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

FORM 10-Q

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

For the quarterly period ended March 31, 2004

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: 0-32453

Inergy, L.P.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**43-1918951** **(IRS Employer Identification No.)**
Two Brush Creek Blvd., Suite 200 **Kansas City, Missouri** **(Address of principal executive offices)**	**64112** **(Zip code)**

(816) 842-8181
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 last 90 days. Yes ☒ No ☐

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

The following units were outstanding at May 1, 2004:

Common Units	14,669,822
Senior Subordinated Units	7,135,252
Junior Subordinated Units	1,145,084

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INERGY, L.P.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

INERGY, L.P. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	March 31, 2004 *(Unaudited)*	September 30, 2003
	(In Thousands)	
Assets		
Current assets:		
Cash	**$ 9,657**	$ 3,528
Accounts receivable, less allowance for doubtful accounts of $1,348,000 and $997,000 at March 31, 2004 and September 30, 2003, respectively	**60,241**	21,841
Inventories	**12,836**	35,722
Prepaid expenses and other current assets	**5,395**	3,957
Assets from price risk management activities	**8,189**	8,905
Total current assets	**96,318**	73,953
Property, plant and equipment, at cost:		
Land and buildings	**14,954**	14,265
Office furniture and equipment	**9,408**	8,614
Vehicles	**26,596**	21,986
Tanks and plant equipment	**156,278**	135,040
	207,236	179,905
Less accumulated depreciation	**(29,313)**	(22,704)
Property, plant and equipment, net	**177,923**	157,201
Intangible assets:		
Covenants not to compete	**10,285**	8,752
Deferred financing costs	**4,438**	8,843
Customer accounts	**63,303**	59,951
Goodwill	**66,864**	64,546
	144,890	142,092
Less accumulated amortization	**(13,467)**	(12,383)
Intangible assets, net	**131,423**	129,709
Other	**265**	1,530
Total assets	**$ 405,929**	$ 362,393

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INERGY, L.P. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (continued)

	March 31, 2004 *(Unaudited)*	September 30, 2003
	(In Thousands)	
Liabilities and partners' capital		
Current liabilities:		
Accounts payable	**$ 46,140**	$ 22,733
Accrued expenses	**10,550**	11,919
Customer deposits	**2,258**	11,830
Liabilities from price risk management activities	**4,624**	5,801
Current portion of long-term debt	**1,216**	12,449
Total current liabilities	**64,788**	64,732
Long-term debt, less current portion	**79,473**	118,678
Partners' capital:		
Common unitholders (14,669,822 and 11,044,822 units issued and outstanding as of March 31, 2004 and September 2003, respectively)	**211,306**	129,168
Senior subordinated unitholders (7,135,252 units issued and outstanding)	**46,238**	46,842
Junior subordinated unitholders (1,145,084 units issued and outstanding)	**(238)**	(141)
Non-managing general partner (2% interest)	**4,362**	3,114
Total partners' capital	**261,668**	178,983
Total liabilities and partners' capital	**$ 405,929**	$ 362,393

See accompanying notes.

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INERGY, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Unit Data)
(unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2004	**2003**	**2004**	**2003**
Revenue:				
Propane	**$ 167,422**	$ 153,450	**$ 288,247**	$ 257,492
Other	**10,646**	5,200	**22,403**	10,847
	178,068	158,650	**310,650**	268,339
Cost of product sold	**127,748**	118,113	**223,213**	199,664
Gross profit	**50,320**	40,537	**87,437**	68,675
Expenses:				
Operating and administrative	**20,188**	17,073	**40,487**	31,384
Depreciation and amortization	**4,958**	3,374	**9,676**	6,735
Operating income	**25,174**	20,090	**37,274**	30,556
Other income (expense):				
Interest expense, net	**(1,471)**	(2,496)	**(4,367)**	(5,136)
Write-off of deferred financing costs *(Note 3)*	**(1,216)**	—	**(1,216)**	—
Make whole premium charge *(Note 3)*	**(17,949)**	—	**(17,949)**	—
Swap value received *(Note 3)*	**949**	—	**949**	—
Gain (loss) on sale of property, plant and equipment	**(325)**	116	**(279)**	10
Finance charges	**238**	73	**353**	89
Other	**42**	22	**78**	52
Income before income taxes	**5,442**	17,805	**14,843**	25,571
Provision for income taxes	**20**	20	**51**	70
Net income	**$ 5,422**	$ 17,785	**$ 14,792**	$ 25,501
Partners' interest information for the three and six months ended March 31, 2004 and 2003:				
Non-managing general partners' interest in net income	**$ 109**	$ 356	**$ 296**	$ 510
Limited partners' interest in net income:				
Common unit interest	**$ 3,492**	$ 8,788	**$ 8,740**	$ 12,500
Senior subordinated unit interest	**1,569**	7,368	**4,960**	10,651
Junior subordinated unit interest	**252**	1,273	**796**	1,840
Total limited partners' interest in net income	**$ 5,313**	$ 17,429	**$ 14,496**	$ 24,991
Net income per limited partner unit:				
Basic	**$ 0.24**	$ 1.11	**$ 0.70**	$ 1.61
Diluted	**$ 0.23**	$ 1.10	**$ 0.68**	$ 1.59
Weighted average limited partners' units outstanding:				
Basic	**22,401**	15,675	**20,855**	15,549
Diluted	**22,877**	15,902	**21,320**	15,754

See accompanying notes.

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INERGY, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL

(In Thousands)

(unaudited)

	Common Unit Capital	Senior Subordinated Unit Capital	Junior Subordinated Unit Capital	Non-Managing General Partner and Affiliate	Total Partners' Capital
Balance at September 30, 2003	$ 129,168	$ 46,842	$ (141)	$ 3,114	$ 178,983
Net proceeds from issuance of common units	83,443	—	—	—	83,443
Contribution from non-managing general partner	—	—	—	1,790	1,790
Distributions	(10,047)	(5,565)	(893)	(838)	(17,343)
Comprehensive income:					
Net income	8,740	4,960	796	296	14,792
Foreign currency translation	2	1	—	—	3
Comprehensive income					14,795
Balance at March 31, 2004	$ 211,306	$ 46,238	$ (238)	$ 4,362	$ 261,668

See accompanying notes.

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INERGY, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(unaudited)

	Six Months Ended March 31,	
	2004	**2003**
Operating activities		
Net income	**$ 14,792**	$ 25,501
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**6,970**	4,715
Amortization	**2,706**	2,020
Amortization of deferred financing costs	**813**	688
Provision for doubtful accounts	**311**	423
Write-off of deferred financing costs	**1,216**	—
Make whole premium charge	**17,949**	
(Gain) loss on disposal of property, plant and equipment	**279**	(10)
Net asset (liabilities) from price risk management activities	**(461)**	(6,025)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	**(36,800)**	(23,648)
Inventories	**23,524**	32,352
Prepaid expenses and other current assets	**(1,433)**	2,717
Other assets	**—**	(4)
Accounts payable	**20,984**	11,158
Accrued expenses	**(3,643)**	168
Customer deposits	**(9,573)**	(6,968)
Net cash provided by operating activities	**37,634**	43,087
Investing activities		
Acquisitions, net of cash acquired	**(25,522)**	(13,906)
Purchases of property, plant and equipment	**(6,449)**	(2,698)
Deferred financing and acquisition costs incurred	**(48)**	(103)
Proceeds from sale of property, plant and equipment	**1,176**	319
Net cash used in investing activities	**(30,843)**	(16,388)

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INERGY, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(In Thousands)
(unaudited)

	Six Months Ended March 31,	
	2004	**2003**
Financing activities		
Proceeds from issuance of long-term debt	**$ 202,061**	$ 84,827
Principal payments on long-term debt	**(252,667)**	(117,123)
Payment of make whole premium charge	**(17,949)**	—
Contribution from non-managing general partner	**1,790**	509
Net proceeds from issuance of Common Units	**83,443**	23,372
Distributions	**(17,343)**	(11,249)
Net cash used in financing activities	**(665)**	(19,664)
Effect of foreign exchange rate changes on cash	**3**	—
Net increase in cash	**6,129**	7,035
Cash at beginning of period	**3,528**	2,088
Cash at end of period	**$ 9,657**	$ 9,123
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	**$ 3,657**	$ 4,754
Supplemental schedule of noncash investing and financing activities		
Acquisition of NGL business through the issuance of obligations	**$ 1,970**	$ —
Additions to covenants not to compete through the issuance of noncompete obligations	**$ 1,432**	$ 1,083
Increase (decrease) in the fair value of senior secured notes and the related interest rate swap	**$ (316)**	$ 498

See accompanying notes.

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INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 – Organization and Basis of Presentation

Organization

The consolidated financial statements of Inergy, L.P. (the "Company") include the accounts of the Company and its subsidiary Inergy Propane, LLC which, collectively, are referred to as "Inergy." Inergy Partners, LLC (the "Non-Managing General Partner"), a subsidiary of Inergy Holdings, LLC ("Holdings"), owns the Non-Managing General Partner interest representing a 2% unsubordinated general partner's interest in the Company. Inergy GP, LLC, (the "Managing General Partner"), a wholly owned subsidiary of Holdings, has sole responsibility for conducting our business and managing our operations. Holdings is a holding company whose principal business, through its subsidiaries, is its management of and ownership in Inergy, L.P. Holdings also directly owns the incentive distribution rights with respect to Inergy, L.P.

Basis of Presentation

The financial information as of March 31, 2004 and for the three-month and six-month periods ended March 31, 2004 and 2003 contained herein is unaudited. The Company believes this information has been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and Article 10 of Regulation S-X. The Company also believes this information includes all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods then ended. The retail distribution business is largely seasonal due to propane's primary use as a heating source in residential and commercial buildings. Accordingly, the results of operations for the three-month and six-month periods ended March 31, 2004 and 2003 are not indicative of the results of operations that may be expected for the entire year.

The accompanying financial statements should be read in conjunction with the consolidated financial statements of Inergy, L.P. and subsidiary and the notes thereto included in Form 10-K/A as filed with the Securities and Exchange Commission for the year ended September 30, 2003.

INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 – Accounting Policies

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 assess, 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 March 31, 2004, the fair value of approximately 6.4 million gallons of propane inventory was being hedged by various commodity derivatives with a fair value of $0.1 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. The fair value of derivatives not designated as hedges are determined based on quoted market prices, current transactions or similar commodities with similar counterparties, or other calculations based on observable market inputs.

During the three months and six months ended March 31, 2004, Inergy recognized a net loss of $0.1 million and a net gain of $0.1 million, respectively, related to the ineffective portion of its hedging instruments and net losses of $0.2 million and $0.0 million, respectively, 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.

INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 – Accounting Policies (continued)

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.

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.

Expense Classification

Cost of products sold includes the actual cost of propane and other fuels, merchandise, production costs associated with our gas processing plant, and compensation and fuel costs associated with our transportation business. Operating and administrative expenses include all corporate and wholesale operating expenses, and all costs incurred to deliver products to our retail customers, including all retail branch operating expenses.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 – 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. 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 were $3.9 million and $28.9 million at March 31, 2004 and September 30, 2003, respectively.

Inventories consist of (in thousands):

	March 31, 2004	September 30, 2003
Propane gas and other liquids	**$ 9,107**	$ 32,247
Appliances, parts and supplies	**3,729**	3,475
	$ 12,836	$ 35,722

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INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 – Accounting Policies (continued)

Income Per Unit

Basic net income per limited partner unit is computed by dividing net income, after considering the Non-Managing General Partner's interest, by the weighted average number of Common and Subordinated Units outstanding. Diluted net income per limited partner unit is computed by dividing net income, after considering the 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. All limited partnership units and per limited partner unit amounts have been restated to reflect the two-for-one split which was effective January 12, 2004. See Note 4, Two-For-One Unit Split. The following table presents the calculation of basic and dilutive income per limited partner unit (in thousands, except per unit data):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2004	**2003**	**2004**	**2003**
Numerator:				
Net income	**$ 5,422**	$ 17,785	**$ 14,792**	$ 25,501
Less: Non-Managing General Partner's interest in net income	**109**	356	**296**	510
Limited partners' interest in net income – basic and diluted	**$ 5,313**	$ 17,429	**$ 14,496**	$ 24,991
Denominator:				
Weighted average limited partners' units outstanding – basic	**22,401**	15,675	**20,855**	15,549
Effect of dilutive unit options outstanding	**476**	227	**465**	205
Weighted average limited partners' units outstanding – dilutive	**22,877**	15,902	**21,320**	15,754
Net income per limited partner unit:				
Basic	**$ 0.24**	$ 1.11	**$ 0.70**	$ 1.61
Diluted	**$ 0.23**	$ 1.10	**$ 0.68**	$ 1.59

INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 – 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, 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 and net income 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 and six month periods ended March 31, 2004 and 2003 is as follows (in thousands, except per unit data):

	Three Month Ended March 31,		Six months ended March 31,	
	2004	**2003**	**2004**	**2003**
Net income as reported	**$ 5,422**	$ 17,785	**$ 14,792**	$ 25,501
Deduct: Total unit-based employee compensation expense determined under fair value method for all awards	**52**	21	**111**	66
Pro forma net income	**$ 5,370**	$ 17,764	**$ 14,681**	$ 25,435
Pro forma limited partners’ interest in net income for the three and six month periods ended March 31, 2004 and 2003	**$ 5,261**	$ 17,408	**$ 14,385**	$ 24,925
Net income per limited partner unit:				
Basic – as reported	**$ 0.24**	$ 1 11	**$ 0.70**	$ 1.61
Basic – pro forma	**$ 0.23**	$ 1.11	**$ 0.69**	$ 1.60
Pro forma net income per limited partner unit:				
Diluted – as reported	**$ 0.23**	$ 1.10	**$ 0.68**	$ 1.59
Diluted – pro forma	**$ 0.23**	$ 1.09	**$ 0.67**	$ 1.58

INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 – Accounting Policies (continued)

Reclassifications

Certain reclassifications have been made to the consolidated financial statements for the three and six months ended March 31, 2003 to conform to the three and six months ended March 31, 2004.

Note 3 – Long-Term Debt

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

	March 31, 2004	September 30, 2003
Credit agreement:		
Working Capital Facility	**$ —**	$ 15,500
Acquisition Facility	**75,939**	25,524
Senior secured notes (including interest rate swap liability)	**—**	86,265
Obligations under noncompetition agreements and notes to former owners of businesses acquired	**4,746**	3,833
Other	**4**	5
	80,689	131,127
Less current portion	**1,216**	12,449
	$79,473	$ 118,678

Effective in July 2003, Inergy Propane, LLC 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.

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, has been classified as a long-term liability in the accompanying consolidated balance sheets. There was no balance outstanding on the working capital facility at March 31, 2004. At March 31, 2004 and September 30, 2003, the balance outstanding under this amended credit facility was $75.9 million and $41.0 million, respectively, including $0 million and $15.5 million, respectively, under the working capital facility. The prime rate and LIBOR plus the applicable spreads were between 3.12% and 4.00% at March 31, 2004, and between 3.11% and 4.00% at September 30, 2003, for all outstanding debt under the credit agreement.

INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 3 – Long-Term Debt (continued)

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 consisted 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 funds from a public unit offering, together with net new borrowings under the revolving credit facility were used to repay in full $85.0 million aggregate principal amount of senior secured notes, plus a make whole premium charge of approximately $17.9 million in January 2004. All interest rate swap agreements were cancelled in conjunction with the repayment of $85 million of senior secured notes. The make whole premium charge of $17.9 million has been recorded as a charge to earnings in the quarter ended March 31, 2004 together with the write-off of the $1.2 million deferred financing costs associated with the senior secured notes, partially offset by a $0.9 million gain from the cancellation of the interest rate swaps.

The credit agreement contains 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 $113.8 million and $154.9 million at March 31, 2004 and September 30, 2003, respectively.

The aggregate amounts of principal to be paid on the outstanding long-term debt during the next five years ending March 31 and thereafter, are as follows, in thousands of dollars:

2005	$ 1,216
2006	665
2007	76,570
2008	1,156
2009	542
Thereafter	540
	$80,689

INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 3 – 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 were scheduled to expire on the same dates as the maturity dates of the related senior secured notes, required 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 was 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 were accrued and recognized over the life of the agreements as an adjustment to interest expense. The Partnership recognized the approximate $1.3 million increase in the fair market value of the related senior secured notes at September 30, 2003, with a corresponding increase in the fair value of its interest rate swaps, which are recorded in other non-current assets. In January 2004, all interest rate swap agreements were cancelled in conjunction with the repayment of $85 million of senior secured notes.

Note 4 – Two-for-One Unit Split

On December 10, 2003, the Board of Directors of the Managing General Partner declared a two-for-one split of the outstanding common and subordinated units. The split entitled unitholders of record at the close of business on January 2, 2004 to receive one additional unit for each unit held as of such date. The distribution was made on January 12, 2004. The effect of the split was to double the number of all outstanding units and to reduce by half the minimum quarterly per unit distribution and the targeted distribution levels. All common and subordinated unit amounts and per unit amounts have been restated to reflect the two-for-one split.

INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 5 – Quarterly Distributions of Available Cash

On February 13, 2004, a quarterly distribution of $0.395 per limited partner unit was paid to its unitholders of record on February 6, 2004 with respect to the first fiscal quarter of 2004, which totaled $9.6 million. Inergy will distribute $0.405 per limited partner unit on May 14, 2004 to unitholders of record on May 7, 2004, for a total distribution of $9.9 million with respect to its second fiscal quarter of 2004.

On February 14, 2003, a quarterly distribution of $0.3575 per limited partner unit was paid to its unitholders of record on February 7, 2003 with respect to the first fiscal quarter of 2003, which totaled $5.7 million. Inergy distributed $0.365 per limited partner unit on May 15, 2003 to unitholders of record on May 8, 2003, for a total distribution of $6.4 million with respect to its second fiscal quarter of 2003.

Note 6 – Commitments and Contingencies

Inergy periodically enters into agreements to purchase fixed quantities of propane at fixed prices with suppliers. At March 31, 2004, the total of these firm purchase commitments was approximately $61.2 million.

At March 31, 2004, Inergy was contingently liable for letters of credit outstanding totaling $10.3 million, which guarantee various transactions.

Inergy is periodically involved in litigation. The results of litigation 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, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 7 – Segments

Inergy’s financial statements reflect two reportable segments: retail sales operations and wholesale sales operations. Retail sales operations include all retail operations and transportation services. Wholesale sales operations include wholesale supply, marketing and distribution, and the recently acquired natural gas processing and NGL fractionation operations. Revenues, gross profit and identifiable assets for each of our reportable segments are presented below.

The identifiable assets associated with each reportable segment 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.

The following segment information is presented in thousands of dollars:

	Three Months Ended March 31, 2004			
	Retail Sales Operations	Wholesale Sales Operations	Intersegment Eliminations	Total
Revenues	**$ 92,339**	**$134,107**	**$ (48,378)**	**$178,068**
Gross profit	**44,125**	**6,195**	**—**	**50,320**
Identifiable assets	**30,691**	**42,386**	**—**	**73,077**

	Three Months Ended March 31, 2003			
	Retail Sales Operations	Wholesale Sales Operations	Intersegment Eliminations	Total
Revenues	$ 78,196	$118,272	$ (37,818)	$158,650
Gross profit	36,495	4,766	(724)	40,537
Identifiable assets	25,118	20,808	—	45,926

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INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 7 – Segments (continued)

	Six Months Ended March 31, 2004			
	Retail Sales Operations	Wholesale Sales Operations	Intersegment Eliminations	Total
Revenues	**$ 156,718**	**$ 229,789**	**$ (75,857)**	**$ 310,650**
Gross profit	**75,941**	**12,106**	**(610)**	**87,437**
Identifiable assets	**30,691**	**42,386**	**—**	**73,077**

	Six Months Ended March 31, 2003			
	Retail Sales Operations	Wholesale Sales Operations	Intersegment Eliminations	Total
Revenues	$ 129,580	$ 194,599	$ (55,840)	$ 268,339
Gross profit	62,404	7,265	(994)	68,675
Identifiable assets	25,118	20,808	—	45,926

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INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 8 – Subsequent Events

Effective in April 2004, Inergy acquired the assets of two retail propane companies, Hometown Propane Gas located in Central Arkansas and Gaylord Gas, Inc. located in Michigan. In May of 2004, Inergy acquired the assets of Burnwell Gas Corporation, and affiliates Sullivan County Gas Service, Inc. and Sarpol Gas Corporation located in the Hudson Valley area of New York. These three acquisitions represent less than 10% of our consolidated revenues, consolidated assets and partners' capital.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

Our "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Inergy should be read in conjunction with the accompanying consolidated financial statements and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report on Form 10-K/A for the fiscal year ended September 30, 2003 of Inergy, L.P.

The statements in this Quarterly Report on Form 10-Q that are not historical facts, including most importantly, those statements preceded by, or that include the words "may", "believes", "expects", "anticipates" or the negation thereof, or similar expressions, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the Reform Act). Such forward-looking statements include, but are not limited to, statements that: (i) we believe entering the mid-stream gas processing and natural gas liquids (NGL) business complements our existing operations and (ii) we believe the sufficiency of cash received from operations and borrowings will meet our foreseeable liquidity needs. Such forward-looking statements involve risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the following: weather in our area of operations; market price of propane; availability of financing; changes in, or failure to comply with, government regulations; the costs, uncertainties and other effects of legal and administrative proceedings and other risks and uncertainties detailed in our Securities and Exchange Commission filings. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Reform Act. We will not undertake and specifically decline any obligation to publicly release the result of any revisions to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect events or circumstances after anticipated or unanticipated events.

Overview

We are a rapidly growing retail and wholesale propane marketing and distribution business. We have grown primarily through acquisitions of retail propane companies, and to a lesser extent, through internal growth. In October 2003, we acquired from Link Energy, LLC (formerly known as EOTT Energy, L.P.) its west coast NGL business (Inergy Services), which includes gas processing, fractionation, above-ground NGL storage, truck and rail distribution facilities, and a NGL transportation fleet all located in south central California. In October 2003, we also acquired the assets of two retail propane companies; Smith Propane, with headquarters in La Crosse, Virginia and Peoples Gas and Appliance, with headquarters in Beaufont, South Carolina. In November 2003, we acquired the assets of another retail propane company, Pembroke Propane, with headquarters in Pembroke, Georgia. In December 2003, we acquired certain assets of two retail propane companies in the southeast. These six companies generated revenue during the 12 months ended September 30, 2003, of less than 10% of our consolidated revenue during fiscal 2003, and represents less than 10% of consolidated assets and partners' capital.

In January 2004, we acquired the assets of a retail propane company, Dorsey Propane Gas Company, with headquarters in Nashville, Georgia. In February 2004, we acquired the assets of a retail propane company, Direct Propane Inc., with headquarters in Norristown, Pennsylvania. In March 2004, we acquired the assets of two more retail propane companies; Premier Propane, LLC, with headquarters in Richmond, Virginia and Hancock Gas Company, Inc., with headquarters in Scotland Neck, North Carolina. These four retail propane companies acquired in the three-months ended March 31, 2004 represent less than 10% of our consolidated revenues, consolidated assets and partners' capital.

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, operating income is highest when customers purchase propane during the six-month peak heating season of October through March, and we generally experience net losses from April through September. During the three-months and six-months ended March 31, 2004 the weather was approximately 8% and 11% warmer in our retail areas of operations as compared to the same periods in 2003, respectively.

The retail 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. During the three-months and six-months ended March 31, 2004, we increased our average margin per gallon by 9% over the same periods in 2003.

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. 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. In October 2003, we expanded our wholesale and supply operations by acquiring from Link Energy, LLC (formerly known as EOTT Energy, L.P.) its west coast NGL business (Inergy Services), which includes natural gas processing, NGL fractionation, NGL rail and truck terminals, bulk storage, trucking and marketing operations. We believe Inergy Services complements our existing U.S. and Canadian wholesale and supply operations. Our wholesale profit margin during the three-months and six-months ended March 31, 2004 was $6.2 million and $11.5 million, respectively, an increase from $4.1 million and $6.3 million in the same periods of 2003. This increase was primarily attributable to our Inergy Services acquisition.

Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003

Volume. During the three months ended March 31, 2004, we sold 56.7 million retail gallons of propane, an increase of 14% over the 49.6 million retail gallons sold during the same three-month period in 2003. The increase in retail sales volume was principally due to acquisitions, partially offset by lower retail gallon sales at existing locations as a result of weather in the current year's quarter that was approximately 8% warmer than the prior year's quarter in our retail areas of operations.

Wholesale gallons delivered during the three months ended March 31, 2004 was 126.1 million gallons, as compared to 108.5 million gallons during the same three-month period in 2003. This increase was primarily attributable to expansion of our existing wholesale operations.

Revenues. Revenues in the three months ended March 31, 2004 were $178.1 million, an increase from $158.7 million during the same period in 2003.

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Revenues from retail sales were $89.7 million (after elimination of sales to our wholesale operations) in the three months ended March 31, 2004, an increase of 19% from $74.9 million during the same three-month period in 2003. This increase was primarily attributable to acquisition-related volume and higher selling prices of propane, as a result of the higher cost of propane. Revenues from retail sales consist of retail propane sales, transportation revenues, tank rentals, heating oil sales, and appliance sales and service.

Revenues from wholesale sales were $88.4 million (after elimination of sales to our retail operations) in the three months ended March 31, 2004, compared to $83.8 million during the same three-month period in 2003. This increase was primarily attributable to our Inergy Services acquisition and the volume increase generated in our wholesale propane operations.

Cost of Product Sold. Cost of product sold in the three months ended March 31, 2004 was $127.7 million, compared to $118.1 million in the same period in 2003. This increase was primarily attributable to an increase in retail acquisition-related volume, production costs associated with our Inergy Services acquisition, and wholesale volume.

Gross Profit. Retail gross profit was $44.1 million (after elimination of gross profit attributable to our wholesale operations) in the three months ended March 31, 2004 compared to $36.5 million during the same three-month period in 2003. This increase was primarily attributable to an increase in acquisition-related volume and an increase in margin per gallon. Wholesale gross profit was $6.2 million (after elimination of gross profit attributable to our retail operations) in the three months ended March 31, 2004 compared to $4.1 million in fiscal 2003. This increase was primarily attributable to the Inergy Services acquisition and increased wholesale volumes partially offset by a decrease in margin per gallon.

Operating and Administrative Expenses. Operating and administrative expenses increased to $20.2 million in the three months ended March 31, 2004 as compared to $17.1 million in the same three-month period in 2003. This increase was primarily attributable to increased personnel and operating expenses as a result of acquisitions.

Depreciation and Amortization. Depreciation and amortization increased to $5.0 million in the three months ended March 31, 2004 from $3.4 million in the same three-month period in 2003, primarily as a result of acquisition activity.

Interest Expense. Interest expense decreased to $1.5 million in the three month period ended March 31, 2004 as compared to $2.5 million in the same period of 2003. Interest expense decreased primarily due to a decrease in debt outstanding including the January 2004 early retirement of the $85.0 million senior secured notes, and lower average interest rates in 2004 as compared to 2003.

Make Whole Premium Charge, Write-off of Deferred Financing Costs, and Swap Value Received. In January 2004, we repaid in full our $85.0 million senior secured notes, before their scheduled maturity dates. As such, we were required to pay an additional amount of approximately $17.9 million as a make-whole payment which was recorded as a charge to earnings in the quarter ended March 31, 2004. We used proceeds from our January 2004 common unit offering and borrowings from our bank credit facility for this repayment. In addition, we also recorded a charge to earnings of approximately $1.2

million to write-off deferred financing costs associated with the senior secured notes. Partially offsetting these charges was a $0.9 million gain from the cancellation of interest rate swap agreements also associated with the Senior Notes.

Net Income. Net income decreased to $5.4 million for the three months ended March 31, 2004 from $17.8 million in the same three-month period in 2003. Net income decreased primarily as a result of the charges associated with the early repayment of the senior secured notes through an equity offering, offset partially by the accretive earnings associated with our retail acquisitions and our Inergy Services acquisition.

EBITDA. For the three months ended March 31, 2004, income before interest, taxes, depreciation and amortization was $30.1 million compared to $23.7 million in the same period in 2003.

EBITDA is defined as income before taxes, plus net interest expense and depreciation and amortization expense. In addition, the net charges associated with the early retirement of the senior secured notes are excluded in the determination of EBITDA. 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. EBITDA is presented because such information is relevant and is used by management, industry analysts, investors, lenders and rating agencies to assess the financial performance and operating results of our fundamental business activities. We believe that the presentation of EBITDA is useful to lenders and investors because of its use in the propane industry and for master limited partnerships as an indicator of the strength and performance of the ongoing business operations, including the ability to fund capital expenditures, service debt and pay distributions. Additionally, we believe that EBITDA provides useful information to our investors for trending, analyzing and benchmarking our operating results as compared to other companies that may have different financing and capital structures. The presentation of EBITDA allows investors to view our performance in a manner similar to the methods used by management and provides additional insight to our operating results.

	Three Months Ended March 31,	
	2004	**2003**
	(in thousands)	
EBITDA:		
Net income	**$ 5,422**	$17,785
Interest expense, net	**1,471**	2,496
Write off of deferred financing costs	**1,216**	—
Make whole premium charge	**17,949**	—
Swap value received	**(949)**	—
Provision for income taxes	**20**	20
Depreciation and amortization	**4,958**	3,374
EBITDA	**$30,087**	$23,675

Six Months Ended March 31, 2004 Compared to Six Months Ended March 31, 2003

Volume. During the six months ended March 31, 2004, we sold 99.2 million retail gallons of propane, an increase of 15% over the 86.4 million retail gallons sold during the same six-month period in 2003. The increase in retail sales volume was principally due to acquisitions, partially offset by lower retail gallon sales at existing locations as a result of weather in the six-month period ended March 31, 2004 that was approximately 11% warmer than the same period in 2003.

Wholesale gallons delivered during the six months ended March 31, 2004 was 236.3 million gallons, as compared to 206.3 million gallons during the same six-month period in 2003. This increase was primarily attributable to expansion of our existing wholesale operations.

Revenues. Revenues in the six months ended March 31, 2004 were $310.7 million, an increase from $268.3 million during the same period in 2003.

Revenues from retail sales were $152.0 million (after elimination of sales to our wholesale operations) in the six months ended March 31, 2004, an increase from $124.3 million during the same six-month period in 2003. This increase was primarily attributable to acquisition-related volume and higher selling prices of propane, as the result of higher cost of propane. Revenues from retail sales consist of retail propane sales, transportation revenues, tank rentals, heating oil sales, and appliance sales and service.

Revenues from wholesale sales were $158.6 million (after elimination of sales to our retail operations) in the six months ended March 31, 2004, compared to $144.0 million during the same six-month period in 2003. This increase was primarily attributable to our Inergy Services acquisition and the volume increase generated by our wholesale operations.

Cost of Product Sold. Cost of product sold in the six months ended March 31, 2004 was $223.2 million, compared to $199.7 million in the same period in 2003. This increase was primarily attributable to an increase in retail acquisition-related volume, production costs associated with our Inergy Services acquisition, and wholesale volume.

Gross Profit. Retail gross profit was $75.9 million (after elimination of gross profit attributable to our wholesale operations) in the six months ended March 31, 2004 compared to $62.4 million during the same six-month period in 2003. This increase was primarily attributable to an increase in acquisition-related volume and an increase in margin per gallon. Wholesale gross profit was $11.5 million (after elimination of gross profit attributable to our retail operations) in the six months ended March 31, 2004 compared to $6.3 million in fiscal 2003. This increase was attributable to the Inergy Services acquisition, increased wholesale volumes as described above, offset by a decrease in margin per gallon.

Operating and Administrative Expenses. Operating and administrative expenses increased to $40.5 million in the six months ended March 31, 2004 as compared to $31.4 million in the same six-month period in 2003. This increase was primarily attributable to increased personnel and operating expenses as a result of acquisitions.

Depreciation and Amortization. Depreciation and amortization increased to $9.7 million in the six months ended March 31, 2004 from $6.7 million in the same six-month period in 2003, primarily as a result of acquisition activity.

Interest Expense. Interest expense decreased to $4.4 million in the six month period ended March 31, 2004 as compared to $5.1 million in the same period of 2003. Interest expense decreased primarily due to a decrease in debt outstanding including the January 2004 early retirement of the $85.0 million senior secured notes, and lower average interest rates.

Make Whole Premium Charge, Write-off of Deferred Financing Costs, and Swap Value Received. In January 2004, we repaid in full our $85.0 million senior secured notes before their scheduled maturity dates. As such, we were required to pay an additional amount of approximately $17.9 million as a make-whole payment which was recorded as a charge to earnings in the quarter ended March 31, 2004. We used proceeds from our January 2004 common unit offering and borrowings from our bank credit facility for this repayment. In addition, we also recorded a charge to earnings of approximately $1.2 million to write-off deferred financing costs associated with the senior secured notes. Partially offsetting these charges was a $0.9 million gain from the cancellation of interest rate swap agreements also associated with the senior secured notes.

Net Income. Net income decreased to $14.8 million for the six months ended March 31, 2004 from $25.5 million in the same six-month period in 2003. Net income decreased primarily as a result of the charges associated with the early repayment of the senior secured notes through an equity offering, offset partially by the accretive earnings associated with our retail acquisitions and our Inergy Services acquisition.

EBITDA. For the six months ended March 31, 2004, income before interest, taxes, depreciation and amortization was $47.1 million compared to $37.4 million in the same period in 2003. EBITDA is defined as income before taxes, plus net interest expense and depreciation and amortization expense. In addition, the net charges associated with the early retirement of the senior secured notes are excluded in the determination of EBITDA. 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. EBITDA is presented because such information is relevant and is used by management, industry analysts, investors, lenders and rating agencies to assess the financial performance and operating results of our fundamental business activities. We believe that the presentation of EBITDA is useful to lenders and investors because of its use in the propane industry and for master limited partnerships as an indicator of the strength and performance of the ongoing business operations, including the ability to fund capital expenditures, service debt and pay distributions. Additionally, we believe that EBITDA provides useful information to our investors for trending, analyzing and benchmarking our operating results as compared to other companies that may have different financing and capital structures. The presentation of EBITDA allows investors to view our performance in a manner similar to the methods used by management and provides additional insight to our operating results.

	Six Months Ended March 31,	
	2004	2003
	(in thousands)	
EBITDA:		
Net income	**$14,792**	$25,501
Interest expense, net	**4,367**	5,136
Write off of deferred financing costs	**1,216**	—
Make whole premium charge	**17,949**	—
Swap value received	**(949)**	—
Provision for income taxes	**51**	70
Depreciation and amortization	**9,676**	6,735
EBITDA	**$47,102**	$37,442

Liquidity and Sources of Capital

Cash flows provided by operating activities of $37.6 million in the six months ended March 31, 2004 consisted primarily of: net income of $14.8 million, net non-cash charges of $12.0 million (principally related to depreciation and amortization of $9.7 million), a make whole premium charge of $17.9 million associated with the early repayment of the senior secured notes and a decrease in cash flows of $7.4 million associated with the changes in operating assets and liabilities, including assets and liabilities from price risk management activities. The use of cash associated with the changes in operating assets and liabilities is primarily due to the $36.8 million increase in accounts receivable and $13.2 million decrease in customer deposits and accrued expenses, partially offset by an increase of $21.0 million in accounts payable and a $23.5 million reduction in inventory. These changes are attributable to the seasonal nature of our business and our retail and wholesale growth. Cash flows provided by operations of $43.1 million in the same six-month period of 2003 consisted primarily of net income of $25.5 million, net non-cash charges of $7.8 million (principally related to depreciation and amortization of $6.7 million) and $9.8 million associated with the changes in operating assets and liabilities, including net liabilities from price risk management activities. The source of cash associated with the changes in operating assets and liabilities in the 2003 period was due primarily to a $32.4 million reduction in propane inventory and an $11.2 million increase in accounts payable, partially offset by a $23.6 million increase in accounts receivable.

Cash used in investing activities was $30.8 million in the six months ended March 31, 2004 as compared to $16.4 million in the same period of 2003. Investing activities during the six months ended March 31, 2004 included a use of cash of $25.5 million for the acquisitions of EOTT Energy, L.P.'s west coast NGL business and nine retail propane companies, and $6.4 million of purchases of property, plant and equipment. Investing activities in the 2003 period included a use of cash of $13.9 million, for the acquisitions of three retail companies and $2.7 million of purchases of property, plant and equipment.

Cash used in financing activities was $0.7 million in the six months ended March 31, 2004, compared to $19.7 million used in the same period of 2003. Cash used in financing activities in 2004 included net payments of $50.6 million compared to net payments of $32.3 million in 2003, under long-term debt agreements, including borrowings and repayments of our revolving working capital and

acquisition credit facility and the early repayment in full of our senior secured notes during the three-months ended March 31, 2004. The early repayment of our senior secured notes resulted in a make whole premium payment to the lenders in the amount of $17.9 million. Cash paid as distributions to unitholders was $17.3 million and $11.2 million in the six months ended March 31, 2004 and 2003, respectively.

The following table summarizes our company's long-term debt and operating lease obligations as of March 31, 2004 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	$80,689	$ 1,216	$77,235	$ 1,698	$ 540
Future minimum lease payments under noncancelable operating leases	14,943	3,848	6,095	4,367	633
Standby letters of credit	10,298	10,298	—	—	—

In January and February 2004, Inergy issued 3,625,000 common units in a public offering, resulting in proceeds of approximately $83.4 million, net of underwriters' discounts, commissions, and offering expenses. Additionally, Inergy Partners, LLC contributed $1.8 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 indebtedness under our revolving credit facility, which was incurred for acquisitions and funding of growth capital expenditures and, together with net new borrowings under the revolving credit facility, to repay in full $85.0 million aggregate principal amount of senior secured notes, plus a prepayment premium of approximately $17.9 million. All interest rate swap agreements were cancelled in conjunction with the repayment of $85 million of senior secured notes.

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The following table summarizes the change in the unrealized fair value of our energy contracts related to our risk management activities for the three and six months ended March 31, 2004 where settlement has not yet occurred (in thousands of dollars):

	Three Months Ended March 31, 2004	Six Months Ended March 31, 2004
Net unrealized gains and (losses) in fair value of contracts outstanding at beginning of period	$ (354)	$ 3,104
Initial recorded value of new contracts entered into during the period	2,723	2,723
Change in fair value of contracts attributable to market movement during the year	690	(3,486)
Realized losses recognized	506	1,224
Net unrealized gains in fair value of contracts outstanding at March 31, 2004	$ 3,565	$ 3,565

Of the outstanding unrealized gain as of March 31, 2004, all contracts had a maturity of less than one year.

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.

Seasonality

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 year.

Description of Credit Facility

Effective July 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 guaranteed by Inergy, L.P. and its subsidiary.

This credit agreement accrues interest at either prime rate or LIBOR plus applicable spreads, resulting in interest rates of 3.12% to 4.00% at March 31, 2004. At March 31, 2004, borrowings outstanding under the credit facility were $75.9 million, including $0.0 million under the revolving working capital facility. The entire outstanding credit facility balance of $75.9 million is classified as long term in the accompanying 2004 consolidated balance sheet. At May 3, 2004, the borrowings outstanding under the credit facility were $104.1 million, with no balance due under the revolving working capital facility.

Item 3. 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 March 31, 2004, we had floating rate obligations totaling approximately $75.9 million for amounts borrowed under our credit agreement.

If the floating rate were to increase by 100 basis points from March 2004 levels, our interest expense would increase by a total of approximately $0.8 million per year.

Commodity 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 are 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.

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Notional Amounts and Terms

The notional amounts and terms of these financial instruments as of March 31, 2004 and September 30, 2003 include fixed price payor for 3.0 million and 3.0 million barrels of propane, respectively, and fixed price receiver for 3.1 million and 4.8 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 March 31, 2004, and September 30, 2003 was assets of $8.2 million and $8.9 million, respectively, and liabilities of $4.6 million and $5.8 million, 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.

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 2.8 million gallons of net unbalanced positions at March 31, 2004.

Item 4. Controls and Procedures

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the SEC, and that information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such terms are defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act). Based upon that evaluation, management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were adequate and effective as of March 31, 2004. There have been no change in the Company's internal controls over financial reporting (as defined in Rule 13(e)-15 or Rule 15d-15(f) of the Exchange Act) or in other factors during the Company's fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting, and there have been no corrective actions with respect to significant deficiencies and material weaknesses in our internal controls.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Use of Proceeds

In January and February 2004, Inergy issued 3,625,000 common units in a follow-on offering, resulting in proceeds of approximately $83.4 million, net of underwriters' discounts, commissions, and offering expenses. Additionally, Inergy Partners, LLC contributed $1.8 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 indebtedness under our revolving credit facility, which was incurred for acquisitions and funding of growth capital expenditures and, together with net new borrowings under the revolving credit facility, to repay in full $85.0 million aggregate principal amount of senior secured notes, plus a prepayment premium of approximately $17.9 million.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

3.1	Amendment No. 1 to Second Amended and Restated Agreement of Limited Partnership of Inergy, L.P.
31.1	Certification of Chief Executive Officer of Inergy, L.P. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer of Inergy, L.P. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer of Inergy, L.P. 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 Chief Financial Officer of Inergy, L.P. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Inergy filed three reports on Form 8-K pertaining to the three months ended March 31, 2004:

Form 8-K dated January 7, 2004, was filed disclosing the Balance Sheet of Inergy GP, LLC as of September 30, 2003; the Auditor's Report dated November 14, 2003 on the Balance Sheet of Inergy CP, LLC as of September 30, 2003; and the Consent of Independent Auditors dated January 7, 2004.

Form 8-K dated January 8, 2004, was filed reporting the public offering of 1,750,000 (3,500,000 after the two-for-one unit split) common units and an option for the underwriters to purchase an additional 262,500 (525,000 after the two-for-one unit split) common units to the underwriter.

Form 8-K dated February 3, 2004, was filed regarding the issuance of a press release reporting its first quarter 2004 financial results.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INERGY, L.P.

By: INERGY GP, LLC

(its managing general partner)

Date: May 14, 2004

By: /s/ R. Brooks Sherman, Jr.

R. Brooks Sherman, Jr.
Senior Vice President and Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

Exhibit 3.1

AMENDMENT NO. 1 TO
SECOND AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP
OF
INERGY, L.P.

This Amendment No. 1 (this "*Amendment No. 1*") to the Second Amended and Restated Agreement of Limited Partnership of Inergy, L.P. (the "*Partnership*") is entered into effective as of February 9, 2004, by Inergy GP LLC, a Delaware limited liability company (the "*Managing General Partner*"), as managing general partner of the Partnership. Capitalized terms used but not defined herein are used as defined in the Partnership Agreement.

WHEREAS, the Managing General Partner, the Non-Managing General Partner and the Limited Partners of the Partnership entered into that certain Second Amended and Restated Agreement of Limited Partnership of the Partnership dated as of January 7, 2004 (the "*Partnership Agreement*");

WHEREAS, Section 13.1(d)(i) of the Partnership Agreement provides that the Managing General Partner may amend any provision of the Partnership Agreement without the approval of any Partner or Assignee to reflect a change that, in the discretion of the Managing General Partner, does not adversely affect the Limited Partners (including any particular class of Partnership Interests as compared to other classes of Partnership Interests) in any material respect;

WHEREAS, acting pursuant to the power and authority granted to it under Section 13.1(d)(i) of the Partnership Agreement, the Managing General Partner has determined that the following amendment to the Partnership Agreement does not adversely affect the Limited Partners (including any particular class of Partnership Interests as compared to other classes of Partnership Interests) in any material respect.

NOW THEREFORE, the Managing General Partner does hereby amend the Partnership Agreement as follows:

Section 1. Amendment.

(a) Section 5.2(b) is hereby amended in its entirety to read as follows:

"(b) Upon the issuance of any additional Limited Partner Interests by the Partnership, the Non-Managing General Partner may make, but is not obligated to make, additional Capital Contributions equal to its Percentage Interest (quotient determined by dividing such General Partner's Percentage Interest by the sum of 100 less such General Partner's Percentage Interest) of any amount contributed to the Partnership by the Limited Partners in exchange for such additional Limited Partner Interests. Notwithstanding the preceding sentence and except as set forth in Article XII, the General Partners shall not be obligated to make any additional Capital Contributions to the Partnership."

(b) The definition of "Percentage Interest" in Section 1.1 is hereby revised to read in its entirety as follows:

"Percentage Interest" means as of the date of such determination, (a) as to the Non-Managing General Partner, the amount of its aggregate Capital Contributions to the Partnership divided by the aggregate Capital Contributions made to the Partnership by all Partners with it being understood that as of the date of this Amendment No. 1 the Non-Managing General Partner's Percentage Interest is 2%; (b) as to any Partner or Assignee holding Units, the product obtained by multiplying (i) (A) 100% less (B) the percentage applicable to paragraphs (a) and (c) multiplied by (ii) the quotient obtained by dividing (A) the number of Units held by such Partner or Assignee by (B) the total number of all Outstanding Units; and (c) as to the holders of additional Partnership Securities issued by the Partnership in accordance with Section 5.6, the percentage established as a part of such issuance. The Percentage Interest with respect to the Managing General Partner's General Partner Interest shall be zero. The Percentage Interest with respect to an Incentive Distribution Right shall at all times be zero."

(c) Section 6.1(a) is hereby amended in its entirety to read as follows:

"(a) Net Income. After giving effect to the special allocations set forth in Section 6.1(d), Net Income for each taxable year and all items of income, gain, loss and deduction taken into account in computing Net Income for such taxable year shall be allocated as follows:

(i) First, 100% to the Non-Managing General Partner until the aggregate Net Income allocated to the Non-Managing General Partner pursuant to this Section 6.1(a)(i) for the current taxable year and all previous taxable years is equal to the aggregate Net Losses allocated to the Non-Managing General Partner pursuant to Section 6.1(b)(iii) for all previous taxable years;

(ii) Second, 100% to the Non-Managing General Partner and the Unitholders, in accordance with their respective Percentage Interests, until the aggregate Net Income allocated to such Partners pursuant to this Section 6.1(a)(ii) for the current taxable year and all previous taxable years is equal to the aggregate Net Losses allocated to such Partners pursuant to Section 6.1(b)(ii) for all previous taxable years; and

(iii) Third, the balance, if any, 100% to the Non-Managing General Partner and the Unitholders, in accordance with their respective Percentage Interests."

(d) Section 6.1(b) is hereby amended in its entirety to read as follows:

"(b) Net Losses. After giving effect to the special allocations set forth in Section 6.1(d), Net Losses for each taxable period and all items of income, gain, loss and deduction taken into account in computing Net Losses for such taxable period shall be allocated as follows:

(i) First, 100% to the Non-Managing General Partner and the Unitholders, in accordance with their respective Percentage Interests, until the aggregate Net Losses allocated pursuant to this Section 6.1(b)(i) for the current taxable period and all previous taxable years is equal to the aggregate Net Income allocated to such Partners pursuant to Section 6.1(a)(iii) for all previous taxable years, provided that the Net Losses shall not be allocated pursuant to this Section 6.1(b)(i) to the extent that such allocation would cause any Unitholder to have a deficit balance in its Adjusted Capital Account at the end of such taxable year (or increase any existing deficit balance in its Adjusted Capital Account);

(ii) Second, 100% to the Non-Managing General Partner and the Unitholders, in accordance with their respective Percentage Interests; provided that Net Losses shall not be allocated pursuant to this Section 6.1(b)(ii) to the extent that such allocation would cause any Unitholder to have a deficit balance in its Adjusted Capital Account at the end of such taxable year (or increase any existing deficit balance in its Adjusted Capital Account); and

(iii) Third, the balance, if any, 100% to the Non-Managing General Partner."

(e) Section 6.1(c) is hereby amended in its entirety to read as follows:

"(c) Net Termination Gains and Losses. After giving effect to the special allocations set forth in Section 6.1(d), all items of income, gain, loss and deduction taken into account in computing Net Termination Gain or Net Termination Loss for such taxable period shall be allocated in the same manner as such Net Termination Gain or Net Termination Loss is allocated hereunder. All allocations under this Section 6.1(c) shall be made after Capital Account balances have been adjusted by all other allocations provided under this Section 6.1 and after all distributions of Available Cash provided under Sections 6.4 and 6.5 have been made; provided however, that solely for purposes of this Section 6.1(c), Capital Accounts shall not be adjusted for distributions made pursuant to Section 12.4.

(i) If a Net Termination Gain is recognized (or deemed recognized pursuant to Section 5.5(d)), such Net Termination Gain shall be allocated among the Partners in the following manner (and the Capital Accounts of the Partners shall be increased by the amount so allocated in each of the following subclauses, in the order listed, before an allocation is made pursuant to the next succeeding subclause):

(A) First, to each Partner having a deficit balance in its Capital Account in the proportion that such deficit balance bears to the total deficit balances in the Capital Accounts of all Partners, until each such Partner has been allocated Net Termination Gain equal to any such deficit balance in its Capital Account;

(B) Second, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, and the remainder to all Unitholders holding Common Units, Pro Rata, until the Capital Account in respect of each Common Unit then Outstanding is equal to the sum of (1) its Unrecovered Capital, plus (2) the Minimum Quarterly Distribution for the Quarter during which the Liquidation Date occurs, reduced by any distribution pursuant to Section 6.4(a)(i) or (b)(i) with respect to such Common Unit for such Quarter (the amount determined pursuant to this clause (2) is hereinafter defined as the "Unpaid MQD"), plus (3) any then existing Cumulative Common Unit Arrearage;

(C) Third, if such Net Termination Gain is recognized (or is deemed to be recognized) prior to the expiration of the Subordination Period, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, and the remainder to all Unitholders holding Senior Subordinated Units, Pro Rata, until the Capital Account in respect of each Senior Subordinated Unit then Outstanding is equal to the sum of (1) its Unrecovered Capital, determined for the taxable year (or portion thereof) to which this allocation of gain relates, plus (2) the Minimum Quarterly Distribution for the Quarter during which the Liquidation Date occurs, reduced by any distribution pursuant to Section 6.4(a)(iii) with respect to such Senior Subordinated Unit for such Quarter;

(D) Fourth, if such Net Termination Gain is recognized (or is deemed to be recognized) prior to the expiration of the Subordination Period, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, and the remainder to all Unitholders holding Junior Subordinated Units, Pro Rata, until the Capital Account in respect of each Junior Subordinated Unit then Outstanding is equal to the sum of (1) its Unrecovered Capital, determined for the taxable year (or portion thereof) to which this allocation of gain relates, plus (2) the Minimum Quarterly Distribution for the Quarter during which the Liquidation Date occurs, reduced by any distribution pursuant to Section 6.4(a)(iv) with respect to such Junior Subordinated Unit for such Quarter;

(E) Fifth, 100% to all Partners in accordance with their relative Percentage Interests, until the Capital Account in respect of each Common Unit then Outstanding is equal to the sum of (1) its Unrecovered Capital, plus (2) the Unpaid MQD, plus (3) any then existing Cumulative Common Unit Arrearage, and plus (4) the excess of (aa) the First Target Distribution less the Minimum Quarterly Distribution for each Quarter of the Partnership's existence over (bb) the cumulative per Unit amount of any distributions of Operating Surplus that was distributed pursuant to Sections 6.4(a)(v) and 6.4(b)(ii) (the sum of (1), (2), (3) and(4) is hereinafter defined as the "First Liquidation Target Amount");

(F) Sixth, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, 13% to the holders of the Incentive Distribution Rights, Pro Rata, and the remainder to all Unitholders, Pro Rata, until the Capital Account in respect of each Common Unit then Outstanding is equal to the sum of (1) the First Liquidation Target Amount, plus (2) the excess of (aa) the Second Target Distribution less the First Target Distribution for each Quarter of the Partnership's existence over (bb) the cumulative per Unit amount of any distributions of Operating Surplus that was distributed pursuant to Sections 6.4(a)(vi) and 6.4(b)(iii) (the sum of (1) and (2) is hereinafter defined as the "Second Liquidation Target Amount");

(G) Seventh, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, 23% to the holders of the Incentive Distribution Rights, Pro Rata, and the remainder to all Unitholders, Pro Rata, until the Capital Account in respect of each Common Unit then Outstanding is equal to the sum of (1) the Second Liquidation Target Amount, plus (2) the excess of (aa) the Third Target Distribution less the Second Target Distribution for each Quarter of the Partnership's existence over (bb) the cumulative per Unit amount of any distributions of Operating Surplus that was distributed pursuant to Sections 6.4(a)(vii)and 6.4(b)(iv); and

(H) Finally, to the Non-Managing General Partner, in a percentage equal to its Percentage Interest, 48% to the holders of the Incentive Distribution Rights, Pro Rata, and the remainder to all Unitholders, Pro Rata.

(ii) If a Net Termination Loss is recognized (or deemed recognized pursuant to Section 5.5(d)), such Net Termination Loss shall be allocated among the Partners in the following manner:

(A) First, if such Net Termination Loss is recognized (or is deemed to be recognized) prior to the conversion of the last Outstanding Junior Subordinated Unit, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, and the remainder to the Unitholders holding Junior Subordinated Units, Pro Rata, until the Capital Account in respect of each Junior Subordinated Unit then Outstanding has been reduced to zero;

(B) Second, if such Net Termination Loss is recognized (or is deemed to be recognized) prior to the conversion of the last Outstanding Senior Subordinated Unit, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, and the remainder to the Unitholders holding Senior Subordinated Units, Pro Rata, until the Capital Account in respect of each Senior Subordinated Unit then Outstanding has been reduced to zero;

(C) Third, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, and the remainder to all Unitholders holding Common Units, Pro Rata, until the Capital Account in respect of each Common Unit then Outstanding has been reduced to zero; and

(D) Fourth, the balance, if any, 100% to the Non-Managing General Partner."

(f) Section 6.1(d)(iii)(A) is hereby amended in its entirety to read as follows:

(A) If the amount of cash or the Net Agreed Value of any property distributed (except cash or property distributed pursuant to Section 12.4) to any Unitholder with respect to its Units for a taxable year is greater (on a per Unit basis) than the amount of cash or the Net Agreed Value of property distributed to the other Unitholders with respect to their Units (on a per Unit basis), then (1) each Unitholder receiving such greater cash or property distribution shall be allocated gross income in an amount equal to the product of (aa) the amount by which the distribution (on a per Unit basis) to such Unitholder exceeds the distribution (on a per Unit basis) to the Unitholders receiving the smallest distribution and (bb) the number of Units owned by the Unitholder receiving the greater distribution; and (2) the Non-Managing General Partner shall be allocated gross income in an aggregate amount equal to its Percentage Interest.

(g) Section 6.4 is hereby amended in its entirety to read as follows:

"SECTION 6.4 Distributions of Available Cash from Operating Surplus

(a) During Subordination Period. Available Cash with respect to any Quarter within the Subordination Period that is deemed to be Operating Surplus pursuant to the provisions of Section 6.3 or 6.5 shall, subject to Section 17-607 of the Delaware Act, be distributed as follows, except as otherwise required by Section 5.6(b) in respect of additional Partnership Securities issued pursuant thereto:

(i) First, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, and the remainder to all Unitholders holding Common Units, Pro Rata, until there has been distributed in respect of each Common Unit then Outstanding an amount equal to the Minimum Quarterly Distribution for such Quarter;

(ii) Second, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, and the remainder to all Unitholders holding Common Units, Pro Rata, until there has been distributed in respect of each Common Unit then Outstanding an amount equal to the Cumulative Common Unit Arrearage existing with respect to such Quarter;

(iii) Third, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, and the remainder to all Unitholders holding Senior Subordinated Units, Pro Rata, until there has been distributed in respect of each Senior Subordinated Unit then Outstanding an amount equal to the Minimum Quarterly Distribution for such Quarter;

(iv) Fourth, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, and the remainder to all Unitholders holding Junior Subordinated Units, Pro Rata, until there has been distributed in respect of each Junior Subordinated Unit then Outstanding an amount equal to the Minimum Quarterly Distribution for such Quarter;

(v) Fifth, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, and the remainder to all Unitholders, Pro Rata, until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the First Target Distribution over the Minimum Quarterly Distribution for such Quarter;

(vi) Sixth, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, 13% to the holders of the Incentive Distribution Rights, Pro Rata, and the remainder to all Unitholders, Pro Rata, until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the Second Target Distribution over the First Target Distribution for such Quarter;

(vii) Seventh, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, 23% to the holders of the Incentive Distribution Rights, Pro Rata, and the remainder to all Unitholders, Pro Rata, until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the Third Target Distribution over the Second Target Distribution for such Quarter; and

(viii) Thereafter, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, 48% to the holders of the Incentive Distribution Rights, Pro Rata, and the remainder to all Unitholders, Pro Rata;

provided, however, if the Minimum Quarterly Distribution, the First Target Distribution, the Second Target Distribution and the Third Target Distribution have been reduced to zero pursuant to the second sentence of Section 6.6(a), the distribution of Available Cash that is deemed to be Operating Surplus with respect to any Quarter will be made solely in accordance with Section 6.4(a)(viii).

(b) After Subordination Period. Available Cash with respect to any Quarter after the Subordination Period that is deemed to be Operating Surplus pursuant to the provisions of Section 6.3 or 6.5, subject to Section 17-607 of the Delaware Act, shall be distributed as follows, except as otherwise required by Section 5.6(b) in respect of additional Partnership Securities issued pursuant thereto:

(i) First, 100% to the Non-Managing General Partner and the Unitholders in accordance with their respective Percentage Interests until there has been distributed in respect of each Unit then Outstanding an amount equal to the Minimum Quarterly Distribution for such Quarter;

(ii) Second, 100% to the Non-Managing General Partner and the Unitholders in accordance with their respective Percentage Interests until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the First Target Distribution over the Minimum Quarterly Distribution for such Quarter;

(iii) Third, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, 13% to the holders of the Incentive Distribution Rights, Pro Rata, and the remainder to all Unitholders, Pro Rata, until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the Second Target Distribution over the First Target Distribution for such Quarter;

(iv) Fourth, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, 23% to the holders of the Incentive Distribution Rights, Pro Rata, and the remainder to all Unitholders, Pro Rata, until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the Third Target Distribution over the Second Target Distribution for such Quarter; and

(v) Thereafter, to the Non-Managing General Partner in a percentage equal to its Percentage Interest, 48% to the holders of the Incentive Distribution Rights, Pro Rata, and the remainder to all Unitholders, Pro Rata;

provided, however, if the Minimum Quarterly Distribution, the First Target Distribution, the Second Target Distribution and the Third Target Distribution have been reduced to zero pursuant to the second sentence of Section 6.6(a), the distribution of Available Cash that is deemed to be Operating Surplus with respect to any Quarter will be made solely in accordance with Section 6.4(b)(v)."

(h) Section 6.5 is hereby amended in its entirety to read as follows:

"SECTION 6.5 Distributions of Available Cash from Capital Surplus

Available Cash that is deemed to be Capital Surplus pursuant to the provisions of Section 6.3(a) shall, subject to Section 17-607 of the Delaware Act, be distributed, unless the provisions of Section 6.3 require otherwise, 100% to the Non-Managing General Partner and the Unitholders, in accordance with their respective Percentage Interests, until a hypothetical holder of a Common Unit acquired on the Closing Date has received with respect to such Common Unit, during the period since the Closing Date through such date, distributions of Available Cash that are deemed to be Capital Surplus in an aggregate amount equal to the Initial Unit Price. Available Cash that is deemed to be Capital Surplus shall then be distributed, in a percentage equal to their Percentage Interests, to the Non-Managing General Partner, and the remainder to all Unitholders holding Common Units, Pro Rata, until there has been distributed in respect of

each Common Unit then Outstanding an amount equal to the Cumulative Common Unit Arrearage. Thereafter, all Available Cash shall be distributed as if it were Operating Surplus and shall be distributed in accordance with Section 6.4."

(i) Section 11.3(c) is hereby amended in its entirety to read as follows:

(c) If a successor Non-Managing General Partner is elected in accordance with the terms of Section 11.1, 11.2 or 11.4 and the option described in Section 11.3(a) is not exercised, the successor Non-Managing General Partner shall, at the effective date of its admission to the Partnership, contribute to the Partnership cash in the amount equal to the withdrawing Non-Managing General Partner's Percentage Interest of the Net Agreed Value of the Partnership's assets on such date. In such event, such successor Non-Managing General Partner shall, subject to the following sentence, be entitled to its Percentage Interest (as such Percentage Interest may be adjusted from time pursuant to the terms hereof) of all Partnership allocations and distributions. The Managing General Partner shall cause this Agreement to be amended to reflect that, from and after the date of such successor Non-Managing General Partner's admission, the successor Non-Managing General Partner's interest in all Partnership distributions and allocations shall be equal to its Percentage Interest.

Section 2. General Authority. The appropriate officers of the Managing General Partner are hereby authorized to make such further clarifying and conforming changes they deem necessary or appropriate, and to interpret the partnership agreement, to give effect to the intent and purpose of this Amendment No. 1.

Section 3. Ratification of Partnership Agreement. Except as expressly modified and amended herein, all of the terms and conditions of the Partnership Agreement shall remain in full force and effect.

Section 4. Governing Law. This Amendment No. 1 will be governed by and construed in accordance with the laws of the State of Delaware.

IN WITNESS WHEREOF, the Managing General Partner has executed this Amendment No. 1 as of the date first set forth above.

MANAGING GENERAL PARTNER:

INERGY GP LLC

By: /s/ John J. Sherman

Name: John J. Sherman
Title: President and Chief Executive Officer

CERTIFICATIONS

I, John J. Sherman, certify that:

1. I have reviewed this annual report on Form 10-Q 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: May 14, 2004

/s/ John J. Sherman

John J. Sherman
President and Chief Executive Officer

CERTIFICATIONS

I, R. Brooks Sherman, Jr., certify that:

1. I have reviewed this annual report on Form 10-Q 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: May 14, 2004

/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 Quarterly Report of Inergy, L.P. (the “Company”) on Form 10-Q for the period ended March 31, 2004 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

May 14, 2004

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 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 Quarterly Report of Inergy, L.P. (the "Company") on Form 10-Q for the period ended March 31, 2004 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

May 14, 2004

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.