542	$ 244,000	$ —	27,750	$ —
Carl A. Hughes	2003	$ 125,000	$ 75,000	$ —	—	$ —
Vice President-	2002	$ 125,000	$ 125,000	$ —	—	$ —
Business Development	2001	$ 97,917	$ 228,320	$ —	38,850	$ —

(1) Salaries for Mr. Phil Elbert and Mr. Brooks Sherman in fiscal 2001 represent the pro rata portion of their annual salaries from the dates of the beginning of their employment with us on January 12, 2001 and December 3, 2000, respectively. Salary for Mr. Dean Watson in fiscal 2002 represents the pro rata portion of his annual salary from the date of his employment with us on September 2, 2002.

(2) Excludes perquisites and other benefits, unless the aggregate amount of such compensation is equal to the lesser of $50,000 or 10% of the total annual salary and bonus reported for the named executive officer.

(3) " All Other Compensation**"** for Mr. R. Brooks Sherman, Jr. in fiscal 2001 represents reimbursement of relocation expenses.

There were no grants of unit options to a named executive officer during fiscal 2003.

The following table sets forth information with respect to each named executive officer concerning the number and value of exercisable and unexercisable unit options held as of September 30, 2003.

Aggregated Option/SAR Exercises in last Fiscal Year and September 30, 2003 Option Values

Name	Units Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at September 30, 2003		Value of Unexercised In-the-Money Options at September 30, 2003 (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
John J. Sherman	—	—	—	—	—	—
Phillip L. Elbert	—	—	—	55,500	—	$ 1,065,600
R. Brooks Sherman, Jr.	—	—	—	37,750	—	$ 650,400
Dean E. Watson	—	—	—	37,500	—	$ 446,250
William C. Gautreaux	—	—	—	27,750	—	$ 532,800
Carl A. Hughes	—	—	—	38,850	—	$ 745,920

(1) Based on the $41.20 per unit fair market value of our company's Common Units on September 30, 2003, the last trading day of fiscal 2003, less the option exercise price.

Employment Agreements

The following named executive officers have entered into employment agreements with our company:

- John J. Sherman, President and Chief Executive Officer;
- Phillip L. Elbert, Executive Vice President—Operations;
- R. Brooks Sherman, Jr., Senior Vice President—Chief Financial Officer;
- Dean E. Watson, Senior Vice President—Wholesale, Supply & Transportation;
- William C. Gautreaux, Vice President—Supply
- Carl A. Hughes, Vice President—Business Development.

The following is a summary of the material provisions of these employment agreements, each of which is incorporated by reference herein as an exhibit to this report.

All of these employment agreements are substantially similar, with certain exceptions as set forth below. The employment agreements are for terms of three or five years. The annual salaries for these individuals are as follows:

• John J. Sherman	$ 250,000
• Phillip L. Elbert	$ 200,000
• R. Brooks Sherman, Jr	$ 170,000
• Dean E. Watson	$ 180,000
• William C. Gautreaux	$ 135,000
• Carl A. Hughes	$ 125,000

These employees are reimbursed for all expenses in accordance with the managing general partner's policies. They are also eligible for fringe benefits normally provided to other members of executive management and any other benefits agreed to by the managing general partner. Each of these employees is eligible to participate in the Inergy Long Term Incentive Plan.

With the exception of Mr. John Sherman, each of these individuals is entitled to performance bonuses upon our attaining certain levels of distributable cash flow on an annual basis for each year during the term of his employment.

Some of the employment agreements provide for additional bonuses conditioned upon the conversion of subordinated units into Common Units. Messrs. Gautreaux and Hughes will be entitled to bonuses in the amount of $300,000 and $400,000, respectively, at the end of the subordination period for the Junior Subordinated Units. Messrs. Brooks Sherman and Elbert will be entitled to bonuses in the amounts of $200,000 and $500,000, respectively, payable upon, and in the same proportion as the conversion of Senior and Junior Subordinated Units into Common Units. Mr. Watson will be entitled to a bonus in the amount of $400,000 payable upon Inergy paying four consecutive quarterly distributions to all unitholders in an amount equal to at least $0.90 per quarter. Finally, Mr. John Sherman may receive performance bonuses at the discretion of the board of directors and will be entitled to a bonus in the amount of $625,000 at the end of the subordination period for the Junior Subordinated Units. The subordination period generally will not end earlier than June 30, 2006 with respect to the Senior Subordinated Units and June 30, 2008 with respect to the Junior Subordinated Units.

Unless waived by the managing general partner, in order for any of these individuals to receive any benefits under (i) the Inergy Long Term Incentive Plan, (ii) the performance bonus based on target distributable cash flow, or (iii) the bonus tied to the expiration of the subordination period for the Junior Subordinated Units or meeting certain quarterly distribution amounts, the individual must have been continuously employed by the managing general partner or one of our affiliates from the date of his employment agreement up to the date for determining eligibility to receive such amounts.

Each employment agreement contains confidentiality and noncompetition provisions. Also, each employment agreement contains a disclosure and assignment of inventions clause that requires the employee to disclose the existence of any invention and assign such employee's right in such invention to the managing general partner.

With respect to Mr. John Sherman, Mr. Elbert, Mr. Brooks Sherman, Mr. Watson, Mr. Gautreaux and Mr. Hughes, in the event that the operating company terminates such person's employment without cause, the operating company will be required to continue making payments to such person for the remainder of the term of such person's employment agreement.

In addition to their employment agreements, Mr. Elbert and Mr. Brooks Sherman each has entered into an option contract with Inergy Holdings under which Inergy Holdings has granted them the right and option to invest in Inergy Holdings. Mr. Elbert has the right to exercise an option for a percentage interest in Inergy Holdings equal to 7.6%, subject to adjustment. Mr. Sherman has the right to exercise an option for a percentage interest in Inergy Holdings equal to 3.6%, subject to adjustment.

Pursuant to the partnership agreement, we will reimburse Inergy Holdings or its affiliates for all expenses of the employment of these individuals related to our activities.

Long-Term Incentive Plan

Our managing general partner sponsors the Inergy Long-Term Incentive Plan for its directors, consultants and employees and the employees and consultants of its affiliates who perform services for us. The summary of the long-term incentive plan contained herein does not purport to be complete but outlines its material provisions. The long-term incentive plan currently permits the grant of awards covering an aggregate of 867,550 Common Units which are granted in the form of unit options and/or restricted units; however not more than 282,500 restricted units may be granted under the plan. Through December 1, 2003, we have granted an aggregate of 538,532 unit options pursuant to the Inergy Long-Term Incentive Plan. We have not granted any restricted units pursuant to the Long-Term Incentive Plan. The plan is administered by the compensation committee of the managing general partner's board of directors.

Restricted Units. A restricted unit is a "phantom" unit that entitles the grantee to receive a common unit upon the vesting of the restricted unit, or in the discretion of the compensation committee, the cash equivalent to the value of a common unit. The compensation committee may make grants under the plan to employees and directors containing such terms as the compensation committee shall determine under the plan. In general, restricted units granted to employees will vest three years from the date of grant; provided, however, that restricted units will not vest before the conversion of any Senior Subordinated Units and will only vest upon, and in the same proportion as, the conversion of Senior Subordinated Units into Common Units. In addition, the restricted units will vest upon a change of control of the managing general partner or us.

If a grantee's employment or membership on the board of directors terminates for any reason, the grantee's restricted units will be automatically forfeited unless, and to the extent, the compensation committee provides otherwise. Common Units to be delivered upon the vesting of restricted units may be Common Units acquired by the managing general partner in the open

market, Common Units already owned by the managing general partner, Common Units acquired by the managing general partner directly from us or any other person or any combination of the foregoing. The managing general partner will be entitled to reimbursement by us for the cost incurred in acquiring Common Units. If we issue new Common Units upon vesting of the restricted units, the total number of Common Units outstanding will increase. Following the subordination period, the compensation committee, in its discretion, may grant tandem distribution equivalent rights with respect to restricted units. Distribution equivalent rights entitle the holder to receive "distributions" with respect to the restricted unit in the same amount as if the holder owned a common unit.

We intend the issuance of the Common Units pursuant to the restricted unit portion of the long-term incentive plan to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation of the Common Units. Therefore, plan participants will not pay any consideration for the Common Units they receive, and we will receive no remuneration for such units.

Unit Options. The long-term incentive plan currently permits, and our managing general partner has made, grants of options covering Common Units. Pursuant to the plan, the compensation committee determines which employees and directors shall be granted options and the number of units that will be granted to such individual. Unit options will have an exercise price equal to the fair market value of the units on the date of grant. In general, unit options granted will become exercisable over a period determined by the compensation committee; provided, however, unit options will not vest before the conversion of any Senior Subordinated Units and will only vest upon, and in the same proportion as, the conversion of Senior Subordinated Units into Common Units. In addition, under most unit option grants, the unit options will become exercisable upon a change of control of the managing general partner or us. Generally, unit options will expire after 10 years.

Upon exercise of a unit option, the managing general partner will acquire Common Units in the open market, or directly from us or any other person, or use Common Units already owned by the managing general partner, or any combination of the foregoing. The managing general partner will be entitled to reimbursement by us for the difference between the cost incurred by the managing general partner in acquiring these Common Units and the proceeds received by the managing general partner from an optionee at the time of exercise. Thus, the cost of the unit options will be borne by us. If we issue new Common Units upon exercise of the unit options, the total number of Common Units outstanding will increase and the managing general partner will pay us the proceeds it received from the optionee upon exercise of the unit options. The unit option plan has been designed to furnish additional compensation to employees and directors and to align their economic interests with those of common unitholders.

Termination and Amendment. The managing general partner's board of directors in its discretion may terminate the long-term incentive plan at any time with respect to any Common Units for which a grant has not yet been made. The managing general partner's board of directors also has the right to alter or amend the long-term incentive plan or any part of the plan from time to time, including increasing the number of Common Units with respect to which awards may be granted subject to unitholder approval as required by the exchange upon which the Common Units are listed at that time. However, no change in any outstanding grant may be made that would materially impair the rights of the participant without the consent of the participant.

Unit Purchase Plan

Our managing general partner sponsors a unit purchase plan for its employees and the employees of its affiliates. The unit purchase plan permits participants to purchase Common Units in market transactions from us, our general partners or any other person. All purchases made have been in market transactions, although our plan allows us to issue additional units. We have reserved 50,000 units for purchase under the unit purchase plan. As determined by the compensation committee, the managing general partner may match each participant's cash base pay or salary deferrals by an amount up to 10% of such deferrals and have such amount applied toward the purchase of additional units. The managing general partner has also agreed to pay the brokerage commissions, transfer taxes and other transaction fees associated with a participant's purchase of Common Units. The maximum amount that a participant may elect to have withheld from his or her salary or cash base pay with respect to unit purchases in any calendar year may not exceed 10% of his or her base salary or wages for the year. Units purchased on behalf of a participant under the unit purchase plan generally are to be held by the participant for at least one year. To the extent a participant desires to sell or dispose of such units prior to the end of this one year holding period, the participant will be ineligible to participate in the unit purchase plan again until the one year anniversary of the date of such sale. The unit purchase plan is intended to serve as a means for encouraging participants to invest in our Common Units. Units purchased through the unit purchase plan for the fiscal years ended September 30, 2003 and 2002 were 5,138 units and 1,640 units, respectively. No units were purchased through the plan prior to fiscal year 2002.

Reimbursement of Expenses of the Managing General Partner

Our managing general partner does not receive any management fee or other compensation for its management of Inergy, L.P. Our managing general partner and its affiliates are reimbursed for expenses incurred on our behalf. These expenses include the costs of employee, officer and director compensation and benefits properly allocable to Inergy, L.P. and all other expenses necessary or appropriate to the conduct of the business of, and allocable to, Inergy, L.P. Our partnership agreement provides that our managing general partner will determine the expenses that are allocable to Inergy, L.P. in any reasonable manner determined by our managing general partner in its sole discretion.

Compensation of Directors

Officers of our managing general partner who also serve as directors will not receive additional compensation. In connection with our initial public offering, Mr. Gfeller and Mr. Schulte each received an option under our long term incentive plan for 22,200 Common Units at an exercise price equal to the initial public offering price. Upon joining the board of directors, Mr. Krause received an option under our long-term incentive plan for 20,000 Common Units at an exercise price equal to the closing trading price on the Nasdaq national market of our Common Units on the granting date. In addition, each director receives cash compensation of $18,000 per year for attending our regularly scheduled quarterly board meetings. Each non-employee director receives $1,000 for each special meeting of the board of directors attended. Non-employee directors receive $500 per compensation or audit committee meeting attended

and $1,000 per conflicts committee meeting attended. Each non-employee director is reimbursed for out-of-pocket expenses in connection with attending meetings of the board of directors or committees. Each director is fully indemnified for actions associated with being a director to the extent permitted under Delaware law.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee of the Board of Directors of our managing general partner oversees the compensation of our executive officers. Warren H. Gfeller and David J. Schulte serve as the members of the Compensation Committee, and neither of them was an officer or employee of our company or any of its subsidiaries during fiscal 2003.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Unitholder Matters.

The following table sets forth certain information as of December 1, 2003 regarding the beneficial ownership of our company's units by:

- each person who then beneficially owned more than 5% of such units then outstanding,
- each of the named executive officers of our managing general partner,
- all of the directors of our managing general partner, and
- all of the directors and executive officers of our managing general partner as a group.

All information with respect to beneficial ownership has been furnished by the respective directors, officers or 5% or more unitholders, as the case may be.

Name of Beneficial Owner (1)	Common Units Beneficially Owned	Percentage of Common Units Beneficially Owned	Senior Subordinated Units Beneficially Owned	Percentage of Senior Subordinated Units Beneficially Owned	Junior Subordinated Units Beneficially Owned	Percentage of Junior Subordinated Units Beneficially Owned	Percentage of Total Units Beneficially Owned (10)
Inergy Holdings, LLC (2)	404,601	7.3%	922,761	25.9%	487,962	85.2%	20.4%
United Propane, Inc. (3) 28 Floral Avenue Key West, FL 33040	889,906	16.1%	254,259	7.1%		0.0%	11.6%
Country Partners, Inc. (4) 4010 Highway 14 Crystal Lake, IL 60014	—	—	409,091	11.5%	—	—	4.1%
KCEP Ventures II, L.P. (5) 253 West 47th Street Kansas City, MO 64112	—	—	395,454	11.1%	—	—	4.0%
Hoosier Propane Group (6) P.O. Box 9 Kendallville, IN 46755	—	—	336,456	9.4%	—	—	3.4%
Rocky Mountain Mezzanine Fund (7) 1125 17th Street Suite 2260 Denver, CO 80202	—	—	241,818	6.8%	—	—	2.5%
John J. Sherman (8)	405,182	7.3%	922,761	25.9%	487,962	85.2%	20.4%
Phillip L. Elbert (6)	9,000	*	—	—	—	—	*
R. Brooks Sherman Jr.	1,275	*	—	—	—	—	*
Dean E. Watson	202	*	—	—	—	—	*
William C. Gautreaux	14,790	*	—	—	—	—	*
Carl A. Hughes	313	*	—	—	—	—	*
Warren H. Gfeller (9)	—	—	6,364	*	—	—	*
Arthur B. Krause	—	—	—	—	—	—	—
Robert A. Pascal (3)	889,906	16.1%	254,259	7.1%	—	—	11.6%
David J. Schulte (5)	1,000	*	395,454	11.1%	—	—	4.0%
All directors and executive officers as a group (11 persons)	1,306,905	23.7%	1,578,838	44.3%	487,962	85.2%	36.2%

* less than 1%

(1) Unless otherwise indicated, the address of each person listed above is: Two Brush Creek Boulevard, Suite 200, Kansas City, Missouri 64112. All persons listed have sole voting power and investment power with respect to their units unless otherwise indicated.

(2) The Senior and Junior Subordinated Units indicated as beneficially owned by Inergy Holdings are held by New Inergy Propane, LLC, a wholly-owned subsidiary of Inergy Partners, LLC and an indirect subsidiary of Inergy Holdings. Of the Common Units indicated as beneficially owned by Inergy Holdings, 10,000 units are held by Inergy Partners, LLC and 394,601 units are held by IPCH Acquisition Corp. a wholly-owned subsidiary of Inergy Holdings.

(3) United Propane, Inc. owns 889,906 Common Units and 254,259 Senior Subordinated Units. Mr. Pascal in his capacity as the sole shareholder of United Propane may be deemed to beneficially own these units.

(4) Country Partners, Inc. (formerly Country Gas Company, Inc.) is controlled by Arlene Peterson and the estate of Leonard Peterson.

(5) KCEP Ventures II, LP ("KCEP II") owns 395,454 Senior Subordinated Units. KCEP II is a Missouri limited partnership. Mr. Schulte in his capacity as a managing director of KCEP II may be deemed to beneficially own these units. Mr. Schulte disclaims beneficial ownership of these units.

(6) The Hoosier Propane Group consisted of Domex, Inc., Investors, Inc. and L&L Leasing, Inc., each of which was merged into DIL, Inc. (collectively, the "Hoosier Entities"). Each of Jerry Boman, Glen Cook and Wayne Cook own 31.8% of the Hoosier Entities. Mr. Elbert, one of our executive officers and directors, holds the remaining ownership interest in the Hoosier Entities. He disclaims beneficial ownership of the units held by the Hoosier Entities.

(7) Edward C. Brown in his capacity as managing partner of Rocky Mountain Capital Partners, LLP, the general partner of Rocky Mountain Mezzanine Fund, may be deemed to beneficially own these units. Mr. Brown disclaims beneficial ownership of the units held by Rocky Mountain Mezzanine Fund.

(8) Mr. Sherman holds an ownership interest in and has voting control of Inergy Holdings, as indicated in the following table, and therefore may be deemed to beneficially own the units held by Inergy Holdings.

(9) Mr. Gfeller in his capacity as managing member of Clayton-Hamilton, LLC may be deemed to beneficially own 6,364 units held by Clayton-Hamilton.

(10) The percentage of total units beneficially owned includes the 2% implied units of the non-managing general partner.

The following table shows the beneficial ownership as of December 1, 2003 of Inergy Holdings, LLC of the directors and named executive officers of the managing general partner. As reflected above, Inergy Holdings owns our managing general partner, non-managing general partner, the incentive distribution rights and, through a subsidiary, approximately 20% of our outstanding units.

Name of Beneficial Owner (1)	Inergy Holdings, LLC Percent of Class (2)
John J. Sherman	65.8%
Phillip L. Elbert (3)	—
R. Brooks Sherman Jr. (4)	—
Dean E. Watson	—
William C. Gautreaux	7.5%
Carl A. Hughes	7.2%
Warren H. Gfeller	—
Arthur B. Krause	—
Robert A. Pascal	—
David J. Schulte	—
All directors and executive officers as a group (11 persons) (5)	74.5%

(1) The address of each person listed above is Two Brush Creek Boulevard, Suite 200, Kansas City, Missouri 64112.

(2) The ownership of Inergy Holdings has not been certificated. Voting rights attach only to Mr. John Sherman's ownership interest. In the event Mr. John Sherman's ownership fails to exceed 50%, the remaining owners of Inergy Holdings will acquire voting rights in proportion to the ownership interest.

(3) Mr. Phil Elbert holds an option to acquire 7.6% of Inergy Holdings, which option is subject to the terms of the Inergy Holdings, LLC Employee Option Plan. The option vests fully on January 12, 2006 and upon a sale of control as defined in the plan. The option vests 20% each year in the event Mr. Elbert's employment terminates as a result of his death, disability or termination without cause (as defined in Mr. Elbert's employment agreement). Mr. Elbert's option expires on January 12, 2011. In the event Mr. Elbert exercises his option, the respective ownership interests of the persons listed above will be reduced on a pro rata basis.

(4) Mr. Brooks Sherman, Jr. holds an option to acquire 3.6% of Inergy Holdings, which option is subject to the terms of the Inergy Holdings, LLC Employee Option Plan. The option vests fully on December 31, 2006 and upon a sale of control as defined in the plan. The option vests 20% each year in the event Mr. Sherman's employment terminates as a result of his death, disability or termination without cause (as defined in Mr. Sherman's employment agreement). Mr. Sherman's option expires on September 11, 2012. In the event Mr. Sherman exercises his option, the respective ownership interests of the persons listed above will be reduced on a pro rata basis.

(5) Our management holds a total interest of approximately 92% in Inergy Holding, LLC.

We refer you to Item 5 of this report for certain information regarding securities authorized for issuance under equity compensation plans.

Item 13. Certain Relationships and Related Transactions.

Related Party Transactions

On July 31, 2003, we acquired substantially all of the propane assets of United Propane, Inc. In exchange for these assets, we issued 889,906 Common Units and 254,259 Senior Subordinated Units, paid approximately $2.7 million in cash for inventory, accounts receivable, and other current assets, and assumed approximately $5.0 million of United Propane's liabilities. We filed a registration statement related to these 889,906 Common Units on August 29, 2003 and it was declared effective by the SEC on September 12, 2003.

Pursuant to a Unitholder Agreement with us, United Propane agreed that for a three-year period it would vote 508,518 of the Common Units it holds in favor of and in accordance with the recommendation of the majority of our managing general partner's board of directors. United Propane also agreed, during this three-year period, to give us a right of first refusal with respect to those same Common Units.

Robert A. Pascal is the sole shareholder of United Propane and is on our managing general partner's board of directors.

Distributions and Payments to the Managing General Partner and the Non-managing General Partner

Distributions and payments are made by us to our managing general partner and its affiliates in connection with the ongoing operation of Inergy, L.P. These distributions and payments were determined by and among affiliated entities and are not the result of arm's length negotiations.

Cash distributions will generally be made 98% to the unitholders, including affiliates of the managing general partner as holders of Common Units and Senior and Junior Subordinated Units, and 2% to the non-managing general partner. In addition, if distributions exceed the target levels in excess of the minimum quarterly distribution, Inergy Holdings will be entitled to receive increasing percentages of the distributions, up to 48% of the distributions above the highest target level.

Assuming we have sufficient available cash to pay the full minimum quarterly distribution on all of our outstanding units for four quarters, our non-managing general partner and its affiliates would receive a distribution of approximately $473,268 on the 2% general partner interest and a distribution of approximately $4,356,778 on their Common, Senior Subordinated and Junior Subordinated Units.

Our managing general partner and its affiliates will not receive any management fee or other compensation for the management of our company. Our managing general partner and its affiliates will be reimbursed, however, for direct and indirect expenses incurred on our behalf. For the fiscal year ended September 30, 2003, the expense reimbursement to our managing general partner and its affiliates was approximately $2.1 million.

If our managing general partner withdraws in violation of the partnership agreement or is removed for cause, a successor general partner has the option to buy the general partner interests and incentive distribution rights from our non-managing general partner for a cash price equal to fair market value. If our managing general partner withdraws or is removed under any other circumstances, our non-managing general partner has the option to require the successor general partner to buy its general partner interests and incentive distribution rights for a cash price equal to fair market value.

If either of these options is not exercised, the general partner interests and incentive distribution rights will automatically convert into Common Units equal to the fair market value of those interests. In addition, we will be required to pay the departing general partner for expense reimbursements.

Upon our liquidation, the partners, including our non-managing general partner, will be entitled to receive liquidating distributions according to their particular capital account balances.

Rights of our Managing General Partner and our Non-managing General Partner

Inergy Holdings owns an aggregate 20% interest in us inclusive of ownership of all of our non-managing general partner and our managing general partner. Our managing general partner manages our operations and activities.

Contribution Agreement

Inergy, L.P., the managing general partner, the non-managing general partner and some other parties have entered into a contribution agreement that effected the vesting of assets in, and the assumption of liabilities by, the subsidiaries, and the application of the proceeds of our initial public offering. This agreement was not the result of arm’s length negotiations, and we cannot assure you that it, or that any of the transactions which it provides for, will be effected on terms at least as favorable to the parties to this agreement as they could have been obtained from unaffiliated third parties. All of the transaction expenses incurred in connection with these transactions, including the expenses associated with vesting assets into our subsidiaries, were paid from the proceeds of our initial public offering.

Item 14. Principal Accountant Fees and Services

Principal Accountant Fees and Service disclosure is effective for filings related to fiscal years ending after December 15, 2003, and therefore is not applicable to this filing.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) Exhibits, Financial Statements and Financial Statement Schedules:

1. Financial Statements:

See Index Page for Financial Statements located on page 60.

2. Financial Statement Schedules:

Valuation and Qualifying Accounts

Other financial statement schedules have been omitted because they either are not required, are immaterial or are not applicable or because equivalent information has been included in the financial statements, the notes thereto or elsewhere herein.

3. Exhibits:

Exhibit No.	Description
*3.1	Certificate of Limited Partnership of Inergy, L.P. (incorporated herein by reference to Exhibit 3.1 to Inergy, L.P.'s Registration Statement on Form S-1 (Registration No. 333-56976) filed on March 14, 2001)
*3.1A	Certificate of Correction of Certificate of Limited Partnership of Inergy, L.P. (incorporated herein by reference to Exhibit 3.1 to Inergy, L.P.'s Form 10-Q (Registration No. 000-32543) filed on May 12, 2003.)
*3.2	Form of Amended and Restated Agreement of Limited Partnership of Inergy, L.P. (incorporated herein by reference to Exhibit 3.1 to Inergy, L.P.'s Registration Statement on Form S-1 (Registration No. 333-56976) filed on March 14, 2001)
*3.2A	Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Inergy, L.P. (incorporated herein by reference to Exhibit 3.2A to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-89010) filed on June 13, 2002)
*3.3	Certificate of Formation as relating to Inergy Propane, LLC, as amended (incorporated herein by reference to Exhibit 3.3 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-56976) filed on May 7, 2001)
*3.4	Third Amended and Restated Limited Liability Company Agreement of Inergy Propane, LLC, dated as of July 31, 2001 (incorporated herein by reference to Exhibit 3.4 to Inergy, L.P.'s Registration Statement on Form S-1 (Registration No. 333-89010 filed on May 24, 2002)

*3.5	Certificate of Formation of Inergy GP, LLC (incorporated herein by reference to Exhibit 3.5 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-56976) filed on May 7, 2001)
*3.6	Limited Liability Company Agreement of Inergy GP, LLC (incorporated herein by reference to Exhibit 3.6 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-56976) filed on May 7, 2001)
*3.7	Certificate of Formation as relating to Inergy Partners, LLC, as amended (incorporated herein by reference to Exhibit 3.7 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-56976) filed on May 7, 2001)
*3.8	Second Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated as of July 31, 2001 (incorporated herein by reference to Exhibit 3.8 to Inergy, L.P.'s Registration Statement on Form S-1 (Registration No. 333-89010 filed on May 24, 2002)
*4.1	Specimen Unit Certificate for Senior Subordinated Units (incorporated herein by reference to Exhibit 4.1 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-56976) filed on May 7, 2001)
*4.2	Specimen Unit Certificate for Junior Subordinated Units (incorporated herein by reference to Exhibit 4.2 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-56976) filed on May 7, 2001)
*4.3	Specimen Unit Certificate for Common Units (incorporated herein by reference to Exhibit 4.3 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-56976) filed on May 7, 2001.)
*4.4	Note Purchase Agreement entered into as of June 7, 2002, by Inergy Propane, LLC and the purchasers named therein (incorporated herein by reference to Exhibit 4.4 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-89010) filed on June 13, 2002)
*4.5	Parent Guaranty dated as of June 7, 2002, by Inergy, L.P. in favor of the noteholders named therein (incorporated herein by reference to Exhibit 4.5 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-89010) filed on June 13, 2002)
*4.6	Limited Guaranty dated as of June 7, 2002, by IPCH Acquisition Corp. in favor of the noteholders named therein (incorporated herein by reference to Exhibit 4.6 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-89010) filed on June 13, 2002)

*4.7	Subsidiary Guaranty dated as of June 7, 2002, by the guarantors named therein in favor of the noteholders named therein (incorporated herein by reference to Exhibit 4.7 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-89010) filed on June 13, 2002)
**10.1	Fifth Amended and Restated Credit Agreement by and among Inergy Propane, LLC and the lenders named therein, dated as of July 30, 2003
*10.2	Securities Purchase Agreement by and among Inergy Partners, LLC and various investors, dated as of January 12, 2001 (incorporated herein by reference to Exhibit 10.3 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-56976) filed on May 7, 2001)
*10.3	Investor Rights Agreement by and among Inergy Partners, LLC and various investors, dated as of January 12, 2001 (incorporated herein by reference to Exhibit 10.4 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-56976) filed on May 7, 2001)
*10.4	Inergy Employee Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.6 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-56976) filed on July 2, 2001) ***
*10.4A	Amendment to Inergy Employee Long-Term Incentive Plan, adopted April 4, 2003. (incorporated herein by reference to Exhibit 10.1 to Inergy, L.P.'s Form 10-Q (Registration No. 000-32543) filed on May 12, 2003) ***
*10.5	Employment Agreement—John J. Sherman (incorporated herein by reference to Exhibit 10.8 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-56976) filed on July 2, 2001) ***
*10.6	Employment Agreement—Phillip L. Elbert (incorporated herein by reference to Exhibit 10.9 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-56976) filed on May 7, 2001) ***
*10.6A	First Amendment to Employment Agreement—Phillip L. Elbert (incorporated herein by reference to Exhibit 10.9A to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-56976) filed on July 20, 2001) ***
*10.7	Employment Agreement—Carl A. Hughes (incorporated herein by reference to Exhibit 10.10 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-56976) filed on July 2, 2001) ***
*10.8	Employment Agreement—William C. Gautreaux (incorporated herein by reference to Exhibit 10.12 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-56976) filed on July 2, 2001 ***
*10.9	Intercreditor and Collateral Agency Agreement entered into as of June 7, 2002, by and among Wachovia Bank, National Association, the lenders named therein and the

	noteholders named therein (incorporated herein by reference to Exhibit 10.19 to Inergy, L.P.'s Registration Statement on Form S-1/A (Registration No. 333-89010) filed on June 13, 2002)
*10.10	Option Agreement by and between Phillip L. Elbert and Inergy Holdings, LLC, dated January 12, 2001 (incorporated herein by reference to Exhibit 10.19 to Inergy, L.P.'s Form 10-K (Registration No. 000-32453) filed on December 26, 2002)***
*10.11	Employment Agreement – R. Brooks Sherman (incorporated herein by reference to Exhibit 10.20 to Inergy, L.P.'s Form 10-K (Registration No. 000-32453) filed on December 26, 2002)***
*10.12	Option Agreement by and between R. Brooks Sherman and Inergy Holdings, LLC, dated September 11, 2002 (incorporated herein by reference to Exhibit 10.21 to Inergy, L.P.'s Form 10-K (Registration No. 000-32453) filed on December 26, 2002) ***
**10.13	Employment Agreement – Dean E. Watson ***
**12.1	Ratios of earnings to fixed charges
**14.1	Inergy's Code of Business Conduct & Ethics
**21.1	List of subsidiaries of Inergy, L.P.
**23.1	Consent of Ernst & Young LLP
**31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
**31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
**32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Previously filed
** Filed herewith
*** Management contracts or compensatory plans or arrangements required to be identified by Item 15(a).

(b) Reports on Form 8-K. Our company filed three reports on Form 8-K with the SEC during the three months ended September 30, 2003:

Form 8-K dated July 1, 2003, was filed with respect to Item 5 to report that we had reached agreement to acquire substantially all of the propane assets of United Propane, Inc., headquartered in Millersville, Maryland.

Form 8-K dated August 15, 2003, was filed with respect to Items 2 and 7 to report that we had acquired substantially all of the propane assets of United Propane, Inc.

Form 8-K dated August 18, 2003, was filed with respect to Items 7 and 12 to report our issuance of a press release dated August 13, 2003 announcing our financial results for the fiscal third quarter ended June 30, 2003.

(c) Exhibits.

See exhibits identified above under Item 15(a)3.

(d) Financial Statement Schedules.

See financial statement schedules identified above under Item 15(a)2.

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Consolidated Financial Statements

September 30, 2003 and 2002 and each of the
Three Years in the Period Ended
September 30, 2003

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Report of Independent Auditors

The Board of Directors and Partners
Inergy, L.P. and Subsidiary

We have audited the accompanying consolidated balance sheets of Inergy, L.P. and subsidiary (successor to Inergy Partners, LLC and subsidiaries) (the Partnership) as of September 30, 2003 and 2002, and the related consolidated statements of income, redeemable preferred members' interest and members' equity/partners' capital, and cash flows for each of the three years in the period ended September 30, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Inergy, L.P. and subsidiary (successor to Inergy Partners, LLC and subsidiaries) at September 30, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 2003 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ ERNST & YOUNG LLP

Kansas City, Missouri
November 14, 2003, except for
Note 12, as to which the
date is December 10, 2003

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Consolidated Balance Sheets

	September 30,	
	2003	2002
	(In Thousands)	
Assets (Note 4)		
Current assets:		
Cash	**$ 3,528**	$ 2,088
Accounts receivable, less allowance for doubtful accounts of $997,000 and $927,000 at September 30, 2003 and 2002, respectively	**21,841**	13,112
Inventories	**35,722**	41,162
Prepaid expenses and other current assets	**3,957**	3,929
Assets from price risk management activities	**8,905**	9,725
Total current assets	**73,953**	70,016
Property, plant and equipment, at cost:		
Land and buildings	**14,265**	11,503
Office furniture and equipment	**8,614**	6,634
Vehicles	**21,986**	17,977
Tanks and plant equipment	**135,040**	101,788
	179,905	137,902
Less accumulated depreciation	**(22,704)**	(13,352)
Property, plant and equipment, net	**157,201**	124,550
Intangible assets (Note 2):		
Covenants not to compete	**8,752**	6,113
Deferred financing costs	**7,994**	5,899
Deferred acquisition costs	**849**	44
Customer accounts	**59,951**	41,411
Goodwill	**64,546**	46,073
	142,092	99,540
Less accumulated amortization	**(12,383)**	(6,890)
Intangible assets, net	**129,709**	92,650
Other	**1,530**	1,016
Total assets	**$ 362,393**	$ 288,232

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Consolidated Balance Sheets (continued)

	September 30,	
	2003	2002
	(In Thousands)	
Liabilities and partners' capital		
Current liabilities:		
Accounts payable	**$ 22,733**	$ 13,364
Accrued expenses	**11,919**	6,394
Customer deposits	**11,830**	8,718
Liabilities from price risk management activities	**5,801**	14,378
Current portion of long-term debt *(Note 4)*	**12,449**	19,367
Total current liabilities	**64,732**	62,221
Long-term debt, less current portion *(Note 4)*	**118,678**	105,095
Partners' capital *(Notes 2 and 8)*:		
Common unitholders (5,522,411 and 3,828,877 units issued and outstanding as of September 30, 2003 and 2002, respectively)	**129,168**	76,762
Senior subordinated unitholders (3,567,626 and 3,313,367 units issued and outstanding as of September 30, 2003 and 2002, respectively)	**46,842**	41,292
Junior subordinated unitholders (572,542 units issued and outstanding as of September 30, 2003 and 2002)	**(141)**	607
Non-managing general partner (2% interest)	**3,114**	2,255
Total partners' capital	**178,983**	120,916
Total liabilities and partners' capital	**$ 362,393**	$ 288,232

See accompanying notes.

Table of Contents

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Consolidated Statements of Income

(In Thousands Except Per Unit Data)

	Year Ended September 30,		
	2003	**2002**	**2001**
Revenue:			
Propane	**$ 343,578**	$ 192,122	$ 158,284
Other	**19,787**	16,578	10,698
	363,365	208,700	168,982
Cost of product sold	**266,094**	134,242	128,425
Gross profit	**97,271**	74,458	40,557
Expenses:			
Operating and administrative	**60,165**	46,057	23,501
Depreciation and amortization	**13,843**	11,444	6,532
Operating income	**23,263**	16,957	10,524
Other income (expense):			
Interest expense	**(9,982)**	(8,365)	(6,670)
Interest expense related to write-off of deferred financing costs	**—**	(585)	—
Gain (loss) on sale of property, plant and equipment	**(91)**	140	37
Finance charges	**339**	115	290
Other	**86**	140	168
Income before income taxes	**13,615**	8,402	4,349
Provision for income taxes	**103**	93	—
Net income	**$ 13,512**	$ 8,309	$ 4,349
Predecessor net income for the period from October 1, 2000 through July 31, 2001			$ 6,664
Inergy, L.P. net income (loss) for the years ended September 30, 2003 and 2002 and for the period from August 1, 2001 through September 30, 2001	**$ 13,512**	$ 8,309	$ (2,315)
Partners' interest information for the years ended September 30, 2003 and 2002 and for the period from August 1, 2001 through September 30, 2001:			
Non-managing general partners' interest in net income (loss)	**$ 270**	$ 166	$ (46)
Limited partners' interest in net income (loss):			
Common unit interest:			
Allocation of net income (loss)	**$ 7,003**	$ 3,391	$ (729)
Less beneficial conversion value allocated to Senior Subordinated Units *(Notes 1 and 7)*	**—**	—	(8,600)
Net common unit interest	**7,003**	3,391	(9,329)
Senior subordinated unit interest:			
Allocation of net income (loss)	**5,330**	4,052	(1,313)
Plus beneficial conversion value allocated to Senior Subordinated Units *(Notes 1 and 7)*	**—**	—	8,600
Net senior subordinated unit interest	**5,330**	4,052	7,287
Junior subordinated unit interest	**909**	700	(227)
Total limited partners' interest in net income (loss)	**$ 13,242**	$ 8,143	$ (2,269)
Net income (loss) per limited partner unit *(Note 1)*:			
Basic	**$ 1.59**	$ 1.22	$ (0.40)
Diluted	**$ 1.56**	$ 1.20	$ (0.40)
Weighted average limited partners' units outstanding:			
Basic	**8,338**	6,658	5,726
Diluted	**8,471**	6,760	5,726

See accompanying notes.

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Consolidated Statements of Redeemable Preferred Members' Interest and
Members' Equity/Partners' Capital

(In Thousands)

		Members' Equity			Partners' Capital				
	Redeemable Preferred Members' Interest	Class A Preferred Interest	Common Interest	Deferred Compensation	Common Unit Capital	Senior Subordinated Unit Capital	Junior Subordinated Unit Capital	Non-Managing General Partner and Affiliate	Total Members' Equity/ Partners' Capital
Balance at September 30, 2000	$ 10,896	$ 4,892	$ (1,686)	$ (234)	$ —	$ —	$ —	$ —	$ 2,972
Net income October 1, 2000 through July 31, 2001	—	—	6,664	—	—	—	—	—	6,664
Redeemable preferred interests issued for cash, net of offering costs of $513	16,087	—	—	—	—	—	—	—	—
Redeemable preferred interests issued in acquisition *(Note 2)*	7,402	—	—	—	—	—	—	—	—
Inergy Partners, LLC members' distributions	—	—	(2,554)	—	—	—	—	—	(2,554)
Redemption of preferred interest	—	(41)	8	—	—	—	—	—	(33)
Amortization of deferred compensation	—	—	—	65	—	—	—	—	65
Assets (liabilities) retained by Inergy Partners LLC	—	—	(909)	—	—	—	—	—	(909)
Accelerated vesting of deferred compensation due to initial public offering	—	—	—	169	—	—	—	—	169
Net proceeds from initial public offering	—		—	—	34,310	—	—	—	34,310
Transfers of capital in accordance with initial public offering	(34,385)	(4,851)	(1,523)	—	—	37,773	1,485	1,501	34,385
Net loss August 1, 2001 through September 30, 2001	—	—	—	—	(729)	(1,313)	(227)	(46)	(2,315)
Beneficial conversion feature of the conversion of certain Redeemable Preferred Members' Interests to Senior Subordinated Units	—	—	—	—	(8,600)	8,600	—	—	—
Balance at September 30, 2001	—	—	—	—	24,981	45,060	1,258	1,455	72,754

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Consolidated Statements of Redeemable Preferred Members' Interest and
Members' Equity/Partners' Capital (continued)

(In Thousands)

		Members' Equity			Partners' Capital				
	Redeemable Preferred Members' Interest	Class A Preferred Interest	Common Interest	Deferred Compensation	Common Unit Capital	Senior Subordinated Unit Capital	Junior Subordinated Unit Capital	Non-Managing General Partner and Affiliate	Total Members' Equity/ Partners' Capital
Balance at September 30, 2001	$ —	$ —	$ —	$ —	$ 24,981	$ 45,060	$ 1,258	$ 1,455	$ 72,754
Common Units issued in acquisition of retail propane companies	—	—	—	—	19,724	—	—	—	19,724
Net proceeds from issuance of Common Units	—	—	—	—	35,350	—	—	—	35,350
Contribution from non-managing general partner	—	—	—	—	—	—	—	976	976
Distributions	—	—	—	—	(6,684)	(7,820)	(1,351)	(342)	(16,197)
Net income	—	—	—	—	3,391	4,052	700	166	8,309
Balance at September 30, 2002	—	—	—	—	**$ 76,762**	**$ 41,292**	**$ 607**	**$ 2,255**	**$ 120,916**
Common and Senior Subordinated Units issued in acquisition of retail propane companies	—	—	—	—	**35,100**	**10,000**	**—**	**—**	**45,100**
Net proceeds from issuance of Common Units	—	—	—	—	**23,339**	**—**	**—**	**—**	**23,339**
Return and cancellation of Common Units originally issued in the IPC acquisition	—	—	—	—	**(106)**	**—**	**—**	**—**	**(106)**
Contribution from non-managing general partner	—	—	—	—	**—**	**—**	**—**	**1,430**	**1,430**
Members' distributions	—	—	—	—	**(12,935)**	**(9,783)**	**(1,658)**	**(841)**	**(25,217)**
Comprehensive income:									
Net income	—	—	—	—	**7,003**	**5,330**	**909**	**270**	**13,512**
Foreign currency translation	—	—	—	—	**5**	**3**	**1**	**—**	**9**
Comprehensive income									**13,521**
Balance at September 30, 2003	$ —	$ —	$ —	$ —	**$ 129,168**	**$ 46,842**	**$ (141)**	**$ 3,114**	**$ 178,983**

See accompanying notes.

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended September 30,		
	2003	**2002**	**2001**
Operating activities			
Net income	**$ 13,512**	$ 8,309	$ 4,349
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	**9,856**	8,070	3,438
Amortization	**3,987**	3,374	3,094
Amortization of deferred financing costs	**1,506**	1,253	424
Interest expense related to write-off of deferred financing costs	**—**	585	—
Provision for doubtful accounts	**719**	451	912
(Gain) loss on disposal of property, plant and equipment	**91**	(140)	(37)
Net assets (liabilities) from price risk management activities	**(7,757)**	9,228	(3,289)
Deferred compensation	**—**	—	234
Changes in operating assets and liabilities, net of effects from acquisition of retail propane companies:			
Accounts receivable	**(7,420)**	4,696	13,370
Inventories	**7,038**	(24,636)	(6,154)
Prepaid expenses and other current assets	**(73)**	(1,990)	(321)
Other assets	**42**	73	5
Accounts payable	**6,981**	2,913	(19,115)
Accrued expenses	**2,981**	(2,188)	1,871
Customer deposits	**2,965**	(2,219)	5,878
Net cash provided by operating activities	**34,428**	7,779	4,659
Investing activities			
Acquisition of retail propane companies, net of cash acquired	**(25,941)**	(84,759)	(56,263)
Purchases of property, plant and equipment	**(6,230)**	(6,385)	(4,758)
Deferred financing and acquisition costs incurred	**(3,037)**	(3,660)	(3,114)
Proceeds from sale of property, plant and equipment	**720**	775	118
Other	**—**	12	(8)
Net cash used in investing activities	**(34,488)**	(94,017)	(64,025)

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Consolidated Statements of Cash Flows (continued)

(In Thousands)

	Year Ended September 30,		
	2003	**2002**	**2001**
Financing activities			
Proceeds from issuance of long-term debt	**$ 174,794**	$ 421,237	$ 178,054
Principal payments on long-term debt	**(172,855)**	(355,211)	(163,849)
Net proceeds from issuance of redeemable preferred members' interest	**—**	—	16,087
Contribution from non-managing general partner	**1,430**	976	—
Net proceeds from issuance of Common Units	**23,339**	35,350	34,310
Cash retained by Inergy Partners LLC	**—**	—	(1,851)
Redemption of preferred stock	**—**	—	(33)
Distributions	**(25,217)**	(16,197)	(2,554)
Net cash provided by financing activities	**1,491**	86,155	60,164
Effect of exchange rate changes on cash	**9**	—	—
Net increase (decrease) in cash	**1,440**	(83)	798
Cash at beginning of year	**2,088**	2,171	1,373
Cash at end of year	**$ 3,528**	$ 2,088	$ 2,171
Supplemental disclosure of cash flow information			
Cash paid during the year for interest	**$ 8,705**	$ 6,722	$ 6,171
Supplemental schedule of noncash investing and financing activities			
Additions to covenants not to compete through the issuance of noncompete obligations	**$ 1,953**	$ 1,934	$ —
Acquisitions of retail propane companies through the issuances of Common Units, common member equity and preferred interests	**$ 45,100**	$ 19,724	$ 7,402
Acquisition of retail propane companies through the assumption of seller debt	**$ 2,218**	$ 1,661	$ —
Acquisition of retail propane company through the issuance of subordinated debt, which was subsequently retired in 2001	**$ —**	$ —	$ 5,000
Increase in the fair value of senior secured notes and the related interest rate swap	**$ 556**	$ 709	$ —

See accompanying notes.

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Notes to Consolidated Financial Statements

1. Accounting Policies

Organization

Inergy, L.P. (the Partnership or the company) was formed on March 7, 2001 as a Delaware limited partnership. The Partnership and its subsidiary Inergy Propane, LLC (the Operating Company) were formed to acquire, own and operate the propane business and substantially all the assets and liabilities (other than a portion of the cash and deferred income tax liabilities) of Inergy Partners, LLC and subsidiaries (Inergy Partners and referred to subsequent to the initial public offering described below as the Non-managing General Partner). In addition, Inergy Sales and Service, Inc. (Services), a subsidiary of the Operating Company, was formed to acquire and operate the service, work and appliance parts and sales business of Inergy Partners. The Partnership, the Operating Company, and Services are collectively referred to hereinafter as the Partnership Entities. In order to simplify the Partnership's obligations under the laws of several jurisdictions in which the Partnership will conduct business, the Partnership's activities will be conducted through the Operating Company.

The Partnership Entities consummated in July 2001, an initial public offering (the Offering) of 1,840,000 Common Units representing limited partner interests in the Partnership (the Common Units) for an offering price of $22.00 per Common Unit aggregating $40.5 million before approximately $6.2 million of underwriting discounts and commissions and other expenses related to the Offering. The Operating Company assumed the Non-managing General Partner's obligation under its funded debt in connection with the conveyance in July 2001 (the Partnership Conveyance) by Inergy GP, LLC (the Managing General Partner) and the Non-managing General Partner (together referred to as the General Partners), of substantially all of their assets and liabilities (excluding $1.9 million of cash and the deferred tax liabilities associated with the subsidiaries of Wilson Oil Company of Johnston County, Inc. (Wilson) and Rolesville Gas & Oil Company, Inc. (Rolesville)). The net proceeds from the Offering were used to repay the subordinated debt issued in connection with the acquisition of the Hoosier Propane Group (Note 2) and a portion of the outstanding credit agreement borrowings.

Pursuant to the terms of certain of the redeemable Class A preferred interest agreements issued by Inergy Partners prior to the Offering, in the event of an initial public offering, these interests would automatically convert into Senior Subordinated Units of a master limited partnership. As such, in conjunction with the Offering, an additional 2,006,456 Senior Subordinated Units were issued to holders of the remaining redeemable Class A preferred interests of Inergy Partners, representing a 34.3% limited partner interest in the Partnership Entities.

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Notes to Consolidated Financial Statements

1. Accounting Policies (continued)

Certain of the redeemable Class A preferred interests of Inergy Partners contained conversion terms that were more advantageous than the terms of the other preferred interests issued by Inergy Partners as further described in Note 7. These beneficial conversion terms resulted in Inergy, L.P. recognizing a decrease in common unit capital of $8.6 million with a corresponding increase in senior subordinated unit capital in the fourth quarter of fiscal 2001 following the Offering. Net income available to common unitholders for the fourth quarter and year ended September 30, 2001 is decreased by $8.6 million while net income attributable to senior subordinated unitholders is increased by the same amount.

Inergy, L.P. is managed by Inergy GP, LLC. Pursuant to the Partnership Agreement, Inergy GP, LLC or any of its affiliates is entitled to reimbursement for all direct and indirect expenses incurred or payments it makes on behalf of Inergy, L.P., and all other necessary or appropriate expenses allocable to Inergy, L.P. or otherwise reasonably incurred by Inergy GP, LLC in connection with operating the Inergy, L.P. business. These costs, which totaled approximately $2.1 million, $4.6 million, and $2.4 million for the years ended September 30, 2003, 2002, and for the period from August 1, 2001 through September 30, 2001, respectively, include compensation and benefits paid to officers and employees of Inergy GP, LLC and its affiliates.

The Non-managing General Partner owns a 2% general partner interest in the Partnership. In addition, the Non-managing General Partner owns Senior Subordinated Units and Junior Subordinated Units through its wholly-owned subsidiary, New Inergy Propane, LLC, approximating a 14.3% limited partner interest.

Basis of Presentation

The accompanying consolidated financial statements reflect the effects of the Partnership Conveyance, in which the Partnership Entities became the successor to the businesses of Inergy Partners. As such, the consolidated financial statements represent Inergy Partners prior to the Partnership Conveyance and the Partnership Entities subsequent to the Partnership Conveyance. Because the Partnership Conveyance was a transfer of assets and liabilities in exchange for partnership interests among a controlled group of companies, it has been accounted for in a manner similar to a pooling of interests, resulting in the presentation of the Partnership Entities as the successor to the continuing businesses of Inergy Partners. The entity representative of both the operations of (i) Inergy Partners prior to the Partnership Conveyance; and (ii) the Partnership Entities subsequent to the Partnership Conveyance, is referred to herein as ‘Inergy’. The Non-Managing General Partner retained those assets and liabilities not conveyed to the Partnership. All significant intercompany balances and transactions have been eliminated in consolidation.

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Notes to Consolidated Financial Statements

1. Accounting Policies (continued)

Nature of Operations

Inergy is engaged primarily in the sale, distribution, marketing and trading of propane and other natural gas liquids. The retail market is seasonal because propane is used primarily for heating in residential and commercial buildings, as well as for agricultural purposes. Inergy's operations are concentrated in the Midwest and Southeast regions of the United States.

Financial Instruments and Price Risk Management

Inergy, through its wholesale operations, sells propane to various propane users, retailers, and resellers and offers price risk management services to these customers as part of its marketing and distribution operations. Inergy's wholesale operations also sell propane to energy marketers and dealers. Derivative financial instruments utilized in connection with these activities are accounted for using the mark-to-market method in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," and Emerging Issues Task Force Issue ("EITF") No. 02-3, "Issues Involved in Accounting for Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," as discussed below and, prior to its October 2002 rescission effective for periods beginning after December 15, 2002, EITF No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." Inergy's overall objective for entering into such derivative financial instruments, including those designated as fair value hedges of Inergy's inventory positions, is to manage its exposure to fluctuations in commodity prices and changes in the fair market value of its inventories.

SFAS No. 133 requires recognition of all derivative instruments in the balance sheets and measures them at fair value. If a derivative does not qualify for hedge accounting, it must be adjusted to fair value through earnings. Beginning in December 2002, certain of Inergy's commodity derivative financial instruments have been designated as hedges of selected inventory positions, and qualify as fair value hedges, as defined in SFAS No. 133. For derivative instruments designated as hedges, Inergy uses regression analysis to formally assesses, both at the hedge contract's inception and on an ongoing basis, whether the hedge contract is highly effective in offsetting changes in fair value of hedged items. Changes in the fair value of derivative instruments designated as fair value hedges are reported in the balance sheet as price risk management assets or liabilities. The ineffective portions of hedging derivatives are recognized immediately in cost of product sold. At September 30, 2003, the fair value of approximately 46.3 million gallons of propane inventory was being hedged by various commodity derivatives with a fair value of $0.2 million recorded as a liability from price risk management activities in accordance with Inergy's hedging strategies. Changes in the fair value of derivative instruments that are not designated as hedges are recorded in current period earnings in accordance with SFAS No. 133.

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Notes to Consolidated Financial Statements

1. Accounting Policies (continued)

During the year ended September 30, 2003, Inergy recognized net gains of $0.2 million, related to the ineffective portion of its hedging instruments and a net loss of $(0.5) million related to the portion of the hedging instruments Inergy excluded from its assessment of hedge effectiveness.

The cash flow impact of financial instruments is reflected as cash flows from operating activities in the consolidated statements of cash flows. See Note 3 for further discussion of Inergy's financial instruments.

The June 2002 consensus reached on EITF No. 02-3 codifies and reconciles existing guidance on the recognition and reporting of gains and losses on energy trading contracts and addresses other aspects of the accounting for contracts involved in energy trading and risk management activities. Among other things, the consensus requires that mark-to-market gains and losses on energy trading contracts should be shown net in the income statement, irrespective of whether the contract is physically settled. This presentation was effective for financial statements issued for periods ending after July 15, 2002. As such, Inergy has reclassified all settled transactions that meet the definition of trading activities net in the income statement to conform to the new presentation required under EITF No. 02-3. Inergy previously reported these transactions when settled in the income statement at their gross amounts in revenues and cost of product sold. The reclassified amounts for the years ended September 30, 2002 and 2001 were $69.6 million and $54.2 million, respectively. This required reclassification has no impact on previously reported gross profit, net income or cash provided by operating activities. Inergy physically delivered approximately 171.2 million and 91.4 million gallons related to transactions considered trading activities as defined by EITF No. 02-3 for the years ended September 30, 2002 and 2001, respectively.

In October 2002, the EITF reached a consensus in EITF No. 02-3 to rescind EITF No. 98-10, the basis for mark-to-market accounting used for recording energy trading activities. The October 2002 EITF consensus requires that all new energy-related contracts entered into subsequent to October 25, 2002 should not be accounted for pursuant to EITF No. 98-10. Instead, those contracts should be accounted for under accrual accounting and would not qualify for mark-to-market accounting unless the contracts meet the requirements stated under SFAS No. 133. The October 2002 EITF consensus also provides that inventory will no longer be accounted for using mark-to-market accounting and must be accounted for at the lower of cost or market. As noted above, Inergy has elected to use the special hedge accounting rules in SFAS No. 133 and hedge the fair value of certain of its inventory positions, whereby the hedged inventory and the related derivative instruments are both marked to market. Inventories purchased under energy contracts subsequent to October 25, 2002, and not otherwise designated as being hedged, as discussed above, are carried at the lower-of-cost or market effective January 1, 2003.

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Notes to Consolidated Financial Statements

1. Accounting Policies (continued)

The effective date for the full rescission of EITF No. 98-10 was for quarterly periods beginning after December 15, 2002. The effect of the rescission of EITF No. 98-10 did not have a material impact on Inergy's financial position or results of operations.

Revenue Recognition

Sales of propane are recognized at the time product is shipped or delivered to the customer. Revenue from the sale of propane appliances and equipment is recognized at the time of sale or installation. Revenue from repairs and maintenance is recognized upon completion of the service.

Credit Concentrations

Inergy is both a retail and wholesale supplier of propane gas. Inergy generally extends unsecured credit to its wholesale customers in the United States and Canada. Credit is generally extended to retail customers through delivery into company and customer owned propane gas storage tanks. Provisions for doubtful accounts receivable are reflected in Inergy's consolidated financial statements, are based on specific identification and historical collection results and have generally been within management's expectations. Finance charges of trade receivables are generally recognized upon billing of customers.

Use of Estimates

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

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Notes to Consolidated Financial Statements

1. Accounting Policies (continued)

Inventories

Inventories for retail operations, which mainly consist of liquid propane, are stated at the lower of cost, determined using the average-cost method, or market. Prior to the adoption of EITF 02-3, in fiscal 2003, inventories for wholesale operations, which consist mainly of liquid propane commodities, were stated at market. At September 30, 2003, wholesale propane inventories are stated at the lower of cost, determined using the average-cost method, or market unless designated as being hedged by forward sales contracts, as discussed above, in which case the inventories are marked to market. Wholesale propane inventories being hedged and carried at market at September 30, 2003 amount to $28.9 million.

Inventories consist of (in thousands):

	September 30, 2003	September 30, 2002
Propane gas and other liquids	**$ 32,247**	$ 38,171
Appliances, parts and supplies	**3,475**	2,991
	$ 35,722	$ 41,162

Shipping and Handling Costs

Shipping and handling costs are recorded as part of cost of products sold at the time product is shipped or delivered to the customer.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation is computed by the straight-line method over the assets' estimated useful lives, as follows:

	Years
Buildings and improvements	25-40
Office furniture and equipment	3–10
Vehicles	5–10
Tanks and plant equipment	5–30

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Notes to Consolidated Financial Statements

1. Accounting Policies (continued)

Inergy reviews its long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such events or changes in circumstances are present, a loss is recognized if the carrying value of the asset is in excess of the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. Inergy has determined that no impairment exists as of September 30, 2003.

Intangible Assets

Intangible assets are amortized on a straight-line basis over their estimated economic lives, as follows:

	Years
Covenants not to compete	2–10
Deferred financing costs	1–7
Customer accounts	15
Goodwill (prior to adoption of SFAS No. 142 effective October 1, 2001)	15

Estimated amortization, including amortization of deferred financing cost reported as interest expense, for the next five years ending September 30, in thousands of dollars is as follows:

2004	$6,800
2005	5,881
2006	5,616
2007	4,905
2008	4,779

Deferred financing costs represent financing costs incurred in obtaining financing and are being amortized over the term of the debt. Covenants not to compete, customer accounts and goodwill arose from the various acquisitions by Inergy and are discussed in Note 2. Deferred acquisition costs represent costs incurred to date on acquisitions that Inergy is actively pursuing, most of which relate to the acquisitions completed subsequent to year end, as discussed in Note 12.

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Notes to Consolidated Financial Statements

1. Accounting Policies (continued)

In June 2001, the FASB issued SFAS No. 141, “Business Combinations”, and SFAS No. 142, “Goodwill and Other Intangible Assets.” SFAS No. 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting. Under SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill is subject to at least an annual assessment for impairment by applying a fair-value-based test. Additionally, an acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the acquirer’s intent to do so.

In connection with the transitional goodwill impairment evaluation, Statement No. 142 requires an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, the reporting units are identified and carrying value of each reporting unit determined by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. To the extent a reporting unit’s carrying value exceeds its fair value, an indication exists that the reporting unit’s goodwill may be impaired and the second step of the transitional impairment test must be performed. In the second step, the implied fair value of the goodwill is determined by allocating the fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No. 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption.

Inergy adopted SFAS No. 142 on October 1, 2001 and accordingly has discontinued the amortization of goodwill existing at the time of adoption. Under the provisions of Statement No. 142, Inergy completed the valuation of each of Inergy’s reporting units and determined no impairment existed at adoption or as of September 30, 2003.

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Notes to Consolidated Financial Statements

1. Accounting Policies (continued)

The following pro forma table reflects the effects of the adoption of SFAS No. 142 on net income (loss) and basic and diluted income (loss) per limited partner unit to exclude amortization (in thousands, except per unit data).

	Year Ended September 30,		
	2003	**2002**	**2001**
Net income	**$13,512**	$8,309	$ 4,349
Add back goodwill amortization	**—**	—	1,720
Adjusted net income	**$13,512**	$8,309	$ 6,069
Predecessor net income for the period from October 1, 2000 through July 31, 2001			$ 6,664
Add back goodwill amortization			1,363
Adjusted predecessor net income			$ 8,027
Inergy, L.P. net income (loss) for the years ended September 30, 2003 and 2002 and for the period August 1, 2001 through September 30, 2001	**$13,512**	$8,309	$(2,315)
Add back goodwill amortization	**—**	—	357
Adjusted Inergy, L.P net income (loss)	**$13,512**	$8,309	$(1,958)
Adjusted partners' interest information:			
Non-managing general partners' interest in net income (loss)	**$ 270**	$ 166	$ (39)
Limited partners' interest in net income (loss)	**$13,242**	$8,143	$(1,919)
Net income (loss) per limited partner unit:			
Basic	**$ 1.59**	$ 1.22	$ (0.40)
Diluted	**$ 1.56**	$ 1.20	$ (0.40)
Add back goodwill amortization		—	.06
Adjusted net income (loss) per limited partner unit:			
Basic	**$ 1.59**	$ 1.22	$ (0.34)
Diluted	**$ 1.56**	$ 1.20	$ (0.34)

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1. Accounting Policies (continued)

Income Taxes

The earnings of the Partnership and Operating Company are included in the Federal and state income tax returns of the individual partners. As a result, no income tax expense has been reflected in Inergy's consolidated financial statements relating to the earnings of the Partnership and Operating Company. Federal and state income taxes are, however, provided on the earnings of Services. The effect of temporary differences between Services' basis of assets and liabilities for income tax and financial statement purposes is immaterial. The provision for income tax for the years ended September 30, 2003, 2002 and 2001 was $103,000, $93,000 and $0, respectively. 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 the financial reporting basis of assets and liabilities and the taxable income allocation requirements under the partnership agreement.

Customer Deposits

Customer deposits primarily represent cash received by Inergy from wholesale and retail customers for propane purchased that will be delivered at a future date.

Fair Value

The carrying amounts of cash, accounts receivable and accounts payable approximate their fair value. Based on the estimated borrowing rates currently available to Inergy for long-term debt with similar terms and maturities, the aggregate fair value of Inergy's long-term debt was approximately $139 million and $125 million as of September 30, 2003 and 2002, respectively. See Note 4 for a discussion of interest rate swap agreements in effect with respect to certain of Inergy's fixed rate debt obligations.

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1. Accounting Policies (continued)

Accounting for Unit-Based Compensation

Inergy has a unit-based employee compensation plan, which is accounted for under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees" for all periods presented and presents the fair value method pro forma disclosures required under the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure." No unit-based employee compensation cost is reflected in net income (loss), as all options granted under the plan had an exercise price equal to the market value of the underlying Common Units on the date of grant. The following table illustrates the effect on net income (loss) and net income (loss) per limited partner unit as if Inergy had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to unit-based employee compensation. For purposes of pro forma disclosures, the estimated fair value of an option is amortized to expense over the option's vesting period. Inergy's pro forma information for each of the three years in the period ended September 30, 2003 is as follows (in thousands, except per unit data):

	2003	2002	2001
Net income as reported	**$13,512**	$8,309	$ 4,349
Deduct: Total unit-based employee compensation expense determined under fair value method for all awards[1]	**(164)**	(142)	(19)
Pro forma net income	**$13,348**	$8,167	$ 4,330
Pro forma limited partners' interest in net income (loss) for the years ended September 30, 2003 and 2002 and for the period from August 1, 2001 through September 30, 2001	**$13,081**	$8,004	$(2,287)
Net income (loss) per limited partner unit			
Basic – as reported	**$ 1.59**	$ 1.22	$ (0.40)
Basic – pro forma	**$ 1.57**	$ 1.20	$ (0.40)
Pro forma net income (loss) per limited partner unit:			
Diluted – as reported	**$ 1.56**	$ 1.20	$ (0.40)
Diluted – pro forma	**$ 1.54**	$ 1.18	$ (0.40)

1 All awards refer to unit options granted, for which the fair value would be required to be measured under SFAS No. 123.

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1. Accounting Policies (continued)

Income (Loss) Per Unit

Basic net income (loss) per limited partner unit is computed by dividing net income (loss), after considering the Non-Managing General Partner's interest, by the weighted average number of Common and Subordinated Units outstanding. Diluted net income (loss) per limited partner unit is computed by dividing net income (loss), after considering the Non-Managing General Partner's interest, by the weighted average number of Common and Subordinated Units outstanding and the dilutive effect of unit options granted under the long-term incentive plan. Unit options were antidilutive in 2001 due to the loss incurred for the period from August 1, 2001 through September 30, 2001. As such, basic and diluted net income (loss) per limited partner are identical in 2001. The following table presents the calculation of basic and dilutive income (loss) per limited partner unit (in thousands, except per unit data):

	Ended September 30,		Period from August 1, 2001 through September 30, 2001
	2003	**2002**	
Numerator:			
Net income (loss)	**$ 13,512**	$8,309	$ (2,315)
Less: Non-Managing General Partners' interest in net income (loss)	**270**	166	(46)
Limited partners' interest in net income (loss) – basic and diluted	**$ 13,242**	$8,143	$ (2,269)
Denominator:			
Weighted average limited partners' units outstanding – basic	**8,338**	6,658	5,726
Effect of dilutive unit options outstanding	**133**	102	—
Weighted average limited partners' units outstanding – dilutive	**8,471**	6,760	5,726
Net income (loss) per limited partner unit			
Basic	**$ 1.59**	$ 1.22	$ (0.40)
Diluted	**$ 1.56**	$ 1.20	$ (0.40)

Segment Information

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" establishes standards for reporting information about operating segments, as well as related disclosures about products and services, geographic areas, and major customers. Further, SFAS No. 131 defines operating segments as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to

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1. Accounting Policies (continued)

allocate resources and assessing performance. In determining Inergy's reportable segments under the provisions of SFAS No. 131, Inergy examined the way it organizes its business internally for making operating decisions and assessing business performance. See Note 11 for disclosures related to Inergy's retail and wholesale segments. No single customer represents 10% or more of consolidated revenues. In addition, nearly all of Inergy's revenues are derived from sources within the United States, and all of its long-lived assets are located in the United States.

Recently Issued Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities." Interpretation No. 46 requires that the assets, liabilities and results of the activity of variable interest entities be consolidated into the financial statements of the company that has the controlling financial interest. Interpretation No. 46 also provides the framework for determining whether a variable interest entity should be consolidated based on voting interests or significant financial support provided to it. Interpretation No. 46 became effective for Inergy on October 1, 2003 for variable interest entities created prior to February 1, 2003. Inergy does not expect the adoption of Interpretation No. 46 to have a material impact on its consolidated financial statements.

SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This statement is effective for the fiscal year ending September 30, 2004. Inergy does not expect the adoption of SFAS No. 150 to have a material effect on its consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2002 and 2001 consolidated financial statements to conform to the 2003 presentation.

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2. Acquisitions

During fiscal 2001, Inergy acquired substantially all of the assets of three companies owned by a common group of shareholders, referred to as the Hoosier Propane Group. These acquisitions have been accounted for using the purchase method of accounting. The purchase price of approximately $74.5 million consisted of cash payments of approximately $56.5 million funded by the issuance of long-term debt and redeemable Class A preferred interests, acquisition costs of $0.7 million, issued redeemable Class A preferred interest totaling $7.4 million, subordinated debentures totaling $5.0 million, and $5.6 million of assumed liabilities. The excess of purchase price over the fair market value of the net tangible and identifiable intangible assets acquired, including $10.5 million allocated to customer accounts, amounted to $25.2 million and has been recorded as goodwill. The operating results of all fiscal 2001 acquisitions are included in Inergy's consolidated results of operations from the dates of acquisition.

Effective November 1, 2001, Inergy acquired substantially all of the assets and assumed certain liabilities of four companies under common control referred to as Pro Gas, for approximately $12.5 million. Pro Gas is a retail propane distributor located in central Michigan.

Effective December 20, 2001, IPCH Acquisition Corp., a wholly-owned subsidiary of Inergy Holdings, LLC, purchased all of the outstanding stock and assumed the outstanding debt of Independent Propane Company, Inc., a retail propane distributor located in seven states, with its primary operations in Texas, for total consideration of $84.8 million including working capital acquired. Immediately thereafter, Inergy purchased from Inergy Holdings, LLC substantially all of the assets and assumed certain liabilities of IPCH Acquisition Corp. for $74.6 million in cash, including acquisition costs funded through its credit facility, and the issuance of 759,620 Common Units with a fair value of approximately $19.7 million, $3.5 million of assumed liabilities including liabilities identified in purchase price allocation for total consideration of $97.8 million, including working capital of approximately $7.5 million (the IPC Acquisition). $10.4 million of the excess consideration paid by Inergy over that paid by IPCH Acquisition Corp. relates to the tax liability generated by the sale of the assets by IPCH Acquisition Corp. to Inergy with the remainder due to acquisition costs incurred by Inergy. The operating results of all fiscal 2002 acquisitions are included in Inergy's consolidated results of operations from the dates of acquisition.

On July 31, 2003, Inergy purchased substantially all of the retail propane assets and assumed certain liabilities of United Propane, Inc. ("United Propane"), a retail propane distributor located in Maryland, Delaware and West Virginia. The purchase price of $52.7 million consisted of the issuance of 889,906 Common Units and 254,259 Senior Subordinated Units with a fair value of approximately $45.0 million, $2.7 million in cash, and the assumption of $5.0 million of liabilities for total consideration of $52.7 million.

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2. Acquisitions (continued)

During the fiscal year ended September 30, 2003, Inergy also acquired substantially all of the assets of ten other retail propane companies located in Ohio, Florida, Indiana and North Carolina, and one wholesale company located in Calgary, Canada. The aggregate purchase price for these acquisitions totaled approximately $27.5 million, which included cash of approximately $23.2 million, assumed liabilities of approximately $2.3 million, seller notes payable of $1.9 million and $0.1 million in common and Senior Subordinated Units. The purchase price allocation related to these acquisitions included goodwill of $4.4 million, customer accounts of $1.6 million and other intangible assets acquired of $2.6 million. In the aggregate, these acquisitions are not material for pro forma disclosure purposes. These acquisitions were financed primarily using the acquisition facility and were accounted for by the purchase method under SFAS No. 141. The operating results for all fiscal 2003 acquisitions are included in Inergy's consolidated results of operations from the dates of acquisition.

The following reflects the acquisitions in purchase business combinations of the retail assets of Pro Gas in November 2001, Independent Propane Company in December 2001 and United Propane in July 2003, in millions:

	Pro Gas	Independent Propane Company	United Propane
Cash	$ 10.9	$ 74.6	$ 2.7
Assumed liabilities	0.8	3.5	5.0
5% seller note payable	0.8	—	—
Common and Senior Subordinated Units	—	19.7	45.0
	$ 12.5	$ 97.8	$ 52.7
Property, plant and equipment	$ 10.9	$ 45.9	$ 19.6
Goodwill	—	16.0	13.9
Customer accounts	—	27.4	16.9
Covenant not to compete	1.3	1.0	—
Net current assets	0.3	7.5	2.3
	$ 12.5	$ 97.8	$ 52.7

The weighted average amortization period of amortizable intangible assets acquired was approximately 15 years.

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2. Acquisitions (continued)

The following unaudited pro forma data summarizes the results of operations for the periods indicated as if the United Propane, Pro Gas and Independent Propane Company acquisitions had been completed at the beginning of the periods presented. The pro forma data gives effect to actual operating results prior to the acquisitions and adjustments to interest expense and intangible assets amortization, among other things. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisitions had occurred on October 1, 2002 and 2001 or that will be obtained in the future.

	Year Ended September 30,	
	2003	2002
	(in thousands, except per unit data)	
Revenues	**$ 393,116**	$ 247,221
Net income	**15,708**	11,831
Net income per limited partner unit - basic	**$ 1.69**	$ 1.49

3. Price Risk Management and Financial Instruments

Inergy, through its wholesale operations, sells propane and offers price risk management services to energy related businesses through a variety of financial and other instruments including forward contracts involving physical delivery of propane. In addition, Inergy manages its own trading portfolio using forward physical and futures contracts. Inergy attempts to balance its contractual portfolio in terms of notional amounts and timing of performance and delivery obligations. However, net unbalanced positions can exist or are established based on assessment of anticipated short-term needs or market conditions.

The price risk management services offered to propane users, retailers and resellers, and other related businesses utilize a variety of financial and other instruments including forward contracts involving physical delivery of propane, swap agreements, which require payments to (or receipt of payments from) counterparties based on the differential between a fixed and variable price for propane, options and other contractual arrangements.

As discussed in Note 1, all of these financial instruments are accounted for using the mark-to-market method of accounting in accordance with SFAS No. 133, EITF No. 02-3 and, prior to its October 2002 recession effective for periods beginning after December 15, 2002, EITF No. 98-10. Inergy has entered into these derivative financial instruments to manage its exposure to fluctuation in commodity prices. The effects of commodity price volatility have generally been mitigated by Inergy’s attempts to maintain a balanced portfolio of derivative financial instruments and inventory positions in terms of notional amounts and timing of performance.

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3. Price Risk Management and Financial Instruments (continued)

Notional Amounts and Terms

The notional amounts and terms of these financial instruments at September 30, 2003 and 2002 include fixed price payor for 3.0 million and 3.7 million barrels, respectively, and fixed price receiver for 4.8 million and 5.6 million barrels, respectively.

Notional amounts reflect the volume of the transactions, but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure Inergy's exposure to market or credit risks.

Fair Value

The fair value of all derivative financial instruments related to price risk management activities as of September 30, 2003 and 2002 was assets of $8.9 million and $9.7 million, respectively, and liabilities of $5.8 million and $14.4 million, respectively, related to propane.

The net change in unrealized gains and losses related to all price risk management activities and propane based financial instruments for the years ended September 30, 2003, 2002 and 2001 of $1.7 million, ($2.0) million, and $2.2 million, respectively, are included in cost of product sold in the accompanying consolidated statements of operations.

The following table summarizes the change in the unrealized fair value of propane contracts related to risk management activities for the years ended September 30, 2003 and 2002 where settlement has not yet occurred (in thousands of dollars):

	Year Ended September 30, 2003	Year Ended September 30, 2002
Net unrealized gains and (losses) in fair value of contracts outstanding at beginning of period	**$ (4,653)**	$ 4,574
Other unrealized gains and (losses) recognized	**4,479**	(4,040)
Less: realized gains and (losses) recognized	**3,278**	(5,187)
Net unrealized losses in fair value of contracts outstanding at September 30, 2003 and 2002	**$ 3,104**	$ (4,653)

Of the outstanding unrealized gain (loss) as of September 30, 2003 and 2002, contracts with a maturity of less than one year totaled $3.1 million and $(4.6) million, respectively. Contracts maturing in excess of one year totaled less than $0.1 million and $(0.1) million in 2003 and 2002, respectively.

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3. Price Risk Management and Financial Instruments (continued)

Market and Credit Risk

Inherent in the resulting contractual portfolio are certain business risks, including market risk and credit risk. Market risk is the risk that the value of the portfolio will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers, or financial counterparties to a contract. Inergy takes an active role in managing and controlling market and credit risk and has established control procedures, which are reviewed on an ongoing basis. Inergy monitors market risk through a variety of techniques, including daily reporting of the portfolio's value to senior management. Inergy provides for such risks at the time derivative financial instruments are adjusted to fair value and when specific risks become known. Inergy attempts to minimize credit risk exposure through credit policies and periodic monitoring procedures. The counterparties associated with assets from price risk management activities as of September 30, 2003 and 2002 are generally propane users, retailers and resellers, and energy marketers and dealers.

4. Long-Term Debt

Long-term debt consisted of the following (in thousands):

	September 30,	
	2003	**2002**
Credit agreement	**$ 41,024**	$ 35,500
Senior secured notes (including interest rate swap liability)	**86,265**	85,709
Obligations under noncompetition agreements and notes to former owners of businesses acquired	**3,833**	3,244
Other	**5**	9
	131,127	124,462
Less current portion	**12,449**	19,367
	$ 118,678	$ 105,095

Effective July 30, 2003, Inergy executed an Amended and Restated Credit Agreement (the "Amended Facility") with its existing lenders in addition to others. The Amended Facility consists of a $50 million revolving working capital facility and a $150 million revolving acquisition facility. The Amended Facility expires in July 2006 and carries terms, conditions and covenants substantially similar to the previous credit agreement. The Amended Facility is also guaranteed by Inergy, L.P. and its subsidiary.

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4. Long-Term Debt (continued)

Inergy is required to reduce the principal outstanding on the revolving working capital line of credit to $4 million or less for a minimum of 30 consecutive days during the period commencing March 1 and ending September 30. As such, $4 million of the outstanding balance at September 30, 2003 and 2002 has been classified as a long-term liability in the accompanying consolidated balance sheets. At September 30, 2003 and 2002, the balance outstanding under this amended credit facility was $41.0 million and $35.5 million, respectively, including $15.5 million and $22.0 million, respectively, under the working capital facility. The prime rate and LIBOR plus the applicable spreads were between 3.11% and 4.00% at September 30, 2003, and between 3.87% and 4.75% at September 30, 2002, for all outstanding debt under the credit agreement.

In June 2002, Inergy entered into a note purchase agreement with a group of institutional lenders pursuant to which it issued $85.0 million aggregate principal amount of senior secured notes with a weighted average interest rate of 9.07% and a weighted average maturity of 5.9 years. The senior secured notes consist of the following: $35 million principal amount of 8.85% senior secured notes with a 5-year maturity, $25.0 million principal amount of 9.10% senior secured notes with a 6-year maturity, and $25.0 million principal amount of 9.34% senior secured notes with a 7-year maturity. The net proceeds from these senior secured notes were used to repay a portion of the amount outstanding under the credit facility.

The credit agreement and the senior secured notes contain several covenants which, among other things, require the maintenance of various financial performance ratios, restrict the payment of distributions to unitholders, and require financial reports to be submitted periodically to the financial institutions. Unused borrowings under the credit agreement amounted to $154.9 million and $89.5 million at September 30, 2003 and 2002, respectively.

Noninterest-bearing obligations due under noncompetition agreements and other note payable agreements consist of agreements between Inergy and the sellers of retail propane companies acquired from fiscal years 1999 through 2003 with payments due through 2013 and imputed interest ranging from 5.1% to 10.0%. Noninterest-bearing obligations consist of $4.6 million and $3.8 million in total payments due under agreements, less unamortized discount based on imputed interest of $0.8 million and $0.6 million at September 30, 2003 and 2002, respectively.

The aggregate amounts of principal to be paid on the outstanding long-term debt during the next five years ending September 30 and thereafter, are as follows, in thousands of dollars:

2004	$ 12,449
2005	834
2006	29,903
2007	35,529
2008	26,365
Thereafter	26,047
	$ 131,127

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4. Long-Term Debt (continued)

In August 2002, the Operating Company entered into two interest rate swap agreements scheduled to mature in June 2008 and June 2009, respectively, each designed to hedge $10 million in underlying fixed rate senior secured notes, in order to manage interest rate risk exposure and reduce overall interest expense. In October 2002, the Operating Company entered into three additional interest rate swap agreements scheduled to mature in June 2007, June 2008, and June 2009 each designed to hedge $5 million in underlying fixed rate senior secured notes. These swap agreements, which expire on the same dates as the maturity dates of the related senior secured notes, require the counterparty to pay us an amount based on the stated fixed interest rate on the notes due every three months. In exchange, the Operating Company is required to make quarterly floating interest rate payments on the same dates to the counterparty based on an annual interest rate equal to the 3 month LIBOR interest rate plus spreads between 4.83% and 5.02% applied to the same notional amount of $35 million. The swap agreements have been recognized as fair value hedges. Amounts to be received or paid under the agreements are accrued and recognized over the life of the agreements as an adjustment to interest expense. The Partnership recognized the approximate $1.3 and $0.7 million increases in the fair market value of the related senior secured notes at September 30, 2003 and 2002, respectively, with a corresponding increase in the fair value of its interest rate swaps, which are recorded in other non-current assets.

5. Leases

Inergy has several noncancelable operating leases mainly for office space and vehicles, which expire at various times over the next nine years.

Future minimum lease payments under noncancelable operating leases for the next five years ending September 30 and thereafter consist of the following, in thousands of dollars:

Year Ending September 30,	
2004	$ 3,285
2005	2,776
2006	2,368
2007	2,047
2008	1,885
Thereafter	558
Total minimum lease payments	$ 12,919

Rent expense for all operating leases during 2003, 2002, and 2001 amounted to $2.8 million, $1.9 million, and $0.6 million, respectively.

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6. Income Taxes

The provision for income taxes for the years ended September 30, 2003, 2002, and 2001 consists of the following, in thousands of dollars:

	September 30,		
	2003	**2002**	**2001**
Current:			
Federal	**$ 81**	$84	$ —
State	**22**	9	—
Total current	**$103**	$93	$ —

The income tax provision for the years ended September 30, 2003, 2002, and 2001 relates to taxable income of the Services operations as discussed in Note 1.

7. Redeemable Preferred Members' Interests and Members' Equity

During December 1999, Inergy issued redeemable Class A preferred interests to a new member for total proceeds of $2.0 million less offering costs of $0.1 million. During June 2000, Inergy issued redeemable Class A preferred interests to certain former owners of Country Gas Company, Inc. totaling $9.0 million in connection with the acquisition of Country Gas Company, Inc. These preferred interests were automatically converted into Senior Subordinated Units of Inergy, L.P. in connection with the Offering. The conversion rates were determined as of the issuance date based on negotiations between Inergy and the unrelated third parties and were derived by multiplying the recorded value of each party's preferred interest by a multiple of 2.25 for the December 1999 transaction and 1.0 for the June 2000 transaction and dividing the resulting total by the $22.00 unit price in the Offering.

The beneficial conversion feature present in the December 1999 issuance, valued at $2.0 million, was recognized upon completion of the Offering as discussed in Note 1.

During January 2001, Inergy issued redeemable Class A preferred interests to new and existing members for total proceeds of $15 million, less offering costs of $0.5 million. The preferred interests were issued to facilitate the refinancing of Inergy's credit facilities described in Note 4 on a long-term basis and complete the Hoosier Propane Group acquisition in January 2001. In March and May 2001, additional redeemable preferred interests were issued at the same valuation for total proceeds of $1.6 million less offering costs of $28,000.

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7. Redeemable Preferred Members' Interests and Members' Equity (continued)

These preferred interests were automatically converted into Senior Subordinated Units of Inergy, L.P. in connection with the Offering. The conversion rates were determined as of the issuance date based on negotiations between Inergy and the third party investors and were derived by multiplying the recorded value of each party's preferred interest by a multiple of 1.4 and dividing the resulting total by the $22.00 unit price in the Offering. The beneficial conversion feature present in these preferred interest issuances valued at $6.6 million was recognized upon completion of the Offering.

The redeemable preferred interests issued in December 1999, June 2000, and January 2001 provided the holders the option to require Inergy to redeem the preferred interests, as provided in the agreements, but no earlier than the fifth anniversary of the issuance. The preferred interest issued to members for cash in December 1999 and January 2001 were redeemable in an amount between one and two times face value at issuance, depending on Inergy's operating performance, as defined in the agreement. The preferred interests issued to certain former owners of Country Gas Company, Inc. and the Hoosier Propane Group were redeemable in an amount equal to face value at issuance plus any unpaid dividends. No amounts were required to be redeemed during the next five years following issuance, except in certain circumstances, as provided for in the agreements. All preferred interests were converted into Senior Subordinated Units as described above.

8. Partners' Capital

Partners' capital at September 30, 2003 consists of 5,522,411 Common Units representing a 56.0% limited partner interest, 3,567,626 Senior Subordinated Units representing a 36.2% limited partner interest, 572,542 Junior Subordinated Units representing a 5.8% limited partner interest and a 2% general partner interest.

In conjunction with the December 2001 acquisition of Independent Propane Company, Inc., an escrow, consisting of cash and Common Units, was available for uncollected accounts receivable and environmental claims. During fiscal 2003, two claims were settled that resulted in the return to the Partnership of 4,023 Common Units. The units were subsequently cancelled, resulting in a reduction in Common Units outstanding.

In March 2003, Inergy issued 805,000 Common Units in a public offering, resulting in proceeds of $23.3 million, net of underwriter's discount, commission, and offering expenses. Inergy Partners, LLC contributed $0.5 million in cash to Inergy, L.P. in conjunction with the issuance in order to maintain its 2% non-managing general partner interest.

In June 2003, Inergy issued 2,651 Common Units in conjunction with the acquisition of Phillips Propane, Inc. Inergy Partners, LLC contributed $2,000 in cash to Inergy, L.P. in conjunction with the issuance in order to maintain its 2% non-managing general partner interest.

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8. Partners' Capital (continued)

In July 2003, Inergy issued 889,906 Common Units and 254,259 Senior Subordinated Units to the owner of United Propane, Inc. in conjunction with the acquisition of substantially all the propane assets of United Propane, Inc. Inergy Partners, LLC contributed $0.9 million in cash to Inergy, L.P. in conjunction with the issuance in order to maintain its 2% non-managing general partner interest.

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

The Partnership Agreement provides that during the Subordination Period (as defined below), the Partnership may issue up to 800,000 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. During 2003, the Partnership issued 123,186 of such Common Units, thus the Partnership currently retains the ability to issue 676,814 additional Common Units under this provision. The Partnership Agreement also provides that an unlimited number of partnership interests junior to the Common Units may be issued 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 income (loss) before income taxes plus depreciation and amortization, less 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% of its Available Cash will generally be made 98% to the Common and Subordinated Unitholders and 2% 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 ($0.60 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 (as defined below) and Subordinated Units will not accrue any arrearages with respect to distributions for any quarter.

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8. Partners' Capital (continued)

In general, the Subordination Period will continue indefinitely until the first day of any quarter beginning after June 30, 2006 for the Senior Subordinated Units and June 30, 2008 for the Junior Subordinated Units in which distributions of Available Cash equal or exceed the Minimum Quarterly Distribution on the Common Units and the Subordinated Units for each of the three consecutive four-quarter periods immediately preceding such data. Prior to the end of the Subordination Period, 828,342 Senior Subordinated Units will convert to Common Units after June 30, 2004 and 143,136 Junior Subordinated Units will convert to Common Units after June 30, 2006 and another 828,342 Senior Subordinated Units will convert to Common Units after June 30, 2005 and 143,136 Junior Subordinated Units will convert to Common Units after June 30, 2007, if distributions of Available Cash on the Common Units and Subordinated Units equal or exceed the Minimum Quarterly Distribution 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 December, March, June, and September to holders of record on the applicable record date. The Partnership made distributions to unitholders, including the non-managing general partner, amounting to $25.2 million and $16.2 million during the years ended September 30, 2003 and 2002, respectively, or $2.895 and $2.360 per unit, respectively, for the periods to which these distributions relate.

Unit Purchase Plan

Inergy's managing general partner sponsors a unit purchase plan for its employees and the employees of its affiliates. The unit purchase plan permits participants to purchase Common Units in market transactions from Inergy, the general partners or any other person. All purchases made have been in market transactions, although the plan allows Inergy to issue additional units. Inergy has reserved 50,000 units for purchase under the unit purchase plan. As determined by the compensation committee, the managing general partner may match each participant's cash base pay or salary deferrals by an amount up to 10% of such deferrals and have such amount applied toward the purchase of additional units. The managing general partner has also agreed to pay the brokerage commissions, transfer taxes and other transaction fees associated with a participant's purchase of Common Units. The maximum amount that a participant may elect to have withheld from his or her salary or cash base pay with respect to unit purchases in any calendar year may not exceed 10% of his or her base salary or wages for the year. Units purchased on behalf of a participant under the unit purchase plan generally are to be held by the participant for at least one year. To the extent a participant desires to sell or dispose of such units prior to the end of this one year holding period, the participant will be ineligible to participate in the unit purchase plan again until the one year anniversary of the date of such sale. The unit purchase plan is intended to serve as a means for encouraging participants to invest in Common Units. Units purchased through the unit purchase plan by Inergy and its employees for the fiscal years ended September 30, 2003 and 2002 were 5,138 units and 1,640 units, respectively. No units were purchased through the plan prior to fiscal year 2002.

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Notes to Consolidated Financial Statements

8. Partners' Capital (continued)

Long-Term Incentive Plan

Inergy's managing general partner sponsors the Inergy Long-Term Incentive Plan for its employees, consultants, and directors and the employees of its affiliates that perform services for Inergy. The long-term incentive plan currently permits the grant of awards covering an aggregate of 867,550 Common Units, which can be granted in the form of unit options and/or restricted units; however, not more than 282,500 restricted units may be granted under the plan. With the exception of 28,000 unit options (exercise prices from $3.83 to $10.67) granted to non-executive employees in exchange for option grants made by the predecessor in fiscal 1999, all of which have been grandfathered into the long-term incentive plan and are presented as grants in the table below, all unit options and restricted units granted under the plan will vest no sooner than, and in the same proportion as, Senior Subordinated Units convert into Common Units as described above. The compensation committee of the managing general partner's board of directors administers the plan.

Restricted Units

A restricted unit is a "phantom" unit that entitles the grantee to receive a common unit upon the vesting of the phantom unit, or at the discretion of the compensation committee, cash equivalent to the value of a common unit. In general, restricted units granted to employees will vest three years from the date of grant and are subject to the vesting provisions described above in connection with the Subordination Period. In addition, the restricted units will become exercisable upon a change of control of the managing general partner or Inergy.

The restricted units are intended to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation of the Common Units. Therefore, plan participants will not pay any consideration for the Common Units they receive, and Inergy will receive no remuneration for the units.

As of September 30, 2003, there were no restricted units issued under the long-term incentive plan.

Unit Options

Unit options issued under the long-term incentive plan will generally have an exercise price equal to the fair market value of the units on the date of grant. In general, unit options will expire after 10 years and are subject to the vesting provisions described above in connection with the Subordination Period. In addition, most unit option grants made under the plan provide that the unit options will become exercisable upon a change of control of the managing general partner or Inergy. None of the outstanding unit options were exercisable at September 30, 2003.

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Notes to Consolidated Financial Statements

8. Partners' Capital (continued)

A summary of Inergy's unit option activity for the years ended September 30, 2003 and 2002, and for the period from July 31, 2001 through September 30, 2001, is provided below:

	Range of Exercise Prices	Weighted-Average Exercise Price	Number of Units
Outstanding prior to July 31, 2001		$ —	—
Granted	$3.83-$22.00	20.39	331,920
Exercised	—	—	—
Canceled	—	—	—
Outstanding at September 30, 2001	$3.83-$22.00	20.39	331,920
Granted	$22.49-$30.69	27.12	182,500
Exercised	—	—	—
Canceled	$22.00	22.00	16,188
Outstanding at September 30, 2002	$3.83-$30.69	23.20	498,232
Granted	$27.50-$40.25	33.06	154,000
Exercised	—	—	—
Canceled	$20.00-$30.69	21.08	113,700
Outstanding at September 30, 2003	$3.83-$40.25	$ 26.19	538,532

Information regarding options outstanding as of September 30, 2003 is as follows:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contracted Life (years)	Weighted Average Exercise Price
$ 3.83 - $16.37	12,782	7.8	$ 4.74
$20.00 - $22.00	254,250	7.8	21.65
$27.50 - $33.79	236,500	9.0	30.20
$38.86 - $40.25	35,000	9.9	39.85
	538,532	8.5	$ 26.19

8. Partners' Capital (continued)

The weighted-average remaining contract life for options outstanding at September 30, 2003 is approximately eight years. Pro forma information regarding net income and earnings per share, as required by SFAS No. 123 is included in Note 1. SFAS No. 123 requires the pro forma information be determined as if Inergy has accounted for its employee unit options under the fair value method of that statement. As described below, the fair value accounting provided under SFAS No. 123 requires the use of option valuation models that were not developed for use in valuing employee unit options. The fair value of each option grant was estimated as of the grant date using the Black-Scholes option pricing model with the following assumptions:

	2003	2002	2001
Weighted average fair value of options granted	**$1.97**	$1.83	$2.16
Expected volatility	**.230**	.283	.283
Distribution yield	**7.5%**	10.0%	10.0%
Expected life of option in years	**5**	5	5
Risk-free interest rate	**3.0%**	3.1%	3.1%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected unit price volatility. Because Inergy's employee unit options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee unit options.

9. Employee Benefit Plans

A 401(k) profit-sharing plan is available to all of Inergy's employees who have completed 30 days of service. The plan permits employees to make contributions up to 75% of their salary, up to statutory limits, currently $12,000 in 2003. The plan provides for matching contributions by Inergy for employees completing one year of service of 1,000 hours. Matching contributions made by Inergy were $0.3 million, $0.2 million, and $0.1 million in 2003, 2002, and 2001, respectively.

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Notes to Consolidated Financial Statements

10. Commitments and Contingencies

Inergy periodically enters into agreements to purchase fixed quantities of liquid propane at fixed prices with suppliers. At September 30, 2003, the total of these firm purchase commitments was approximately $64.3 million.

At September 30, 2003, Inergy was contingently liable for letters of credit outstanding totaling $4.1 million, which guarantees various transactions.

Inergy is periodically involved in litigation proceedings. The results of litigation proceedings cannot be predicted with certainty; however, management believes that Inergy does not have material potential liability in connection with these proceedings that would have a significant financial impact on its consolidated financial condition and results of operations.

Inergy utilizes third-party insurance subject to varying retention levels of self-insurance, which management considers prudent. Such self-insurance relates to losses and liabilities primarily associated with workers' compensation claims and general, product and vehicle liability. Losses are accrued based upon management's estimates of the aggregate liability for claims incurred using certain assumptions followed in the insurance industry and based on past experience.

11. Segments

Inergy's financial statements reflect two reportable segments: retail sales operations and wholesale sales operations. Inergy's retail sales operations include propane sales to end users, the sale of propane-related appliances and service work for propane-related equipment. The wholesale sales operations distribute propane and provide marketing and price risk management services to other users, retailers and resellers of propane, including Inergy's retail operations. Inergy's President and Chief Executive Officer has been identified as the Chief Operating Decision Maker (CODM). The CODM evaluates performance and allocates resources based on revenues and gross profit of each segment. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. All intersegment revenues and profits associated with propane sales and other services between the wholesale and retail segments have been eliminated.

The identifiable assets associated with each reportable segment reviewed by the CODM include accounts receivable and inventories. The net asset/liability from price risk management, as reported in the accompanying consolidated balance sheets, is related to the wholesale segment and is specifically reviewed by the CODM. Capital expenditures, reported as purchases of property, plant and equipment in the accompanying consolidated statements of cash flows, substantially all relate to the retail sales segment. Inergy does not report property, plant and equipment, intangible assets, and depreciation and amortization by segment to the CODM.

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Notes to Consolidated Financial Statements

11. Segments (continued)

Revenues, gross profit, and identifiable assets for each of Inergy's reportable segments are presented below, in thousands of dollars.

	Year Ended September 30, 2003			
	Retail Sales Operations	**Wholesale Sales Operations**	**Intersegment Eliminations**	**Total**
Revenues	**$ 179,936**	**259,934**	**$ (76,505)**	**$ 363,365**
Gross profit	**87,004**	**11,326**	**(1,059)**	**97,271**
Identifiable assets	**16,554**	**41,009**	**—**	**57,563**

	Year Ended September 30, 2002			
	Retail Sales Operations	**Wholesale Sales Operations**	**Intersegment Eliminations**	**Total**
Revenues	$ 116,811	$ 120,737	$ (28,848)	$ 208,700
Gross profit	69,362	5,698	(602)	74,458
Identifiable assets	12,132	42,142	—	54,274

	Year Ended September 30, 2001			
	Retail Sales Operations	**Wholesale Sales Operations**	**Intersegment Eliminations**	**Total**
Revenues	$ 74,415	$ 133,364	$ (38,797)	$ 168,982
Gross profit	34,633	8,747	(2,823)	40,557
Identifiable assets	5,704	18,447	—	24,151

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)
Notes to Consolidated Financial Statements

12. Subsequent Events

Subsequent to September 30, 2003 Inergy completed the acquisition of a natural gas liquids (NGL) business. In October 2003, Inergy acquired from EOTT Energy, L.P. its West Coast NGL business, which includes gas processing, fractionation, 6.1 million gallons of above-ground NGL storage, truck and rail distribution facilities, and a 23-tractor NGL transportation fleet all located in south central California. In October 2003, Inergy also acquired the assets of Smith Propane, with headquarters in La Crosse, Virginia and of Peoples Gas and Appliance, with headquarters in Beaufont, South Carolina. In November 2003, Inergy acquired the assets of Pembroke Propane, with headquarters in Pembroke, Georgia. These four companies generated revenue during the 12 months ended September 30, 2003, of less than 10% of Inergy's consolidated revenue during fiscal 2003, and represents less than 10% of consolidated assets and partners' capital.

On December 10, 2003, Inergy announced a two-for-one unit split to be distributed on or about January 12, 2004, to unitholders of record on January 2, 2004. The stock split will require retroactive restatement of all historical per unit data in the first quarter ended December 31, 2003.

13. Quarterly Financial Data (Unaudited)

Summarized unaudited quarterly financial data is presented below. Inergy's business is seasonal due to weather conditions in its service areas. Propane sales to residential and commercial customers are affected by winter heating season requirements, which generally results in higher operating revenues and net income during the period from October through March of each year and lower operating revenues and either net losses or lower net income during the period from April through September of each year. Sales to industrial and agricultural customers are much less weather sensitive.

	(In Thousands of Dollars, except per unit information) Quarter Ended			
	December 31	March 31	June 30	September 30
Fiscal 2003				
Revenues	$ 109,690	$ 158,650	$ 39,481	$ 55,544
Gross profit	28,367	40,957	11,137	16,810
Operating income (loss)	10,467	20,090	(4,352)	(2,942)
Net income (loss)	7,716	17,785	(6,548)	(5,441)
Net income (loss) per limited partner unit:				
Basic	0.98	2.22	(0.75)	(0.57)
Diluted	0.97	2.19	(0.75)	(0.57)
Fiscal 2002				
Revenues	$ 49,630	$ 83,186	$ 36,699	$ 39,185
Gross profit	15,835	34,438	12,162	12,023
Operating income (loss)	5,769	16,033	(2,910)	(1,935)
Net income (loss)	4,465	14,051	(5,910)	(4,297)
Net income (loss) per limited partner unit:				
Basic	0.75	2.12	(0.88)	(0.55)
Diluted	0.74	2.08	(0.88)	(0.55)

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.

INERGY, L.P.

By Inergy GP, LLC
(its managing general partner)

Dated: December 23, 2003

By /s/John J. Sherman

John J. Sherman, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following officers and directors of Inergy GP, LLC, as managing general partner of Inergy, L.P., the registrant, in the capacities and on the dates indicated.

Date	Signature and Title
December 23, 2003	/s/John. J. Sherman John J. Sherman, President, Chief Executive Officer and Director (Principal Executive Officer)
December 23, 2003	/s/R. Brooks Sherman, Jr. R. Brooks Sherman, Jr., Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
December 23, 2003	/s/Phillip L. Elbert Phillip L. Elbert, Director
December 23, 2003	/s/Warren H. Gfeller Warren H. Gfeller, Director
December 23, 2003	/s/David J. Schulte David J. Schulte, Director
December 23, 2003	/s/Arthur B. Krause Arthur B. Krause, Director
December 23, 2003	/s/Robert A. Pascal Robert A. Pascal, Director

Schedule II

Inergy, L.P. and Subsidiary
(Successor to Inergy Partners, LLC and Subsidiaries)

Valuation and Qualifying Accounts
(in thousands)

Year ended September 30,	Balance at beginning of period	Charged to costs and expenses	Other Additions (recoveries)	Deductions (write-offs)	Balance at end of period
Allowance for doubtful accounts					
2003	$ 927	$ 719	$ 96	$ (745)	$ 997
2002	186	451	540	(250)	927
2001	225	912	9	(960)	186

FIFTH AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of July 30, 2003,

by and among

INERGY PROPANE, LLC,

as Borrower,

the Lenders referred to herein,

WACHOVIA BANK, NATIONAL ASSOCIATION

(f/k/a First Union National Bank),

as Administrative Agent

BANK ONE, NA, as Co-Documentation Agent

and

U.S. BANK, N.A., as Co-Documentation Agent

and

FLEET NATIONAL BANK, as Co-Syndication Agent

and

BANK OF OKLAHOMA, N.A., as Co-Syndication Agent

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This **FIFTH AMENDED AND RESTATED CREDIT AGREEMENT** (as the same may be amended, supplemented or otherwise modified from time to time in accordance with its terms, this "***Agreement***"), dated as of the 30th day of July, 2003, by and among the following:

(i) **INERGY PROPANE, LLC**, a Delaware limited liability company (formerly known as McCracken Oil & Propane Company, LLC) (the "***Borrower***");

(ii) The Lenders who are or may become a party hereto, in their capacity as Lenders and in such other capacities as reflected on the signature pages hereto (collectively, the "***Lenders***"; and each a "***Lender***"); and

(iii) **WACHOVIA BANK, NATIONAL ASSOCIATION** (f/k/a First Union National Bank), as Administrative Agent,

is an amendment and restatement of the Existing Credit Agreement (as defined below).

STATEMENT OF PURPOSE

The Borrower, certain Affiliates (as defined below) of the Borrower and certain lenders previously entered into an Amended and Restated Credit Agreement dated as of October 23, 1998 (the "***1998 Credit Agreement***"), as amended by (i) a First Amendment to Amended and Restated Credit Agreement dated as of December 10, 1998, (ii) a Second Amendment to Amended and Restated Credit Agreement dated as of February 10, 1999, (iii) a Third Amendment to Amended and Restated Credit Agreement dated as of July 22, 1999, (iv) a Fourth Amendment to Amended and Restated Credit Agreement dated as of November 15, 1999, and (v) a Fifth Amendment to Amended and Restated Credit Agreement dated as of May 30, 2000 (the 1998 Credit Agreement, as so amended and restated is hereby referred to as the "***Original Credit Agreement***").

The Borrower, certain Affiliates of the Borrower party to the Original Credit Agreement, and the lenders party to the Original Credit Agreement subsequently amended and restated the Original Credit Agreement in its entirety pursuant to a Second Amended and Restated Credit Agreement dated as of January 12, 2001 (as amended, the "***Second Amended and Restated Credit Agreement***").

The Borrower and certain lenders subsequently amended and restated the Second Amended and Restated Credit Agreement in its entirety pursuant to a Third Amended and Restated Credit Agreement dated as of July 25, 2001 (as amended, the "***Third Amended and Restated Credit Agreement***").

The Borrower and certain lenders subsequently amended and restated the Third Amended and Restated Credit Agreement in its entirety pursuant to at Fourth Amended and Restated Credit Agreement dated as of December 20, 2001 (as amended to date, the "***Existing Credit Agreement***")

The Borrower and certain Lenders desire to amend and restate the Existing Credit Agreement in its entirety on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, such parties hereby agree that the Existing Credit Agreement is hereby amended and restated as follows:

ARTICLE I
DEFINITIONS

SECTION 1.01. *Definitions*.

The following terms when used in this Agreement shall have the meanings assigned to them below:

"Account Debtor" means any Person who is or may become obligated in respect of an Account.

"Accounts" means all accounts (as defined in the UCC), contract rights, chattel paper, instruments and documents, in which the Borrower or any Controlled Subsidiary has or acquires an interest on or after the Closing Date.

"Administrative Agent" means Wachovia Bank, National Association (f/k/a First Union National Bank), in its capacity as Administrative Agent hereunder, and any successor thereto appointed pursuant to Section 12.09.

"Administrative Agent's Office" means the office of the Administrative Agent specified in or determined in accordance with the provisions of Section 13.01(c).

"Affiliate" means with respect to any Person, any other Person (i) which owns or otherwise has an interest in five percent or more of any equity interest of such Person, (ii) five percent or more of the equity interests of which such Person (or any member, shareholder, director, officer, employee or Subsidiary of such Person or any combination thereof) owns or otherwise has an interest in, or (iii) which, directly or through one or more intermediaries, is controlled by, controls, or is under common control with such Person. For purposes of subpart (iii) above, "control" means the ability, directly or indirectly, to affect the management or policies of a Person by virtue of an ownership interest, by right of contract or any other means.

"Aggregate Commitment" means the sum of the Working Capital Commitment and the Permitted Acquisition Commitment, as such amount may be reduced or modified at any time or from time to time pursuant to the terms hereof. On the Closing Date, the Aggregate Commitment shall be Two Hundred Million Dollars ($200,000,000).

"Agreement" has the meaning set forth in the recitals above.

"Annual Budget" means a budget setting forth detailed quarterly projections of the earnings and expenditures of the Borrower and its Consolidated Subsidiaries.

"Applicable Law" means all applicable provisions of constitutions, statutes, laws, ordinances, rules, treaties, regulations, permits, licenses, approvals, interpretations and orders of all Governmental Authorities and all orders and decrees of all courts and arbitrators.

"Applicable Margin" means, at any date, (i) with respect to Base Rate Loans, 0.00% per annum, (ii) with respect to LIBOR Loans, 2.00% per annum, and (iii) with respect to the Unused Line Fee, 0.375% per annum; *provided*, *however*, that if the Consolidated Leverage Ratio as of the last day of the immediately preceding fiscal quarter falls within any of the ranges set forth in the Schedule below, then, subject to the delivery to the Administrative Agent by the Borrower of an Applicable Margin Calculation Certificate demonstrating such fact, the Applicable Margin for each type of Loan and the Unused Line Fee, as the case may be, shall be reduced or increased, if such is the case, to the rate for the same set forth in the Schedule below. Any such adjustment in the Applicable Margin shall take effect on the third (3rd) Business Day after the Administrative Agent receives the Applicable Margin Calculation Certificate and shall remain in effect until the next adjustment of the Applicable Margin made in accordance with the terms of this Agreement. Notwithstanding anything herein to the contrary, no downward adjustment in the Applicable Margin shall take effect or remain in effect if (1) the Administrative Agent, acting in a commercially reasonable manner, disputes the accuracy of the calculations set forth in the Applicable Margin Calculation Certificate (or the accuracy or completeness of the information contained in the financial statements supporting such calculations), or (2) any Event of Default exists. The Schedule referred to above is as follows:

Level	*Consolidated Leverage Ratio*	*Applicable Margin for Base Rate Loans*	*Applicable Margin for LIBOR Rate Loans*	*Unused Line Fee*
I.	Less than or equal to 3.0:1.0	0.00%	2.00%	0.375%
II.	Greater than 3.0:1.0 and less than or equal to 3.5:1.0	0.00%	2.125%	0.375%
III.	Greater than 3.5:1.0 and less than or equal to 4.0:1.0	0.25%	2.25%	0.500%
IV.	Greater than 4.0:1.0 and less than or equal to 4.5:1.0	0.50%	2.50%	0.500%
V.	Greater than 4.5:1.0	0.50%	2.75%	0.500%

"Applicable Margin Calculation Certificate" means, at any time, the certificate, substantially in the form of Exhibit G hereto, signed by a Financial Officer of the Borrower and pursuant to which the Borrower sets forth its calculations for purposes of determining the Applicable Margin for a particular time period.

"Application" means an application, in the form specified by the Issuing Lender from time to time, requesting the Issuing Lender to issue a Letter of Credit.

"Assignment and Acceptance" has the meaning assigned thereto in Section 13.10(b)(iii).

"Available Cash" means, with respect to the Borrower, for any period:

(a) the sum of:

(1) all cash and cash equivalents of the Borrower and its Subsidiaries on hand at the end of such period; and

(2) all additional cash and cash equivalents of the Borrower and its Subsidiaries on hand on the date of determination of Available Cash for such period resulting from Working Capital Loans made after the end of such period;

(b) less the total amount of any cash reserves that is necessary or appropriate in the reasonable discretion of the Borrower to:

(1) provide for the proper conduct of the business of the Borrower and its Subsidiaries (including reserves for future Capital Expenditures and for future credit needs of the Borrower and its Subsidiaries) after such period;

(2) pay 50% of the interest to be paid on the Loans, the Permitted Private Placement Debt and any other Permitted Debt in the next fiscal quarter; and

(3) comply with applicable law or any debt instrument or other agreement or obligation to which the Borrower or any of its Subsidiaries is a party or its assets are subject;

provided, further, that disbursements made by the Borrower or any of its Subsidiaries or cash reserves established, increased or reduced after the end of such period but on or before the date of determination of Available Cash for such period shall be deemed to have been made, established, increased or reduced, for purposes of determining Available Cash, within such period if the Borrower so determines.

"Average Quarterly Loan Balance" means the sum of (i) the aggregate principal amount of all Working Capital Loans outstanding, (ii) the aggregate principal amount of all Permitted Acquisition Loans outstanding, (iii) the aggregate principal amount of all Swingline Loans outstanding and (iv) the aggregate L/C Obligations outstanding, in each case outstanding at the

end of each day for each day of the quarter in question, divided by the number of days in such quarter.

"Base Rate" means, at any time, the higher of (a) the Prime Rate or (b) the Federal Funds Rate plus 0.5%. Each change in the Base Rate shall take effect simultaneously with the corresponding change or changes in the Prime Rate or the Federal Funds Rate.

"Base Rate Loan" means any Loan bearing interest at a rate based upon the Base Rate as provided in Section 4.06(a).

"Benefited Lender" has the meaning assigned thereto in Section 4.11.

"Borrower" has the meanings set forth in the recitals to this Agreement.

"Borrower Pledge Agreement" means the Third Amended and Restated Pledge Agreement from the Borrower, as pledgor, to the Administrative Agent, as pledgee, dated the Closing Date, pursuant to which the Borrower grants to the Administrative Agent a Lien as security for the Obligations in all of the Borrower's existing and future equity and other interests in L & L Transportation, Inergy Transportation and Inergy Sales, together with any amendments, renewals, restatements, replacements, consolidations or other modifications thereof from time to time.

"Borrower Security Agreement" means the Third Amended and Restated Security Agreement from the Borrower, as debtor, to the Administrative Agent, as secured party, dated the Closing Date, pursuant to which the Administrative Agent is granted a Lien as security for the Obligations on all of the Borrower's existing and future personal property assets, together with any amendments, renewals, restatements, replacements, consolidations or other modifications thereof from time to time.

"Borrowing Base" means, at any date, an amount equal to the lesser of:

(i) the sum of (a) (i) for the period commencing July 1 and ending December 31 of each Fiscal Year only, $12,000,000, and (ii) for the period commencing January 1 and ending June 30 of each Fiscal Year only, $0, plus (b) an amount equal to the Eligible Account Advance Amount at such date, plus (c) Eligible Inventory Advance Amount at such date, minus [subtract from the sum of (a), (b) and (c)] the sum, at such date, of all amounts for which the Issuing Lender may be liable pursuant to any letter of credit issued by the Issuing Lender for the Borrower's or any Controlled Subsidiary's account; or

(ii) $50,000,000.

"Borrowing Base Certificate" has the meaning assigned thereto in Section 7.01(b)(i).

"Business Day" means (a) for all purposes other than as set forth in clause (b) below, any day other than a Saturday, Sunday or legal holiday on which banks in Charlotte, North

Carolina are open for the conduct of their commercial banking business, and (b) with respect to all notices and determinations in connection with, and payments of principal and interest on, any LIBOR Rate Loan, any day that is a Business Day described in clause (a) and that is also a day for trading by and between banks in Dollar deposits in the London interbank market.

"Capital Expenditures" means expenditures made and liabilities incurred that should, in accordance with GAAP, be classified and accounted for as capital expenditures.

"Capital Lease" means any lease of any property that should, in accordance with GAAP, be classified and accounted for as a capital lease.

"Capital Stock" means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any preferred interest, any limited or general partnership interest and any limited liability company membership interest.

"Cleandown Period" means the period commencing March 1 and ending September 30 during each Fiscal Year.

"Closing Date" means the date of this Agreement or such later Business Day as the parties hereto shall mutually agree.

"Code" means the Internal Revenue Code of 1986, and the rules and regulations thereunder, each as amended or supplemented from time to time.

"Collateral" means all personal and real property with respect to which a Lien is granted to or for the benefit of the Administrative Agent for the benefit of the Lenders pursuant to the Security Agreements, the Mortgages, the Pledge Agreements or any other Credit Documents or which otherwise secures the payment or performance of any Obligation.

"Collateral Agent" means Wachovia Bank, National Association (f/k/a First Union National Bank) or such other Person named as such in the Intercreditor Agreement.

"Commitment" means, as to any Lender, on a collective basis, such Lender's Permitted Acquisition Commitment and Working Capital Commitment, as set forth opposite such Lender's name on Schedule 1.01A hereto, as the same may be reduced or modified at any time or from time to time pursuant to the terms hereof.

"Commitment Percentage" means, as to any Lender at any time, the ratio of (a) for Working Capital Loans, L/C Obligations and Swingline Loans, (i) the amount of the Working Capital Commitment of such Lender to (ii) the Working Capital Commitment of all of the Lenders and (b) for Permitted Acquisition Loans, (i) the amount of the Permitted Acquisition Commitment of such Lender to (ii) the Permitted Acquisition Commitment of all of the Lenders.

"Consolidated" means the consolidation of accounts in accordance with GAAP.

"Consolidated EBITDA" means, with respect to the Borrower and its Consolidated Subsidiaries, for any period, an amount equal to: (i) net income for such period, plus (ii) amounts deducted in the computation thereof for (a) interest expense, (b) federal, state and local income taxes, and (c) depreciation and amortization, plus or minus, as the case may be, (iii) gains or losses from the sale of assets in the ordinary course of business, and plus or minus, as the case may be, (iv) extraordinary non-cash gains or losses for such period; provided, that for the purposes of determining Consolidated EBITDA for any period during which a Permitted Acquisition is consummated, Consolidated EBITDA shall be adjusted in a manner reasonably satisfactory to the Administrative Agent to give effect to the consummation of such Permitted Acquisition on a pro forma basis, as if such Permitted Acquisition occurred on the first day of such period.

"Consolidated Interest Expense" means, with respect to the Borrower and its Consolidated Subsidiaries, for any period, an amount equal to (i) all interest in respect of Debt accrued during such period (whether or not actually paid during such period), plus (ii) the net amount payable (or minus the net amount receivable) under Hedging Agreements accrued during such period (whether or not actually paid or received during such period) plus (iii) on a pro-forma basis, the sum of all interest accrued relating to Debt incurred in connection with any Permitted Acquisition calculated in a manner reasonably satisfactory to the Administrative Agent, excluding in each case up front financing fees payable in connection with the consummation of the transactions contemplated hereby.

"Consolidated Leverage Ratio" means the ratio of (i) Total Funded Debt (other than Debt under clause (i) of the definition of "Debt"), at such time, to (ii) Consolidated EBITDA for the four fiscal quarters most recently ended. For purposes of calculating the Consolidated Leverage Ratio, Total Funded Debt shall not include any outstanding Working Capital Loans or Swingline Loans if the Borrower is in compliance with Section 4.02(b), except to the extent that the aggregate amount of outstanding Working Capital Loans and Swingline Loans exceeds the sum of items (i)(b) and (i)(c) of the definition of Borrowing Base.

"Consolidated Subsidiary" shall mean for any Person, each Subsidiary of such Person (whether existing on the Closing Date or thereafter created or acquired) the financial statements of which shall be (or should have been) consolidated with the financial statements of such Person in accordance with GAAP.

"Controlled Subsidiary" means a direct or indirect Subsidiary of the Borrower and with respect to which the Borrower owns not less than fifty-one percent (51%) of the voting equity interests of such Subsidiary.

"Credit Documents" means, collectively, this Agreement, the Notes, the Applications, the Security Agreements, the Pledge Agreements, the Mortgages, the Guaranty Agreements, the Intercreditor Agreement and any other agreements or documents existing on or after the Closing Date evidencing, securing or otherwise relating to any of the transactions described in or contemplated by this Agreement, and any amendments, renewals, restatements, replacements or other modifications of the foregoing from time to time.

"Credit Facilities" means the collective reference to the Working Capital Facility, the Permitted Acquisition Facility, and the L/C Facility.

"Credit Parties" means, collectively, Inergy, L.P., IPCH Acquisition Corp., the Borrower, Inergy Transportation, L & L Transportation, Inergy Sales and any other direct and indirect Subsidiary (other than the Excluded Subsidiary) of the Borrower.

"Debt" means, with respect to any Person, without duplication (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind (including repurchase obligations, but not including customer deposits), (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments or letters of credit in support of bonds, notes, debentures or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under any conditional sale or other title retention agreement relating to property purchased by such Person, (e) all obligations of such Person issued or assumed as the deferred purchase price of property or services (including, without duplication, obligations under a non-compete or similar agreement) to the extent such obligations are reportable under GAAP, (f) all obligations of such Person as lessee under Capital Leases of such Person or leases of such Person for which such Person retains tax ownership of the property subject to a lease, (g) all obligations of others secured by (or for which the holder of such Debt has an existing right, contingent or otherwise, to be secured by) any Lien on property or assets owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (h) all Guaranties of such Person, (i) all obligations of such Person with respect to interest rate protection agreements (including, without limitation, Hedging Agreements) or foreign currency exchange agreements (valued at the termination value thereof computed in accordance with a method approved by the International Swap Dealers Association and agreed to by such Person in the applicable Hedging Agreement, if any), (j) all obligations of such Person as an account party in respect of letters of credit (1) securing Debt (other than letters of credit obtained in the ordinary course of business and consistent with past practices) or (2) obtained for any purpose not in the ordinary course of business or not consistent with past practices, (k) all obligations of such Person in respect of bankers' acceptances and (l) all current liabilities in respect of unfunded vested benefits under a Pension Plan covered by ERISA; provided that accrued expenses and accounts payable incurred in the ordinary course of business shall not constitute Debt.

"Default" means any of the events specified in Section 11.01, which with the passage of time, the giving of notice or any other condition, would constitute an Event of Default.

"Dollars" or "***$***" means, unless otherwise qualified, dollars in lawful currency of the United States.

"Eligible Account" means an Account arising in the ordinary course of the Borrower's or a Controlled Subsidiary's business from the sale of goods or the rendering of services which the Administrative Agent, in its reasonable credit judgment, deems to be an Eligible Account. To be an Eligible Account, such Account must be subject to the Administrative Agent's perfected first priority Lien and no Lien other than a Permitted Lien, and must be evidenced by an invoice or

other documentary evidence reasonably satisfactory to the Administrative Agent. Without limiting the generality of the foregoing, no Account shall be an Eligible Account if:

(1) the Account remains unpaid more than ninety (90) days after the original invoice date (except if the Account Debtor is engaged primarily in the business of agriculture, in which case the Account remains unpaid after November 15 of the calendar year in which the Account arose or ninety (90) days after the invoice date, whichever is later); or

(2) ten percent (10%) or more of the other Accounts from the Account Debtor are not Eligible Accounts; or

(3) the Account Debtor has disputed liability with respect to such Account, or has made any claim with respect to any other Account due from such Account Debtor to the Borrower or the applicable Controlled Subsidiary, or the Account otherwise is or may become subject to any right of setoff by the Account Debtor, to the extent of any offset, dispute or claim; or

(4) If the Account Debtor is also a creditor or supplier of the Borrower, Eligible Accounts shall consist of the lesser of (a) if the aggregate liabilities of the Borrower and its Controlled Subsidiaries to such Account Debtor do not exceed $2,000,000, the face amount of the Accounts of such Account Debtor; and (b) if such liabilities of the Borrower and its Controlled Subsidiaries to such Account Debtor exceed $2,000,000, the face amount of the Accounts of such Account Debtor minus the aggregate liabilities of the Borrower and its Controlled Subsidiaries to such Account Debtor in excess of $2,000,000; provided, however, the aggregate amount of Eligible Accounts under this clause (4) shall not exceed the aggregate Accounts of all Account Debtors who are also a creditor or a supplier of the Borrower and its Controlled Subsidiaries minus the aggregate liabilities of the Borrower and its Controlled Subsidiaries to such Account Debtors in excess of $8,000,000; or

(5) any bankruptcy or other insolvency proceeding has been filed by or against the Account Debtor; or

(6) the Account arises from a sale to an Account Debtor outside the United States, unless the sale is on letter of credit, guaranty or acceptance terms, in each case reasonably acceptable to the Administrative Agent; or

(7) the Account arises from a sale to an Account Debtor which is not final, including, without limitation, on a bill-and-hold, guaranteed sale, sale-or-return, sale-on-approval, consignment or any other repurchase or return; or

(8) the Administrative Agent believes, in its reasonable credit judgment, that collection of such Account is insecure or that payment thereof is doubtful or will be delayed by reason of the Account Debtor’s financial condition; or

(9) the Account Debtor is the United States of America or any state, or any department, agency, instrumentality or subdivision of the foregoing, unless the applicable Borrower assigns its right to payment of such Account to the Administrative Agent, in form and substance reasonably satisfactory to the Administrative Agent, so as to comply with the Assignment of Claims Act, as amended (31 U.S.C. § 3727 *et seq*.), or the comparable state statute, as the case may be; or

(10) the goods giving rise to such Account have not been shipped to the Account Debtor in accordance with the Account Debtor's instructions in respect of such goods, or such goods are otherwise nonconforming goods, or the services giving rise to such Account have not been properly performed by the Borrower or the applicable Controlled Subsidiary; or

(11) the total unpaid Accounts of the Account Debtor exceed a credit limit determined by the Administrative Agent in its reasonable discretion (which credit limit may be based upon the extent to which the total unpaid Accounts of such Account Debtor are excess relative to all other unpaid Accounts and upon such other customary credit criteria as the Administrative Agent reasonably deems appropriate), to the extent such Account exceeds such limit; or

(12) the total unpaid Accounts of the Account Debtor exceed $3,000,000 (or such other amount in excess of $3,000,000 approved by the Administrative Agent in writing) to the extent such unpaid Accounts exceed $3,000,000 or such other amount, or

(13) the Account is evidenced by chattel paper or an instrument of any kind, or has been reduced to judgment; or

(14) the Borrower or the applicable Controlled Subsidiary has made any agreement with the Account Debtor for any deduction therefrom, except for discounts or allowances which are made in the ordinary course of the Borrower's or the applicable Controlled Subsidiary's business for prompt payment and which discounts or allowances are reflected in the calculation of the face value of each invoice related to such Account; or

(15) the Account arises out of a sale by the Borrower or a Controlled Subsidiary to any Affiliate of the Borrower or a Controlled Subsidiary or to a Person controlled by an Affiliate of the Borrower or a Controlled Subsidiary.

"Eligible Account Advance Amount" means, at any date, an amount equal to eighty-five percent (85%) of the net face amount of all Eligible Accounts outstanding at such date.

"Eligible Assignee" means, with respect to any assignment of the rights, interest and obligations of a Lender hereunder, a Person that is at the time of such assignment (a) a commercial bank organized or licensed under the laws of the United States or any state thereof, having combined capital and surplus in excess of $500,000,000, (b) a commercial bank organized under the laws of any other country that is a member of the Organization of Economic Cooperation and Development, or a political subdivision of any such country, having combined

capital and surplus in excess of $500,000,000, (c) a finance company, insurance company or other financial institution which in the ordinary course of business extends credit of the type extended hereunder and that has total assets in excess of $1,000,000,000, (d) a Lender hereunder (whether as an original party to this Agreement or as the assignee of another Lender), (e) an Affiliate or Subsidiary of a Lender (whether as an original party to this Agreement or as the assignee of another Lender), hereunder that does not otherwise qualify as an Eligible Assignee provided such Lender continues to be obligated under this Agreement, (f) the successor (whether by transfer of assets, merger or otherwise) to all or substantially all of the commercial lending business of the assigning Lender, or (g) any other Person that has been approved in writing as an Eligible Assignee by the Administrative Agent and, if no Default or Event of Default exists and is continuing, by the Borrower.

"Eligible Inventory" means inventory of the Borrower and its Controlled Subsidiaries, consisting of propane, fuel oil, diesel oil, kerosene or gasoline, as the Administrative Agent, in the exercise of its reasonable credit judgment, deems to be Eligible Inventory. Without limiting the generality of the foregoing, no inventory shall be Eligible Inventory unless, in the Administrative Agent's reasonable determination, it (i) is in good, new and saleable condition, (ii) is not obsolete or unmerchantable, (iii) meets all standards imposed by any governmental agency or authority, (iv) conforms in all respects to the warranties and representations set forth in this Agreement and the Security Agreements, (v) is at all times subject to the Administrative Agent's duly perfected, first priority Lien and no other Lien other than Permitted Liens (except for Liens under items (1) or (4) of the definition of Permitted Liens, which secure obligations in excess of $1,000,000 in the aggregate), and (vi) is situated at a location in compliance with Section 8.10 hereof.

"Eligible Inventory Advance Amount" means, at any date, the lesser of (i) an amount equal to the product of (a) the Eligible Inventory Advance Rate, times (b) the aggregate amount of the Eligible Inventory (calculated on the lower of cost or market, on a first-in, first-out basis) at such time, or (ii) $35,000,000.

"Eligible Inventory Advance Rate" means, with respect to Eligible Inventory, eighty percent (80%).

"Environmental Laws" means any and all federal, state and local laws, statutes, ordinances, rules, regulations, permits, licenses, approvals, interpretations and orders of courts or Governmental Authorities, relating to the protection of human health (including, but not limited to employee health and safety) or the environment, including, but not limited to, requirements pertaining to the manufacture, processing, distribution, use, treatment, storage, disposal, transportation, handling, reporting, licensing, permitting, investigation or remediation of Hazardous Materials.

"ERISA" means the Employee Retirement Income Security Act of 1974, and the rules and regulations promulgated from time to time thereunder, each as amended or modified from time to time.

"ERISA Affiliate" means any Person who together with the Borrower is treated as a single employer within the meaning of Section 414(b), (c), (m) or (o) of the Code or Section 4001(b) of ERISA.

"Eurodollar Reserve Percentage" means, for any day, the percentage (expressed as a decimal and rounded upwards, if necessary, to the next higher 1/100th of 1%) which is in effect for such day as prescribed by the Federal Reserve Board (or any successor) for determining the maximum reserve requirement (including without limitation any basic, supplemental or emergency reserves) in respect of Eurocurrency liabilities or any similar category of liabilities for a member bank of the Federal Reserve System in New York City.

"Event of Default" means any of the events specified in Section 11.01; provided, that any requirement for passage of time, giving of notice, or any other condition, has been satisfied.

"Excluded Subsidiary" means Inergy Canada Corporation, a Canadian ULC, so long as such Subsidiary meets all of the following conditions: (i) the Borrower's and its other Subsidiaries' investments in and advances to such Subsidiary are less than $1,000,000; (ii) the fair market value of the assets of such Subsidiary totals less than $1,000,000 (as determined by the Borrower in good faith); and (iii) EBITDA (as defined below) from such Subsidiary is less than $1,000,000 per annum. For the purposes of this definition, ***"EBITDA"*** means, with respect to such Subsidiary, for any period, an amount equal to: (1) net income for such period, plus (2) amounts deducted in the computation thereof for (a) interest expense, (b) federal, state and local income taxes, and (c) depreciation and amortization, plus or minus, as the case may be, (3) gains or losses from the sale of assets in the ordinary course of business, and plus or minus, as the case may be, (4) extraordinary non-cash gains or losses for such period.

"Existing Credit Agreement" has the meaning set forth in the recitals to this Agreement.

"Existing Letters of Credit" means the letters of credit set forth on Schedule 3.01 hereto and deemed issued under Article III.

"Expansion Capital Expenditures" means Capital Expenditures made for the purpose of generating incremental net cash flow, including, without limitation, the purchase of customer storage tanks.

"Extensions of Credit" means, as to any Lender at any time, an amount equal to the sum of (a) the aggregate principal amount of all Working Capital Loans made by such Lender then outstanding, (b) the aggregate principal amount of all Permitted Acquisition Loans made by such Lender then outstanding, (c) such Lender's Commitment Percentage of the L/C Obligations then outstanding and (d) such Lender's Commitment Percentage of the Swingline Loans then outstanding.

"FDIC" means the Federal Deposit Insurance Corporation, or any successor thereto.

"Federal Funds Rate" means, the rate per annum (rounded upwards, if necessary, to the next higher 1/100th of 1%) representing the daily effective federal funds rate as quoted by the Administrative Agent and confirmed in Federal Reserve Board Statistical Release H.15 (519) or

any successor or substitute publication selected by the Administrative Agent. If, for any reason, such rate is not available, then "Federal Funds Rate" means a daily rate which is determined, in the opinion of the Administrative Agent, to be the rate at which federal funds are being offered for sale in the national federal funds market at 9:00 a.m. (Charlotte time). Rates for weekends or holidays shall be the same as the rate for the most immediate preceding Business Day.

"Financial Officer" means, as to any Person, the president, the chief financial officer or the controller of such Person.

"Fiscal Year" means the 52-week fiscal year of any Person ending September 30 of each calendar year.

"GAAP" means generally accepted accounting principles, as recognized by the American Institute of Certified Public Accountants and the Financial Accounting Standards Board, consistently applied and maintained on a consistent basis for the Borrower and its Consolidated Subsidiaries throughout the period indicated and consistent with the prior financial practice of the Borrower and its Consolidated Subsidiaries.

"Governmental Approvals" means all authorizations, consents, approvals, licenses and exemptions of, registrations and filings with, and reports to, all Governmental Authorities.

"Governmental Authority" means any nation, province, state or political subdivision thereof, and any government or any Person exercising executive, legislative, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

"Guaranty" of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person (the "***primary obligor***") (excluding endorsements of checks for collection or deposit in the ordinary course of business) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Debt, (ii) to purchase property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt.

"Guaranty Agreements" means, collectively, (i) the Subsidiary Guaranty Agreements in substantially the form of Exhibit I hereto, (ii) the Inergy, L.P. Guaranty Agreement in substantially the form of Exhibit J hereto, (iii) the IPCH Acquisition Corp. Guaranty Agreement in substantially the form of Exhibit K hereto, and (iv) all other guaranty agreements in favor of the Administrative Agent executed in connection with Permitted Acquisitions.

"Hedging Agreement" means any agreement with respect to an interest rate swap, collar, cap, floor or a forward rate agreement or other agreement regarding the hedging of interest rate risk exposure executed in connection with hedging the interest rate exposure of the Borrower

under this Agreement, and any confirming letter executed pursuant to such hedging agreement, all as amended, restated or otherwise modified.

"Inergy GP" means Inergy GP, LLC, a Delaware limited liability company.

"Inergy Holdings" means Inergy Holdings, LLC, a Delaware limited liability company.

"Inergy, L.P." means Inergy, L.P., a Delaware limited partnership.

"Inergy, L.P. Guaranty Agreement" means the Second Amended and Restated Guaranty executed by Inergy, L.P. in favor of the Administrative Agent, dated the Closing Date, together with any amendments, renewals, restatements, replacements, consolidations or other modifications thereof from time to time.

"Inergy, L.P. Pledge Agreement" means the Second Amended and Restated Pledge Agreement from Inergy, L.P., as pledgor, to the Administrative Agent, as pledgee, dated the Closing Date, pursuant to which Inergy, L.P. grants to the Administrative Agent a Lien as security for the payment and performance of all obligations under the Inergy, L.P. Guaranty Agreement on all of Inergy L.P.'s existing and future equity and other interests in the Borrower, together with any amendments, renewals, restatements, replacements, consolidations or other modifications thereof from time to time.

"Inergy Sales" means Inergy Sales & Service, Inc., a Delaware corporation.

"Inergy Transportation" means Inergy Transportation, LLC, a Delaware limited liability company.

"Intercreditor Agreement" means an intercreditor agreement among the Collateral Agent, the Administrative Agent, on behalf of itself and the Lenders, and the holders of the Private Placement Debt, a copy of which is attached hereto as Exhibit M, pursuant to which the Obligations and the Private Placement Debt rank *pari passu* with respect to payments and with respect to liens and security interests in the Collateral.

"Interest Period" has the meaning assigned thereto in Section 4.06(b).

"Investment" means, as applied to any Person, any direct or indirect purchase or other acquisition by such Person of stock or other securities of any other Person, or any direct or indirect loan, advance or capital contribution by such Person to any other Person and any other item which would be classified as an "investment" on a balance sheet of such Person prepared in accordance with GAAP, including without limitation any direct or indirect contribution by such Person of property or assets to a joint venture, partnership or other business entity in which such Person retains an interest (it being understood that a direct or indirect purchase or other acquisition by such Person of assets of any other Person (other than stock or other securities) shall not constitute an "Investment" for purposes of this Agreement).

"IPCH Acquisition Corp." means IPCH Acquisition Corp., a Delaware corporation.

"IPCH Acquisition Corp. Guaranty Agreement" means the Amended and Restated Limited Guaranty executed by IPCH Acquisition Corp. in favor of the Administrative Agent, dated the Closing Date, together with any amendments, renewals, restatements, replacements, consolidations or other modifications thereof from time to time.

"ISP 98" means the International Standby Practices (1998 Revision, effective January 1, 1999), International Chamber of Commerce Publication No. 590.

"Issuing Lender" means Wachovia Bank, National Association (f/k/a First Union National Bank) in its capacity as issuer of any Letter of Credit, or any successor thereto.

"L & L Transportation" means L & L Transportation, LLC, a Delaware limited liability company.

"L/C Commitment" means the lesser of (a) Fifteen Million Dollars ($15,000,000), (b) the Borrowing Base and (c) the Working Capital Commitment.

"L/C Facility" means the letter of credit facility established pursuant to Article III.

"L/C Obligations" means at any time, an amount equal to the sum of (a) the aggregate undrawn and unexpired amount of the then outstanding Letters of Credit and (b) the aggregate amount of drawings under Letters of Credit which have not then been reimbursed pursuant to Section 3.05.

"L/C Participants" means the collective reference to all the Lenders other than the Issuing Lender.

"Lender" means each Person executing this Agreement as a Lender (including, without limitation, the Issuing Lender and the Swingline Lender unless the context otherwise requires) set forth on the signature pages hereto and each Person that hereafter becomes a party to this Agreement as a Lender pursuant to Section 13.10.

"Lenders' Pro-Rata Share" means a fraction (expressed as a decimal), the numerator of which is the aggregate outstanding principal balance of the Loans as of the date of the prepayment, and the denominator of which is the aggregate outstanding principal amount of the Loans plus the outstanding principal balance of the Permitted Private Placement Debt as of the date of prepayment.

"Lending Office" means, with respect to any Lender, the office of such Lender maintaining such Lender's Commitment Percentage of the Loans as set forth on Schedule 1.01B hereto.

"Letters of Credit" has the meaning assigned thereto in Section 3.01.

"LIBOR" means the rate of interest per annum determined on the basis of the rate for deposits in Dollars in minimum amounts of at least $2,000,000 for a period equal to the Interest Period selected which appears on the Dow Jones Market Screen 3750 at approximately 11:00 a.m.

London time, two (2) Business Days prior to the first day of the applicable Interest Period (rounded upward, if necessary, to the nearest one-sixteenth of one percent (1/16%)). If, for any reason, such rate does not appear on Dow Jones Market Screen 3750, then "LIBOR" shall be determined by the Administrative Agent to be the arithmetic average of the rate per annum at which deposits in Dollars in minimum amounts of at least $2,000,000 would be offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 a.m. London time, two (2) Business Days prior to the first day of the applicable Interest Period for settlement in immediately available funds by leading banks in the London interbank market for a period equal to the Interest Period selected. Each calculation by the Administrative Agent of LIBOR shall be conclusive and binding for all purposes, absent manifest error.

"LIBOR Rate" means a rate per annum (rounded upwards, if necessary, to the next higher 1/100th of 1%) determined by the Administrative Agent pursuant to the following formula:

$$\text{LIBOR Rate} = \frac{\text{LIBOR}}{\text{1.00-Eurodollar Reserve Percentage}}$$

"LIBOR Rate Loan" means any Loan bearing interest at a rate based upon the LIBOR Rate as provided in Section 4.06(a).

"Lien" means any mortgage, deed of trust, pledge security interest, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or preference, priority, or other security agreement or preferential arrangement, charge or encumbrance of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the UCC or comparable law of any jurisdiction to evidence any of the foregoing).

"Loan" means any Working Capital Loan, Permitted Acquisition Loan, or Swingline Loan made to the Borrower pursuant to Article II; ***"Loans"*** means the collective reference thereto.

"Material Adverse Effect" means (a) a materially adverse effect on the business, assets, operations, prospects or financial condition of Inergy, L.P. and its Subsidiaries, taken as a whole, or the Borrower and its Subsidiaries, taken as a whole, (b) any material impairment of the ability of Inergy, L.P., the Borrower or any Subsidiary of the Borrower to perform any of its respective Obligations under any Credit Document or (c) any material impairment of the rights of, or benefits available to, the Lenders or the Administrative Agent under any of the Credit Documents.

"Midstream Business" means the business of storage, marketing and/or transmission of natural resources, including, without limitation, owning and operating pipelines, storage facilities, processing plants and facilities and gathering systems, and other assets related thereto.

"Mortgages" means, collectively, (i) all of the deeds to secure debt, mortgages and deeds of trust, executed by the Borrower in favor of the Administrative Agent, relating to the real

properties owned by the Borrower, (ii) all of the deeds to secure debt, mortgages and deeds of trust, executed by the Borrower or any of its Subsidiaries in favor of the Administrative Agent in connection with Permitted Acquisitions or otherwise pursuant to Section 10.03(b), and (iii) any other assignments, amendments, renewals, restatements, replacements, consolidations or other modifications from time to time of any of the foregoing, all in form and substance reasonably satisfactory to the Administrative Agent.

"New Inergy Propane, LLC" means New Inergy Propane, LLC, a Delaware limited liability company.

"1998 Credit Agreement" has the meaning set forth in the recitals to this Agreement.

"Notes" means the collective reference to the Working Capital Notes, the Permitted Acquisition Notes, and the Swingline Note; ***"Note"*** means any of such Notes.

"Notice of Account Designation" has the meaning assigned thereto in Section 4.01(b).

"Notice of Borrowing" has the meaning assigned thereto in Section 4.01(a).

"Notice of Conversion/Continuation" has the meaning assigned thereto in Section 4.07.

"Obligations" means, in each case, whether now in existence or hereafter arising: (a) the principal of and interest on (including interest accruing after the filing of any bankruptcy or similar petition) the Loans, (b) the L/C Obligations, (c) all payment and other obligations owing by the Borrower to any Lender or the Administrative Agent under any Hedging Agreement to which a Lender is a party (or any Affiliate of a Lender) which is permitted under this Agreement and (d) all other fees and commissions (including attorney's fees), charges, indebtedness, loans, liabilities, financial accommodations, obligations, covenants and duties owing by any Credit Party to the Lenders or the Administrative Agent, in each case under or in respect of this Agreement, any Note, any Letter of Credit or any of the other Credit Documents of every kind, nature and description, direct or indirect, absolute or contingent, due or to become due, contractual or tortious, liquidated or unliquidated, and whether or not evidenced by any note, and whether or not for the payment of money under or in respect of this Agreement, any Note, any Letter of Credit or any of the other Credit Documents.

"Officer's Compliance Certificate" has the meaning assigned thereto in Section 7.01(g).

"Organic Documents" means, relative to any Credit Party, its partnership agreement, limited liability company or operating agreement, bylaws, certificate or articles of partnership, certificate or articles of formation, certificate or articles of incorporation and other like documents, and all shareholder agreements, voting trusts and similar arrangements applicable to any of its authorized shares of Capital Stock or other equity interests.

"Original Credit Agreement" has the meaning set forth in the recitals to this Agreement.

"Other Taxes" has the meaning assigned thereto in Section 4.16(b).

"Permitted Acquisition" means an acquisition (or series of related acquisitions) by the Borrower or any Subsidiary Guarantor of all or any part of the assets of another Person (such assets being referred to herein as the "***Target Assets***") or of at least fifty-one percent (51%) of the voting equity interests of another Person (such Person, together with any and all Subsidiaries of such Person, being referred to herein as the "***Target***") in each case made in compliance with all of the following terms and conditions:

(1) the Target is in, or the Target Assets are employed in, the same line of business as the Borrower, or in any Midstream Business.

(2) in the case of an equity acquisition, the Controlled Subsidiary is a Target of the Borrower (or, in the case of an equity acquisition in the form of a merger, (a) the Target is merged with and into the Borrower or a Controlled Subsidiary, with the Borrower or such Controlled Subsidiary, as the case may be, being the surviving entity, or (b) the Target is merged with and into a Controlled Subsidiary with the Target being the surviving entity, provided that such surviving entity qualifies as a Controlled Subsidiary);

(3) no Default or Event of Default exists at the time of the acquisition or would result therefrom;

(4) the purchase price (including assumed Debt) of any Target or Target Assets shall not exceed $30,000,000 (provided, that if the Target is in, or the Target Assets are employed in, Midstream Business, then such purchase price (including assumed Debt) shall not exceed $15,000,000), and the aggregate purchase price (including assumed Debt) of all Targets and Target Assets shall not exceed $50,000,000 in any Fiscal Year. Acquisitions in excess of the individual or aggregate purchase price limitations set forth above shall be subject to the prior written consent of the Required Lenders, which consent shall not be unreasonably withheld, conditioned or delayed. Notwithstanding the foregoing, the United Acquisition, for a purchase price (including assumed Debt) not to exceed $50,000,000 (plus an adjustment at closing in an amount not to exceed $4,000,000 for the purchase of working capital and for the reimbursement of growth capital expenditures invested by United during the period of May 15, 2003 through the closing date of the United Acquisition), pursuant to the United Acquisition Plan, shall be a Permitted Acquisition, subject to all other terms and conditions of this definition; provided, however, that when evaluating additional acquisitions for Fiscal Year 2003, the purchase price of the United Acquisition shall not be included in the aggregate $50,000,000 Fiscal Year purchase price limitation set forth in this subpart (4);

(5) within a reasonable time prior to such acquisition, the Administrative Agent shall have received a copy of the executed purchase agreement (or, in the event that the purchase agreement is not being executed until closing, then a finalized unexecuted version of the purchase agreement) for the applicable Target or Target Assets, a breakdown of the purchase price for such acquisition, the anticipated amount to be borrowed under the Permitted Acquisition Facility and such other information related to such acquisition as the Administrative Agent shall reasonably request.

(6) upon the consummation of the acquisition (or, in the reasonable discretion of the Administrative Agent, within a reasonable time after such acquisition), the Administrative Agent shall have (or shall have received, as the case may be), subject to Sections 12.10(b) and (e):

(i) in the case of an asset acquisition, with respect to the Target Assets, a perfected Lien on (1) such fee-owned real properties as constitute at least seventy-five percent (75%) of the aggregate value of the fee-owned real properties included in the Target Assets, as determined by the Administrative Agent in its reasonable discretion, (2) such motor vehicles as constitute at least seventy-five percent (75%) of the aggregate value of the motor vehicles included in the Target Assets, as determined by the Administrative Agent in its reasonable discretion, (3) all other material personal property assets included in the Target Assets (to the extent that (a) a Lien can be perfected thereon by the filing of UCC financing statements in the appropriate jurisdictions, and (b) if required by the Administrative Agent, a Lien can be perfected thereon by possession or other methods under the UCC), all subject to no other Lien other than Permitted Liens (and, in connection therewith, the Borrower shall have submitted to the Administrative Agent for its approval a revised Schedule 8.10 to this Agreement reflecting the location of the Collateral, inclusive of Target Assets on which the Administrative Agent has a perfected Lien);

(ii) in the case of an equity acquisition, (i) a Guaranty from the Target in form and substance reasonably satisfactory to the Administrative Agent, pursuant to which such Target guarantees, in favor of the Administrative Agent, the payment and performance of all Obligations, (ii) a perfected Lien on (1) such fee-owned real properties as constitute at least seventy-five percent (75%) of the aggregate value of all existing and future fee-owned real properties of the Target, as determined by the Administrative Agent in its reasonable discretion, (2) such motor vehicles as constitute at least seventy-five percent (75%) of the aggregate value of all existing and future motor vehicles of the Target, as determined by the Administrative Agent in its reasonable discretion, (3) all other material existing and future personal property assets of the Target (to the extent that (a) a Lien can be perfected thereon by the filing of UCC financing statements in the appropriate jurisdictions, and (b) if required by the Administrative Agent, a Lien can be perfected thereon by possession or other methods under the UCC), all subject to no other Lien other than Permitted Liens (and, in connection therewith, the Borrower shall have submitted to the Administrative Agent for its approval a revised Schedule 8.10 to this Agreement reflecting the location of the Collateral, inclusive of such assets of the Target on which the Administrative Agent has a perfected Lien), (iii) a Lien on all of the existing and future equity interests in the Target, subject to no other Lien other than Permitted Liens, and (iv) the Borrower shall have submitted to the Administrative Agent for its

approval a revised Schedule 6.01(b) to this Agreement reflecting the ownership structure of the Borrower and its Subsidiaries;

(iii) if any Target Assets (or any assets of the Target) consist of fee-owned real properties, then, with respect to such fee-owned real properties as constitute at least seventy-five percent (75%) of the aggregate value of the fee-owned real properties included in the Target Assets and other assets of the Target, as determined by the Administrative Agent in its reasonable discretion, at no expense to the Administrative Agent, (i) record owner searches with respect to each such fee-owned real property in form, terms and scope, satisfactory to the Administrative Agent, and (ii) a mortgage, deed of trust or deed to secure debt, as applicable, satisfactory to the Administrative Agent and granting the Administrative Agent a perfected Lien on each such fee interest.

(iv) such UCC financing statements, loan and security agreements and other documents (including, without limitation, opinions of counsel to the Borrower and the Target regarding, among other things, the authority of the Target to guarantee the Obligations and to grant Liens) as the Administrative Agent may reasonably request in connection with the conditions set forth in this subpart (6);

(7) the Borrower shall have paid all reasonable costs and expenses incurred by the Administrative Agent and its counsel in connection with such acquisition, including, without limitation, all such costs and expenses incurred to satisfy the conditions set forth in subpart (6) above; and

(8) the Administrative Agent shall have received such other assurances and documentation as the Administrative Agent may reasonably request from time to time in connection with the acquisition and the conditions set forth above.

Notwithstanding anything to the contrary set forth above, subject to Sections 12.10(b) and (e), the conditions set forth in subpart (6) shall not apply to the acquisition of Target Assets (whether acquired in one or more related or unrelated transactions) to the extent that the aggregate purchase price of such Target Assets does not exceed $5,000,000.

"Permitted Acquisition Commitment" means, (a) as to any Lender, the obligation of such Lender to make Permitted Acquisition Loans to the Borrower hereunder in an aggregate principal amount at any time outstanding not to exceed the amount so designated opposite such Lender's name on Schedule 1.01A hereto, as the same may be reduced or modified at any time or from time to time pursuant to the terms hereof, and (b) as to all Lenders, the aggregate commitment of all Lenders to make Permitted Acquisition Loans, as such amount may be reduced at any time from time to time pursuant to the terms hereof. The Permitted Acquisition Commitment of all Lenders on the Closing Date shall be One Hundred Fifty Million Dollars ($150,000,000).

"Permitted Acquisition Facility" means the loan facility established pursuant to Section 2.03.

"Permitted Acquisition Loan" means any of the loans made by the Lenders to the Borrower pursuant to Section 2.03 and all such loans collectively as the context requires.

"Permitted Acquisition Notes" means the separate Permitted Acquisition Notes made by the Borrower, payable to the order of each Lender, substantially in the form of Exhibit A-1 hereto, evidencing the Permitted Acquisition Facility, and any amendments and modifications thereto, any substitutes therefor, and any replacements, restatements, renewals or extension thereof, in whole or in part. ***"Permitted Acquisition Note"*** means any of such Permitted Acquisition Notes.

"Permitted Debt" means any of the following:

(1) Debt under this Agreement (including, Guaranties of Debt under this Agreement) and Debt under the Existing Credit Agreement on or prior to the Closing Date;

(2) Debt in an aggregate principal amount which, when aggregated with unsecured or subordinated Debt incurred by Inergy, L.P., does not exceed $200,000,000 at any time outstanding, and which is either (i) unsecured or (ii) subordinated to the Obligations pursuant to the terms of a subordination agreement satisfactory to the Administrative Agent and the Required Lenders in their sole discretion;

(3) Debt of the Borrower or any Subsidiary Guarantor to any other Subsidiary Guarantor;

(4) Debt, other than Debt described in subparts (1) through (3) above and subpart (6) below, provided that the aggregate outstanding principal amount of such Debt (with respect to all Credit Parties) does not exceed $5,000,000 at any time;

(5) Debt of the type described in clause (i) of the definition "Debt," provided such Debt is incurred in connection with interest rate protection agreements (including, Hedging Agreements) covering the floating rate portion of the Obligations under this Agreement;

(6) Other Debt in existence on the Closing Date and set forth on Schedule 10.02 hereto;

(7) Permitted Private Placement Debt and Guaranties of Permitted Placement Debt; and

(8) Other Debt approved in advance by the Administrative Agent and the Required Lenders in writing.

"Permitted Liens" means any of the following:

(1) Liens for taxes, assessments or governmental charges not delinquent or being contested in good faith and by appropriate proceedings and for which adequate reserves in accordance with GAAP are maintained on the Borrower's books;

(2) Liens arising out of deposits in connection with workers' compensation, unemployment insurance, old age pensions or other social security or retirement benefits legislation;

(3) deposits or pledges to secure bids, tenders, contracts (other than contracts for the payment of money), leases, statutory obligations, surety and appeal bonds, and other obligations of like nature arising in the ordinary course of the Borrower's business;

(4) Liens imposed by law, such as mechanics', workers', materialmen's, carriers' or other like liens (excluding, however, any statutory or other Lien in favor of a landlord under a written or oral lease) arising in the ordinary course of the Borrower's business which secure the payment of obligations which are not past due or which are being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP are maintained on the Borrower's books;

(5) rights of way, zoning restrictions, easements and similar encumbrances affecting the Borrower's real property which do not materially interfere with the use of such property;

(6) Liens in favor of the Administrative Agent (or the Collateral Agent);

(7) Liens in favor of the Collateral Agent securing Permitted Private Placement Debt, (i) which are *pari passu* with the Liens in favor of the Administrative Agent securing the Obligations, and (ii) which are subject to the Intercreditor Agreement; and

(8) purchase money security interests for the purchase of equipment to be used in the Borrower's business, encumbering only the equipment so purchased, and which secures only the purchase-money Debt incurred to acquire the equipment so purchased and which Debt qualifies as Permitted Debt.

"Permitted Private Placement Debt" means that certain Note Purchase Agreement dated as of June 7, 2002 (as the same may be amended, restated, supplemented, or otherwise modified from time to time), pursuant to which the Borrower has issued and sold to the purchasers named on the Purchaser Schedule thereto (i) $35,000,000 aggregate principal amount of its 8.85% Senior Secured Notes, Series A, due June 7, 2007, (ii) $25,000,000 aggregate principal amount of its 9.10% Senior Secured Notes, Series B, due June 6, 2008, and (iii) $25,000,000 aggregate principal amount of its 9.34% Senior Secured Notes, Series C, due June 5, 2009.

"Person" means an individual, corporation, limited liability company, partnership, association, trust, business trust, joint venture, joint stock company, pool, syndicate, sole proprietorship, unincorporated organization, Governmental Authority or any other form of entity or group thereof.

"Plan" means an employee benefit plan (as defined in Section 3(3) of ERISA) maintained for employees of the Borrower.

"Pledge Agreements" means, collectively, (i) the Borrower Pledge Agreement, (ii) the Inergy, L.P. Pledge Agreement and (iii) any other pledge agreement entered into thereafter from any other Person holding an equity or other interest in any of the Credit Parties (other than Inergy, L.P.), any Target or any other direct or indirect Subsidiary of the Borrower, as pledgor, to the Administrative Agent, as pledgee, securing all or any part of the Obligations or the payment and performance of all or any portion of the obligations under the applicable Guaranty Agreements, each in form and substance reasonably satisfactory to the Administrative Agent.

"Post-Closing Agreement" has the meaning assigned thereto in Section 5.02(a)(xiii).

"Prime Rate" means, at any time, the rate of interest per annum publicly announced from time to time by Wachovia Bank, National Association (f/k/a First Union National Bank) as its prime rate. Each change in the Prime Rate shall be effective as of the opening of business on the day such change in the Prime Rate occurs. The parties hereto acknowledge that the rate announced publicly by Wachovia Bank, National Association (f/k/a First Union National Bank) as its Prime Rate is an index or base rate and shall not necessarily be its lowest or best rate charged to its customers or other banks.

"Register" has the meaning assigned thereto in Section 13.10(d).

"Reimbursement Obligation" means the obligation of the Borrower to reimburse the Issuing Lender pursuant to Section 3.05 for amounts drawn under Letters of Credit.

"Required Lenders" means, at any date, any combination of Lenders whose Commitments aggregate at least sixty-six and two-thirds percent (66-2/3%) of the Aggregate Commitment or, if the Credit Facilities have been terminated pursuant to the terms hereof, the Administrative Agent and any combination of Lenders holding at least sixty-six and two-thirds percent (66-2/3%) of the aggregate Extensions of Credit.

"Risk Management Policy" means that certain Trading and Risk Management Policy dated October 1, 2002 of the Borrower and its Subsidiaries, as the same may be amended from time to time and adopted by the Board of Directors of the Borrower; provided that a copy of each amendment shall be delivered to the Administrative Agent prior to the effective date thereof.

"Second Amended and Restated Credit Agreement" has the meaning set forth in the recitals to this Agreement.

"SEC" means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

"Security Agreements" means, collectively, (i) each of the Subsidiary Security Agreements, (ii) the Borrower Security Agreement, and (iii) all other security agreements executed by the Borrower or any of its Subsidiaries in favor of the Administrative Agent in

connection with Permitted Acquisitions or pursuant to Section 10.03(b), each in form and substance reasonably satisfactory to the Administrative Agent.

"Solvent" means, with respect to any Person, that such Person (a) has capital sufficient to carry on its business and transactions and all business and transactions in which it is about to engage and is able to pay its debts as they mature, (b) owns property having a value, both at fair valuation and at present fair saleable value, greater than the amount required to pay its probable liabilities (including contingencies), and (c) does not believe that it will incur debts or liabilities beyond its ability to pay such debts or liabilities as they mature.

"Subsidiary" means as to any Person, any corporation, partnership, limited liability company or other entity of which more than fifty percent (50%) of the outstanding Capital Stock or other ownership interests having ordinary voting power to elect a majority of the board of directors or other managers of such corporation, partnership, limited liability company or other entity is at the time, directly or indirectly, owned by or the management is otherwise controlled by such Person (irrespective of whether, at the time, Capital Stock or other ownership interests of any other class or classes of such corporation, partnership, limited liability company or other entity shall have or might have voting power by reason of the happening of any contingency). Unless otherwise qualified references to ***"Subsidiary"*** or ***"Subsidiaries"*** herein shall refer to those of the Borrower.

"Subsidiary Guaranty Agreements" means, collectively, (i) each Third Amended and Restated Guaranty executed by L & L Transportation, and Inergy Transportation, respectively, in favor of the Administrative Agent, dated the Closing Date, (ii) the Second Amended and Restated Guaranty executed by Inergy Sales in favor of Administrative Agent, dated the Closing Date, and (iii) any amendments, renewals, restatements, replacements, consolidations or other modifications thereof from time to time.

"Subsidiary Guarantor" means, collectively, (i) L & L Transportation, Inergy Transportation and Inergy Sales, and (ii) any Target that executes and delivers a Guaranty pursuant to clause (6)(ii) of the definition of "Permitted Acquisition," and specifically excludes the Excluded Subsidiary.

"Subsidiary Security Agreements" means, collectively, (i) each Third Amended and Restated Security Agreement from L & L Transportation and Inergy Transportation, respectively, as debtor, to the Administrative Agent, as secured party, dated the Closing Date, pursuant to which the Administrative Agent is granted a Lien, as security for the payment and performance of all obligations under the applicable Subsidiary Guaranty Agreement, on all of L & L Transportation's or Inergy Transportation's, as applicable, existing and future assets; (ii) the Second Amended and Restated Security Agreement from Inergy Sales, as debtor, to the Administrative Agent, as secured party, dated the Closing Date, pursuant to which the Administrative Agent is granted a Lien, as security for the payment and performance of all obligations under the applicable Subsidiary Guaranty Agreement, on all of Inergy Sale's existing and future assets; and (iii) any amendments, renewals, restatements, replacements, consolidations or other modifications thereof from time to time.

"Swap Counterparty" as used in the Credit Documents means the Administrative Agent, any Lender or any Affiliate thereof party to a Hedging Agreement with the Borrower.

"Swingline Commitment" means Five Million Dollars ($5,000,000).

"Swingline Facility" means the swingline facility established pursuant to Section 2.02.

"Swingline Lender" means Wachovia Bank, National Association (f/k/a First Union National Bank), in its capacity as swingline lender hereunder.

"Swingline Loan" means the swingline loans made by the Swingline Lender to the Borrower pursuant to Section 2.02, and all such loans collectively as the context requires.

"Swingline Note" means the Swingline Note made by the Borrower payable to the order of the Swingline Lender, substantially in the form of Exhibit A-4 hereto, evidencing the Swingline Loans, and any amendments, supplements and modifications thereto, any substitutes therefor, and any replacements, restatements, renewals or extension thereof, in whole or in part.

"Swingline Termination Date" means the earlier to occur of (a) the resignation of Wachovia Bank, National Association (f/k/a First Union National Bank) as Administrative Agent in accordance with Section 12.09 and (b) the Termination Date.

"Taxes" has the meaning assigned thereto in Section 4.16(a).

"Termination Date" means the earliest of (a) July 29, 2006, (b) the date of termination by the Borrower of the Commitments in full pursuant to Section 4.04(a), and (c) the date of termination of the Credit Facilities pursuant to Section 11.02(a).

"Third Amended and Restated Credit Agreement" has the meaning set forth in the recitals to this Agreement.

"Total Funded Debt" means, with respect to the Borrower and its Consolidated Subsidiaries, at any time, the total amount of Debt at such time, whether such Debt is matured, unmatured, absolute, contingent or otherwise.

"Transactions" has the meaning assigned thereto in Section 13.10(g).

"UCC" means the Uniform Commercial Code as in effect in the State where the applicable Collateral is located, as amended or modified from time to time.

"Uniform Customs" means the Uniform Customs and Practice for Documentary Credits (1994 Revision), effective January, 1994, International Chamber of Commerce Publication No. 500.

"United Acquisition" means the acquisition by the Borrower of all or substantially all of the assets of United Propane, Inc., pursuant to the United Acquisition Plan.

"United Acquisition Plan" means the proposed structure of, computation of purchase price and sources of funds for, and timing of the United Acquisition, all as described in detail on Schedule 1.01C hereto, without any waiver thereof or amendment thereto (other than non-material waivers and amendments), except as consented to by the Administrative Agent, in its reasonable discretion.

"United Purchase Agreement" means the definitive purchase agreement executed by the Borrower and United Propane for the United Acquisition, without any waiver or amendment thereto (other than non-material waivers or amendments), without the consent of the Administrative Agent, in its reasonable discretion.

"United Propane" means United Propane, Inc., a Delaware corporation.

"United States" means the United States of America.

"Unused Line Fee" has the meaning set forth in Section 4.08(a).

"Wachovia" means Wachovia Bank, National Association (f/k/a First Union National Bank), a national banking association, and its successors.

"Working Capital Commitment" means (a) as to any Lender, the obligation of such Lender to make Working Capital Loans to the Borrower hereunder in an aggregate principal amount at any time outstanding not to exceed the amount so designated opposite such Lender's name on Schedule 1.01A hereto, as the same may be reduced or modified at any time or from time to time pursuant to the terms hereof and (b) as to all Lenders, the aggregate commitment of all Lenders to make Working Capital Loans, as such amount may be increased or reduced at any time or from time to time pursuant to the terms hereof. The Working Capital Commitment of all Lenders on the Closing Date shall be Fifty Million Dollars ($50,000,000).

"Working Capital Facility" means the loan facility established pursuant to Section 2.01.

"Working Capital Loan" means any of the Working Capital Loans made by the Lenders to the Borrower pursuant to Section 2.01 and all such loans collectively as the context requires.

"Working Capital Notes" means the collective reference to the Working Capital Notes made by the Borrower payable to the order of each Lender, substantially in the form of Exhibit A-2 hereto, evidencing the Working Capital Facility, and any amendments and modifications thereto, any substitutes therefor, and any replacements, restatements, renewals or extension thereof, in whole or in part. "***Working Capital Note***" means any of such Working Capital Notes.

SECTION 1.02. *Other Definitions and Provisions*.

(a) Use of Capitalized Terms. Unless otherwise defined therein, all capitalized terms defined in this Agreement shall have the defined meanings when used in this Agreement, the Notes and the other Credit Documents or any certificate, report or other document made or delivered pursuant to this Agreement.

(b) Miscellaneous. Unless otherwise specified, a reference in this Agreement to a particular section, subsection, Schedule or Exhibit is a reference to that section, subsection, Schedule or Exhibit of this Agreement. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. Wherever from the context it appears appropriate, each term stated in either the singular or plural shall include the singular and plural, and pronouns stated in the masculine, feminine or neuter gender shall include the masculine, the feminine and the neuter. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. Any reference herein to "Charlotte time" shall refer to the applicable time of day in Charlotte, North Carolina. This Agreement shall be construed without regard to any presumption or rule requiring construction against the party causing such instrument or any portion thereof to be drafted.

ARTICLE II

THE CREDIT FACILITIES

SECTION 2.01. *Working Capital Loans*.

Subject to the terms and conditions of this Agreement, and in reliance upon the representations and warranties set forth herein, each Lender severally agrees to make Working Capital Loans to the Borrower from time to time from the Closing Date to, but not including, the Termination Date as requested by the Borrower in accordance with the terms of Section 4.01; provided, that (i) the aggregate principal amount of all outstanding Working Capital Loans (after giving effect to any amount requested and the application of the proceeds thereof) shall not exceed the Working Capital Commitment less the sum of all outstanding Swingline Loans and L/C Obligations; (ii) the aggregate principal amount of all outstanding Working Capital Loans (after giving effect to any amount requested) shall not exceed the Borrowing Base less the sum of all outstanding Swingline Loans and L/C Obligations; (iii) the principal amount of outstanding Working Capital Loans from any Lender to the Borrower shall not at any time exceed such Lender's Working Capital Commitment less such Lender's Commitment Percentage of L/C Obligations and outstanding Swingline Loans; and (iv) the principal amount of all Lenders' Extensions of Credit (after giving effect to any amount requested and the application of the proceeds thereof) shall not at any time exceed the Aggregate Commitment. Each Working Capital Loan by a Lender shall be in a principal amount equal to such Lender's Commitment Percentage of the aggregate principal amount of Working Capital Loans requested on such occasion. Subject to the terms and conditions hereof, the Borrower may borrow, repay and reborrow Working Capital Loans.

SECTION 2.02. *Swingline Loans*.

(a) Availability. Subject to the terms and conditions of this Agreement, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time from the Closing Date through, but not including, the Swingline Termination Date; provided, that the aggregate principal amount of all outstanding Swingline Loans (after giving effect to any amount requested and the application of the proceeds thereof), shall not exceed the lesser of (i)

the Working Capital Commitment less the sum of all outstanding Working Capital Loans and L/C Obligations, (ii) the Borrowing Base less the sum of all outstanding Working Capital Loans and L/C Obligations and (iii) the Swingline Commitment. Each Lender acknowledges that the aggregate principal amount of all outstanding Swingline Loans made by the Swingline Lender, when taken together with the aggregate principal amount of all outstanding Working Capital Loans made by the Swingline Lender, may exceed the Swingline Lender's Working Capital Commitment. Upon and during the continuance of a Default or an Event of Default, the Borrower shall no longer have the option of requesting Swingline Loans.

(b) Refunding.

(i) Swingline Loans shall be reimbursed fully by the Lenders on demand by the Swingline Lender. Such reimbursements shall be made by the Lenders in accordance with their respective Commitment Percentages and shall thereafter be reflected as Working Capital Loans of the Lenders on the books and records of the Administrative Agent; provided that no Lender shall be required to reimburse any Swingline Loan if, after giving effect to such reimbursement, the aggregate principal amount of such Lender's Working Capital Loans outstanding would exceed such Lender's Working Capital Commitment. Each Lender shall fund its respective Commitment Percentage of Working Capital Loans as required to repay Swingline Loans outstanding to the Swingline Lender upon demand by the Swingline Lender but in no event later than 2:00 p.m. (Charlotte time) on the next succeeding Business Day after such demand is made. No Lender's obligation to fund its respective Commitment Percentage of a Swingline Loan shall be affected by any other Lender's failure to fund its Commitment Percentage of a Swingline Loan, nor shall any Lender's Commitment Percentage be increased as a result of any such failure of any other Lender to fund its Commitment Percentage of a Swingline Loan.

(ii) The Borrower shall pay to the Swingline Lender on demand the amount of such Swingline Loans to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. In addition, the Borrower hereby authorizes the Administrative Agent to charge any account maintained by the Borrower or any Subsidiary of the Borrower with the Swingline Lender (up to the amount available therein) in order to immediately pay the Swingline Lender the amount of such Swingline Loans to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. If any portion of any such amount paid to the Swingline Lender shall be recovered by or on behalf of the Borrower from the Swingline Lender in bankruptcy or otherwise, the loss of the amount so recovered shall be ratably shared among all the Lenders in accordance with their respective Commitment Percentages.

(iii) Each Lender acknowledges and agrees that its obligation to refund Swingline Loans in accordance with the terms of this Section 2.02 is absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, the existence of a Default or an Event of Default other than a Default or Event of Default that the Swingline Lender had actual knowledge of at the time such Swingline Loan was made. Further, each Lender agrees and acknowledges that if prior to the refunding of any outstanding Swingline Loans pursuant to this Section 2.02, one of the events described in Section 11.01(h) or (i) shall have occurred, each Lender will, on the next Business Day, purchase an undivided participating interest in the Swingline Loan in an amount equal to its Commitment Percentage of the aggregate amount of such Swingline Loan. Each Lender will immediately transfer to the Swingline Lender, in immediately available funds, the amount of its participation and upon receipt thereof the Swingline Lender will deliver to such Lender a certificate evidencing such participation dated the date of receipt of such funds and for such amount. Whenever, at any time after the Swingline Lender has received from any Lender such Lender's participating interest in a Swingline Loan, the Swingline Lender receives any payment on account thereof, the Swingline Lender will distribute to such Lender its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded).

SECTION 2.03. *Permitted Acquisition Loans*.

Subject to the terms and conditions of this Agreement, and in reliance upon the representations and warranties set forth herein, each Lender severally agrees to make Permitted Acquisition Loans to the Borrower from time to time from the Closing Date to, but not including, the Termination Date, as requested by the Borrower in accordance with the terms of Section 4.01(a); provided, that (i) the aggregate principal amount of all outstanding Permitted Acquisition Loans (after giving effect to any amount requested) shall not exceed the Permitted Acquisition Commitment, (ii) the principal amount of outstanding Permitted Acquisition Loans from any Lender to the Borrower shall not at any time exceed such Lender's Permitted Acquisition Commitment, and (iii) the aggregate principal amount of all Lenders' Extensions of Credit shall not at any time exceed the Aggregate Commitment. Each Permitted Acquisition Loan by a Lender shall be in a principal amount equal to such Lender's Commitment Percentage of the aggregate principal amount of Permitted Acquisition Loans requested or required on such occasion. Subject to the terms and conditions hereof, the Borrower may borrow, repay and reborrow Permitted Acquisition Loans hereunder.

ARTICLE III

LETTER OF CREDIT FACILITY

SECTION 3.01. ***L/C Commitment.***

(a) Subject to the terms and conditions of this Agreement, the Issuing Lender, in reliance on the agreements of the other Lenders set forth in Section 3.04(a), agrees to issue standby letters of credit (***"Letters of Credit"***) for the account of the Borrower on any Business Day from the Closing Date to, but not including, the date that is ninety (90) days prior to the Termination Date in such form as may be approved from time to time by the Issuing Lender; provided, that the Issuing Lender shall have no obligation to issue any Letter of Credit if, after giving effect to such issuance, (i) the L/C Obligations would exceed the L/C Commitment or (ii) the aggregate principal amount of outstanding Working Capital Loans, plus the aggregate principal amount of outstanding Swingline Loans, plus the aggregate amount of L/C Obligations would exceed the lesser of (1) the Working Capital Commitment and (2) the Borrowing Base.

(b) Each Letter of Credit shall (i) be denominated in Dollars in a minimum amount of $100,000, (ii) be a standby letter of credit issued to support obligations of the Borrower or any of its Subsidiaries, contingent or otherwise, incurred in the ordinary course of business, (iii) expire on a date not later than the Termination Date and that is otherwise satisfactory to the Issuing Lender and (iv) be subject to the Uniform Customs and/or ISP 98, as set forth in the Application or as determined by the Issuing Lender and, to the extent not inconsistent therewith, the laws of the State of Missouri. The Issuing Lender shall not at any time be obligated to issue any Letter of Credit hereunder if such issuance would conflict with, or cause the Issuing Lender or any L/C Participant to exceed any limits imposed by, any Applicable Law. References herein to "issue" and derivations thereof with respect to Letters of Credit shall also include extensions or modifications of any existing Letters of Credit, unless the context otherwise requires.

(c) For purposes of this Agreement, the Existing Letters of Credit set forth on Schedule 3.01 hereto shall be deemed issued under this Agreement and shall constitute Letters of Credit for all purposes under this Agreement. Upon the initial expiration of each Existing Letter of Credit, the Borrower shall terminate and cancel each such Existing Letter of Credit and request a new Letter of Credit to be issued in replacement thereof.

SECTION 3.02. ***Procedure for Issuance of Letters of Credit.***

The Borrower may from time to time request that the Issuing Lender issue a Letter of Credit by delivering to the Issuing Lender at the Administrative Agent's Office an Application therefor, completed to the satisfaction of the Issuing Lender, and such other certificates, documents and other papers and information as the Issuing Lender may request. Upon receipt of any Application, the Issuing Lender shall process such Application and the certificates, documents and other papers and information delivered to it in connection therewith in accordance with its customary procedures and shall, subject to Section 3.01 and Article V, promptly issue the Letter of Credit requested thereby (but in no event shall the Issuing Lender be required to issue any Letter of Credit earlier than two (2) Business Days after its receipt of the Application therefor and all such other certificates, documents and other papers and information relating thereto) by issuing the original of such Letter of Credit to the beneficiary thereof or as otherwise may be agreed by the Issuing Lender and the Borrower. The Issuing Lender shall promptly furnish to the Borrower a copy of such Letter of Credit and promptly notify each

Lender of the issuance and upon request by any Lender, furnish to such Lender a copy of such Letter of Credit and the amount of such Lender's L/C Participation therein.

SECTION 3.03. ***Commissions and Other Charges.***

(a) The Borrower shall pay to the Administrative Agent, for the account of the Issuing Lender and the L/C Participants, a letter of credit commission with respect to each Letter of Credit in an amount equal to the product of (i) the average daily maximum amount available to be drawn during the relevant quarter under such Letter of Credit and (ii) 1.50% (determined on a per annum basis). Such commission shall be payable quarterly in arrears on the last Business Day of each calendar quarter and on the Termination Date. The Administrative Agent shall, promptly following its receipt thereof, distribute to the Issuing Lender and the L/C Participants all commissions received pursuant to this Section 3.03(a) in accordance with their respective Commitment Percentages.

(b) In addition to the foregoing commission, the Borrower shall pay to the Administrative Agent, for the account of the Issuing Lender, a fronting fee with respect to each Letter of Credit issued on or after the Closing Date in an amount equal to the product of (i) the face amount of such Letter of Credit and (ii) one quarter of one percent (0.25%). Such fronting fee shall be payable in arrears on the last Business Day of each calendar quarter for each day such Letter of Credit is issued and outstanding.

(c) In addition to the foregoing fees and commissions, the Borrower shall pay or reimburse the Issuing Lender for such normal and customary costs and expenses as are incurred or charged by the Issuing Lender in issuing, effecting payment under, amending or otherwise administering any Letter of Credit.

SECTION 3.04. ***L/C Participations.***

(a) The Issuing Lender irrevocably agrees to grant and hereby grants to each L/C Participant, and, to induce the Issuing Lender to issue Letters of Credit hereunder, each L/C Participant irrevocably agrees to accept and purchase and hereby accepts and purchases from the Issuing Lender, on the terms and conditions hereinafter stated, for such L/C Participant's own account and risk an undivided interest equal to such L/C Participant's Commitment Percentage in the Issuing Lender's obligations and rights under and in respect of each Letter of Credit issued (or deemed issued) hereunder and the amount of each draft paid by the Issuing Lender thereunder. Each L/C Participant unconditionally and irrevocably agrees with the Issuing Lender that, if a draft is paid under any Letter of Credit for which the Issuing Lender is not reimbursed in full by the Borrower through a Working Capital Loan or otherwise in accordance with the terms of this Agreement, such L/C Participant shall pay to the Issuing Lender upon demand at the Issuing Lender's address for notices specified herein an amount equal to such L/C Participant's Commitment Percentage of the amount of such draft, or any part thereof, which is not so reimbursed.

(b) Upon becoming aware of any amount required to be paid by any L/C Participant to the Issuing Lender pursuant to Section 3.04(a) in respect of any unreimbursed portion of any

payment made by the Issuing Lender under any Letter of Credit, the Issuing Lender shall notify each L/C Participant of the amount and due date of such required payment and such L/C Participant shall pay to the Issuing Lender the amount specified on the applicable due date. If any such amount is paid to the Issuing Lender after the date such payment is due, such L/C Participant shall pay to the Issuing Lender on demand, in addition to such amount, the product of (i) such amount, times (ii) the daily average Federal Funds Rate (or Base Rate, if such amount is not paid within three Business Days of demand) as determined by the Administrative Agent during the period from and including the date such payment is due to the date on which such payment is immediately available to the Issuing Lender, times (iii) a fraction the numerator of which is the number of days that elapse during such period and the denominator of which is 360. A certificate of the Issuing Lender with respect to any amounts owing under this Section 3.04(b) shall be conclusive in the absence of manifest error. With respect to payment to the Issuing Lender of the unreimbursed amounts described in this Section 3.04(b), if the L/C Participants receive notice that any such payment is due (A) prior to 1:00 p.m. (Charlotte time) on any Business Day, such payment shall be due that Business Day, and (B) after 1:00 p.m. (Charlotte time) on any Business Day, such payment shall be due on the following Business Day.

(c) Whenever, at any time after the Issuing Lender has made payment under any Letter of Credit and has received from any L/C Participant its Commitment Percentage of such payment in accordance with this Section 3.04, the Issuing Lender receives any payment related to such Letter of Credit (whether directly from the Borrower or otherwise) or any payment of interest on account thereof, the Issuing Lender will distribute to such L/C Participant its pro rata share thereof; provided, that in the event that any such payment received by the Issuing Lender shall be required to be returned by the Issuing Lender, such L/C Participant shall return to the Issuing Lender the portion thereof previously distributed by the Issuing Lender to it.

SECTION 3.05. *Reimbursement Obligation of the Borrower*.

In the event of any drawing under any Letter of Credit, the Borrower agrees to reimburse (either with the proceeds of a Working Capital Loan as provided for in this Section 3.05 or with funds from other sources), in same day funds, the Issuing Lender on each date on which the Issuing Lender notifies the Borrower of the date and amount of a draft paid under any Letter of Credit for the amount of (a) such draft so paid and (b) any amounts referred to in Section 3.03(c) incurred by the Issuing Lender in connection with such payment. Unless the Borrower shall immediately notify the Issuing Lender that the Borrower intends to reimburse the Issuing Lender for such drawing from other sources or funds, the Borrower shall be deemed to have timely given a Notice of Borrowing to the Administrative Agent requesting that the Lenders make a Working Capital Loan bearing interest at the Base Rate on such date in the amount of (a) such draft so paid and (b) any amounts referred to in Section 3.03(c) incurred by the Issuing Lender in connection with such payment, and the Lenders shall make a Working Capital Loan bearing interest at the Base Rate in such amount, the proceeds of which shall be applied to reimburse the Issuing Lender for the amount of the related drawing and costs and expenses. Each Lender acknowledges and agrees that its obligation to fund a Working Capital Loan in accordance with this Section 3.05 to reimburse the Issuing Lender for any draft paid under a Letter of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including,

without limitation, the existence of a Default or an Event of Default other than a Default or Event of Default that the Issuing Bank had actual knowledge of at the time of the issuance of such Letter of Credit. If the Borrower has elected to pay the amount of such drawing with funds from other sources and shall fail to reimburse the Issuing Lender as provided above, the unreimbursed amount of such drawing shall bear interest in the rate which would be payable on any outstanding Base Rate Loans which were then overdue from the date such amounts become payable (whether at stated maturity, by acceleration or otherwise) until payment in full.

SECTION 3.06. *Obligations Absolute*.

The Borrower's obligations under this Article III (including without limitation the Reimbursement Obligation) shall be absolute and unconditional under any and all circumstances and irrespective of any set-off, counterclaim or defense to payment which the Borrower may have or have had against the Issuing Lender or any beneficiary of a Letter of Credit or any other Person. The Borrower also agrees that the Issuing Lender and the L/C Participants shall not be responsible for, and the Borrower's reimbursement obligation under Section 3.05 shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon, even though such documents shall in fact prove to be invalid, fraudulent or forged, or any dispute between or among the Borrower and any beneficiary of any Letter of Credit or any other party to which such Letter of Credit may be transferred or any claims whatsoever of the Borrower against any beneficiary of such Letter of Credit or any such transferee. The Issuing Lender shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit, except for errors or omissions caused by the Issuing Lender's gross negligence or willful misconduct. The Borrower agrees that any action taken or omitted by the Issuing Lender under or in connection with any Letter of Credit or the related drafts or documents, if done in the absence of gross negligence or willful misconduct and in accordance with the standards of care specified in ISP 98 or the Uniform Customs, as the case may be, and, to the extent not inconsistent therewith, the UCC, shall be binding on the Borrower and shall not result in any liability of the Issuing Lender or any L/C Participant to the Borrower.

ARTICLE IV

GENERAL LOAN PROVISIONS

SECTION 4.01. ***Procedure for Advances of Loans.***

(a) Requests for Borrowing. The Borrower shall give the Administrative Agent irrevocable prior written notice in the form attached hereto as Exhibit B (a ***"Notice of Borrowing"***) not later than 11:00 a.m. (Charlotte time) (i) on the same Business Day for each Base Rate Loan and each Swingline Loan and (ii) at least three (3) Business Days before each LIBOR Rate Loan, of its intention to borrow, specifying (A) the date of such borrowing, which shall be a Business Day, (B) the amount of such borrowing, which shall be (x) with respect to each LIBOR Rate Loan, in a principal amount of $2,000,000 or a whole multiple of $500,000 in excess thereof, (y) with respect to each Base Rate Loan, in a principal amount of $1,000,000 or a whole multiple of $100,000 in excess thereof, and (z) with respect to each Swingline Loan, in a principal amount of $250,000 or a whole multiple of $50,000 in excess thereof, (C) whether such Loan is to be a Working Capital Loan, Swingline Loan or Permitted Acquisition Loan, (D) in the case of a Working Capital Loan or Permitted Acquisition Loan, whether such Loan is to be a LIBOR Rate Loan or Base Rate Loan, and (E) in the case of a LIBOR Rate Loan, the duration of the Interest Period applicable thereto. A Notice of Borrowing received after 11:00 a.m. (Charlotte time) shall be deemed received on the next Business Day. The Administrative Agent shall promptly notify the Lenders of each Notice of Borrowing.

(b) Disbursement of Loans. Not later than 2:00 p.m. (Charlotte time) on the proposed borrowing date, (i) each Lender will make available to the Administrative Agent, for the account of the Borrower, at the office of the Administrative Agent in funds immediately available to the Administrative Agent, as applicable, (A) such Lender's Commitment Percentage of the Working Capital Loans to be made on such borrowing date, and (B) such Lender's Commitment Percentage of the Permitted Acquisition Loans to be made on such borrowing date, and (ii) the Swingline Lender will make available to the Administrative Agent, for the account of the Borrower, at the office of the Administrative Agent in funds immediately available to the Administrative Agent, the Swingline Loans to be made to the Borrower on such borrowing date. The Borrower hereby irrevocably authorizes the Administrative Agent to disburse the proceeds of each borrowing requested pursuant to this Section 4.01 in immediately available funds by crediting or wiring such proceeds to the deposit account of the Borrower identified in the most recent notice substantially in the form of Exhibit C hereto (a ***"Notice of Account Designation"***) delivered by the Borrower to the Administrative Agent or such other account as may be otherwise agreed upon by the Borrower and the Administrative Agent from time to time. Subject to Section 4.12, the Administrative Agent shall not be obligated to disburse the portion of the proceeds of any Working Capital Loan, Permitted Acquisition Loan or Swingline Loan requested pursuant to this Section 4.01 to the extent that any Lender (or the Swingline Lender, in the case of Swingline Loans) has not made available to the Administrative Agent its applicable Commitment Percentage of such Loan. Working Capital Loans to be made for the purpose of refunding Swingline Loans shall be made by the Lenders as provided in Section 2.02(b).

SECTION 4.02. ***Repayment of Loans.***

(a) Repayment on Termination Date. On the Termination Date, the Borrower shall repay the outstanding principal amount of (i) all Working Capital Loans, Permitted Acquisition Loans and Reimbursement Obligations in full and (ii) to the extent the Swingline Termination Date has not occurred, all Swingline Loans in full, together, in each case, with all accrued but unpaid interest thereon.

(b) Cleandown Period. Notwithstanding anything to the contrary in this Agreement and commencing with the Fiscal Year beginning October 1, 2003, the Borrower must reduce to and/or maintain at $4,000,000 or less, as the case may be, the aggregate outstanding principal balance of all Working Capital Loans and Swingline Loans for a period of not less than thirty (30) consecutive days during each Cleandown Period.

(c) Mandatory Repayment of Working Capital Loans. If at any time the outstanding principal amount of all Working Capital Loans plus the sum of all outstanding Swingline Loans and L/C Obligations, as of such date exceeds the lesser of (i) Working Capital Commitment and (ii) the Borrowing Base, the Borrower shall repay immediately upon notice from the Administrative Agent, by payment to the Administrative Agent for the account of the Lenders, the aggregate outstanding Working Capital Loans, Swingline Loans and L/C Obligations in an amount equal to such excess with each such repayment applied first to the principal amount of outstanding Swingline Loans, second to the principal amount of outstanding Working Capital Loans and third, with respect to any Letters of Credit then outstanding, a payment of cash collateral into a cash collateral account opened by the Borrower with the Administrative Agent, for the benefit of the Lenders (such cash collateral to be applied in accordance with Section 11.02(b)). Each such repayment shall be accompanied by any amount required to be paid pursuant to Section 4.14.

(d) Mandatory Repayment of Permitted Acquisition Loans. If at any time the outstanding principal amount of all Permitted Acquisition Loans exceeds the Permitted Acquisition Commitment, the Borrower shall repay immediately upon notice from the Administrative Agent, by payment to the Administrative Agent for the account of the Lenders, the Permitted Acquisition Loans in an amount equal to such excess. Each such repayment shall be accompanied by any amount required to be paid pursuant to Section 4.14.

(e) Asset Dispositions. If the Borrower or any of its Subsidiaries sells or otherwise disposes of any assets (other than the sale of inventory and motor vehicles in the ordinary course of the Borrower's business), or if any Collateral or other assets of the Borrower or its Subsidiaries is taken by condemnation or other governmental taking, then in each case the Borrower shall pay to the Administrative Agent for the account of the Lenders unless otherwise agreed by the Required Lenders, as a mandatory prepayment of the Loans (in the manner set forth below), a sum equal to the net proceeds received by the Borrower or Subsidiary from such sale or condemnation; provided, however, that (i) the Borrower shall not be obligated to remit the first $5,000,000 of any such proceeds received in any Fiscal Year, and (ii) the Borrower shall not be obligated to remit any such proceeds to the Administrative Agent if, prior to such sale or condemnation, the Borrower gives the Administrative Agent written notice that the

Borrower intends to use such proceeds to purchase replacement assets of a similar type within sixty (60) days thereafter (such notice to specify in reasonable detail the nature and specifics of such replacement purchase) and such proceeds are in fact used within such time period to purchase such replacement assets. Notwithstanding anything to the contrary set forth above and so long as any Permitted Private Placement Debt is outstanding, the Borrower shall satisfy the requirements for prepayments under this clause (e) if the Borrower prepays the Loans in an amount not less than the Lenders' Pro-Rata Share of such net proceeds and the balance of such net proceeds are required to be used, and are used, to prepay Permitted Private Placement Debt.

(f) Issuance of Debt or Equity. If the Borrower, any of its Subsidiaries or any special purpose financing vehicle established by any of them (i) incurs any Debt (other than (1) refinancing Debt existing on the Closing Date in an amount not to exceed such existing Debt, and (2) Debt that complies with the requirements of subparts (2) or (4) of the definition of "Permitted Debt"), including Private Placement Debt, or (ii) issues any Capital Stock, after the Closing Date, then, in any such case, the Borrower shall pay to the Administrative Agent for the account of the Lenders, unless otherwise agreed by the Required Lenders, as a mandatory prepayment of the Loans (in the manner set forth below), a sum equal to the net cash proceeds received by the Borrower therefrom.

(g) Order of Application of Mandatory Prepayments. Any prepayment pursuant to Sections 4.02(e) or (f) shall be applied first to the outstanding principal balance of the Permitted Acquisition Loans, and, upon payment in full thereof, then to the outstanding principal balance of the Swingline Loans, and, upon payment in full thereof, then to the outstanding principal balance of the Working Capital Loans. Each such prepayment shall be accompanied by any amount required to be paid pursuant to Section 4.14.

(h) Voluntary Prepayments. The Borrower shall have the right, without penalty or premium, to prepay the Working Capital Loans, the Permitted Acquisition Loans, and the Swingline Loans, in whole or in part, at any time and from time to time after the Closing Date, subject, however, to the following terms and conditions: (1) the Borrower shall give the Administrative Agent (x) at least three (3) Business Days prior written notice of its intent to prepay any LIBOR Loan and (y) written notice prior to 11:00 a.m. on the date of the proposed prepayment of its intent to prepay any Base Rate Loan or Swing Line Loan; (2) such notice shall specify the amount of the Loan to be prepaid, the type of Loan to be prepaid, and in the case of LIBOR Loans, the specific LIBOR Loans to which such prepayment is to apply; (3) each prepayment of a LIBOR Loan shall be in an amount of not less than $2,000,000 and be a whole multiple of $500,000 (unless the outstanding principal balance of such Loan is less than $2,000,000, in which event such prepayment shall be an amount equal to such outstanding principal balance); (4) each prepayment of a Base Rate Loan shall be in an amount of not less than $1,000,000 and be a whole multiple of $100,000 (unless the outstanding principal balance of such Base Rate Loan is less then $1,000,000, in which event such prepayment shall be an amount equal to such outstanding principal balance; and (5) each prepayment of a Swing Line Loan shall be an amount of not less than $250,000 and a whole multiple of $50,000 (unless the outstanding principal balance of such Swing Line Loan is less than $250,000, in which event such prepayment shall be an amount equal to such outstanding principal balance). Each such prepayment shall be accompanied by any amount required to be paid pursuant to Section 4.14.

SECTION 4.03. *Notes*.

(a) Working Capital Notes. Each Lender's Working Capital Loans and the obligation of the Borrower to repay such Working Capital Loans shall be evidenced by a separate Working Capital Note executed by the Borrower payable to the order of such Lender representing the Borrower's obligation to pay such Lender's Working Capital Commitment or, if less, the aggregate unpaid principal amount of all Working Capital Loans made and to be made by such Lender to the Borrower hereunder, plus interest and all other fees, charges and other amounts due thereon. Each Working Capital Note shall be dated the date hereof and shall bear interest on the unpaid principal amount thereof at the applicable interest rate per annum specified in Section 4.06.

(b) Permitted Acquisition Notes. Each Lender's Permitted Acquisition Loans and the obligation of the Borrower to repay such Permitted Acquisition Loans shall be evidenced by a Permitted Acquisition Note executed by the Borrower payable to the order of such Lender representing the Borrower's obligation to pay such Lender's Permitted Acquisition Commitment or, if less, the aggregate unpaid principal amount of all Permitted Acquisition Loans made and to be made by such Lender to the Borrower hereunder, plus interest and all other fees, charges and other amounts due thereon. Each Permitted Acquisition Note shall be dated the date hereof and shall bear interest on the unpaid principal amount thereof at the applicable interest rate per annum specified in Section 4.06.

(c) Swingline Note. The Swingline Loans and the obligation of the Borrower to repay such Swingline Loans shall be evidenced by the Swingline Note executed by the Borrower payable to the order of the Swingline Lender representing the Borrower's obligation to pay the Swingline Lender the aggregate unpaid principal amount of all Swingline Loans made and to be made by the Swingline Lender to the Borrower hereunder, plus interest and all other fees, charges and other amounts due thereon. The Swingline Note shall be dated the date hereof and shall bear interest on the unpaid principal amount thereof at the applicable interest rate specified in Section 4.06.

SECTION 4.04. *Permanent Reduction of the Commitments*.

(a) Voluntary Reduction. The Borrower shall have the right, without penalty or premium, to permanently reduce all or a portion of the Working Capital Commitment or the Permitted Acquisition Commitment, at any time and from time to time after the Closing Date, subject, however, to the following terms and conditions: (1) the Borrower shall give the Administrative Agent at least three (3) Business Day prior written notice of its intent to reduce the Working Capital Commitment or the Permitted Acquisition Commitment, as applicable, and (2) each reduction shall be in an aggregate principal amount not less than $1,000,000 or any whole multiple of $500,000 in excess thereof.

(b) No Mandatory Reduction of Working Capital Commitment or Permitted Acquisition Commitment. Any mandatory prepayment of a Working Capital Loan required to be made pursuant to Section 4.02 shall not cause the Working Capital Commitment to be

reduced. Any mandatory prepayment of a Permitted Acquisition Loan required to be made pursuant to Section 4.02 shall not cause the Permitted Acquisition Commitment to be reduced.

(c) Repayment of Excess Loans. Each permanent reduction permitted pursuant to Section 4.04(a), with respect to outstanding Working Capital Loans, Swingline Loans and L/C Obligations, shall be accompanied by a payment of principal sufficient to reduce the aggregate outstanding Working Capital Loans and Swingline Loans, of the Lenders to the Working Capital Commitment as so reduced. If the Working Capital Commitment as so reduced (and after the application of the payment in the preceding sentence) is less than the aggregate amount of all outstanding L/C Obligations, the Borrower shall be required to deposit in a cash collateral account opened by the Administrative Agent an amount equal to the aggregate then undrawn and unexpired amount of such L/C Obligations. Each permanent reduction permitted pursuant to Section 4.04(a), with respect to Permitted Acquisition Loans shall be accompanied by a payment of principal sufficient to reduce the aggregate outstanding Permitted Acquisition Loans to the Permitted Acquisition Commitment, as so reduced. If the reduction of the Working Capital Commitment or the Permitted Acquisition Commitment, as applicable, requires the repayment of any LIBOR Rate Loan, such repayment shall be accompanied by any amount required to be paid pursuant to Section 4.14.

SECTION 4.05. *Termination of Credit Facilities*.

(a) The Working Capital Facility, the Permitted Acquisition Facility and the L/C Facility shall terminate, and each of the Working Capital Commitment and the Permitted Acquisition Commitment shall be automatically reduced to zero on the Termination Date.

(b) The Swingline Facility shall terminate, and the Swingline Commitment shall be automatically reduced to zero, on the Swingline Termination Date.

SECTION 4.06. *Interest*.

(a) Interest Rate Options. Subject to the provisions of this Section 4.06, at the election of the Borrower, the aggregate unpaid principal balance of (i) each Loan (other than Swingline Loans) shall bear interest at the Base Rate plus the Applicable Margin or the LIBOR Rate plus the Applicable Margin as set forth below; provided that the LIBOR Rate shall not be available until three (3) Business Days after the Closing Date, and (ii) each Swingline Loan shall bear interest at the Base Rate plus the Applicable Margin. The Borrower shall select the rate of interest and Interest Period, if any, applicable to any LIBOR Rate Loan at the time a Notice of Borrowing is given pursuant to Section 4.01(a) or at the time a Notice of Conversion/Continuation is given pursuant to Section 4.07. Each Loan (including Swingline Loans) or portion thereof bearing interest based on the Base Rate shall be a "***Base Rate Loan***", and each Loan or portion thereof bearing interest based on the LIBOR Rate shall be a "***LIBOR Rate Loan***." Any Loan or any portion thereof as to which the Borrower has not duly specified an interest rate as provided herein shall be deemed a Base Rate Loan.

(b) Interest Periods. In connection with each LIBOR Rate Loan, the Borrower, by giving notice at the times described in Section 4.06(a), shall elect an interest period (each, an

"Interest Period") to be applicable to such Loan, which Interest Period shall be a period of one (1), two (2), three (3), or six (6) months (or twelve (12) months, if available, and consented to by the Administrative Agent and the Lenders); provided that:

(i) the Interest Period shall commence on the date of advance of or conversion to any LIBOR Rate Loan and, in the case of immediately successive Interest Periods, each successive Interest Period shall commence on the date on which the next preceding Interest Period expires;

(ii) if any Interest Period would otherwise expire on a day that is not a Business Day, such Interest Period shall expire on the next succeeding Business Day; provided, that if any Interest Period with respect to a LIBOR Rate Loan would otherwise expire on a day that is not a Business Day but is a day of the month after which no further Business Day occurs in such month, such Interest Period shall expire on the next preceding Business Day;

(iii) any Interest Period with respect to a LIBOR Rate Loan that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the relevant calendar month at the end of such Interest Period;

(iv) no Interest Period shall extend beyond the Termination Date; and

(v) there shall be no more than eight (8) Interest Periods outstanding at any time.

(c) Default Rate. Subject to Section 11.03, upon the occurrence and during the continuance of an Event of Default, (i) the Borrower shall no longer have the option to request LIBOR Rate Loans, (ii) all outstanding LIBOR Rate Loans shall bear interest at a rate per annum three percent (3%) in excess of the rate then applicable to LIBOR Rate Loans until the end of the applicable Interest Period and thereafter at a rate equal to three percent (3%) in excess of the rate then applicable to Base Rate Loans, (iii) all outstanding Swingline Loans shall bear interest at a rate per annum equal to three percent (3%) in excess of the rate then applicable to Swingline Loans and (iv) all outstanding Base Rate Loans shall bear interest at a rate per annum equal to three percent (3%) in excess of the rate then applicable to Base Rate Loans. Interest shall continue to accrue on the Notes after the filing by or against the Borrower of any petition seeking any relief in bankruptcy or under any act or law pertaining to insolvency or debtor relief, whether state, federal or foreign.

(d) Interest Payment and Computation. Interest on each Base Rate Loan shall be payable in arrears on the last Business Day of each calendar quarter commencing September 30, 2003; and interest on each LIBOR Rate Loan shall be payable on the last day of each Interest Period applicable thereto, and if such Interest Period extends over three (3) months, at

the end of each three (3) month interval during such Interest Period. All interest rates, fees and commissions provided hereunder shall be computed on the basis of a 360-day year and assessed for the actual number of days elapsed; provided, however, that interest on each Base Rate Loan that is based on the Prime Rate shall be computed on the basis of a 365-day or 366-day year, as applicable, and assessed for the actual number of days elapsed.

(e) Maximum Rate. In no contingency or event whatsoever shall the aggregate of all amounts deemed interest hereunder or under any of the Notes charged or collected pursuant to the terms of this Agreement or pursuant to any of the Notes exceed the highest rate permissible under any Applicable Law which a court of competent jurisdiction shall, in a final determination, deem applicable hereto. In the event that such a court determines that the Lenders have charged or received interest hereunder in excess of the highest applicable rate, the rate in effect hereunder shall automatically be reduced to the maximum rate permitted by Applicable Law and the Lenders shall at the Administrative Agent's option promptly refund to the Borrower any interest received by Lenders in excess of the maximum lawful rate or shall apply such excess to the principal balance of the Obligations. It is the intent hereof that the Borrower not pay or contract to pay, and that neither the Administrative Agent nor any Lender receive or contract to receive, directly or indirectly in any manner whatsoever, interest in excess of that which may be paid by the Borrower under Applicable Law.

SECTION 4.07. *Notice and Manner of Conversion or Continuation of Loans*.

Provided that no Event of Default has occurred and is then continuing, the Borrower shall have the option to (a) convert at any time all or any portion of its outstanding Base Rate Loans in a principal amount equal to $2,000,000 or any whole multiple of $500,000 in excess thereof into a LIBOR Rate Loan or (b) upon the expiration of any Interest Period, (i) convert all or any part of its outstanding LIBOR Rate Loans in a principal amount equal to $1,000,000 or a whole multiple of $100,000 in excess thereof into Base Rate Loans or (ii) continue such LIBOR Rate Loans as LIBOR Rate Loans. Whenever the Borrower desires to convert or continue Loans as provided above, the Borrower shall give the Administrative Agent irrevocable prior written notice in the form attached as Exhibit D (a ***"Notice of Conversion/Continuation"***) not later than 11:00 a.m. (Charlotte time) three (3) Business Days before the day on which a proposed conversion or continuation of such Loan is to be effective specifying (A) the Loans to be converted or continued, and, in the case of any LIBOR Rate Loan to be converted or continued, the last day of the Interest Period therefor, (B) the effective date of such conversion or continuation (which date shall be a Business Day), (C) the principal amount of such Loans to be converted or continued, and (D) the Interest Period to be applicable to such converted or continued LIBOR Rate Loan. If a LIBOR Rate Loan is not converted or continued as a new LIBOR Rate Loan as provided in this Section, such LIBOR Rate Loan shall in the last day of the applicable Interested Period be converted into a Base Rate Loan. The Administrative Agent shall promptly notify the Lenders of such Notice of Conversion/Continuation.

SECTION 4.08. *Fees*.

(a) Unused Line Fee. The Borrower agrees to pay to the Administrative Agent for the account of the Lenders, on the last Business Day of each quarter for the immediately

preceding quarter and on the Termination Date, a fee (the ***"Unused Line Fee"***) equal to (a) the Applicable Margin, as in effect on such day, times (b) the difference between (1) (i) from the Closing Date through September 30, 2004, the lesser of the Aggregate Commitment and $175,000,000 and (ii) for each quarter thereafter, the Aggregate Commitment, and (2) the Average Quarterly Loan Balance for such preceding quarter. If, during any quarter, this Agreement is terminated on a date other than the last Business Day of such quarter, then the Unused Line Fee shall be pro-rated for such quarter on a daily basis.

(b) Administrative Agent's and Other Fees. To compensate the Administrative Agent, the Borrower agrees to pay to the Administrative Agent, for its account, the fees set forth in the separate fee arrangement letter dated May 12, 2003, executed by the Borrower and the Administrative Agent.

SECTION 4.09. *Manner of Payment*.

Each payment by the Borrower on account of the principal of or interest on the Loans or of any fee, commission or other amounts payable to the Lenders under this Agreement or any Note shall be made not later than 1:00 p.m. (Charlotte time) on the date specified for payment under this Agreement to the Administrative Agent at the Administrative Agent's office for the account of the Lenders (other than as set forth below) pro rata in accordance with their respective applicable Commitment Percentages, in Dollars, in immediately available funds and shall be made without any set-off, counterclaim or deduction whatsoever. Any payment received after such time but before 2:00 p.m. (Charlotte time) on such day shall be deemed a payment on such date for the purposes of Section 11.01, but for all other purposes shall be deemed to have been made on the next succeeding Business Day. Any payment received after 2:00 p.m. (Charlotte time) shall be deemed to have been made on the next succeeding Business Day for all purposes. Upon receipt by the Administrative Agent of each such payment, the Administrative Agent shall distribute to each Lender at its address for notices set forth herein its pro rata share of such payment in accordance with such Lender's applicable Commitment Percentage and shall wire advice of the amount of such credit to each Lender. Each payment to the Administrative Agent of Administrative Agent's fees or expenses shall be made for the account of the Administrative Agent and any amount payable to any Lender under Sections 4.13, 4.14, 4.15, 4.16 or 13.02 shall be paid to the Administrative Agent for the account of the applicable Lender. Any payment required to be made under Section 4.02 that is due on a date that is not a Business Day shall be due on the next Business Day.

SECTION 4.10. *Crediting of Payments and Proceeds*.

In the event that the Borrower shall fail to pay any of the Obligations when due and the Obligations have been accelerated pursuant to Section 11.02, all payments received by the Lenders upon the Notes and the other Obligations and all net proceeds from the enforcement of the Obligations shall be applied first to all expenses then due and payable by the Borrower hereunder, then to all indemnity obligations then due and payable by the Borrower hereunder, then to all Administrative Agent's fees then due and payable, then to all fees and commissions then due and payable, then to accrued and unpaid interest on the Swingline Note to the Swingline Lender, then to the unpaid principal amount outstanding under the Swingline Note to the

Swingline Lender, then to accrued and unpaid interest on the Working Capital Notes, the Permitted Acquisition Notes and the Reimbursement Obligations (pro rata in accordance with all such amounts due), then to the principal amount of the Working Capital Notes, the Permitted Acquisition Notes, the Reimbursement Obligations and obligations under Hedging Agreements (pro rata in accordance with all such amounts due) and then to the cash collateral account described in Section 11.02(b) to the extent of any L/C Obligations then outstanding, in that order.

SECTION 4.11. ***Adjustments*****.**

If any Lender (a ***"Benefited Lender"***) shall at any time receive any payment of all or part of the Obligations owing to it, or interest thereon, or if any Lender shall at any time receive any collateral in respect to the Obligations owing to it (whether voluntarily or involuntarily, by set-off or otherwise) in a greater proportion than any such payment to and collateral received by any other Lender, if any, in respect of the Obligations owing to such other Lender, or interest thereon, such Benefited Lender shall purchase for cash from the other Lenders such portion of each such other Lender's Extensions of Credit, or shall provide such other Lenders with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such Benefited Lender to share the excess payment or benefits of such collateral or proceeds ratably with each of the Lenders; provided, that if all or any portion of such excess payment or benefits is thereafter recovered from such Benefited Lender, such purchase shall be rescinded, and the purchase price and benefits returned to the extent of such recovery, but without interest. The Borrower agrees that each Lender so purchasing a portion of another Lender's Extensions of Credit may exercise all rights of payment (including, without limitation, rights of set-off) with respect to such portion as fully as if such Lender were the direct holder of such portion.

SECTION 4.12. ***Nature of Obligations of Lenders Regarding Extensions of Credit; Assumption by the Administrative Agent*****.**

The obligations of the Lenders under this Agreement to make the Loans and issue or participate in Letters of Credit are several and are not joint or joint and several. Unless the Administrative Agent shall have received notice from a Lender prior to a proposed borrowing date that such Lender will not make available to the Administrative Agent such Lender's ratable portion of the amount to be borrowed on such date (which notice shall not release such Lender of its obligations hereunder), the Administrative Agent may assume that such Lender has made such portion available to the Administrative Agent on the proposed borrowing date in accordance with Section 4.01(b) and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If such amount is made available to the Administrative Agent on a date after such borrowing date, such Lender shall pay to the Administrative Agent on demand an amount, until paid, equal to the product of (a) the amount not made available by such Lender in accordance with the terms hereof, times (b) the daily average Federal Funds Rate (or, if such amount is not made available for a period of three (3) Business Days after the borrowing date, the Base Rate) during such period as determined by the Administrative Agent, times (c) a fraction the numerator of which is the number of days that elapse from and including such borrowing date to the date on which such amount not made available by such Lender in accordance with the terms hereof shall have become immediately available to the Administrative Agent and the denominator of which is 360.

A certificate of the Administrative Agent with respect to any amounts owing under this Section 4.12 shall be conclusive, absent manifest error. If such Lender's Commitment Percentage of such borrowing is not made available to the Administrative Agent by such Lender within three (3) Business Days of such borrowing date, the Administrative Agent shall be entitled to recover such amount made available by the Administrative Agent with interest thereon at the rate per annum applicable to Base Rate Loans hereunder, on demand, from the Borrower. The failure of any Lender to make available its Commitment Percentage of any Loan requested by the Borrower shall not relieve it or any other Lender of its obligation, if any, hereunder to make its Commitment Percentage of such Loan available on such borrowing date, but no Lender shall be responsible for the failure of any other Lender to make its Commitment Percentage of such Loan available on the borrowing date.

SECTION 4.13. *Changed Circumstances; Laws Affecting LIBOR Rate Availability; Etc*.

(a) Changed Circumstances. If, with respect to any Interest Period, the Administrative Agent or any Lender (after consultation with Administrative Agent) shall determine that, by reason of circumstances affecting the foreign exchange and interbank markets generally, deposits in eurodollars, in the applicable amounts are not being quoted via Telerate Page 3750 or offered to the Administrative Agent or such Lender for such Interest Period, then the Administrative Agent shall forthwith give notice thereof to the Borrower. Thereafter, until the Administrative Agent notifies the Borrower that such circumstances no longer exist, the obligation of the Lenders to make LIBOR Rate Loans and the right of the Borrower to convert any Loan to or continue any Loan as a LIBOR Rate Loan shall be suspended, and the Borrower shall repay in full (or cause to be repaid in full) the then outstanding principal amount of each such LIBOR Rate Loans together with accrued interest thereon, on the last day of the then current Interest Period applicable to such LIBOR Rate Loan or convert the then outstanding principal amount of each such LIBOR Rate Loan to a Base Rate Loan as of the last day of such Interest Period.

(b) Laws Affecting LIBOR Rate Availability. If, after the date hereof, the introduction of, or any change in, any Applicable Law or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or any of their respective Lending Offices) with any request or directive (whether or not having the force of law) of any such Authority, central bank or comparable agency, shall make it unlawful or impossible for any of the Lenders (or any of their respective Lending Offices) to honor its obligations hereunder to make or maintain any LIBOR Rate Loan, such Lender shall promptly give notice thereof to the Administrative Agent and the Administrative Agent shall promptly give notice to the Borrower and the other Lenders. Thereafter, until the Administrative Agent notifies the Borrower that such circumstances no longer exist, (i) the obligations of the Lenders to make LIBOR Rate Loans and the right of the Borrower to convert any Loan or continue any Loan as a LIBOR Rate Loan shall be suspended and thereafter the Borrower may select only Base Rate Loans hereunder, and (ii) if any of the Lenders may not lawfully continue to maintain a LIBOR Rate Loan to the end of the then current Interest Period applicable thereto as

a LIBOR Rate Loan, the applicable LIBOR Rate Loan shall immediately be converted to a Base Rate Loan for the remainder of such Interest Period.

(c) Increased Costs. If, after the date hereof, the introduction of, or any change in, any Applicable Law, or in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any of the Lenders (or any of their respective Lending Offices) with any request or directive (whether or not having the force of law) of such Governmental Authority, central bank or comparable agency:

(i) shall subject any of the Lenders (or any of their respective Lending Offices) to any tax, duty or other charge with respect to any Note, Letter of Credit or Application or shall change the basis of taxation of payments to any of the Lenders (or any of their respective Lending Offices) of the principal of or interest on any Note, Letter of Credit or Application or any other amounts due under this Agreement in respect thereof (except for changes in the rate of tax on the overall net income of any of the Lenders or any of their respective Lending Offices imposed by the jurisdiction in which such Lender is organized or is or should be qualified to do business or such Lending Office is located); or

(ii) shall impose, modify or deem applicable any reserve (including, without limitation, any imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance or capital or similar requirement against assets of, deposits with or for the account of, or credit extended by any of the Lenders (or any of their respective Lending Offices) or shall impose on any of the Lenders (or any of their respective Lending Offices) or the foreign exchange and interbank markets any other condition affecting any Note;

and the result of any of the foregoing is to increase the costs to any of the Lenders of making or maintaining any Loan or issuing or participating in Letters of Credit or to reduce the yield or amount of any sum received or receivable by any of the Lenders under this Agreement or under the Notes or Letters of Credit or Application, then such Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify the Borrower of such fact and demand compensation therefor and, within ten (10) Business Days after such notice by the Administrative Agent, the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender or Lenders for such increased cost or reduction. The Administrative Agent will promptly notify the Borrower of any event of which it has knowledge which will entitle such Lender to compensation pursuant to this Section 4.13(c); provided, that the Administrative Agent shall incur no liability whatsoever to the Lenders or the Borrower in the event it fails to do so. The amount of such compensation shall be determined, in the applicable Lender's sole discretion, based upon the assumption that such Lender funded its Commitment Percentage of the LIBOR Rate Loans in the London interbank market and using any reasonable attribution or averaging methods which such Lender deems appropriate and practical. A certificate of such Lender setting forth the basis for determining such amount or

amounts necessary to compensate such Lender shall be forwarded to the Borrower through the Administrative Agent and shall be conclusively presumed to be correct save for manifest error.

SECTION 4.14. *Indemnity*.

The Borrower hereby indemnifies each of the Lenders against any loss or expense which may arise or be attributable to each Lender's obtaining, liquidating or employing deposits or other funds acquired to effect, fund or maintain any Loan (a) as a consequence of any failure by the Borrower to make any payment when due of any amount due hereunder in connection with a LIBOR Rate Loan, (b) due to any failure of the Borrower to borrow on a date specified therefor in a Notice of Borrowing or Notice of Continuation/Conversion or (c) due to any payment, prepayment or conversion of any LIBOR Rate Loan on a date other than the last day of the Interest Period therefor. The amount of such loss or expense shall be determined, in the applicable Lender's sole discretion, based upon the assumption that such Lender funded its Commitment Percentage of the LIBOR Rate Loans in the London interbank market and using any reasonable attribution or averaging methods that such Lender deems appropriate and practical. A certificate of such Lender setting forth the basis for determining such amount or amounts necessary to compensate such Lender shall be forwarded to the Borrower through the Administrative Agent and shall be conclusively presumed to be correct save for manifest error.

SECTION 4.15. *Capital Requirements*.

If either (a) the introduction of, or any change in, or in the interpretation of, any Applicable Law or (b) compliance with any guideline or request from any central bank or comparable agency or other Governmental Authority (whether or not having the force of law), has or would have the effect of reducing the rate of return on the capital of, or has affected or would affect the amount of capital required to be maintained by, any Lender or any corporation controlling such Lender as a consequence of, or with reference to the Commitments and other commitments of this type, below the rate which the Lender or such other corporation could have achieved but for such introduction, change or compliance, then within ten (10) Business Days after written demand by any such Lender, the Borrower shall pay to such Lender from time to time as specified by such Lender additional amounts sufficient to compensate such Lender or other corporation for such reduction. A certificate as to such amounts submitted to the Borrower and the Administrative Agent by such Lender, shall be conclusively presumed to be correct save for manifest error.

SECTION 4.16. *Taxes*.

(a) Payments Free and Clear. Any and all payments by the Borrower hereunder or under the Notes or the Letters of Credit shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholding, and all liabilities with respect thereto excluding, (i) in the case of each Lender and the Administrative Agent, income and franchise taxes imposed by the jurisdiction under the laws of which such Lender or the Administrative Agent (as the case may be) is organized or is or should be qualified to do business or any political subdivision thereof and (ii) in the case of each Lender, income and franchise taxes imposed by the jurisdiction of such Lender's Lending

Office or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as ***"Taxes"***). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note or Letter of Credit to any Lender or the Administrative Agent, (A) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 4.16) such Lender or the Administrative Agent (as the case may be) receives an amount equal to the amount such party would have received had no such deductions been made, (B) the Borrower shall make such deductions, (C) the Borrower shall pay the full amount deducted to the relevant taxing authority or other authority in accordance with applicable law, and (D) the Borrower shall deliver to the Administrative Agent evidence of such payment to the relevant taxing authority or other authority in the manner provided in Section 4.16(d). Any Lender for which any such payment shall have been made shall promptly remit to the Borrower the amount of any excess benefit such Lender receives by reason of such payment.

(b) Stamp and Other Taxes. In addition, the Borrower shall pay any present or future stamp, registration, recordation or documentary taxes or any other similar fees or charges or excise or property taxes, levies of the United States or any state or political subdivision thereof or any applicable foreign jurisdiction which arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement, the Loans, the Letters of Credit, the other Credit Documents, or the perfection of any rights or security interest in respect thereto (hereinafter referred to as ***"Other Taxes"***).

(c) Indemnity. The Borrower shall indemnify each Lender and the Administrative Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes and Other Taxes imposed by any jurisdiction on amounts payable under this Section 4.16) paid by such Lender or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. Such indemnification shall be made within thirty (30) days from the date such Lender or the Administrative Agent (as the case may be) makes written demand therefor.

(d) Evidence of Payment. Within thirty (30) days after the date of any payment of Taxes or Other Taxes, the Borrower shall furnish to the Administrative Agent, at its address referred to in Section 13.01, the original or a certified copy of a receipt evidencing payment thereof or other evidence of payment satisfactory to the Administrative Agent.

(e) Delivery of Tax Forms. Each Lender organized under the laws of a jurisdiction other than the United States or any state thereof shall deliver to the Borrower, with a copy to the Administrative Agent, on the Closing Date or concurrently with the delivery of the relevant Assignment and Acceptance, as applicable, (i) two United States Internal Revenue Service Forms 4224 or Forms 1001, as applicable (or successor forms) properly completed and certifying in each case that such Lender is entitled to a complete exemption from withholding or deduction for or on account of any United States federal income taxes, and (ii) an Internal Revenue Service Form W-8 or W-9 or successor applicable form, as the case may be, to establish an exemption from United States backup withholding taxes. Each such Lender further

agrees to deliver to the Borrower, with a copy to the Administrative Agent, a Form 1001 or 4224 and Form W-8 or W-9, or successor applicable forms or manner of certification, as the case may be, on or before the date that any such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent form previously delivered by it to the Borrower, certifying in the case of a Form 1001 or 4224 that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes (unless in any such case an event (including without limitation any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders such forms inapplicable or the exemption to which such forms relate unavailable and such Lender notifies the Borrower and the Administrative Agent that it is not entitled to receive payments without deduction or withholding of United States federal income taxes) and, in the case of a Form W-8 or W-9, establishing an exemption from United States backup withholding tax. The Borrower shall not be required to pay any additional amount to any non-U.S. Lender in respect of United States withholding tax pursuant to Section 4.16(a) to the extent that the obligation to withhold such tax existed at the time such non-U.S. Lender became a Lender hereunder, unless such obligation would not have arisen but for a failure by such non-U.S. Lender to deliver the documents referred to in this Section 4.16(e).

(f) Survival. Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in this Section 4.16 shall survive the payment in full of the Obligations and the termination of the Commitments.

SECTION 4.17. ***Duty to Mitigate; Assignment of Commitments Under Certain Circumstances*****.**

(a) Any Lender (or Eligible Assignee) claiming any additional amounts payable pursuant to Sections 4.13, 4.14 or 4.16, shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document requested by the Borrower or to change the jurisdiction of its applicable lending office if the making of such a filing or change would avoid the need for or reduce the amount of any such additional amounts which may thereafter accrue or avoid the circumstances giving rise to such exercise and would not, in the sole determination of such Lender (or Eligible Assignee), be otherwise disadvantageous to such Lender (or Eligible Assignee).

(b) In the event that any Lender shall have delivered a notice pursuant to Section 4.13 or 4.15 or the Borrower shall be required to make additional payments to any Lender under Section 4.16, the Borrower shall have the right, at its expense (which shall include the assignment fee referred to in Section 13.10), upon notice to such Lender and the Administrative Agent, to require such Lender to transfer and assign without recourse (in accordance with and subject to the restrictions contained in Section 13.10) all interests, rights and obligations contained hereunder to another financial institution (including any other Lender) approved by the Administrative Agent (which approval shall not be unreasonably withheld) which shall assume such obligations; provided that (i) no such assignment shall conflict with any law, rule or regulation or order of any Governmental Authority and (ii) the assignee or the Borrower, as

the case may be, shall pay to the affected Lender in immediately available funds on the date of such assignment the principal of and interest accrued to the date of payment on, or transfer of, the Loans made by it hereunder and all other amounts accrued for its account or owed to it hereunder (including the additional amounts asserted and payable pursuant to Sections 4.13, 4.15 or 4.16, if any).

ARTICLE V

CLOSING; CONDITIONS OF CLOSING AND BORROWING

SECTION 5.01. *Closing*.

The closing shall take place at the offices of Parker, Poe, Adams & Bernstein L.L.P., Charlotte, North Carolina at 9:00 a.m. (or at such other time and place as the parties hereto shall mutually agree) on the Closing Date.

SECTION 5.02. *Credit Documents and Conditions Precedent*.

Notwithstanding anything herein or in the other Credit Documents to the contrary, the Lenders and the Issuing Bank shall not be obligated to make the initial Extension of Credit under this Agreement until:

(a) Credit Documents. The Administrative Agent shall have received the following documents, duly executed and delivered by all parties thereto (including any party who signs to evidence its consent or acknowledgment thereto), if applicable, and otherwise satisfactory in form and content to the Administrative Agent:

(i) Credit Agreement. This Agreement;

(ii) Notes. The Notes;

(iii) Security Agreements. The Security Agreements;

(iv) Guaranty Agreements. The Guaranty Agreements;

(v) Pledge Agreements. The Pledge Agreements;

(vi) UCC Financing Statements. UCC-1 or similar financing statements from each Credit Party, as debtor, to the Administrative Agent, as secured party, covering the Collateral, filed, or to be filed, in all such jurisdictions as the Administrative Agent deems necessary or desirable to perfect its security interest in the Collateral;

(vii) Mortgage Documents. Except as set forth in the Post-Closing Agreement, the Mortgages and such UCC fixture financing statements and like real property security documents as the Administrative Agent deems necessary or desirable to create, perfect and preserve a Lien in favor of the

Administrative Agent, as security for the Obligations, on certain real properties listed on Schedule 6.01(s) hereto owned in fee by the Borrower;

(viii) Record Owner/Lien Searches. To the extent required by the Administrative Agent, record owner and/or lien searches, performed by a title insurance company or other search service satisfactory to the Administrative Agent, with respect to each Credit Party and fee-owned parcel of real property encumbered by a Mortgage, reflecting no Liens other than Permitted Liens and Liens to be terminated prior to, or simultaneously with, the Closing Date, and no other matters of title which the Administrative Agent shall not have approved in its reasonable discretion;

(ix) Certificates of Title. Vehicle certificates of title, issued by the appropriate state governmental authorities acknowledging the Administrative Agent's perfected, first priority Lien on all vehicles listed on Part 2 of Schedule 6.01(s) hereto, subject to no other Liens noted on such certificates;

(x) Insurance. Copies of each Credit Party's property damage insurance policies, together with loss payable endorsements which are acceptable to the Administrative Agent and which name the Administrative Agent as sole loss payee thereunder, and copies of each Credit Party's liability insurance policies (including pollution legal liability policies), together with endorsements naming the Administrative Agent as an additional named insured thereunder;

(xi) Loan Disbursement Instructions. Written instructions from the Credit Parties to the Administrative Agent directing the application of proceeds of the initial Loan made pursuant to this Agreement;

(xii) Opinion of Credit Parties' Counsel. The favorable written opinion of Stinson Morrison Hecker LLP, counsel to the Credit Parties, to the Administrative Agent regarding the Credit Parties, the Credit Documents and the transactions contemplated by the Credit Documents, substantially in the form of Exhibit L hereto; and

(xiii) Post-Closing Agreement. A Post-Closing Agreement (the ***"Post-Closing Agreement"***) satisfactory to the Administrative Agent setting forth certain conditions precedent waived by the Administrative Agent, which the Borrower agrees to satisfy no later than the respective dates specified therein.

(b) Conditions Precedent. The satisfaction, in the Administrative Agent's sole judgment, of each of the following conditions precedent:

(i) President's Certificate. Receipt by the Administrative Agent of (A) a certificate of the president of each of the Credit Parties, as applicable,

dated the Closing Date and certifying with respect to each applicable Credit Party, (1) that attached thereto is a true and complete copy of the articles of incorporation, articles of organization or certificate of partnership, as applicable, and all amendments thereto of each of them, certified as of a recent date by the appropriate Governmental Authority in its jurisdiction of organization (or, in the alternative, a certification that none of such documents have been modified since delivery thereof to the Administrative Agent in connection with the execution and delivery of the Existing Credit Agreement), (2) that attached thereto is a true and complete copy of the operating agreement, by-laws, partnership agreement or equivalent document, as applicable, of each applicable Credit Party in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (3) below (or, in the alternative, a certification that none of such documents have been modified since delivery thereof to the Administrative Agent in connection with the execution and delivery of the Existing Credit Agreement), (3) that attached thereto is a true and complete copy of resolutions or consents, as applicable, duly adopted by the respective governing boards of each applicable Credit Party authorizing, as applicable, the execution, delivery and performance of the Credit Documents to which it is party and, in the case of the Borrower, the borrowings hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (4) that the organizational documents of each applicable Credit Party have not been amended since the date of the last amendment thereto shown on the certificate of good standing attached thereto and (5) as to the incumbency and specimen signature of each officer executing any Credit Document or any other document delivered in connection herewith on its behalf; and (B) a certificate of another officer as to the incumbency and specimen signature of such president executing the certificate pursuant to (A) above;

(ii) Officer's Certificate. Receipt by the Administrative Agent of a certificate from the chief executive officer or chief financial officer of each Credit Party, as applicable, in form and substance satisfactory to the Administrative Agent, to the effect that all representations and warranties of each Credit Party contained in this Agreement and the other Credit Documents are true, correct and complete; that the applicable Credit Party is not in violation of any of the covenants contained in this Agreement and the other Credit Documents; that, after giving effect to the transactions contemplated by this Agreement, no Default or Event of Default has occurred and is continuing; and that the applicable Credit Party has satisfied each of the conditions precedent set forth in this Section 5.02;

(iii) Material Adverse Change. Since each of the dates of the financial statements referred to in Section 5.02(b)(viii), there shall not have occurred any material adverse change in the business, financial condition

or results of operations of Inergy, L.P., the Borrower or the Borrower and its Subsidiaries taken as a whole, or the existence or value of any Collateral or any other event, condition or state of facts which would reasonably be expected to materially and adversely affect the actual or prospective business, financial condition or operations of Inergy, L.P., the Borrower or the Borrower and its Subsidiaries taken as a whole;

(iv) Proceedings. No action, proceeding, investigation, regulation or legislation shall have been instituted, threatened or proposed before any court, government agency or legislative body to enjoin, restrain or prohibit, or to obtain damages in respect of, or which is related to or arises out of this Agreement or the other Credit Documents or the consummation of the transactions contemplated hereby or thereby or which, in the Administrative Agent's reasonable determination, would prohibit the making of the Loans or the issuances of Letters of Credit or have a material adverse effect on Inergy, L.P., the Borrower or the Borrower and its Subsidiaries taken as a whole;

(v) Fees. The Credit Parties, as applicable, shall have paid to the Administrative Agent and the Lenders the fees set forth or referenced in this Agreement and any other accrued and unpaid fees, expenses or commissions due hereunder (including, without limitation, legal fees and expenses of counsel to the Administrative Agent), and to any other Person such amount as may be due thereto in connection with the transactions contemplated hereby, including all taxes, fees and other charges in connection with the execution, delivery, recording, filing and registration of any of the Credit Documents;

(vi) Certificates of Good Standing / Authorization. Receipt by the Administrative Agent of a certificate of good standing or authorization for each Credit Party, as applicable, dated on or immediately prior to the Closing Date, from the Secretary of State of the state of organization of the applicable Credit Party and from all states in which the applicable Credit Party is required to obtain a certificate of good standing, certificate of authorization or like certificate due to the nature of its operations in such state, each such state being listed on Part 1 of Schedule 6.01(a) hereto;

(vii) Solvency Certificate. Receipt by the Administrative Agent of a certificate, in form and substance satisfactory to the Administrative Agent, certified as accurate by the chief executive officer or chief financial officer of each Credit Party, as applicable, that the applicable Credit Party is Solvent;

(viii) Financial Statements. Receipt by the Administrative Agent of (A) proforma financial projections giving effect to the United Acquisition, which demonstrate, in the Administrative Agent's reasonable judgment,

together with all other information then available to the Administrative Agent, that the Borrower can repay its debts and satisfy its other obligations as and when they become due, and can comply with the financial covenants contained in this Agreement, (B) such information as the Administrative Agent may reasonably request to confirm the tax, legal, and business assumptions made in such proforma financial statements, (C) unaudited consolidated financial statements of the Borrower and its Consolidated Subsidiaries for the fiscal quarter ended March 31, 2003; (D) reviewed consolidated financial statements of United Propane and its Consolidated Subsidiaries for the Fiscal Years ended September 30, 2001 and September 30, 2002; provided, however, that in the event the SEC requires the filing of audited consolidated financial statements of United Propane and its Consolidated Subsidiaries, the Borrower shall provide copies thereof to the Administrative Agent simultaneously with such filing, and (E) such other information as the Administrative Agent, or the Lenders, through the Administrative Agent, may reasonably request;

(ix) Cleandown Period. Receipt by the Administrative Agent of a certificate, in form and substance satisfactory to the Administrative Agent, certified as accurate by the chief executive officer or chief financial officer of the Borrower, certifying that the cleandown requirement set forth in Section 4.02(b) has been satisfied for the Fiscal Year 2003 Cleandown Period.

(x) Consents. Receipt by the Administrative Agent of a written representation from the Borrower that (i) all governmental, shareholder, member, partner and third party consents and approvals necessary or, in the reasonable opinion of the Administrative Agent, desirable in connection with the transactions contemplated hereby have been received and are in full force and effect and (ii) no condition or requirement of law exists which could reasonably be likely to restrain, prevent or impose any material adverse condition on the transactions contemplated hereby;

(xi) United Acquisition Plan; United Purchase Agreement. Satisfactory review by the Administrative Agent of the United Acquisition Plan, as set forth on Schedule 1.01(C) hereto and receipt by the Administrative Agent of the United Purchase Agreement;

(xii) Outstanding Facilities. Receipt by the Administrative Agent of confirmation acceptable to the Administrative Agent that all other credit facilities of the Credit Parties, including, without limitation, the facilities available to the Borrower under the Existing Credit Agreement have been, or will be simultaneously, terminated and paid in full.

(xiii) Notice of Borrowing. Receipt by the Administrative Agent of a Notice of Borrowing from the Borrower in accordance with Section 4.01(a), and a Notice of Account Designation specifying the account or accounts to

which the proceeds of any Loans made after the Closing Date are to be disbursed;

(xiv) No Default; Representations and Warranties. As of the Closing Date (i) there shall exist no Default or Event of Default and (ii) all representations and warranties contained herein and in the other Credit Documents shall be true and correct in all material respects; and

(xv) Other. Receipt by the Administrative Agent of all opinions, certificates and other instruments in connection with the transactions contemplated by this Agreement satisfactory in form and substance to the Lenders. The Lenders shall have received copies of all other instruments and such other evidence as the Lenders may reasonably request, in form and substance satisfactory to the Lenders, with respect to the transactions contemplated by this Agreement and the taking of all actions in connection therewith.

SECTION 5.03. *Conditions Precedent to All Extensions of Credit*.

The obligation of the Lenders and the Issuing Bank to make each Extension of Credit under this Agreement (including, without limitation, the initial Extension of Credit) shall be subject to the further conditions precedent that, on the date of each such Extension of Credit:

(a) Continuation of Representations and Warranties. The representations and warranties contained in Article VI or otherwise made by the Credit Parties in any Credit Document shall be true and correct, in all material respects, on and as of such borrowing or issuance date with the same effect as if made on and as of such date.

(b) No Existing Default. No Default or Event of Default shall have occurred and be continuing hereunder (i) on the borrowing date with respect to such Loan or after giving effect to the Loans to be made on such date or (ii) on the issue date with respect to such Letter of Credit or after giving affect to such Letters of Credit on such date.

(c) Officer's Compliance Certificate; Additional Documents. The Administrative Agent shall have received the current Officer's Compliance Certificate and each additional document, instrument, legal opinion or other item of information reasonably requested by it.

(d) Other. The Administrative Agent shall have received such other approvals, opinions or documents as it may reasonably request.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF THE BORROWER

SECTION 6.01. ***Representations and Warranties*****.**

To induce the Administrative Agent and the Lenders to enter into this Agreement and the other Credit Documents and to induce the Lenders to make the Extensions of Credit, the Borrower hereby represents and warrants to the Administrative Agent and the Lenders both before and after giving effect to the transactions contemplated hereunder that:

(a) Organization; Power; Qualification.

(i) Each Credit Party is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or formation, has the power and authority to own its properties and to carry on its business as now being and hereafter proposed to be conducted and is duly qualified and authorized to do business in each jurisdiction in which the character of its properties or the nature of its business requires such qualification and authorization, except where the failure to so qualify would not have a Material Adverse Effect. The jurisdictions of formation and the jurisdictions in which Inergy, L.P., the Borrower and each Subsidiary of the Borrower is organized and qualified to do business are described on Part 1 of Schedule 6.01(a) hereto.

(ii) Each Subsidiary of the Borrower is listed on Part 2 of Schedule 6.01(a) hereto.

(b) Ownership.

(i) The capitalization of Inergy, L.P., the Borrower and each Subsidiary of the Borrower consists of the Capital Stock, authorized, issued and outstanding, of such classes and series, with or without par value, described on Schedule 6.01(b) hereto. All such outstanding Capital Stock has been duly authorized and validly issued and are fully paid and nonassessable.

(ii) The owners of the Capital Stock of Inergy, L.P., the Borrower and each Subsidiary of the Borrower and the percentage of Capital Stock owned by each are described on Schedule 6.01(b) hereto.

(iii) There are no outstanding warrants, subscriptions, options, securities, instruments or other rights of any type or nature whatsoever, which are convertible into, exchangeable for or otherwise provide for or permit the issuance of, Capital Stock of the Borrower or any Subsidiary of the Borrower or are otherwise exercisable by any Person.

(c) Authorization of Agreement, Credit Documents and Borrowing. Each of the Credit Parties has the right, power and authority and has taken all necessary corporate and other action to authorize the execution, delivery and performance of this Agreement and each of the other Credit Documents to which it is a party in accordance with their respective terms. This Agreement and each of the other Credit Documents have been duly executed and delivered by the duly authorized officers of each Credit Party thereto, and each such Credit Document constitutes the legal, valid and binding obligation of the Credit Party thereto, enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar state or federal debtor relief laws from time to time in effect which affect the enforcement of creditors' rights in general and the availability of equitable remedies.

(d) Compliance of Agreement, Credit Documents and Borrowing with Laws, Etc. The execution, delivery and performance by the Credit Parties of the Credit Documents to which each such Person is a party, in accordance with their respective terms, the borrowings hereunder and the transactions contemplated hereby and under the other Credit Documents do not and will not, by the passage of time, the giving of notice or otherwise, (i) require any Governmental Approval or violate any Applicable Law relating to any Credit Party, (ii) conflict with, result in a breach of or constitute a default under the articles of incorporation, bylaws or other organizational documents of any Credit Party or any indenture, agreement or other instrument to which such Person is a party or by which any of its properties may be bound or any Governmental Approval relating to such Person, or (iii) result in or require the creation or imposition of any Lien upon or with respect to any property now owned or hereafter acquired by such Person other than Liens arising under the Credit Documents.

(e) Compliance with Law; Governmental Approvals. Each Credit Party (i) has all Governmental Approvals required by any Applicable Law for it to conduct its business, each of which is in full force and effect, is final and not subject to review on appeal and is not the subject of any pending or, to the best of its knowledge, threatened attack by direct or collateral proceeding, and (ii) is in compliance with each Governmental Approval applicable to it and in compliance with all other Applicable Laws relating to it or any of its respective properties, except, in each case, to the extent that such non-compliance would not have a Material Adverse Effect.

(f) Tax Returns and Payments. Each Credit Party has duly filed or caused to be filed all material federal, state and local tax returns required by Applicable Law to be filed, and has paid, or made adequate provision for the payment of, all federal, state, local and other taxes, assessments and governmental charges or levies upon it and its property, income, profits and assets which are due and payable, other than those the validity of which the applicable Credit Party is contesting in good faith by appropriate proceedings and with respect to which the applicable Credit Party shall, to the extent required by GAAP, have set aside on its books adequate reserves. No Governmental Authority has asserted any Lien or other claim against any Credit Party with respect to unpaid taxes which has not been discharged or resolved. The charges, accruals and reserves on the books of Credit Parties in respect of federal, state, local and other taxes for all Fiscal Years and portions thereof since the organization of each such

Credit Party are in the judgment of the Borrower adequate, and the Borrower does not anticipate any additional taxes or assessments for any of such years.

(g) Intellectual Property Matters. Each Credit Party owns or possesses rights to use all franchises, licenses, copyrights, copyright applications, patents, patent rights or licenses, patent applications, trademarks, trademark rights, trade names, trade name rights, copyrights and rights with respect to the foregoing which are required to conduct its business. No event has occurred which permits, or after notice or lapse of time or both would permit, the revocation or termination of any such rights, and no Credit Party is liable to any Person for infringement under Applicable Law with respect to any such rights as a result of its business operations.

(h) Environmental and Safety Matters. Each Credit Party has complied in all respects with all Environmental Laws except for violations that either alone or in the aggregate could not reasonably be expected to result in a Material Adverse Effect. No Credit Party manages or handles any hazardous wastes, hazardous substances, hazardous materials, toxic substances or toxic pollutants referred to in or regulated by Environmental Laws in violation of such laws or of any other applicable law where such violation could reasonably be expected to result, individually or together with other violations, in a Material Adverse Effect. There are no outstanding or threatened citations, notices or orders of non-compliance issued to any Credit Party or relating to its facilities, leaseholds, assets or other property that either alone or in the aggregate could reasonably be expected to result in a Material Adverse Effect. Each Credit Party has been issued all licenses, certificates, permits or other authorizations required under any Environmental Law or by any federal, state or local governmental or quasi-governmental entity. There are no liabilities or contingent liabilities relating to environmental or employee health and safety matters (including on-site or off-site contamination) relating to any Credit Party or any property owned, leased or used by any Credit Party, which, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect.

(i) ERISA. The Borrower and each ERISA Affiliate is in material compliance with all applicable provisions of ERISA and the regulations and published interpretations thereunder.

(j) Margin Stock. No Credit Party is engaged principally or as one of its activities in the business of extending credit for the purpose of “purchasing” or “carrying” any “margin stock” (as each such term is defined or used in the regulations of the Board of Governors of the Federal Reserve System). No part of the proceeds of any of the Loans will be used for purchasing or carrying margin stock in violation of, or for any purpose which violates, the provisions of Regulation T, U or X of such Board of Governors.

(k) Government Regulation. No Credit Party is an “investment company” or a company “controlled” by an “investment company” (as each such term is defined or used in the Investment Company Act of 1940, as amended) and neither the Borrower nor any of its Subsidiaries is, or after giving effect to any Extension of Credit will be, subject to regulation under the Public Utility Holding Company Act of 1935 or the Interstate Commerce Act, each as

amended, or any other Applicable Law which limits its ability to incur or consummate the transactions contemplated hereby.

(l) Agreements. (i) No Credit Party is a party to any agreement or instrument or subject to any restriction in its organizational documents that (i) will have the effect of prohibiting or restraining, or will impose adverse conditions upon, any of the transactions contemplated hereby or in the other Credit Documents or the payment of dividends or the making of any loans, investments or transfers by any Subsidiary to or in the Borrower or (ii) has resulted or could reasonably be expected to result in a Material Adverse Effect.

(m) Absence of Defaults. No event has occurred or is continuing which constitutes a Default or an Event of Default, or which constitutes, or which with the passage of time or giving of notice or both would constitute, a default or event of default by any Credit Party under any material agreement or contract, judgment, decree or order by which any Credit Party or any of their respective properties may be bound or which would require a Credit Party to make any payment thereunder prior to the scheduled maturity date therefore, where such default could reasonably be expected to result in a Material Adverse Effect.

(n) Employee Relations. No Credit Party is party to any collective bargaining agreement nor has any labor union been recognized as the representative of its employees. There are no strikes against any Credit Party pending or, to the best knowledge of the Borrower, threatened. The hours worked and payments made to employees of each Credit Party have not been in violation of the Fair Labor Standards Act or any other Applicable Law dealing with such matters except for violations that either alone or in the aggregate could not reasonably be expected to result in a Material Adverse Effect. All material payments due from a Credit Party, or for which any claim may be made against a Credit Party, on account of wages and employee health and welfare insurance and other benefits have been paid or accrued as a liability on the books of the applicable Credit Party, in compliance with GAAP.

(o) Burdensome Provisions. No Credit Party is subject to any Governmental Approval or Applicable Law which is so unusual or burdensome as in the foreseeable future could be reasonably expected to have a Material Adverse Effect. The Borrower does not presently anticipate that future expenditures of the Credit Parties needed to meet the provisions of any statutes, orders, rules or regulations of a Governmental Authority will be so burdensome as to have a Material Adverse Effect.

(p) Financial Statements. (i) The audited consolidated balance sheets of the Borrower and its Consolidated Subsidiaries as of September 30, 2002, and the related statements of income and retained earnings and cash flows for the Fiscal Year then ended, and (ii) the unaudited consolidated balance sheets of the Borrower and its Consolidated Subsidiaries as of March 31, 2003, and the related statements of income and retained earnings and cash flows for the fiscal quarter then ended, copies of which have been furnished to the Administrative Agent and each Lender, are each complete and correct and fairly present the assets, liabilities and financial position of the Borrower and its Consolidated Subsidiaries as of such dates, and the results of the operations and changes of financial position for the periods then ended in accordance with GAAP. All such financial statements, including the related

schedules and notes thereto, have been prepared in accordance with GAAP. The Borrower and its Subsidiaries have no Debt, obligation or other unusual forward or long-term commitment which is not fairly reflected in the foregoing financial statements or in the notes thereto.

(q) No Material Adverse Change. Since March 31, 2003, no event has occurred or condition arisen that could reasonably be expected to have a Material Adverse Effect.

(r) Solvency. As of the Closing Date and after giving effect to each Extension of Credit made hereunder, Inergy, L.P., the Borrower and each of the Subsidiaries of the Borrower will be Solvent.

(s) Titles to Properties.

(i) Each Credit Party has good and marketable title to all assets and other property purported to be owned by it.

(ii) Set forth on Part 1 of Schedule 6.01(s) hereto is a complete list by Credit Party of each parcel of real property by street address owned or leased by a Credit Party.

(iii) Set forth on Part 2 of Schedule 6.01(s) hereto is a complete list by Credit Party of all motor vehicles owned by a Credit Party.

(t) Liens. None of the properties and assets of the Credit Parties is subject to any Lien, except Permitted Liens. The Administrative Agent, for the benefit of the Lenders, has a perfected first priority Lien on all of the Collateral subject to no other Liens except for Permitted Liens.

(u) Debt and Permitted Investments. No Credit Party has any Debt other than Permitted Debt. No Credit Party has made any Investments other than Investments permitted under Section 10.03 of this Agreement.

(v) Litigation. There are no actions, suits or proceedings pending nor, to the knowledge of the Borrower, threatened against or in any other way relating adversely to or affecting any Credit Party or any Credit Party's respective properties in any court or before any arbitrator of any kind or before or by any Governmental Authority, except for actions, suits or proceedings that, if adversely determined, could, individually or in the aggregate, not reasonably be expected to result in a Material Adverse Effect.

(w) Fiscal Year. The Fiscal Year of each Credit Party begins on October 1 and ends on September 30 of the following calendar year.

(x) Accuracy and Completeness of Information. All written information, reports and other papers and data produced by or on behalf of each Credit Party and furnished to the Administrative Agent and the Lenders were, at the time the same were so furnished, complete and correct in all material respects. No document furnished or written statement made to the Administrative Agent or the Lenders by any Credit Party in connection with the negotiation,

preparation or execution of this Agreement or any of the Credit Documents contains or will contain any untrue statement of a fact material to the creditworthiness of any Credit Party or omits or will omit to state a fact necessary in order to make the statements contained therein not misleading.

(y) Tax Disclosure. No Credit Party intends to treat any of the Loans as a "reportable transaction" within the meaning of Treasury Regulation Section 1.6011-4. In the event that a Credit Party determines to take any action inconsistent with such intention, the Borrower promptly will notify the Administrative Agent thereof. The Borrower acknowledges that one or more of the Lenders may treat the Loans as part of a transaction that is subject to Treasury Regulation Section 1.6011-4 or Section 301.6112-1, and the Administrative Agent and such Lender(s) may file such Internal Revenue Service forms or maintain such lists and records as such Lender(s) determine are required by such Treasury Regulations.

(z) United Acquisition. Schedule 1.01(c) hereto sets forth a true and accurate calculation of the purchase price for the United Acquisition.

SECTION 6.02. ***Survival of Representations and Warranties, Etc*****.**

All representations and warranties set forth in this Article VI and all representations and warranties contained in any certificate, or any of the Credit Documents (including, but not limited to, any such representation or warranty made in or in connection with any amendment thereto) shall constitute representations and warranties made under this Agreement. All representations and warranties made under this Agreement shall be made or deemed to be made at and as of the Closing Date, shall survive the Closing Date and shall not be waived by the execution and delivery of this Agreement, any investigation made by or on behalf of the Lenders or any borrowing hereunder.

ARTICLE VII

FINANCIAL INFORMATION AND NOTICES

Until all the Obligations have been finally and indefeasibly paid and satisfied in full and the Commitments terminated, unless consent has been obtained in the manner set forth in Section 13.11, the Borrower will furnish or cause to be furnished to the Administrative Agent and to the Lenders at their respective addresses as set forth on Schedule 1.01B hereto, or such other office as may be designated by the Administrative Agent and Lenders from time to time:

SECTION 7.01. ***Financial Statements*****.**

(a) Borrowing Base Certificates; Mark-to-Market Reports.

(i) Prior to any borrowing hereunder, but at least monthly, a Borrowing Base Certificate in substantially the form of Exhibit F hereto (a "***Borrowing Base Certificate***") showing, as of the close of business on the day prior to any borrowing or on the last day of such month the Borrowing Base. No later than thirty (30) days after the end of each month, reports, in form and

substance satisfactory to the Administrative Agent, of the Borrower's and its Consolidated Subsidiaries' agings of accounts receivable and inventory.

(ii) Upon request and no later than fifteen (15) days after the end of each month, a mark-to-market report of the Borrower and its Consolidated Subsidiaries for the prior month, in form and substance satisfactory to the Administrative Agent.

(b) Quarterly Financial Statements.

(i) As soon as practicable and in any event within forty-five (45) days after the end of each of the first three fiscal quarters, unaudited consolidated and consolidating balance sheet of Inergy, L.P. and its Consolidated Subsidiaries as of the close of such fiscal quarter and unaudited consolidated and consolidating statements of income, retained earnings and cash flows for the fiscal quarter then ended and that portion of the Fiscal Year then ended, all in reasonable detail setting forth in comparative form the corresponding figures for the preceding Fiscal Year and prepared by Inergy, L.P. in accordance with GAAP other than the absence of footnotes and subject to year-end audit and adjustments and, if applicable, containing disclosure of the effect on the financial position or results of operations of any change in the application of accounting principles and practices during the period, and certified by a Financial Officer of Inergy, L.P. to present fairly in all material respects the financial condition of Inergy, L.P. and its Consolidated Subsidiaries as of their respective dates and the results of operations of Inergy, L.P. and its Consolidated Subsidiaries for the respective periods then ended other than the absence of footnotes and subject to year-end audit and adjustments. For purposes hereof, the delivery of Inergy, L.P.'s appropriately completed Quarterly Report on Form 10-Q will be sufficient in lieu of delivery of the consolidated financial statements of Inergy, L.P. and its Consolidated Subsidiaries.

(ii) As soon as practicable and in any event within forty-five (45) days after the end of each of the first three fiscal quarters, unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the close of such fiscal quarter and unaudited consolidated statements of income, retained earnings and cash flows for the fiscal quarter then ended and that portion of the Fiscal Year then ended, all in reasonable detail setting forth in comparative form the corresponding figures for the preceding Fiscal Year and prepared by the Borrower in accordance with GAAP other than the absence of footnotes and subject to year-end audit and adjustments and, if applicable, containing disclosure of the effect on the financial position or results of operations of any change in the application of accounting principles and practices during the period, and certified by a Financial Officer of the Borrower to present fairly in all

material respects the financial condition of the Borrower and its Consolidated Subsidiaries as of their respective dates and the results of operations of the Borrower and its Consolidated Subsidiaries for the respective periods then ended other than the absence of footnotes and subject to year-end audit and adjustments.

(c) Applicable Margin Calculation Certificate. As soon as available and in any event within thirty (30) days after the end of each fiscal quarter, an Applicable Margin Calculation Certificate for the Borrower and its Consolidated Subsidiaries in the form of Exhibit G hereto, for such fiscal quarter.

(d) Annual Financial Statements.

(i) As soon as practicable and in any event within ninety (90) days after the end of each Fiscal Year, audited consolidated balance sheet of Inergy, L.P. and its Consolidated Subsidiaries as of the close of such Fiscal Year and audited consolidated statements of income, retained earnings and cash flows for the Fiscal Year then ended, including the notes thereto, all in reasonable detail setting forth in comparative form the corresponding figures for the preceding Fiscal Year and audited by Ernst & Young, LLP or other independent certified public accountants of national standing reasonably acceptable to the Administrative Agent in accordance with GAAP and, if applicable, containing disclosure of the effect on the financial position or results of operation of any change in the application of accounting principles and practices during the year, and accompanied by a report thereon by such certified public accountants that is not qualified with respect to scope limitations imposed by Inergy, L.P. or any of its Consolidated Subsidiaries or with respect to accounting principles followed by Inergy, L.P. or any of its Consolidated Subsidiaries not in accordance with GAAP and there exists no Event of Default under Article IX of this Agreement. For purposes hereof, the delivery of Inergy, L.P.'s appropriately completed Annual Report on Form 10-K will be sufficient in lieu of delivery of the consolidated financial statements of Inergy, L.P. and its Consolidated Subsidiaries.

(ii) As soon as practicable and in any event within ninety (90) days after the end of each Fiscal Year, unaudited consolidating balance sheet of Inergy, L.P. and its Consolidated Subsidiaries as of the close of such Fiscal Year and unaudited consolidating statements of income, retained earnings and cash flows for the Fiscal Year then ended, including the notes thereto, all in reasonable detail setting forth in comparative form the corresponding figures for the preceding Fiscal Year, certified by a Financial Officer of Inergy Partners as having been prepared in accordance with GAAP.

(iii) As soon as practicable and in any event within ninety (90) days after the end of each Fiscal Year, audited consolidated balance sheet of the

Borrower and its Consolidated Subsidiaries as of the close of such Fiscal Year and audited consolidated statements of income, retained earnings and cash flows for the Fiscal Year then ended, including the notes thereto, all in reasonable detail setting forth in comparative form the corresponding figures for the preceding Fiscal Year, and audited by Ernst & Young, LLP or other independent certified public accountants of national standing reasonably acceptable to the Administrative Agent in accordance with GAAP and, if applicable, containing disclosure of the effect on the financial position or results of operation of any change in the application of accounting principles and practices during the year, and accompanied by a report thereon by such certified public accountants that is not qualified with respect to scope limitations imposed by the Borrower or any of its Consolidated Subsidiaries or with respect to accounting principles followed by the Borrower or any of its Consolidated Subsidiaries not in accordance with GAAP and there exists no Event of Default under Article IX of this Agreement.

(e) ***Annual Budget***. The Borrower shall prepare, for each Fiscal Year, an Annual Budget. As soon as practicable, but in any event no later than August 31 of the preceding Fiscal Year, the Borrower shall submit to the Administrative Agent the Annual Budget for the next Fiscal Year, approved by management of the Borrower. As soon as practicable, but in any event no later than November 30 of the applicable Fiscal Year, the Borrower shall submit to the Administrative Agent the Annual Budget for the then current Fiscal Year, approved by the board of directors (or analogous governing board) of the Borrower.

(f) Officer's Compliance Certificate. At each time financial statements are delivered pursuant to Sections 7.01(b) or (d), a certificate of a Financial Officer of Inergy, L.P. or the Borrower, as applicable, in the form of Exhibit E hereto (an "***Officer's Compliance Certificate***").

SECTION 7.02. *Notice of Litigation and Other Matters*.

Promptly (but in no event later than ten (10) days after an officer of a Credit Party obtains knowledge thereof) telephonic and written notice of:

(a) the commencement of all proceedings and investigations by or before any Governmental Authority and all actions and proceedings in any court or before any arbitrator against or involving any Credit Party or any of their respective properties, assets or businesses, which, if adversely determined, could reasonably be expected to have a Material Adverse Effect;

(b) any notice of any violation received by any Credit Party from any Governmental Authority including, without limitation, any notice of violation of Environmental Laws or ERISA which in any such case could reasonably be expected to have a Material Adverse Effect;

(c) any labor controversy that has resulted in a strike or other work action against any Credit Party that could reasonably be expected to have a Material Adverse Effect;

(d) any dispositions of any Collateral or other assets or property of any Credit Party (other than in the ordinary course of its business) within ten (10) days of the disposition thereof;

(e) any Default or Event of Default;

(f) any event which makes any of the representations set forth in Section 6.01 inaccurate in any respect;

(g) any other development that has resulted in, or could reasonably be expected to result in a Material Adverse Effect;

(h) promptly upon receipt thereof, copies of all reports, if any, submitted to any Credit Party or its respective board of directors (or analogous governing body) by its respective independent public accountants in connection with their auditing function, including, without limitation, accountant letters, management reports and management responses thereto; and

(i) such other information regarding the operations, business affairs and financial condition of the Credit Parties as the Administrative Agent or any Lender may reasonably request.

SECTION 7.03. ***Accuracy of Information*****.**

All written information, reports, statements and other papers and data furnished by or on behalf of the Borrower or any of the other Credit Parties to the Administrative Agent or any Lender (other than financial forecasts) whether pursuant to this Article VII or any other provision of this Agreement, or any other of the Credit Documents, shall be, at the time the same is so furnished, complete and correct in all material respects to the extent necessary to give the Administrative Agent or any Lender complete, true and accurate knowledge of the subject matter based on the Borrower's knowledge thereof.

ARTICLE VIII

AFFIRMATIVE COVENANTS

Until the Obligations have been finally and indefeasibly paid and satisfied in full and the Commitments terminated, unless consent has been obtained in the manner provided for in Section 13.11, the Borrower will, and will cause each of its Subsidiaries to:

SECTION 8.01. ***Existence; Businesses and Properties*****.**

(i) Carry on and conduct its principal business substantially as it is now being conducted, (ii) maintain in good standing its existence and its right to transact business in those states in which it is now or may after the Closing Date be doing business; and (iii) maintain all licenses,

permits and registrations necessary to the conduct of its business, except where the failure to so maintain its right to transact business or to maintain such licenses, permits or registrations would not have a Material Adverse Effect.

SECTION 8.02. *Insurance*.

Keep insured at all times with financially sound and reputable insurers which are satisfactory to the Administrative Agent (i) all of its property of an insurable nature (other than residential tanks and racks and cylinders on a cylinder exchange program), including, without limitation, all real estate, equipment, fixtures and inventories, against fire and other casualties in such a manner and to the extent that like properties are usually insured by others owning properties of a similar character in a similar locality or as otherwise required by the Administrative Agent, with the proceeds of such casualty insurance payable to the Administrative Agent for the benefit of the Lenders, and (ii) against liability on account of damage to persons or property (including product liability insurance, pollution legal liability insurance and all insurance required under all applicable worker's compensation laws) caused by it or its officers, members, employees, agents or contractors in such a manner and to the extent that like risks are usually insured by others conducting similar businesses in the places where it conducts its business or as otherwise required by the Administrative Agent; provided, however, that the Borrower may self-insure against casualty all of its property of an insurable nature, so long as (y) no Event of Default has occurred and is continuing under this Agreement, and (z) adequate reserves (as are customary in the case of self-insured entities of similarly situated companies engaged in the same or a similar line of business in accordance with GAAP) are maintained for such purpose. Notwithstanding the foregoing, in the event that any property of the Borrower or any of its Subsidiaries is not accepted by the applicable insurer for inclusion under the Borrower's or the applicable Subsidiary's pollution legal liability policy, the Borrower or such Subsidiary shall not be required to maintain pollution legal liability insurance coverage on such property provided that (i) the Borrower provides the Administrative Agent with notice of the rejection of such property by the insurer, and (ii) at the Administrative Agent's option, shall not be included in the Collateral.

The Borrower shall cause the insurers under all of its and its Subsidiaries' insurance policies to (a) provide the Administrative Agent at least thirty (30) days prior written notice of the termination of any such policy before such termination shall be effective and (b) agree to such other matters in respect of any such casualty insurance as provided in the Administrative Agent's loss payee endorsement. In addition, the Borrower will, upon request of the Administrative Agent at any time, furnish a written summary of the amount and type of insurance carried by the Borrower and its Subsidiaries, the names of the insurers and the policy numbers, and deliver to the Administrative Agent certificates with respect thereto.

SECTION 8.03. *Payment of Taxes; Etc*.

Pay and discharge, before they become delinquent, all taxes, assessments and other governmental charges imposed upon it, its properties, or any part thereof, or upon the income or profits therefrom and all claims for labor, materials or supplies which if unpaid might be or become a Lien or charge upon any of its property and other material obligations, except such

items as it is in good faith appropriately contesting and as to which adequate reserves have been provided to the Administrative Agent's satisfaction.

SECTION 8.04. *Maintenance of Properties and Leases*.

(i) Maintain, preserve and keep its properties and every part thereof in good repair, working order and condition (except for such properties as the Borrower in good faith determines are not useful in the conduct of its or its Subsidiaries' business); (ii) from time to time make all necessary and property repairs, renewals, replacements, additions and improvements thereto so that at all times the efficiency thereof shall be fully preserved and maintained, and (iii) maintain all leases of real or personal property in good standing, free of any defaults by the Credit Party that is party thereto, except, in each case, where the failure to do so could not reasonably be expected to result in a Material Adverse Effect.

SECTION 8.05. *Employee Benefits*.

(i) Notify the Administrative Agent promptly of the establishment or joinder of any Plan, except that prior to the establishment of any "welfare plan" (as defined in Section 3(l) of ERISA) covering any employee of any Credit Party for any period after such employee's termination of employment other than such period required by the Consolidated Omnibus Budget Reconciliation Act of 1986 or "defined benefit plan" (as defined in Section 3(35) of ERISA) or joinder of, or contribution to, any multiemployer plan as defined under Section 3(37) of ERISA, it will obtain the Administrative Agent's prior written approval of such establishment; (ii) at all times make prompt payments or contributions to meet the minimum funding standards of Section 412 of the Internal Revenue Code of 1986, as amended, with respect to each Plan; (iii) promptly after the filing thereof, furnish to the Administrative Agent a copy of any report required to be filed pursuant to Section 103 of ERISA in connection with each Plan for each Plan year, including but not limited to the Schedule B attached thereto, if applicable; (iv) notify the Administrative Agent promptly of any "reportable event" (as defined in Section 4043 of ERISA) or any circumstances arising in correction with any Plan which might constitute grounds for the termination thereof by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a, trustee to administer the Plan, the initiation of any audit or inquiry by the Internal Revenue Service or the Department of Labor of any Plan or transaction(s) involving or related to any Plan, or any "prohibited transactions" as defined in Section 406 of ERISA or Section 4975(c) of the Internal Revenue Code of 1986, as amended; (v) notify the Administrative Agent prior to any action that could result in the assertion of liability under Subtitle E of Title IV of ERISA caused by the complete or partial withdrawal from any multiemployer plan or to terminate any defined benefit plan sponsored by a Credit Party; and (vi) promptly furnish such additional information concerning any Plan as the Administrative Agent may from time to time request.

SECTION 8.06. ***Books and Records; Inspection; Audits*****.**

(i) Maintain complete and accurate books and financial records in accordance with GAAP; (ii) during normal working hours permit the Administrative Agent and Persons designated by the Administrative Agent to visit and inspect its properties and to conduct any environmental tests or audits thereon, to perform audits of its accounts receivable and inventory and to inspect its books and financial records (including its journals, orders, receipts and correspondence which relate to its accounts receivable and inventory), to make copies and to take extracts therefrom, and to discuss its affairs, finances and accounts receivable and operations with its members, officers, employees and agents and its independent public accountants at the expense of the Borrower; (iii) permit the Administrative Agent and Persons designated by the Administrative Agent to perform audits of such books and financial records at the expense of the Borrower when and as requested by the Administrative Agent.

SECTION 8.07. ***Compliance with Laws*****.**

Comply with all applicable laws, rules and regulations, and all orders of any Governmental Authority, applicable to it or any of its property, business, operations or transactions (including ERISA and all Environmental Laws), except where the failure to so comply could not reasonably be expected to result in a Material Adverse Effect, and provide prompt written notice to the Lenders following the receipt of any notice of any violation of any such laws, rules, regulations or orders from any Governmental Authority charged with enforcing the same where such violation could reasonably be expected to result in a Material Adverse Effect.

SECTION 8.08. ***Use of Proceeds*****.**

Use the proceeds of (i) the Working Capital Loans and Swingline Loans for general corporate purposes of the Borrower and its Subsidiaries, other than Permitted Acquisitions; and (ii) the Permitted Acquisition Loans for refinancing indebtedness of the Borrower under the Existing Credit Agreement, Permitted Acquisitions, Expansion Capital Expenditures and the payment of fees and expenses incurred in connection with this Agreement and the other Credit Documents and the transactions contemplated hereby and thereby.

SECTION 8.09. ***Preparation of Environmental Reports*****.**

If a Default caused by reason of a breach of Section 8.07 (as such Section relates to Environmental Laws) shall have occurred and be continuing, at the request of the Required Lenders through the Administrative Agent, provide to Lenders within forty-five (45) days after such request, at the expense of the Borrower, an environmental site assessment report for the properties which are the subject of such Default prepared by an environmental consulting firm acceptable to the Administrative Agent and consented to by the Borrower (which consent shall not be unreasonably withheld or delayed), indicating the presence or absence of hazardous materials and the estimated cost of any compliance or remedial action in connection with such properties.

SECTION 8.10. *Location of Collateral*.

Keep all Collateral, other than inventory in transit, motor vehicles, residential tanks and bulk storage tanks, at one or more of the locations set forth on Schedule 8.10 hereto and not remove any such Collateral therefrom except for, for so long as there exists no Event of Default, (i) inventory sold in the ordinary course of business; (ii) dispositions of obsolete equipment to the extent permitted under this Agreement and the other Credit Documents; and (iii) the storage of inventory or equipment at locations within the continental United States other than those described on Schedule 8.10 hereto provided that (a) the Borrower shall take all necessary actions necessary for the Administrative Agent's Lien on such inventory and equipment to continue to be a perfected first priority Lien subject to no other Lien other than Permitted Liens and (b) the Administrative Agent shall have received, prior to the relocation of any such equipment or inventory, a landlord's waiver, acceptable in form and content to the Administrative Agent, if the premises are leased, and mortgagee's waivers, in each case acceptable in form and content to the Administrative Agent, from all those who hold a mortgage or like Lien on such premises.

SECTION 8.11. *Federal Reserve Regulations*.

No proceeds of any Loans shall be used to acquire or carry any Margin Stock.

SECTION 8.12. *Administrative Agent May Perform Obligations; Further Assurances*.

Permit the Administrative Agent on behalf of the Lenders, if the Administrative Agent or the Required Lenders so elects in their sole discretion, to pay or perform any of the Borrower's Obligations hereunder or under any other Credit Documents and to reimburse the Administrative Agent, on demand, or, if the Administrative Agent so elects, by the Administrative Agent making one or more Loans (as the Administrative Agent may elect) on the Borrower's behalf and charging the accounts of any Credit Party held by the Administrative Agent accordingly, for all amounts expended by or on behalf of the Administrative Agent in connection therewith, and all costs and expenses incurred by or on behalf of the Administrative Agent in connection therewith. Each Borrower further agrees to execute, deliver or perform, or cause to be executed, delivered or performed, all such documents, agreements or acts, as the case may be, as the Administrative Agent may reasonably request from time to time to create, perfect, continue or otherwise assure the Administrative Agent with respect to any Lien on all assets of each Credit Party or created or purported to be created by any of the Credit Documents or to otherwise create, evidence, assure or enhance the Administrative Agent's and the Lender's rights and remedies under, or as contemplated by, the Credit Documents or at law or in equity.

SECTION 8.13. *Risk Management Policy*.

Comply, and require its Subsidiaries to comply, with (i) the retail and wholesale inventory distribution and trading procedures, (ii) the dollar and volume limits, and (iii) all other material provisions of the Risk Management Policy.

SECTION 8.14. *Acquisition of Assets and Properties*.

Subject to the provisions of Section 12.10(b), assets and properties acquired by the Borrower or any of its Subsidiaries after the Closing Date consisting of (i) such real properties as constitute at least seventy-five percent (75%) of the aggregate value of the real properties acquired, as determined by the Administrative Agent in its reasonable discretion, (ii) such motor vehicles as constitute at least seventy-five percent (75%) of the aggregate value of the motor vehicles acquired, as determined by the Administrative Agent in its reasonable discretion, and (iii) all other material personal property assets acquired (to the extent that (a) a Lien can be perfected thereon by the filing of UCC financing statements in the appropriate jurisdictions, and (b) if required by the Administrative Agent, a Lien can be perfected thereon by possession or other methods under the UCC), shall be part of the Collateral securing the payment and performance of the Obligations on which the Administrative Agent shall have a perfected Lien, and the Borrower or such Subsidiary, as applicable, shall execute and deliver, or cause to be executed and delivered, to the Administrative Agent, at the Borrower's reasonable expense, such documents (including, without limitation, mortgages, deeds of trust, deeds to secure debt, guarantees, security agreements, UCC financing statements, fixture filings, opinions of counsel, title insurance and endorsements) and other assurances as the Administrative Agent may request in order to create and perfect Liens in such assets and properties in favor of the Administrative Agent, subject to no other Liens other than Permitted Liens. Notwithstanding anything to the contrary set forth above, the conditions set forth in clauses (i), (ii) and (iii) shall not apply to the acquisition of assets and properties (whether acquired in one or more related or unrelated transactions) to the extent that the aggregate purchase price of such assets and properties does not exceed $5,000,000.

ARTICLE IX

FINANCIAL COVENANTS

Until all of the Obligations have been finally and indefeasibly paid and satisfied in full and the Commitments terminated, unless consent has been obtained in the manner set forth in Section 13.11, the Borrower will not:

SECTION 9.01. *Consolidated EBITDA/Consolidated Interest Expense*.

Permit, as of the last day of each fiscal quarter, the ratio of (i) Consolidated EBITDA of the Borrower and its Consolidated Subsidiaries to (ii) Consolidated Interest Expense of the Borrower and its Consolidated Subsidiaries, in each case for the four fiscal quarters then most recently ended, to be less than: 2.50 to 1.00, for any fiscal quarter.

SECTION 9.02. *Consolidated Leverage Ratio*.

Permit, as of the last day of each fiscal quarter, the Consolidated Leverage Ratio of the Borrower and its Consolidated Subsidiaries to be more than 4.75 to 1.00, for any fiscal quarter.

ARTICLE X

NEGATIVE COVENANTS

Until all of the Obligations have been finally and indefeasibly paid and satisfied in full and the Commitments terminated, unless consent has been obtained in the manner set forth in Section 13.11, the Borrower will not, and will not cause or permit any of its Subsidiaries to:

SECTION 10.01. *Liens*.

Create or suffer to exist any Lien, except for Permitted Liens, upon or with respect to any of its assets or properties, whether such Person owns or has an interest in such assets or properties on the Closing Date or at any time thereafter.

SECTION 10.02. *Debt*.

Create or suffer to exist any Debt except for Permitted Debt.

SECTION 10.03. *Restricted Investments*.

(a) Subject to clause (b) below, make or permit to exist any loans or advances to or any other investment in any Person (including any equity holders of the Borrower or of any of its Affiliates), except investments in (1) interest-bearing United States Government obligations, (2) certificates of deposit issued by or time deposits with any commercial bank organized and existing under the laws of the United States or any state thereof having capital and surplus of not less than $25,000,000, (3) prime commercial paper rated AAA by Standard and Poor's or Prime P-1 by Moody's Investor Service, Inc., (4) agreements involving the sale and guaranteed repurchase of United States Government securities, or (5) a Subsidiary provided that (i) such Subsidiary is a wholly owned Subsidiary (directly or indirectly) of the Borrower; (ii) such Subsidiary guarantees the Obligations under the Credit Agreement and other Credit Documents pursuant to a Guaranty Agreement in substantially the form of Exhibit I hereto, (iii) such Subsidiary grants to the Administrative Agent (or the Collateral Agent) for the benefit of the Lenders a first priority security interest in all assets and properties of such Subsidiary (subject only to Permitted Liens) in accordance with Section 8.14 pursuant to a Security Agreement or a Mortgage in form and substance reasonably satisfactory to the Administrative Agent and (iv) the Capital Stock of such Subsidiary is pledged to the Administrative Agent (or the Collateral Agent) for the benefit of the Lenders pursuant to a Pledge Agreement in form and substance reasonably satisfactory to the Administrative Agent. All instruments and documents evidencing such investments shall be pledged to the Administrative Agent promptly after the relevant Person's receipt thereof, shall be security for the Obligations, and shall be Collateral hereunder.

(b) Acquire any assets or property of any other Person (other than a Credit Party) other than (i) pursuant to a Permitted Acquisition, (ii) subject to Section 8.14, in the ordinary course of business consistent with past practices and (iii) as part of a Capital Expenditure.

SECTION 10.04. *Structure; Disposition of Assets*.

(i) Except for Permitted Acquisitions, merge or consolidate with or otherwise acquire, or be acquired by, any other Person; and (ii) sell, lease or otherwise transfer all or any part of its assets other than, for so long as there exists no Event of Default, (a) the sale of inventory in the ordinary course of such Person's business, (b) the disposition of obsolete equipment subject to Section 4.02(e) hereof, (c) the sale of motor vehicles in the ordinary course of such Person's business with the consent of the Administrative Agent and (d) the sale of other assets not in the ordinary course of business in an amount not to exceed $10,000,000 in any Fiscal Year.

SECTION 10.05. *Sale-Leasebacks; Subsidiaries; New Business*.

(a) Enter into any arrangement with any lender or investor or to which such lender or investor is a party, providing for the leasing by the Borrower or any of its Subsidiaries of real or personal property which has been or is to be sold or transferred by the Borrower or any of its Subsidiaries to such lender or investor or to any Person to whom funds have been or are to be advanced by such lender or investor on the security of such property or rental obligations of the Borrower or any of its Subsidiaries, except for such transactions which, together with all other such transactions entered into by the Borrower and its Subsidiaries, involve real and personal property having a fair market value not exceeding $5,000,000 in the aggregate; or

(b) Create any Subsidiary or manufacture any goods, render any services or otherwise enter into any business which is not substantially similar to that existing on the Closing Date; provided, however, that the Borrower or any of its Subsidiaries may engage in, or create a Controlled Subsidiary to engage in, Midstream Business.

SECTION 10.06. *Issuance of Securities*.

Issue any membership or other equity interests, or create any new class of equity interests, or modify in any material respect the voting, liquidation or other rights of any class of equity interests, or issue any other securities; provided, however, the Borrower may issue Capital Stock.

SECTION 10.07. *Conflicting Agreements*.

Enter into any agreement any term or condition of which conflicts with any provision of this Agreement or the other Credit Documents.

SECTION 10.08. *Changes in Accounting Principles; Fiscal Year*.

Make any change in its principles or methods of accounting as currently in effect, except such changes as are required by GAAP, nor, without first obtaining the Administrative Agent's written consent, change its Fiscal Year.

SECTION 10.09. *Transactions With Affiliates*.

Enter into or be a party to any transaction or arrangement, including without limitation, the purchase, sale or exchange of property of any kind or the rendering of any service, with any Affiliate, except in the ordinary course of and pursuant to the reasonable requirements of such

Person's business and upon fair and reasonable terms substantially as favorable to such Person as those which would be obtained in a comparable arms-length transaction with a non-Affiliate. The foregoing shall not prohibit the creation of, or an arrangement with, a Subsidiary or other Affiliate in connection with a Permitted Acquisition or other acquisition of assets and properties pursuant to the terms and conditions of this Agreement, provided, that the structure of any such proposed transaction is disclosed to the Administrative Agent and is acceptable to the Administrative Agent in its reasonable discretion.

SECTION 10.10. *Distributions*.

Pay any dividends on or make any other distributions in respect of any membership interests or other equity interests or redeem or otherwise acquire any such membership or other equity interests without in each instance obtaining the prior written consent of the Required Lenders; provided, however, that (i) any Credit Party which is a Subsidiary of the Borrower may pay regularly scheduled dividends or make other distributions to the Borrower, and (ii) if no Default or Event of Default exists or would result therefrom, the Borrower may pay cash distributions, free of any Lien, to Inergy, L.P. in an amount not to exceed Available Cash.

SECTION 10.11. *Lease Obligations*.

Permit the aggregate obligations that are due and payable during any Fiscal Year under leases or agreements to lease (other than obligations under Capital Leases) to exceed $7,500,000.

SECTION 10.12. *Restrictive Agreements*.

Enter into any Debt which contains any covenants (including, without limitation, a negative pledge on assets) more restrictive than the provisions of Articles VIII, IX and X.

SECTION 10.13. *Put Agreements*.

Enter into any put agreement or similar agreement with any other Person granting such Person put rights or similar arrangements with respect to the Capital Stock of the Borrower or its Subsidiaries.

SECTION 10.14. *Amendments to Organic Documents*.

Amend or otherwise modify their respective Organic Documents in any manner that would affect the Administrative Agent or the Lenders without the prior written consent of the Administrative Agent and the Required Lenders, except for amendments or other modifications that modify administrative provisions or amendments that reflect the issuance, redemption or transfer of Capital Stock to the extent permitted by and in accordance with this Agreement and the other Credit Documents.

SECTION 10.15. ***Restrictions on Prepayments of Permitted Private Placement Debt*****.**

Permit any Permitted Private Placement Debt to be prepaid, other than (i) voluntary prepayments with the prior written consent of the Administrative Agent and the Required Lenders and (ii) mandatory prepayments from the sale or other disposition (including condemnation and other governmental taking) of assets of the Borrower and its Subsidiaries; provided, the Borrower prepays the Loans in an amount not less than the Lenders' Pro-Rata Share of such net proceeds and the balance of such net proceeds are required to, and are used to, prepay Permitted Private Placement Debt.

ARTICLE XI

DEFAULT AND REMEDIES

SECTION 11.01. ***Events of Default*****.**

Each of the following shall constitute an Event of Default, whatever the reason for such event and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment or order of any court or any order, rule or regulation of any Governmental Authority or otherwise:

(a) Default in Payment of Principal of Loans and Reimbursement Obligations. The Borrower shall default in any payment of principal of any Loan, Note or Reimbursement Obligation when and as due (whether at maturity, by reason of acceleration or otherwise).

(b) Other Payment Default. The Borrower shall default in the payment when and as due (whether at maturity, by reason of acceleration or otherwise) of interest due on any Loan, Note or Reimbursement Obligation or the payment of any other Obligation, and such default shall continue unremedied for three (3) Business Days.

(c) Misrepresentation. Any representation or warranty made or deemed to be made by Inergy, L.P., the Borrower or any Subsidiary of the Borrower under this Agreement, any other Credit Document or any amendment hereto or thereto, shall prove to have been incorrect or misleading in any material respect when made or deemed made.

(d) Default in Performance of Certain Covenants. The Borrower shall default in the performance or observance of any covenant or agreement contained in Sections 4.02, 7.01(b), (c), (d), or (f), 7.02(e), 8.01, 8.02, 8.06(ii), 8.06(iii), 8.08, 8.10, Article IX or Sections 10.01, 10.02, 10.03, 10.04, 10.05, 10.06, 10.10, 10.12, 10.13 or 10.14 of this Agreement.

(e) Default in Performance of Other Covenants and Conditions. The Borrower or any Subsidiary of the Borrower shall default in the performance or observance of any term, covenant, condition or agreement contained in this Agreement (other than as specifically provided for otherwise in this Section 11.01) or any other Credit Document and such default shall continue for a period of thirty (30) days and the Borrower or such Subsidiary of the Borrower, as applicable, continuously and diligently endeavors to cure such default.

(f) Debt Cross-Default. The Borrower, Inergy, L.P. or any Subsidiary of the Borrower shall (i) default in the payment of any Debt (other than that evidenced by the Notes or any Reimbursement Obligation), the aggregate outstanding amount of which Debt is in excess of $1,000,000, beyond the period of grace if any, provided in the instrument or agreement under which such Debt was created, or (ii) default in the observance or performance, beyond the period of grace if any, of any other agreement or condition relating to any Debt (other than that evidenced by the Notes or any Reimbursement Obligation) the aggregate outstanding amount of which Debt is in excess of $1,000,000, or contained in any instrument or agreement evidencing, securing or relating thereto or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or holders of such Debt (or a trustee or agent on behalf of such holder or holders) to cause, with the giving of notice if required, any such Debt to become due prior to its stated maturity.

(g) Other Cross-Defaults.

(i) The Borrower, Inergy, L.P. or any Subsidiary of the Borrower shall default in the payment when due, or in the performance or observance, of any obligation or condition of any material contract or agreement unless, but only as long as, the existence of any such default is being contested by the Borrower, Inergy, L.P. or such Subsidiary of the Borrower, as applicable, in good faith by appropriate proceedings and adequate reserves in respect thereof have been established on the books of the Borrower, Inergy, L.P. or such Subsidiary of the Borrower, as applicable, to the extent required by GAAP.

(ii) Any “Event of Default” shall have occurred and be continuing under any other Credit Document or any Hedging Agreement.

(h) Voluntary Bankruptcy Proceeding. Inergy, L.P., the Borrower or any Subsidiary of the Borrower shall (i) commence a voluntary case under the federal bankruptcy laws (as now or hereafter in effect), (ii) file a petition seeking to take advantage of any other laws, domestic or foreign, relating to bankruptcy, insolvency, reorganization, winding up or composition for adjustment of debts, (iii) consent to or fail to contest in a timely and appropriate manner any petition filed against it in an involuntary case under such bankruptcy laws or other laws, (iv) apply for or consent to, or fail to contest in a timely and appropriate manner, the appointment of, or the taking of possession by, a receiver, custodian, trustee, or liquidator of itself or of a substantial part of its property, domestic or foreign, (v) admit in writing its inability to pay its debts as they become due, (vi) make a general assignment for the benefit of creditors, or (vii) take any corporate action for the purpose of authorizing any of the foregoing.

(i) Involuntary Bankruptcy Proceeding. A case or other proceeding shall be commenced against Inergy, L.P., the Borrower or any Subsidiary of the Borrower in any court of competent jurisdiction seeking (i) relief under the federal bankruptcy laws (as now or hereafter in effect) or under any other laws, domestic or foreign, relating to bankruptcy, insolvency, reorganization, winding up or adjustment of debts, or (ii) the appointment of a trustee, receiver, custodian, liquidator or the like for Inergy, L.P., the Borrower or any

Subsidiary of the Borrower or for all or any substantial part of their respective assets, domestic or foreign, and such case or proceeding shall continue undismissed or unstayed for a period of sixty (60) consecutive days, or an order granting the relief requested in such case or proceeding (including, but not limited to, an order for relief under such federal bankruptcy laws) shall be entered.

(j) Impairment of Security, Etc. Any of the Credit Documents shall cease in any material respect to be in full force and effect or shall be declared to be null and void in whole or in a material part by the final judgment of a court or other governmental or regulatory authority having jurisdiction or the validity or enforceability thereof shall be contested by, or on behalf of, any Credit Party; or any Credit Party shall renounce any of the same or deny that it has any or further liability under any Credit Document to which it is a party; or any security interest purported to be created by any Credit Document shall cease to be, or shall be asserted by any Credit Party not to be, a valid, perfected, first priority (except as expressly otherwise provided in this Agreement or such Credit Document) security interest in the Collateral covered thereby.

(k) Judgment. A final judgment or judgments for the payment of money aggregating in excess of $2,500,000 are rendered against one or more of the Borrower or any of its Subsidiaries, which are not, within thirty (30) days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within thirty (30) days after the expiration of any such stay.

(l) Change of Control; Ownership. (i) Inergy, L.P. ceases to own and control 100% of the outstanding Capital Stock of the Borrower; (ii) Inergy Holdings ceases to own and control 100% of the outstanding Capital Stock of Inergy GP; (iii) any Person or group of Persons, other than New Inergy Propane, shall acquire, directly or indirectly, more than 30% of the outstanding Capital Stock of Inergy, L.P.; (iv) Inergy GP ceases to be the managing general partner of Inergy, L.P.; (v) a majority of the seats on the board of directors (or other applicable governing body) of Inergy GP shall at any time after the Closing Date be occupied by Persons who were not nominated by Inergy GP or Inergy Holdings, by a majority of the board of directors (or other applicable governing body) of Inergy GP or Inergy Holdings or by Persons so nominated; (vi) a majority of the seats on the board of directors (or other applicable governing body) of the Borrower shall at any time after the Closing Date be occupied by Persons who were not nominated by the Borrower or Inergy Holdings, by a majority of the board of directors (or other applicable governing body) of the Borrower or Inergy Holdings or by Persons so nominated; or (vii) any pledgor under any Pledge Agreement shall grant or suffer to exist any Lien on such pledgor's interest in any Collateral described therein, except in each case for any Permitted Lien.

(m) Material Adverse Effect. In the Required Lender's reasonable judgment, there occurs any condition or event that could have a Material Adverse Effect.

SECTION 11.02. *Remedies*.

Upon the occurrence of an Event of Default, with the consent of the Required Lenders, the Administrative Agent may, or upon the request of the Required Lenders, the Administrative Agent shall, by notice to the Borrower:

(a) Acceleration; Termination of Credit Facilities. Declare the principal of and interest on the Loans, the Notes and the Reimbursement Obligations at the time outstanding, and all other amounts owed to the Lenders and to the Administrative Agent under this Agreement or any of the other Credit Documents (including, without limitation, all L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder) and all other Obligations (other than any obligations under any Hedging Agreement), to be forthwith due and payable, whereupon the same shall immediately become due and payable without presentment, demand, protest or other notice of any kind, all of which are expressly waived, anything in this Agreement or the other Credit Documents to the contrary notwithstanding, and terminate the Credit Facilities and any right of the Borrower to request borrowings or Letters of Credit thereunder; provided, that upon the occurrence of an Event of Default specified in Section 11.01(h) or (i), the Credit Facilities shall be automatically terminated and all Obligations (other than any obligations under any Hedging Agreement) shall automatically become due and payable without presentment, demand, protest or other notice of any kind, all of which are expressly waived, anything in this Agreement or in any other Loan Document to the contrary notwithstanding.

(b) Letters of Credit. With respect to all Letters of Credit with respect to which presentment for honor shall not have occurred at the time of an acceleration pursuant to Section 11.02(a), require the Borrower at such time to deposit in a cash collateral account with the Administrative Agent an amount equal to the aggregate then undrawn and unexpired amount of such Letters of Credit. Amounts held in such cash collateral account shall be applied by the Administrative Agent to the payment of drafts drawn under such Letters of Credit, and the unused portion thereof after all such Letters of Credit shall have expired or been fully drawn upon, if any, shall be applied to repay the other Obligations. After all such Letters of Credit shall have expired or been fully drawn upon, the Reimbursement Obligation shall have been satisfied and all other Obligations shall have been paid in full, the balance, if any, in such cash collateral account shall be returned to the Borrower.

(c) Rights of Collection, Etc.

(i) Exercise all of the rights and remedies of a secured party under the UCC or under other Applicable Law, and all other legal and equitable rights to which the Administrative Agent may be entitled, all of which rights and remedies shall be cumulative, and none of which shall be exclusive, and all of which shall be in addition to any other rights or remedies contained in this Agreement or any of the other Credit Documents.

(ii) Exercise the right to take immediate possession of the Collateral, and (1) to require the Borrower to assemble the Collateral, at the Borrower's expense, and make it available to the Administrative Agent at a place designated by the Administrative Agent, and (2) to enter upon and use any

premises in which the Borrower has an ownership, leasehold or other interest, or wherever any of the Collateral shall be located, and to store, remove, abandon, manufacture, sell, dispose of or otherwise use all or any part of the Collateral on such premises without the payment of rent or any other fees by the Administrative Agent to the Borrower or any other Person for the use of such premises or such Collateral.

(iii) Exercise the right to sell or otherwise dispose of all or any inventory or equipment in its then condition, or after any further manufacturing or processing thereof, at public or private sale or sales, with such notice as may be required by law, in lots or in bulk, for cash or on credit all as the Administrative Agent, in its sole discretion, may deem advisable. The Borrower agrees that ten (10) days prior written notice to the Borrower of any public or private sale or other disposition of such Collateral shall be reasonable notice thereof and such sale shall be at such locations as the Administrative Agent may designate in such notice. The Administrative Agent shall have the right to conduct such sales on the Borrower's premises, without charge therefor, and such sales may be adjourned from time to time in accordance with applicable law. The Administrative Agent shall have the right to sell lease or otherwise dispose of such Collateral, or any part thereof for cash, credit or any combination thereof and the Administrative Agent may purchase all or any part of such Collateral at public or, if permitted by law, private sale and, in lieu of actual payment of such purchase price, may set-off or credit the amount of such price against the Obligations.

(iv) The Administrative Agent is hereby granted a license or other right to use, without charge, all of the Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, and advertising matter, or any property of a similar nature as it pertains to the Collateral or any other property of the Borrower, in storing, removing, transporting, manufacturing, advertising, selling or otherwise using the Collateral, and the Borrower's rights in and under such property shall inure to the Administrative Agent's benefit.

(v) The proceeds realized from the sale of any Collateral may be applied, after the Administrative Agent is in receipt of good funds, in accordance with Section 4.10. If any deficiency shall arise, the Borrower shall remain liable to the Administrative Agent therefor. Any surplus remaining after payment in full of the Obligations will be returned to the Borrower or to whomever may be legally entitled thereto.

SECTION 11.03. ***Rights and Remedies Cumulative; Non-Waiver; Etc*****.**

The enumeration of the rights and remedies of the Administrative Agent and the Lenders set forth in this Agreement is not intended to be exhaustive, and the exercise by the

Administrative Agent and the Lenders of any right or remedy shall not preclude the exercise of any other rights or remedies, all of which shall be cumulative, and shall be in addition to any other right or remedy given hereunder or under the Credit Documents or that may now or hereafter exist in law or in equity or by suit or otherwise. No delay or failure to take action on the part of the Administrative Agent or any Lender in exercising any right, power or privilege shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or privilege preclude other or further exercise thereof or the exercise of any other right, power or privilege or shall be construed to be a waiver of any Event of Default. No course of dealing between the Borrower, the Administrative Agent and the Lenders or their respective agents or employees shall be effective to change, modify or discharge any provision of this Agreement or any of the other Credit Documents or to constitute a waiver of any Event of Default.

ARTICLE XII

THE ADMINISTRATIVE AGENT

SECTION 12.01. *Appointment*.

Each of the Lenders hereby irrevocably designates and appoints Wachovia as Administrative Agent of such Lender under this Agreement and the other Credit Documents for the term hereof and each such Lender irrevocably authorizes Wachovia as Administrative Agent for such Lender, to take such action on its behalf under the provisions of this Agreement and the other Credit Documents and to exercise such powers and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and such other Credit Documents, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement or such other Credit Documents, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein and therein, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or the other Credit Documents or otherwise exist against the Administrative Agent. Any reference to the Administrative Agent in this Article XII shall be deemed to refer to the Administrative Agent solely in its capacity as Administrative Agent and not in its capacity as a Lender.

SECTION 12.02. *Delegation of Duties*.

The Administrative Agent may execute any of its respective duties under this Agreement and the other Credit Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by the Administrative Agent with reasonable care.

SECTION 12.03. *Exculpatory Provisions*.

Neither the Administrative Agent nor any of its officers, directors, employees, agents, attorneys-in-fact, Subsidiaries or Affiliates shall be (a) liable for any action lawfully taken or

omitted to be taken by it or such Person under or in connection with this Agreement or the other Credit Documents (except for actions occasioned solely by its or such Person's own gross negligence or willful misconduct), or (b) responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by any Credit Party, or by any officer thereof, contained in this Agreement or the other Credit Documents or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or the other Credit Documents or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or the other Credit Documents or for any failure of any Credit Party to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement, or to inspect the properties, books or records of the Borrower or any of its Subsidiaries.

SECTION 12.04. ***Reliance by the Administrative Agent*****.**

The Administrative Agent shall be entitled to rely upon, and shall be fully protected in relying upon, any note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless such Note shall have been transferred in accordance with Section 13.10. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement and the other Credit Documents unless it shall first receive such advice or concurrence of the Required Lenders (or, when expressly required hereby or by the relevant other Credit Document, all the Lenders) as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action except for its own gross negligence or willful misconduct. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the Notes in accordance with a request of the Required Lenders (or, when expressly required hereby, all the Lenders), and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders and all future holders of the Notes.

SECTION 12.05. ***Notice of Default*****.**

The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless it has received written notice from a Lender or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default." In the event that the Administrative Agent receives such a notice, it shall promptly give notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders (or, when expressly required hereby, all the Lenders); provided that unless and until the Administrative Agent shall have received such

directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Lenders, except to the extent that other provisions of this Agreement expressly require that any such action be taken or not be taken only with the consent and authorization or the request of the Lenders or Required Lenders, as applicable.

SECTION 12.06. ***Non-Reliance on the Administrative Agent and Other Lenders*****.**

Each Lender expressly acknowledges that neither the Administrative Agent nor any of its respective officers, directors, employees, agents, attorneys-in-fact, Subsidiaries or Affiliates has made any representations or warranties to it and that no act by the Administrative Agent hereinafter taken, including any review of the affairs of the Borrower or any of its Subsidiaries, shall be deemed to constitute any representation or warranty by the Administrative Agent to any Lender. Each Lender represents to the Administrative Agent that it has, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Borrower and its Subsidiaries and made its own decision to make its Loans and issue or participate in Letter of Credit hereunder and enter into this Agreement. Each Lender also represents that it will, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Credit Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Borrower and its Subsidiaries. Except for notices, reports and other documents expressly required to be furnished to the Lenders by the Administrative Agent hereunder or by the other Credit Documents, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, property, financial and other condition or creditworthiness of the Borrower or any of its Subsidiaries which may come into the possession of the Administrative Agent or any of its respective officers, directors, employees, agents, attorneys-in-fact, Subsidiaries or affiliates.

SECTION 12.07. ***Indemnification*****.**

The Lenders agree to indemnify the Administrative Agent, in its capacity as such (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably according to the respective amounts of their Commitment Percentages, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the payment of the Notes or any Reimbursement Obligation) be imposed on, incurred by or asserted against the Administrative Agent in any way relating to or arising out of this Agreement or the other Credit Documents, or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by the Administrative Agent under or in connection with any of the foregoing; provided that no Lender shall be liable for the payment of any portion of

such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting solely from the Administrative Agent's bad faith, gross negligence or willful misconduct. The agreements in this Section 12.07 shall survive the payment of the Notes, any Reimbursement Obligation and all other amounts payable hereunder and the termination of this Agreement.

SECTION 12.08. ***The Administrative Agent in Its Individual Capacity*****.**

The Administrative Agent and its respective Subsidiaries and Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower and its Subsidiaries and Affiliates as though the Administrative Agent were not an Administrative Agent hereunder. With respect to any Loans made or renewed by it and any Note issued to it and with respect to any Letter of Credit issued by it or participated in by it, the Administrative Agent shall have the same rights and powers under this Agreement and the other Credit Documents as any Lender and may exercise the same as though it were not an Administrative Agent, and the terms "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

SECTION 12.09. ***Resignation of the Administrative Agent; Successor Administrative Agent*****.**

Subject to the appointment and acceptance of a successor as provided below, the Administrative Agent may resign at any time or, at the request of the Required Lenders, shall resign, by giving notice thereof to the Lenders and the Borrower. Upon any such resignation, the Required Lenders shall have the right to appoint a successor Administrative Agent, which successor shall have minimum capital and surplus of at least $500,000,000. If no successor Administrative Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the Administrative Agent's giving of notice of resignation, then the Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which successor shall have minimum capital and surplus of at least $500,000,000. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Section 12.09 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Administrative Agent.

SECTION 12.10. ***Collateral Matters*****.**

(a) The Administrative Agent is authorized on behalf of all the Lenders without the necessity of any notice to or further consent from the Lenders, from time to time to take any action with respect to any Collateral or the Credit Documents which may be necessary to perfect and maintain perfected the security interest in and Liens upon the Collateral granted pursuant to the Credit Documents.

(b) If an Event of Default shall have occurred and be continuing, the Administrative Agent may, and at the request of the Required Lenders shall, take a security interest in assets and properties of the Borrower and its Subsidiaries that are not Collateral as the Administrative Agent shall request, in its sole discretion, and all such assets and properties shall be part of the Collateral securing the payment and performance of the Obligations. The Borrower or each Subsidiary of the Borrower, as applicable, shall execute and deliver, or cause to be executed and delivered, to the Administrative Agent, at the Borrower's expense, such documents (including, without limitation, mortgages, deeds of trust, deeds to secure debt, guarantees, security agreements, UCC financing statements, fixture filings, opinions of counsel, title insurance and endorsements) and other assurances as the Administrative Agent may reasonably request in order to create and perfect Liens on such assets and properties in favor of the Administrative Agent, subject to no other Liens other than Permitted Liens.

(c) The Lenders irrevocably authorize the Administrative Agent, at its option and in its discretion, to authorize the release of any Lien granted for the benefit of the Administrative Agent and the Lenders upon any Collateral (i) upon termination of the Commitments and payment in full of all Loans and all other Obligations known to the Administrative Agent and payable under this Agreement or any other Credit Document; (ii) constituting property sold or to be sold or disposed of as part of or in connection with any disposition permitted hereunder; (iii) consisting of an instrument evidencing Debt or other debt instrument, if the indebtedness evidenced thereby has been paid in full; or (iv) if approved, authorized or ratified in writing by the Required Lenders or all the Lenders, as the case may be, as provided in Section 13.11. Upon request by the Administrative Agent at any time, the Lenders will confirm in writing the Administrative Agent's authority to authorize the release of particular types or items of Collateral pursuant to this Section 12.10(c).

(d) In the event that a Credit Party desires to retire or sell any motor vehicle that is part of the Collateral, the Borrower shall submit to the Administrative Agent a Request for Title and Lien Release in the form of Exhibit N hereto, and, upon the approval of such request by the Administrative Agent, the Administrative Agent shall release the first priority Lien on such motor vehicle.

(e) The Lenders irrevocably authorize the Administrative Agent, at its option and in its discretion, in the event that, at any time, the Administrative Agent determines that it does not have a perfected Lien on (i) such fee-owned real properties of the Borrower and its Subsidiaries as constitute at least seventy-five percent (75%) of the aggregate value of all fee-owned real properties of the Borrower and its Subsidiaries, and/or (ii) such motor vehicles of the Borrower and its Subsidiaries as constitute at least seventy-five percent (75%) of the aggregate value of motor vehicles of the Borrower and its Subsidiaries, to obtain perfected Liens on such unencumbered fee-owned real properties and/or unencumbered motor vehicles as the Administrative Agent deems necessary to reach the seventy-five percent (75%) aggregate value threshold. Borrower shall provide the Administrative Agent with all information reasonably requested by the Administrative Agent from time to time related to assets owned by the Borrower and its Subsidiaries, shall cooperate fully with the Administrative Agent with respect to the performance of due diligence and the execution of documents necessary to

facilitate such Lien perfection and shall pay all reasonable costs and expenses incurred by the Administrative Agent and its counsel in connection therewith.

ARTICLE XIII
MISCELLANEOUS

SECTION 13.01. *Notices*.

(a) Method of Communication. Except as otherwise provided in this Agreement, all notices and communications hereunder shall be in writing, or by telephone subsequently confirmed in writing. Any notice shall be effective if delivered by hand delivery or sent via telecopy, recognized overnight courier service or certified mail, return receipt requested, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by telecopy, (ii) on the next Business Day if sent by recognized overnight courier service and (iii) on the third Business Day following the date sent by certified mail, return receipt requested. A telephonic notice to the Administrative Agent as understood by the Administrative Agent will be deemed to be the controlling and proper notice in the event of a discrepancy with or failure to receive a confirming written notice.

(b) Addresses for Notices. Notices to any party shall be sent to it at the following addresses, or any other address as to which all the other parties are notified in writing.

If to the Borrower:	Inergy Propane, LLC Two Bush Creek Boulevard, Suite 200 Kansas City, Missouri 64112 Attention: Brooks Sherman Telephone No.: 816-842-8181 Telecopy No.: 816-531-3685
With copies to:	Stinson Morrison Hecker LLP 1201 Walnut Street P. O. Box 419251 Kansas City, Missouri 64141-6251 Attention: Paul McLaughlin, Esq. Telephone No.: 816-691-3256 Telecopy No.: 816-691-3495
If to Wachovia as Administrative Agent:	Wachovia Bank, National Association One Wachovia Center 201 South College Street, CP-8 Charlotte, North Carolina 28288 Attn: Syndication Agency Services Telephone No.: 704-383-7698 Telecopy No.: 704-383-0288

With copies to:	Wachovia Bank, National Association One Wachovia Center, DC-5 301 South College Street Charlotte, North Carolina 28288-0251 Attn: Mark Weir, Vice President Telephone No.: 704-383-6610 Telecopy No.: 704-383-6037
With copies to:	Parker, Poe, Adams & Bernstein L.L.P. Three Wachovia Center 401 South Tryon Street, Suite 3000 Charlotte, North Carolina 28202 Attention: P. Neal Cook, Esq. Telephone No.: 704-335-9878 Telecopy No.: 704-335-9711
If to any Lender:	To the address set forth on Schedule 1.01B hereto.

(c) Administrative Agent's Office. The Administrative Agent hereby designates its office located at the address set forth above, or any subsequent office which shall have been specified for such purpose by written notice to the Borrower and the Lenders, as the Administrative Agent's Office referred to herein, to which payments due are to be made and at which Loans will be disbursed and Letters of Credit issued.

SECTION 13.02. *Expenses; Indemnity*.

The Borrower will (a) pay all out-of-pocket expenses of the Administrative Agent in connection with: (i) the preparation, execution and delivery of this Agreement and each other Credit Document, whenever the same shall be executed and delivered, including without limitation all out-of-pocket syndication and due diligence expenses and reasonable fees and disbursements of counsel for the Administrative Agent and (ii) the preparation, execution and delivery of any waiver, amendment or consent by the Administrative Agent or the Lenders relating to this Agreement or any other Credit Document, including without limitation reasonable fees and disbursements of counsel for the Administrative Agent; (b) pay all out-of-pocket expenses of the Administrative Agent and the Lenders in connection with the administration and enforcement of any rights and remedies of the Administrative Agent and Lenders under the Credit Facilities, including consulting with appraisers, accountants, engineers, attorneys and other Persons concerning the nature, scope or value of any right or remedy of the Administrative Agent or any Lender hereunder or under any other Credit Document or any factual matters in connection therewith, which expenses shall include without limitation the reasonable fees and disbursements of such Persons; and (c) defend, indemnify and hold harmless the Administrative Agent and the Lenders, and their respective parents, Subsidiaries, Affiliates, employees, agents, officers and directors, from and against any losses, penalties, fines, liabilities, settlements, damages, costs and expenses, suffered by any such Person in connection with any claim, investigation, litigation or other proceeding (whether or not the Administrative Agent or any Lender is a party thereto) and the prosecution and defense thereof, arising out of or in any way

connected with the Agreement, any other Credit Document or the Loans, including without limitation reasonable attorney's and consultant's fees, except to the extent that any of the foregoing directly result from the gross negligence or willful misconduct of the party seeking indemnification therefor.

SECTION 13.03. *Set-off*.

In addition to any rights now or hereafter granted under Applicable Law and not by way of limitation of any such rights, upon and after the occurrence of any Event of Default and during the continuance thereof, the Lenders and any assignee or participant of a Lender in accordance with Section 13.10 are hereby authorized by the Borrower at any time or from time to time, without notice to the Borrower or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and to apply any and all deposits (general or special, time or demand, including, but not limited to, indebtedness evidenced by certificates of deposit, whether matured or unmatured) and any other indebtedness at any time held or owing by the Lenders, or any such assignee or participant to or for the credit or the account of the Borrower against and on account of the Obligations irrespective of whether or not (a) the Lenders shall have made any demand under this Agreement or any of the other Credit Documents or (b) the Administrative Agent shall have declared any or all of the Obligations to be due and payable as permitted by Section 11.02 and although such Obligations shall be contingent or unmatured. Notwithstanding the preceding sentence, each Lender agrees to notify the Borrower and the Administrative Agent after any such set-off and application; provided, that the failure to give such notice shall not affect the validity of such set-off and application.

SECTION 13.04. *Governing Law*.

This Agreement, the Notes and the other Credit Documents, unless otherwise expressly set forth therein, shall be governed by, construed and enforced in accordance with the laws of the State of Missouri.

SECTION 13.05. *Consent to Jurisdiction*.

The Borrower (i) submits to personal jurisdiction in the State of North Carolina, the courts thereof and the United States District Courts sitting therein, for the enforcement of this Agreement and the other Credit Documents and (ii) waives any and all personal rights under the law of any jurisdiction to object on any basis (including, without limitation, inconvenience of forum) to jurisdiction or venue within the State of North Carolina for the purpose of litigation to enforce this Agreement and the other Credit Documents. The Borrower hereby irrevocably consents to the service of a summons and complaint and other process in any action, claim or proceeding brought by the Administrative Agent or any Lender in connection with this Agreement, the Notes or the other Credit Documents, any rights or obligations hereunder or thereunder, or the performance of such rights and obligations, on behalf of itself or its property, in the manner specified in Section 13.01. Nothing in this Section 13.05 shall affect the right of the Administrative Agent or any Lender to serve legal process in any other manner permitted by Applicable Law or affect the right of the Administrative Agent or any Lender to bring any action or proceeding against the Borrower or its properties in the courts of any other jurisdictions.

SECTION 13.06. *WAIVER OF JURY TRIAL*.

TO THE EXTENT PERMITTED BY APPLICABLE LAW, THE ADMINISTRATIVE AGENT, EACH LENDER AND THE BORROWER HEREBY IRREVOCABLY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL WITH RESPECT TO ANY ACTION, CLAIM OR OTHER PROCEEDING ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT, THE NOTES OR THE OTHER CREDIT DOCUMENTS, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR THEREUNDER, OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS.

SECTION 13.07. *Reversal of Payments*.

To the extent the Borrower makes a payment or payments to the Administrative Agent for the ratable benefit of the Lenders or the Administrative Agent receives any payment or proceeds of the collateral which payments or proceeds or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then, to the extent of such payment or proceeds repaid, the Obligations or part thereof intended to be satisfied shall be revived and continued in full force and effect as if such payment or proceeds had not been received by the Administrative Agent.

SECTION 13.08. *Injunctive Relief; Punitive Damages*.

The Borrower recognizes that, in the event the Borrower fails to perform, observe or discharge any of its obligations or liabilities under this Agreement, any remedy of law may prove to be inadequate relief to the Lenders. Therefore, the Borrower agrees that the Lenders, at the Lenders' option, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

(a) The Administrative Agent, the Lenders and the Borrower (on behalf of itself and its Subsidiaries) hereby agree that no such Person shall have a remedy of punitive or exemplary damages against any other party to a Loan Document and each such Person hereby waives any right or claim to punitive or exemplary damages that they may now have or may arise in the future in connection with any dispute, whether such dispute is resolved through arbitration or judicially.

(b) The parties agree that they shall not have a remedy of punitive or exemplary damages against any other party in any dispute and hereby waive any right or claim to punitive or exemplary damages they have now or which may arise in the future in connection with any dispute whether the dispute is resolved by arbitration or judicially.

SECTION 13.09. *Accounting Matters*.

All financial and accounting calculations, measurements and computations made for any purpose relating to this Agreement and the other Credit Documents, including, without limitation, all computations utilized by Inergy, L.P., the Borrower or any of its Subsidiaries to determine compliance with any covenant contained herein or therein, shall, except as otherwise

expressly contemplated hereby or unless there is an express written direction by the Administrative Agent to the contrary agreed to by the Borrower, be performed in accordance with GAAP as in effect on the Closing Date. In the event that changes in GAAP shall be mandated by the Financial Accounting Standards Board, or any similar accounting body of comparable standing, or shall be recommended by the Borrower's certified public accountants, to the extent that such changes would modify such accounting terms or the interpretation or computation thereof, such changes shall be followed in defining such accounting terms only from and after the date the Borrower and the Required Lenders shall have amended this Agreement to the extent necessary to reflect any such changes in the financial covenants and other terms and conditions of this Agreement.

SECTION 13.10. *Successors and Assigns; Participations*.

(a) Benefit of Agreement. This Agreement shall be binding upon and inure to the benefit of the Borrower, the Administrative Agent and the Lenders, all future holders of the Notes, and their respective successors and assigns, except that the Borrower shall not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of each Lender.

(b) Assignment by Lenders. Each Lender may, with the consent of the Administrative Agent and the Borrower, which consents shall not be unreasonably withheld and not required of the Borrower upon the occurrence and continuation of a Default or Event of Default, assign to one or more Eligible Assignees all or a portion of its interests, rights and obligations under this Agreement and the other Credit Documents (including, without limitation, all or a portion of the Extensions of Credit at the time owing to it and the Notes held by it); provided that:

(i) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Lender's rights and obligations under this Agreement;

(ii) if less than all of the assigning Lender's Commitment is to be assigned, the Commitment so assigned shall not be less than $5,000,000;

(iii) the parties to each such assignment shall execute and deliver to the Administrative Agent, for its acceptance and recording in the Register, an Assignment and Acceptance in the form of Exhibit H hereto (an ***"Assignment and Acceptance"***), together with any Note or Notes subject to such assignment;

(iv) such assignment shall not, without the consent of the Borrower, require the Borrower to file a registration statement with the Securities and Exchange Commission or apply to or qualify the Loans or the Notes under the blue sky laws of any state;

(v) no consent of the Borrower or the Administrative Agent shall be required for an assignment to an affiliate or Subsidiary of the assigning Lender; and

(vi) the assigning Lender shall pay to the Administrative Agent an assignment fee of $3,000 upon the execution by such Lender of the Assignment and Acceptance; provided that no such fee shall be payable upon any assignment by a Lender to an Affiliate thereof.

Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five (5) Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Lender hereby and (B) the Lender thereunder shall, to the extent provided in such assignment, be released from its obligations under this Agreement.

(c) Rights and Duties Upon Assignment. By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the assignee thereunder confirm to, and agree with, each other and the other parties hereto as set forth in such Assignment and Acceptance.

(d) Register. The Administrative Agent shall maintain a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders and the amount of the Extensions of Credit with respect to each Lender from time to time (the ***"Register"***). The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or the Lenders at any reasonable time and from time to time upon reasonable prior notice.

(e) Issuance of New Notes. Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an Eligible Assignee together with any Note or Notes subject to such assignment and the written consent to such assignment, the Administrative Agent shall, if such Assignment and Acceptance has been completed and is substantially in the form of Exhibit H hereto:

(i) accept such Assignment and Acceptance;

(ii) record the information contained therein in the Register;

(iii) give prompt notice thereof to the Lenders and the Borrower; and

(iv) promptly deliver a copy of such Assignment and Acceptance to the Borrower.

Within five (5) Business Days after receipt of notice, the Borrower shall execute and deliver to the Administrative Agent, in exchange for the surrendered Note or Notes, a new Note or Notes to the order of such Eligible Assignee in amounts equal to the Commitment assumed by such Eligible Assignee pursuant to such Assignment and Acceptance and a new Note or Notes to the order of the assigning Lender in an amount equal to the Commitment retained by it hereunder. Such new Note or Notes shall be in an aggregate principal amount equal to the aggregate

principal amount of such surrendered Note or Notes, shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of the assigned Notes delivered to the assigning Lender. Each surrendered Note or Notes shall be canceled and returned to the Borrower.

(f) Participations. Each Lender may sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Extensions of Credit and the Notes held by it); provided that:

(i) each such participation shall be in an amount not less than $2,000,000;

(ii) such Lender's obligations under this Agreement (including, without limitation, its Commitment) shall remain unchanged;

(iii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations;

(iv) such Lender shall remain the holder of the Notes held by it for all purposes of this Agreement;

(v) the Borrower, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement;

(vi) such Lender shall not permit such participant the right to approve any waivers, amendments or other modifications to this Agreement or any other Loan Document other than waivers, amendments or modifications which would reduce the principal of or the interest rate on any Loan or Reimbursement Obligation, extend the term or increase the amount of the Commitment, reduce the amount of any fees to which such participant is entitled, extend any scheduled payment date for principal of any Loan or, except as expressly contemplated hereby or thereby, release substantially all of the Collateral; and

(vii) any such disposition shall not, without the consent of the Borrower, require the Borrower to file a registration statement with the Securities and Exchange Commission to apply to qualify the Loans or the Notes under the blue sky law of any state.

(g) Disclosure of Information; Confidentiality. The Administrative Agent and the Lenders shall hold all non-public information with respect to the Credit Parties obtained pursuant to the Credit Documents in accordance with their customary procedures for handling confidential information; provided, that the Administrative Agent may disclose information relating to this Agreement to Gold Sheets and other similar bank trade publications, such information to consist of deal terms and other information customarily found in such publications, and provided further, that the Administrative Agent and Lenders may disclose any

such information to the extent such disclosure is required by law or requested by any regulatory authority.

Notwithstanding anything to the contrary set forth herein or in any other agreement to which the parties hereto are parties or by which they are bound, the obligations of confidentiality contained herein and therein, as they relate to the transactions contemplated by this Agreement (the ***"Transactions"***) shall not apply to the federal tax structure or federal tax treatment of the Transactions, and each party hereto (and any employee, representative or other agent of any party hereto) may disclose to any and all persons, without limitation of any kind, the federal tax structure and federal tax treatment of the Transactions and all materials of any kind (including opinions or other tax analyses) that are provided to either party related to such tax treatment and tax structure. The preceding sentence is intended to cause the Transactions to be treated as not having been offered under the conditions of confidentiality for purposes of Treasury Regulation Section 1.6011-4(b)(3) or any successor provision promulgated under Section 6011 of the Internal Revenue Code of 1986, as amended, and shall be construed in a manner consistent with such purpose. In addition, each party hereby acknowledges that it has no proprietary or exclusive rights to the federal tax structure of the Transactions.

Any Lender may, in connection with any assignment, proposed assignment, participation or proposed participation pursuant to this Section 13.10, disclose to the assignee, participant, proposed assignee or proposed participant, any information relating to the Borrower furnished to such Lender by or on behalf of the Borrower; provided, that prior to any such disclosure, each such assignee, proposed assignee, participant or proposed participant shall agree with the Borrower or such Lender to preserve the confidentiality of any confidential information relating to the Borrower received from such Lender.

(h) Certain Pledges or Assignments. Nothing herein shall prohibit any Lender from pledging or assigning any Note to any Federal Reserve Bank in accordance with Applicable Law.

SECTION 13.11. *Amendments, Waivers and Consents*.

Except as set forth below or as specifically provided in any Credit Document, any term, covenant, agreement or condition of this Agreement or any of the other Credit Documents may be amended or waived by the Lenders, and any consent given by the Lenders, if, but only if, such amendment, waiver or consent is in writing signed by the Required Lenders (or by the Administrative Agent with the consent of the Required Lenders) and delivered to the Administrative Agent and, in the case of an amendment, signed by the Borrower; provided, that no amendment, waiver or consent shall, without the consent of each Lender affected thereby:

(a) increase the amount, or extend the time, of the obligation of a Lender to make Loans or issue or participate in Letters of Credit (including without limitation pursuant to Section 3.05);

(b) reduce or forgive the principal amount of any Loan or Reimbursement Obligation;

(c) extend the originally scheduled time or times of payment of the principal of any Loan or Reimbursement Obligation or the time or times of payment of interest on any Loan;

(d) reduce the rate of interest or fees payable on any Loan or Reimbursement Obligation or any fee or commission with respect thereto;

(e) permit any subordination of the principal or interest on any Loan or Reimbursement Obligation;

(f) permit any assignment (other than as specifically permitted or contemplated in this Agreement) of the Borrower's rights and obligations hereunder;

(g) terminate or cancel any Guaranty Agreement, Pledge Agreement, Security Agreement or Mortgage or release Inergy, L.P. or any Subsidiary Guarantor from their respective obligations under a Guaranty Agreement;

(h) release all or substantially all of the Collateral; or

(i) amend the provisions of Section 13.10(a), this Section 13.11 or the definition of Required Lenders, without the prior written consent of each Lender. In addition, no amendment, waiver or consent to the provisions of (a) Article XII shall be made without the written consent of the Administrative Agent and (b) Article III shall be made without the written consent of the Issuing Lender.

Notwithstanding anything to the contrary set forth above, the Administrative Agent may, without the consent of any of the Lenders, revise, amend, modify, restate and/or replace any Guaranty Agreement, Pledge Agreement, Security Agreement or Mortgage to provide that same shall equally and ratably guaranty or secure, as the case may be, in favor of the Collateral Agent for the benefit of (i) the Administrative Agent and the Lenders and (ii) the holders of the Private Placement Debt, the Obligations under the Credit Documents and the Private Placement Debt, pursuant to the Intercreditor Agreement. The Lenders hereby authorize the Administrative Agent to enter into the Intercreditor Agreement on behalf of the Lenders, with the Collateral Agent and the holders of the Private Placement Debt.

SECTION 13.12. ***Absolute and Unconditional Liability*****.**

To the fullest extent permitted by law, the Borrower hereby waives promptness, diligence, note of acceptance, and any other notice of any nature whatsoever with respect to any of the Obligations, and any requirement that the Administrative Agent protect, secure, perfect or insure any security interest or lien or any property s abject thereto or exhaust any right take any action against any Guarantor, any other Person or any Collateral. The liability of the Borrower under this Section shall be absolute and unconditional irrespective of: (a) any change in the time, manner or place of payment of, or in any other term of, any of the Obligations, or any other amendment or waiver of or any consent to departure from this Agreement, any of the Notes or any of the other Credit Documents; (b) any exchange, release or non-perfection of any Collateral or any release or amendment or waiver of or consent to departure from any other guaranty, or any release of any Person liable in whole or in part, for all or any of the Obligations; or (c) any

other circumstance which might otherwise constitute a defense available to, or discharge of, the Borrower, a guarantor or a surety.

SECTION 13.13. ***Amended and Restated Credit Facility; Liens Unimpaired*****.**

This Agreement amends and restates the Existing Credit Agreement in its entirety. It is the intention and understanding of the parties hereto that (i) this Agreement shall act as a refinancing of the Debt and other obligations evidenced by the Existing Credit Agreement and that this Agreement shall not act as a novation of such Debt and other obligations, (ii) all Liens securing the Debt and other obligations evidenced by the Existing Credit Agreement remain in full force and effect and secure all Debt and all other Obligations now or hereafter evidenced by or incurred under this Agreement or any of the other Credit Documents, and (iii) the priority of all Liens securing the Debt and other obligations evidenced by the Existing Credit Agreement shall not be impaired by the execution, delivery or performance of this Agreement or the other Credit Documents. The principal amount of loans outstanding under the Existing Credit Agreement owed to the Lenders that are "Lenders" under this Agreement shall be allocated among the Facilities as such Lenders and the Administrative Agent may agree.

SECTION 13.14. ***Performance of Duties*****.**

The Borrower's obligations under this Agreement and each of the Credit Documents shall be performed by the Borrower at its sole cost and expense.

SECTION 13.15. ***All Powers Coupled with Interest*****.**

All powers of attorney and other authorizations granted to the Lenders, the Administrative Agent and any Persons designated by the Administrative Agent or any Lender pursuant to any provisions of this Agreement or any of the other Credit Documents shall be deemed coupled with an interest and shall be irrevocable so long as any of the Obligations remain unpaid or unsatisfied or the Credit Facilities have not been terminated.

SECTION 13.16. ***Survival of Indemnities*****.**

Notwithstanding any termination of this Agreement, the indemnities to which the Administrative Agent and the Lenders are entitled under the provisions of this Article XIII and any other provision of this Agreement and the Credit Documents shall continue in full force and effect and shall protect the Administrative Agent and the Lenders against events arising after such termination as well as before.

SECTION 13.17. ***Titles and Captions*****.**

Titles and captions of Articles, Sections and subsections in, and the table of contents of, this Agreement are for convenience only, and neither limit nor amplify the provisions of this Agreement.

SECTION 13.18. ***Severability of Provisions*****.**

Any provision of this Agreement or any other Credit Document which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating the remainder of such provision or the remaining provisions hereof or thereof or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 13.19. ***Entire Agreement; Counterparts*****.**

This Agreement, together with the other Credit Documents, comprises the complete and integrated agreement of the parties on the subject matter hereof and thereof and supercedes all prior agreements, written or oral, on such subject matter. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and shall be binding upon all parties, their successors and assigns, and all of which taken together shall constitute one and the same agreement.

SECTION 13.20. ***Term of Agreement*****.**

This Agreement shall remain in effect from the Closing Date through and including the date upon which all Obligations shall have been indefeasibly and irrevocably paid and satisfied in full and all Commitments shall have been terminated. No termination of this Agreement shall affect the rights and obligations of the parties hereto arising prior to such termination or in respect of any provision of this Agreement which survives such termination.

SECTION 13.21. ***Inconsistencies with Other Documents; Independent Effect of Covenants*****.**

(a) In the event there is a conflict or inconsistency between this Agreement and any other Credit Document, the terms of this Agreement shall control.

(b) The Borrower expressly acknowledges and agrees that each covenant contained in Articles VIII, IX or X shall be given independent effect. Accordingly, the Borrower shall not engage in any transaction or other act otherwise permitted under any covenant contained in Articles VIII, IX or X if, before or after giving effect to such transaction or act, the Borrower shall or would be in breach of any other covenant contained in Articles VIII, IX or X.

SECTION 13.22. ***Mo.Rev.Stat. §432.045 Required Notice*****.**

The following statement is given pursuant to Mo.Rev.Stat. §432.045: **"ORAL AGREEMENTS OR COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBT ARE NOT ENFORCEABLE. TO PROTECT YOU (BORROWER(S)) AND US (CREDITOR) FROM MISUNDERSTANDING OR DISAPPOINTMENT, ANY AGREEMENTS WE REACH COVERING SUCH MATTERS ARE CONTAINED IN THIS WRITING, WHICH IS THE COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENT BETWEEN US, EXCEPT AS WE MAY LATER AGREE IN WRITING TO MODIFY IT."**

[Signature pages to follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers, all as of the day and year first written above.

INERGY PROPANE, LLC, a Delaware limited liability company

By: /s/ R. BROOKS SHERMAN, JR.

Name: **R. Brooks Sherman, Jr.**
Title: **Senior Vice President – Chief Financial Officer**

WACHOVIA BANK, NATIONAL ASSOCIATION, as Administrative Agent, as Lender, as Swingline Lender and as Issuing Lender

By: /s/ MARK WEIR

Name: **Mark Weir**
Title: **Vice President**

FLEET NATIONAL BANK, as Co-Syndication Agent and as Lender

By: /s/ MICHAEL BROCHETTI

Name: **Michael Brochetti**
Title: **Director**

BANK OF OKLAHOMA, N.A., as Co-Syndication Agent and as Lender

By: /s/ T. COY GALLATIN

Name: **T. Coy Gallatin**
Title: **Senior Vice President**

BANK ONE, NA, as Co-Documentation Agent and as Lender

By: /s/ LINDA L. KAISER

Name: **Linda L. Kaiser**
Title: **Vice President**

U.S. BANK, N.A., as Co-Documentation Agent and as Lender

By: /s/ PAUL A. TYMOSKO

Name: **Paul A. Tymosko**
Title: **Senior Loan Officer**

WELLS FARGO BANK TEXAS, N.A., as Lender

By: /s/ J. ALAN ALEXANDER

Name: **J. Alan Alexander**
Title: **Vice President**

LASALLE BANK NATIONAL ASSOCIATION, as Lender

By: /s/ JAMES C. BINZ

Name: **James C. Binz**
Title: **First Vice President**

UNION BANK OF CALIFORNIA, N.A., as Lender

By: /s/ SEAN MURPHY

Name: **Sean Murphy**
Title: **Vice President**

BANK OF AMERICA, N.A., as Lender

By: /s/ THOMAS R. MAHONEY

Name: **Thomas R. Mahoney**
Title: **Senior Vice President**

FIRST NATIONAL BANK OF KANSAS, as Lender

By: /s/ BARRY P. SULLIVAN

Name: **Barry P. Sullivan**
Title: **Senior Vice President**

RAYMOND JAMES BANK, FSB, as Lender

By: /s/ WILLIAM C. BEILER

Name: **William C. Beiler**
Title: **Executive Vice President**

TEAMBANK, N.A., as Lender

By: /s/ RICK P. BARTLEY

Name: **Rick P. Bartley**
Title: **President & CEO**

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into as of the 30th day of August, 2002, by and between Inergy GP, LLC, a Delaware limited liability company (the "Company"), and Dean Watson, an individual (the "Employee").

The parties agree as follows:

1. Employment. The Company agrees to employ the Employee and the Employee agrees to be employed by the Company as the Senior Vice President of the Company upon the terms and conditions of this Agreement, commencing on September 3, 2002 and continuing until terminated as provided in Section 12 below. The Employee shall report to the Chief Executive Officer of the Company. The Employee shall be appointed to the Company's senior management team which sets the strategic direction of the Company.

2. Compensation. For all services rendered by the Employee to the Company, the Company shall pay the Employee a salary at the annual rate of One Hundred Eighty Thousand Dollars ($180,000) (the "Salary") payable in arrears in accordance with the Company's general payroll practices. All payments made pursuant to this Agreement shall be subject to any applicable withholding or other taxes.

3. Expenses. The Company shall reimburse the Employee for all ordinary and necessary expenses incurred and paid by the Employee in the course of the performance of the Employee's duties pursuant to this Agreement and consistent with the Company's policies in effect from time to time with respect to travel, entertainment and other business expenses, and subject to the Company's requirements with respect to the manner of approval and reporting of such expenses.

4. Additional Benefits.

(a) The Employee shall be eligible for such fringe benefits, if any, by way of insurance, hospitalization and vacations normally provided to other members of the executive management of the Company generally and such additional benefits as may be from time to time agreed upon in writing between the Employee and the Company.

(b) Commencing the fiscal year ending September 30, 2003, the Company agrees to pay the Employee certain performance bonuses based on targeted Distributable Cash Flow ("DCF") (as defined below) of Inergy, L.P., a Delaware limited partnership and an affiliate of the Company, and for each subsequent fiscal year during the term of this Agreement. For each fiscal year as to which there is to be a bonus under this Section 4(b), the Company shall establish a targeted DCF, and the Employee will receive a cash bonus to be paid within three months after the end of such fiscal year in the amount of: (i) $90,000, if Inergy, L.P. has actual DCF equal to or greater than targeted DCF for such fiscal year but less than 110% of targeted DCF for such fiscal year; (ii) $135,000, if

Inergy, L.P. has actual DCF equal to or greater than 110% of targeted DCF but less than 120% of targeted DCF during such fiscal year; or (iii) $180,000, if Inergy, L.P. has actual DCF equal to or greater than 120% of targeted DCF during such fiscal year. For purposes of this Section 4(b), DCF shall mean, for the relevant fiscal year, EBITDA of Inergy, L.P. and its subsidiaries minus interest expense and minus maintenance capital expenditures. Notwithstanding the foregoing, in order to receive a bonus pursuant to this Section 4(b), the Employee must have been continuously employed by the Company from September 3, 2002 until the end of the relevant fiscal year.

(c) As part of the initial public offering on July 31, 2001 by Inergy, L.P. of common units representing limited partner interests of Inergy, L.P.:

(i) Inergy, L.P. issued senior and junior subordinated units (collectively, the "Subordinated Units") that have a yield equal to (but subordinated to) the yield on the publicly-traded common units;

(ii) The subordination period on the Subordinated Units will end once Inergy, L.P. meets the financial tests set forth in its partnership agreement, but it generally cannot end before June 30, 2006 with respect to the senior subordinated units and June 30, 2008 with respect to the junior subordinated units. When the applicable subordination period ends, all remaining Subordinated Units will convert into common units on a one-for-one basis and will receive distributions pro rata with all other common units; and

(iii) As set forth in Inergy, L.P.'s partnership agreement, the Subordinated Units may convert to common units in whole or in part.

The Employee shall receive a conversion bonus in the amount of Four Hundred Thousand Dollars ($400,000) upon Inergy, L.P. paying four consecutive quarterly distributions to all of its unitholders (including the holders of the Subordinated Units, if any) in an amount equal to at least ninety cents ($.90) per unit per quarter, with such bonus to be paid within sixty (60) days after the fourth such payment. The Company may, in its sole discretion, pay all or part of such conversion bonus prior to the date on which the Employee is entitled to receive such conversion bonus. Notwithstanding the foregoing, in order to receive a bonus under this Section 4(c), the Employee must have been continuously employed by the Company from September 3, 2002 until the fourth such payment.

5. Duties. The Employee agrees that so long as he is employed under this Agreement he will (i) to the satisfaction of the Company devote his best efforts and his entire business time to further properly the interests of the Company, (ii) at all times be subject to the Company's direction and control with respect to his activities on behalf of the Company, (iii) comply with all rules, orders and regulations of the Company, (iv) truthfully and accurately maintain and preserve such records and make all reports as the Company may require, and (v) fully account for all monies and other property of the Company of which he may from time to time have custody and deliver the same to the Company whenever and however directed to do so.

6. Disclosure and Assignment of Intellectual Property.

(a) The Employee agrees that the Company shall become the owner of all inventions, discoveries, developments, ideas, writings, and expressions, including but not limited to any and all concepts, improvements, techniques, know-how, innovations, systems, processes, machines, current or proposed products, works, information, reports, papers, logos, computer programs, designs, marketing materials, and methods of manufacture, distribution, management or other methods (whether or not reduced to writing and whether or not patentable or protectable by copyright), that the Employee conceives, develops, creates, makes, perfects or reduces to practice in whole or in part while employed by the Company or within one (1) year after termination of the Employee's employment for any reason, and that: (i) directly or indirectly relate to or arise out of the Employee's job responsibilities for the Company or the performance of the duties of the Employee's employment by the Company; (ii) result from research, development, or other activities of the Company; or (iii) relate or pertain in any way to the existing or reasonably anticipated scope, business or products of the Company or any subsidiary, parent or affiliate (hereinafter the "Intellectual Property"). All of the right, title and interest in and to the Intellectual Property shall become exclusively owned by the Company or its nominee regardless of whether or not the conception, development, creation, making, perfection or reduction to practice of such Intellectual Property involved the use of the Company's time, facilities or materials and regardless of where such Intellectual Property may be conceived, made or perfected.

(b) The Employee agrees to promptly and fully disclose in writing to the Company all inventions, discoveries, developments, ideas, writings, and expressions conceived, developed, created, made, perfected or reduced to practice, in whole or in part, while employed by the Company or within one (1) year after termination of the Employee's employment, regardless of whether the Employee believes the invention, discovery, development, writing, expression or idea should be considered Intellectual Property of the Company under any provision of this Agreement, in order to enable the Company to make a determination as to its rights with respect to the same.

(c) Any and all information relating to Intellectual Property shall be considered Confidential Information and shall not be disclosed by the Employee to any person or entity outside of the Company.

(d) Any Intellectual Property that is the subject of copyright shall be considered a "work made for hire" within the meaning of the Copyright Act of 1976, as amended, and shall be the sole property of the Company or its nominee. To the extent that the Company does not automatically own any such Intellectual Property as a work made for hire, the Employee shall assign all right, title and interest in and to such Intellectual Property to the Company. All right, title and interest in and to any other Intellectual Property, including patent, industrial design, trademark, trade dress and trade secret rights shall be assigned and is hereby assigned exclusively to the Company or its nominee. The Employee further agrees to execute and deliver all documents and do all acts that the Company shall deem necessary or desirable to secure to the Company or its nominee the entire right, title and interest in and to the Intellectual Property, including

executing applications for any United States and/or foreign patents or copyright registrations, disclosing relevant prior art, reviewing office actions and providing technical input to assist the Company in overcoming any rejections. Any document prepared and filed pursuant to this Section 6(d) shall be prepared and filed at the Company's expense. The Employee further agrees to cooperate with the Company as reasonably necessary to maintain or enforce the Company's rights in the Intellectual Property. The Employee hereby irrevocably appoints the President of the Company as the Employee's attorney-in-fact with authority to execute for the Employee and on the Employee's behalf any and all assignments, patent or copyright applications, or other instruments and documents required to be executed by the Employee pursuant to this Section 6(d), if the Employee is unwilling or unable to execute same.

(e) The Company shall have no obligation to use, attempt to protect by patent or copyright, or promote any of the Intellectual Property; provided, however, that the Company, in its sole discretion, may reward the Employee for any especially meritorious contributions in any manner it deems appropriate or may provide the Employee with full or partial releases as to any subject matter contributed by the Employee in which the Company is not interested.

7. Covenant Not to Disclose Confidential Information. The Employee acknowledges that during the course of his employment with the Company he has or will have access to and knowledge of certain information and data that the Company or any subsidiary, parent or affiliate of the Company considers confidential and that the release of such information or data to unauthorized persons or entities would be extremely detrimental to the Company. As a consequence, the Employee hereby agrees and acknowledges that he owes a duty to the Company not to disclose, and agrees that, during or after the term of his employment, without the prior written consent of the Company, he will not communicate, publish or disclose, to any person or entity anywhere or use (for the his own benefit or the benefit of others) any Confidential Information (as hereinafter defined) for any purpose other than carrying out his duties as contemplated by this Agreement. The Employee will use his best efforts at all times to hold in confidence and to safeguard any Confidential Information to ensure that any unauthorized persons or entities do not gain possession of any Confidential Information and, in particular, will not permit any Confidential Information to be read, duplicated or copied. The Employee will return to the Company all originals and copies of documents and other materials, whether in printed or electronic format or otherwise, containing or derived from Confidential Information in the Employee's possession or under the Employee's control when the duties of the Employee no longer require the Employee's possession thereof, or whenever the Company shall so request, and in any event will return all such Confidential Information within ten (10) days if the employment relationship with the Company is terminated for any or no reason and will not retain any copies thereof. The Employee acknowledges that the Employee is obligated to protect the Confidential Information from disclosure or use even after termination of such employment relationship. For purposes hereof, the term "Confidential Information" shall mean any information or data used by or belonging or relating to the Company or any subsidiary, parent or affiliate of the Company, or any party to whom the Company owes a duty of confidentiality that is not known generally to the industry in which the Company or any subsidiary, parent or affiliate of the Company, or any party to whom the Company owes a duty of confidentiality is or may be engaged, including without limitation, any and all trade secrets, proprietary data and

information relating to the Company's or any subsidiary, parent or affiliate of the Company's, or any party to whom the Company owes a duty of confidentiality past, present or future business and products, price lists, customer lists, processes, procedures or standards, know-how, manuals, hardware, software, source code, business strategies, records, marketing plans, drawings, technical information, specifications, designs, patent information, financial information, whether or not reduced to writing, or information or data that the Company or any subsidiary, parent or affiliate of the Company or any party to whom the Company owes a duty of confidentiality advises the Employee should be treated as confidential information. Confidential Information does not include any information that: (i) is rightfully known to Employee prior to Employee's employment, and independent of any disclosure or access to the information via the Company as evidenced by Employee's written records; or (ii) is or later becomes part of the public domain and known within the relevant industry through no fault of Employee.

8. Covenant Not to Compete. The Employee acknowledges that during his employment with the Company he, at the expense of the Company, will be specially trained in the business of the Company, will establish favorable relations with the customers, clients and accounts of the Company or any subsidiary, parent or affiliate of the Company and will have access to Intellectual Property, trade secrets and Confidential Information of the Company or any subsidiary, parent or affiliate of the Company. Therefore, in consideration of such training and relations, and in consideration of his employment with the Company, and to further protect the Intellectual Property, trade secrets and Confidential Information of the Company or any subsidiary, parent or affiliate of the Company, the Employee agrees that for a period commencing on the date hereof and ending on the later of (i) September 3, 2005, or (ii) the date of termination of the Employee's employment with the Company; provided, however, that the Company shall have the option to extend such period of time by an additional one year period by electing to continue to pay the Employee's salary at the time of termination (including, without limitation, a termination due to the fulfillment of the term of this Agreement pursuant to Section 12(a) hereof), payable monthly in arrears, he will not, directly or indirectly, without the express written consent of the Company, except when and as requested to do in and about the performing of his duties under this Agreement:

(a) own, manage, operate, control or participate in the ownership, management, operation or control of, or have any interest, financial or otherwise, in or act as an officer, director, partner, member, principal, employee, agent, representative, consultant or independent contractor of, or in any way assist, any individual or entity in the conduct of any business that is engaged or may become engaged in any business competitive to any business now or at any time during the period hereof engaged in by the Company or any subsidiary, parent or affiliate of the Company (if the Company is then engaged in such business), including, but not limited to, any business that trades, markets or distributes propane gas (at retail, wholesale or otherwise), gathers, processes, stores, transports, trades, markets or distributes natural gas or liquefied by-products of natural gas or petroleum (at retail, wholesale or otherwise) or sells, services and installs parts, appliances or supplies related thereto;

(b) divert or attempt to divert clients or customers (whether or not such persons have done business with the Company or any subsidiary, parent or affiliate of the

Company once or more than once) or accounts of the Company or any subsidiary, parent or affiliate of the Company; or

(c) entice or induce or in any manner influence any person who is or shall be in the employ or service of the Company or any subsidiary, parent or affiliate of the Company to leave such employ or service for the purpose of engaging in a business that may be in competition with any business now or at any time during the period hereof engaged in by the Company or any subsidiary, parent or affiliate of the Company.

Notwithstanding the foregoing provisions, the Employee may own not more than five percent (5%) of the outstanding equity securities in any corporation or entity (including, but not limited to, units in a master limited partnership) that is listed upon a national stock exchange or actively traded in the over-the-counter market. Notwithstanding the foregoing provisions, the Employee shall not, directly or indirectly, without the express written consent of the Company, except when and as requested to do in and about the performing of his duties under this Agreement, engage in any actions under subsections (a), (b) or (c) above, at any time the Company is making payments to the Employee pursuant to this Agreement.

9. Legal Proceedings to Compel Disclosure. In the event that the Employee is requested, pursuant to, or required by applicable law or regulation, or by legal process, to disclose any Confidential Information or Intellectual Property, the Employee shall use the Employee's best efforts to promptly notify the Company of such request and enable the Company or any subsidiary, parent or affiliate of the Company to seek an appropriate protective order. In the event that such a protective order or other protective remedy is not obtained, Employee shall furnish only that portion of the Confidential Information or Intellectual Property that is legally required, in the opinion of the Employee's counsel, and will exercise the Employee's best efforts to obtain reliable assurances that confidential treatment will be accorded the Confidential Information or Intellectual Property.

10. Specific Performance. Recognizing that irreparable damage will result to the Company in the event of the breach or threatened breach of any of the foregoing covenants and assurances by the Employee contained in Sections 6, 7, 8 or 9 hereof, and that the Company's remedies at law for any such breach or threatened breach will be inadequate, the Company and its successors and assigns, in addition to such other remedies which may be available to them, shall be entitled to an injunction, including a mandatory injunction, to be issued by any court of competent jurisdiction ordering compliance with this Agreement or enjoining and restraining the Employee, and each and every person, firm or company acting in concert or participation with him, from the continuation of such breach and, in addition thereto, he shall pay to the Company all ascertainable damages, including costs and reasonable attorneys' fees sustained by the Company by reason of the breach or threatened breach of said covenants and assurances. The covenants and obligations of the Employee set forth in Sections 6, 7, 8 and 9 hereof are in addition to and not in lieu of or exclusive of any other obligations and duties of the Employee to the Company, whether express or implied in fact or in law.

11. Potential Unenforceability of Any Provision. If a final judicial determination is made that any provision of this Agreement is an unenforceable restriction against the Employee, the provisions hereof shall be rendered void only to the extent that such

judicial determination finds such provisions unenforceable, and such unenforceable provisions shall automatically be reconstituted and become a part of this Agreement, effective as of the date first written above, to the maximum extent in favor of the Company that is lawfully enforceable. A judicial determination that any provision of this Agreement is unenforceable shall in no instance render the entire Agreement unenforceable, but rather the Agreement will continue in full force and effect absent any unenforceable provision to the maximum extent permitted by law.

12. Term and Termination.

(a) Subject to Sections 12(b) and 12(c) below, the term of the Employee's employment under this Agreement shall be three (3) years, beginning September 3, 2002.

(b) Notwithstanding Section 12(a) above, the Employee's employment with the Company shall terminate immediately upon the death, disability or adjudication of legal incompetence of the Employee, or upon the Company's ceasing to carry on its business without assigning this Agreement pursuant to Section 20 or becoming bankrupt. For purposes of this Agreement, the Employee shall be deemed to be disabled when the Employee has become unable, by reason of physical or mental disability, to satisfactorily perform his essential job duties and there is no reasonable accommodation that can be provided to enable him to be a qualified individual with a disability under applicable law. Such matters shall be determined by, or to the reasonable satisfaction of, the Company.

(c) Notwithstanding Section 12(a) above, the Company may terminate the Employee's employment at any time for Cause or without Cause. "Cause" means (i) the Employee has failed to perform the duties assigned to him and such failure has continued for thirty (30) days following delivery by the Company of written notice to the Employee describing in reasonably sufficient detail such failure to perform, (ii) the Employee has been convicted of a felony or misdemeanor involving moral turpitude, (iii) the Employee has engaged in acts or omissions against the Company constituting dishonesty, breach of fiduciary obligation, or intentional wrongdoing or misfeasance, (iv) the Employee has acted intentionally or in bad faith in a manner that results in a material detriment to the assets, business or prospects of the Company, or (v) the Employee has breached any obligation under this Agreement.

(d) In the event (x) the Company elects to terminate the Employee's employment with the Company for Cause or as a result of the death, disability, adjudication of legal incompetence of the Employee or the Company's ceasing to carry on its business without assigning this Agreement pursuant to Section 20 or becoming bankrupt, or (y) the Employee terminates his employment with the Company for any reason or no reason, the Company shall pay or provide to the Employee:

(i) such Salary as the Employee shall have earned up to the date of his termination;

(ii) such earned but unpaid performance bonus, if any, pursuant to Section 4(b) hereof;

(iii) such earned but unpaid conversion bonus, if any, pursuant to Section 4(c) hereof; and

(iv) such other fringe benefits (other than any bonus, severance pay benefit or participation in the Company's 401(k) employee benefit plan) normally provided to employees of the Company as the Employee shall have earned up to the date of his termination.

(e) In the event the Company elects to terminate the Employee's employment with the Company during the three (3)-year period referred to in Section 12(a) above and such termination is without Cause, the Company shall pay to the Employee:

(i) the unpaid amount of the Employee's Salary for the remainder of the term of this Agreement, with such amount to be paid bi-monthly in arrears;

(ii) such earned but unpaid performance bonus, if any, pursuant to Section 4(b) hereof;

(iii) such earned but unpaid conversion bonus, if any, pursuant to Section 4(c) hereof; and

(iv) such other fringe benefits (other than any bonus, severance pay benefit or participation in the Company's 401(k) employee benefit plan) normally provided to employees of the Company as the Employee shall have earned up to the date of his termination.

13. Waiver of Breach. Failure of the Company to demand strict compliance with any of the terms, covenants or conditions hereof shall not be deemed a waiver of the term, covenant or condition, nor shall any waiver or relinquishment by the Company of any right or power hereunder at any one time or more times be deemed a waiver or relinquishment of the right or power at any other time or times.

14. No Conflict. The Employee represents and warrants to the Company that neither the execution nor delivery of this Agreement, nor the performance of the Employee's obligations hereunder will conflict with, or result in a breach of, any term, condition, or provision of, or constitute a default under, any obligation, contract, agreement, covenant or instrument to which the Employee is a party or under which the Employee is bound, including without limitation, the breach by the Employee of a fiduciary duty to any former employers.

15. Entire Agreement; Amendment. This Agreement cancels and supersedes all previous agreements relating to the subject matter of this Agreement, written or oral, between the Company or its affiliates and the Employee and contains the entire understanding of the parties hereto with respect to the subject matter hereof and shall not be amended, modified or supplemented in any manner whatsoever except as otherwise provided herein or in writing signed by each of the parties hereto.

16. Harassment Policy. The Employee acknowledges that the Employee has been provided a copy of the Company's policy against discrimination and harassment in the

workplace, which includes complaint reporting procedures, and agrees to comply with such policy and affirmatively support the Company's commitment to an equal opportunity work environment free from illegal harassment or discrimination.

17. Headings. The headings of the sections of this Agreement have been inserted for convenience of reference only and shall in no way restrict or otherwise modify any of the terms or provisions hereof.

18. Governing Law. This Agreement and all rights and obligations of the parties hereunder shall be governed by, and construed and interpreted in accordance with, the laws of the State of Missouri applicable to agreements made and to be performed entirely within the State, including all matters of enforcement, validity and performance.

19. Notice. Any notice, request, consent or communication under this Agreement shall be effective only if it is in writing and personally delivered or sent by certified mail, return receipt requested, postage prepaid, or by a nationally recognized overnight delivery service, with delivery confirmed, addressed as follows:

If to the Company:

Name:
Inergy GP, LLC
Two Brush Creek Blvd., Suite 200
Kansas City, Missouri 64112
Attn: John J. Sherman

With Copy To:
Stinson Morrison Hecker LLP
1201 Walnut Street, Suite 2800
Kansas City, Missouri 64106-2150
Attn: Paul E. McLaughlin

If to the Employee:

Dean Watson
6236 Northlake Dr.
Parkville, Missouri 64152

or such other persons and/or addresses as shall be furnished in writing by any party to the other party, and shall be deemed to have been given only upon its delivery in accordance with this Section 19.

20. Assignment. This Agreement is personal and not assignable by the Employee but it may be assigned by the Company without notice to or consent of the Employee to, and shall thereafter be binding upon and enforceable by, any affiliate of the Company, and any person that shall acquire or succeed to substantially all of the business or assets of the Company (and such person shall be deemed included in the definition of the "Company" for all purposes of this Agreement) but is not otherwise assignable by the Company.

21. Expenses. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

22. Survival of Obligations. All obligations of the Employee that by their nature involve performance, in any particular, after the expiration or termination of this Agreement, or that cannot be ascertained to have been fully performed until after the expiration or termination of this Agreement, shall survive the expiration or termination of this Agreement.

23. Cancellation of Unit Options. Concurrently with the execution and delivery of this Agreement, the Company and the Employee are entering into an Unit Option Agreement (the "Option Agreement") pursuant to which the Company will grant to the Employee the option to purchase up to 37,500 common units of Inergy, L.P., all as more fully set forth in the Option Agreement and the Inergy Long Term Incentive Plan (the "Plan"). Notwithstanding anything in the Option Agreement or the Plan to the contrary, if the Employee's employment with the Company is terminated upon the expiration of the three year term set forth in this Agreement, then in such event, within thirty (30) days after the termination of the Employee's employment with the Company, the Employee may provide the Company written notice of the Employee's election to cancel and terminate the Option Agreement and the options granted thereunder. Immediately upon the Company's receipt of such notice, the Option Agreement shall terminate and all rights to purchase common units of Inergy, L.P. or its successors or assigns shall immediately become null and void, and the Company shall pay the Employee an amount equal to the number of vested (determined as if the Employee were terminated at such time without Cause) but unexercised common unit options granted by the option Agreement and held by the Employee multiplied by the difference by which the average closing price for the thirty (30) calendar day period preceding the employment termination date exceeds the Option Price per Unit set forth in the Option Agreement, with such amount payable by the Company, subject to applicable withholding, in four (4) equal quarterly installments, without interest, with the first payment due within sixty (60) days after the employment termination date.

IN WITNESS WHEREOF, the Company has caused this Employment Agreement to be duly executed, and the Employee has hereunto set his hand, as of the day and year first above written.

INERGY GP, LLC

By: /s/ JOHN J. SHERMAN

John J. Sherman,
President and CEO

/s/ DEAN WATSON

Dean Watson

Exhibit 12.1

Inergy, L.P. and Subsidiary
Computation of Ratio of Earnings to Fixed Charges
(In Thousands)

	Ended September 30,				
	2003	2002	2001	2000	1999
Earnings:					
Net income (loss)	$ 13,512	$ 8,309	$ 4,349	$ (1,829)	$ (185)
Income taxes	103	93	—	7	56
Interest expense	9,982	8,365	6,670	2,740	962
Interest portion of operating leases	938	683	221	162	75
Earnings for ratio calculation	$ 24,535	$ 17,450	$ 11,240	$ 1,080	$ 908
Fixed charges:					
Interest expense	$ 9,982	$ 8,365	$ 6,670	$ 2,740	$ 962
Interest portion of operating leases	938	683	221	162	75
Total fixed charges	$ 10,920	$ 9,048	$ 6,891	$ 2,902	$ 1,037
Ratio of earnings to fixed charges	2.25	1.93	1.63	n/a	n/a

For purposes of determining the ratio of earnings to fixed charges, earnings are defined as earnings (loss) from continuing operations before income taxes, plus fixed charges. Fixed charges consist of interest expense on all indebtedness and the amortization of deferred financing costs and interest associated with operating leases. Earnings were inadequate to cover fixed charges by $1.8 million for the year ended September 30, 2000 and $0.1 million for the year ended September 30, 1999.

INERGY

CODE OF BUSINESS CONDUCT AND ETHICS

This Code of Business Conduct and Ethics (the "Code") describes the standard of ethical business conduct expected from all officers, directors and employees (together "employees") of Inergy GP, LLC and its affiliates (the "Company").

This Code is a guide for the minimum requirements expected of you. It does not provide a detailed description of all Company policies and it in no way limits or restricts the applicability of any provision of any other Company policy. You are expected to understand all other Company policies and to conduct yourself in accordance with those policies at all times.

This Code has been developed, among other reasons, to communicate Inergy's expectations of our officers, directors and employees and to promote the following conduct:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest;
- Avoidance of conflicts of interest, including disclosure of any material transaction or relationship that reasonably could be expected to give rise to such a conflict;
- Full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with the SEC and in our other public communications;
- Compliance with applicable governmental laws, rules, and regulations;
- Prompt internal reporting of violations of the Code;
- Deterrence of wrongdoing; and
- Accountability for adherence to the Code.

1.0 OUR GUIDING PRINCIPLES AND VALUES

All employees are required to observe the highest standards of business and personal ethics in the conduct of their duties and responsibilities. All employees are expected to devote their best efforts and attention to the performance of their responsibilities. Accordingly, every employee is expected (i) to use good judgment, (ii) to maintain the highest level of integrity and honesty, (iii) to comply with all applicable laws, rules and regulations, and (iv) to avoid actual or potential conflicts between his or her personal interests and the interests of the Company.

2.0 COMPLIANCE OFFICER

We have established the position of Compliance Officer to help you understand and comply with this Code. The Compliance Officer's duties include establishing procedures related to implementation and enforcement of this Code. The Compliance Officer in conjunction with the Chief Executive Officer will have full authority to establish appropriate enforcement mechanisms and discipline for violations of the Code.

The Compliance Officer's name and contact information is available on the Company's intranet, and you will be promptly notified of any changes to this information. The Compliance Officer will establish specific procedures for seeking guidance under this Code and reporting violations, and these procedures will be available at all times on the Company's intranet.

3.0 HUMAN RESOURCES

We are committed to fostering a work environment that values diversity among our employees. All of our human resource policies and activities are designed to create a respectful workplace in which every individual has the opportunity to reach his or her highest potential. These policies are found in your employment policies materials and you are required under this Code to comply with each of them.

Consistent with our obligations under applicable employment laws and regulations, it is our policy to provide employment opportunities equitably to all individuals throughout the Company regardless of race, color, religion, sex, national origin, age, veteran status or disability. We do not tolerate harassment or discrimination against any person. These policies apply to both applicants and employees and in all phases of employment, including recruiting, hiring, placement, training and development, transfer, promotion, demotion, performance reviews, compensation and benefits, and separation from employment.

You are expected to conduct and are accountable for conducting yourself in a manner appropriate for your work environment, and you are expected to be sensitive to and respectful of the concerns, values and preferences of others.

4.0 CONFLICTS OF INTEREST

4.1 General

A conflict of interest occurs when personal interests interfere with your ability to exercise your judgment objectively, or to do your job in a way that is certain to be in the best interests of the Company. Every employee must take active steps to avoid actual or potential conflicts of interest.

Some examples of potential conflicts of interest include:

- Working for or consulting for or providing information to a competitor or potential competitor of Inergy.
- Accepting favors in return for business from Inergy.

- Participating in transactions or arrangements related to Inergy that provide personal financial gain.
- Participating in business transactions or arrangements in which family members benefit from your involvement with Inergy.
- Accepting bribes or kick-backs.
- Taking advantage of business or financial opportunities that result from information not generally available to the public gained from your association with Inergy.

If a potential conflict of interest arises, or you are unsure if your actions will present a conflict of interest, you must discuss with, and report the situation to, your supervisor or follow the specified procedures for reporting the situation to the Compliance Officer outlined in Section 10, below.

4.2 Outside Employment

We realize that in some circumstances an employee may need to take on additional part-time work for another employer. While we do not encourage this practice, in some circumstances outside employment for certain employees may be allowed, as deemed appropriate by the individual's supervisor, as long as (i) it does not present a conflict of interest, (ii) it does not interfere with your employment with us, and (iii) you are not working for a competitor.

We expect your employment with us to take priority over any outside employment. Outside employment will not be considered as an excuse for poor performance, absenteeism, tardiness or refusal to work necessary hours to perform your job successfully. In the event that you currently have, or later acquire, outside employment, you must notify your supervisor of the nature of the work and the hours required for your outside employment.

4.3 Gifts

We recognize that our employees may give gifts to other employees or to business associates of the Company, such as customers or suppliers. No employee, whether using Company funds or personal funds, may give such a gift in exchange for special treatment or favor for the employee or the Company.

We also recognize that our employees may be offered gifts from other employees or from business associates of the Company. No employee may accept any gift in exchange for giving special treatment or favor to the giver.

5.0 CONFIDENTIAL INFORMATION; INTELLECTUAL PROPERTY

The protection of confidential business information, including financial information, trade secrets, product information and customer-related data, is vital to our interests and success. Any employee who discloses trade secrets or confidential business information, including any information regarding our customers, employees, training materials, financial matters, etc. may be subject to disciplinary action up to and including termination and legal action.

You must continue to comply with the provisions of any confidentiality or similar agreement you may have signed. You also must comply with our Policy on Securities Trading and Handling of Non-Public Information with respect to disclosure of material information for the purpose of trading any securities.

You agree to make prompt, full and complete disclosure to Inergy and to assign to Inergy the entire, worldwide right, title and interest in and to any and all inventions, developments, concepts or ideas made or conceived (either alone or jointly) by you during the term of or in connection with your employment at Inergy, which are made or conceived on the time of, or at the expense of, or with materials or labor supplied by Inergy. Such intellectual property shall include patentable and unpatentable inventions, implemented ideas or improvements. You further agree that personal use of such intellectual property or a transfer of such intellectual property to a third party is a violation of this Code.

6.0 ANTITRUST COMPLIANCE

Antitrust laws are designed to prohibit practices that might unreasonably restrict competition. These laws deal with agreements and practices "in restraint of trade" such as price fixing and boycotting suppliers or customers. They also prohibit (i) pricing intended to drive a competitor out of business; (ii) disparaging, misrepresenting or harassing a competitor; (iii) stealing trade secrets; (iv) bribery; and (v) kickbacks.

It is our policy to comply fully with antitrust laws. You are prohibited from engaging in practices that violate antitrust and competition laws. If you have any questions or concerns about the propriety of certain business practices, please consult with your supervisor or follow the appropriate procedures for contacting the Compliance Officer.

7.0 FINANCIAL INTEGRITY AND COMPANY RECORDS

We rely on our accounting records to produce reports for our management, shareholders, creditors, governmental agencies, and others. We are committed to maintaining books and records that accurately and fairly reflect our financial transactions. Each employee must maintain accurate and fair records of transactions, time reports, expense accounts and other business records.

In this respect, the following guidelines must be followed:

- No undisclosed or unrecorded funds or assets may be established for any purpose.
- Assets and liabilities of the Company must be recognized and stated in accordance with our standard practices and Generally Accepted Accounting Principles ("GAAP").
- No false or artificial entries may be made or misleading reports issued.
- No false or fictitious invoices may be paid or created.

If you believe that our books and records are not being maintained in accordance with these requirements, you should report the matter immediately pursuant to Section 10.0 of the Code and the procedures implemented by the Compliance Officer.

In addition, if you have any concerns regarding questionable accounting or auditing matters at the Company, you may raise those concerns confidentially and anonymously directly to the Compliance Officer.

8.0 SECURITIES LAW DISCLOSURES AND PUBLIC COMMUNICATIONS; TRADING IN COMPANY STOCK

We are committed to full, fair, accurate, timely and understandable disclosure in reports and documents that we file with, or submit to, the Securities and Exchange Commission and in other public communications. All employees have responsibility to ensure that false or intentionally misleading information is not given in the Company's filings with the SEC or public communications.

No employee should buy or sell Company units while in possession of material inside information. You must comply at all times with the Company's Policy on Securities Trading and Handling of Non-Public Information.

If you believe that incomplete, false or intentionally misleading information has been given in the Company's securities filings or public communications or that an employee has engaged in insider trading, you should report the matter immediately pursuant to Section 10.0 of this Code and the procedures implemented by the Compliance Officer.

9.0 CODE VIOLATIONS

We take the provisions of this Code very seriously, and we will treat any violations of the Code accordingly. A failure by any person to comply with applicable laws, rules or regulations governing our business, this Code or any other policies or requirements may result in disciplinary action up to and including termination and, if warranted, legal action against the person.

10.0 QUESTIONS ABOUT COMPLIANCE AND REPORTING VIOLATIONS

If you have any questions or concerns about compliance with this Code, talk with your supervisor or contact the Compliance Officer through the established procedures. You are expected to report any violations of this Code. Failure to promptly notify a supervisor or the Compliance Officer of a violation of this Code is a breach of the Code and may result in punishment, including the punishments outlined in Section 9.0 of this Code or specified by the Compliance Officer.

You can discuss your concern without fear of any form of retaliation. When you report a violation of the Code to the Compliance Officer through the established procedures:

- You will be treated with respect.
- Your concerns will be taken seriously. If your concerns are not resolved at the time of your report, you will be informed of the outcome if you provide your contact information.

- You will not be required to identify yourself.
- Your communication will be protected to the greatest extent possible.

To ask questions about the matter discussed in this Code, or to report a violation of this Code you may take any of the following steps:

- Contact your supervisor;
- Contact the Compliance Officer or a member of his or her staff;
- Call the dedicated telephone number. This number is shown on our intranet or can be obtained from your supervisor.

11.0 WAIVERS OF THE CODE AND DISCLOSURE

Any waiver of this Code for an employee must be made by the employee's supervisor and immediately reported to senior management and the Compliance Officer. Any waiver of the Code for the members of our board of directors, the Chief Executive Officer, Chief Financial Officer, and persons performing similar functions may be made only by the Audit Committee of the Board of Directors.

All requests for waivers will be considered on a case-by-case basis. All waivers of this Code for the members of our board of directors, Chief Executive Officer, Chief Financial Officer, and persons performing similar functions will be promptly disclosed to the public as required by applicable laws, rules and regulations.

12.0 CODE SHALL BE PUBLICLY AVAILABLE

This Code, and any amendments or supplements hereto, will be available on the Company's website.

Adopted August 14, 2003

Exhibit A

Acknowledgment of Receipt and Certification of
Compliance with Inergy's Code of Business Conduct and Ethics

I hereby certify that:

1. I have read and understand the Company's Code of Business Conduct and Ethics and its reporting procedures. I understand that the Compliance Officer is available to answer any questions I have regarding the Code.
2. I will continue to comply with the Code for so long as I am subject to the Code.

Date:

Name: _____

Position: _____

[to be included in new-hire packets and signed by new hire]

EXHIBIT 21.1

Direct of Indirect Subsidiaries of Inergy, L.P.

Name	Jurisdiction
Inergy Propane, LLC	Delaware
L & L Transportation, LLC	Delaware
Inergy Transportation, LLC	Delaware
Inergy Sales & Service, Inc.	Delaware
Inergy Canada Company	Canada

Certain subsidiaries of Inergy, L.P. do business under the following names:

- Able Propane
- Agtec Propane
- Bastrop Propane
- Best Butane
- Bradley Propane
- Burnet Propane
- Butane Gas & Elec.
- Centex Propane
- Choctaw Propane
- Clayton Fuels
- Coal Co. Propane
- Coastal Gas
- Coleman's Putman Propane
- Country Gas
- Darien Gas
- Deck's Propane
- Dobbins Propane
- Entex Propane
- Estill Gas
- Ethridge Propane
- Farmers LP Gas
- Frankston Reliance
- Gas Tec
- Hall Propane
- Hancock Gas Service
- Harper Butane
- Hoosier Propane
- Independent Gas Co.
- Independent Propane
- Inergy Services
- J & J Propane
- Live Oak Gas Co.
- McCracken Propane
- Central Carolina Gas Co.
- Midtex LP Gas
- Mount Vernon Bottled Gas
- Nelson Propane
- Owens LP Gas
- Penny's Propane
- Peoples Gas
- Perryman Propane
- Polk Co. Propane
- ProGas
- ProGas Energy
- ProGas Propane
- Propane Gas Service
- Reliance Gas
- Robbins Propane
- Rural Gas
- Shelby LP Gas
- Shelby Transport
- Smith Propane
- Southeast Propane
- Southern Butane
- Tarkington Propane
- Taylor Propane
- United Propane
- Willis Propane
- Yarbourough Gas

Exhibit 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements (Form S-3 No. 333-108359, No. 333-101165 and No. 333-100023 and Form S-8 No. 333-83872) of Inergy L.P. and in the related Prospectuses of our report dated November 14, 2003, except for Note 12, as to which the date is December 10, 2003, with respect to the consolidated financial statements and schedule of Inergy L.P. included in this Annual Report (Form 10-K) for the year ended September 30, 2003.

/s/ Ernst & Young LLP

Kansas City, Missouri
December 19, 2003

Exhibit 31.1

CERTIFICATIONS

I, John J. Sherman, certify that:

1. I have reviewed this annual report on Form 10-K of Inergy, L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 23, 2003

/s/ John J. Sherman

John J. Sherman
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, R. Brooks Sherman, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Inergy, L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 23, 2003

/s/ R. Brooks Sherman, Jr.

R. Brooks Sherman, Jr.
Senior Vice President and Chief Financial Officer

Exhibit 32.1

Certification of the Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Inergy, L.P. (the "Company") on Form 10-K for the period ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John J. Sherman, Chief Executive Officer of Inergy, L.P., certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John J. Sherman.

John J. Sherman
Chief Executive Officer

December 23, 2003

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Certification of the Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Inergy, L.P. (the "Company") on Form 10-K for the period ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, R. Brooks Sherman, Jr., Chief Financial Officer of Inergy, L.P., certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ R. Brooks Sherman, Jr.

R. Brooks Sherman, Jr.
Chief Financial Officer

December 23, 2003

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.