Table of Contents

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 December 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 February 1, 2005:

Common Units	26,254,645
Senior Subordinated Units	5,478,568
Junior Subordinated Units	1,145,084

INERGY, L.P.
INDEX TO FORM 10-Q

	Page
Part I – Financial Information	
Item 1 – Financial Statements of Inergy, L.P.:	
Consolidated Balance Sheets as of December 31, 2004 (unaudited) and September 30, 2004	3
Unaudited Consolidated Statements of Operations for the Three Months Ended December 31, 2004 and 2003	5
Unaudited Consolidated Statement of Partners' Capital for the Three Months Ended December 31, 2004	6
Unaudited Consolidated Statements of Cash Flows for the Three Months Ended December 31, 2004 and 2003	7
Unaudited Notes to Consolidated Financial Statements	9
Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operation	23
Item 3 – Quantitative and Qualitative Disclosures About Market Risk	29
Item 4 – Controls and Procedures	31
Part II – Other Information	
Item 1 – Legal Proceedings	32
Item 2 – Changes in Securities and Use of Proceeds	32
Item 3 – Defaults Upon Senior Securities	32
Item 4 – Submission of Matters to a Vote of Security Holders	32
Item 5 – Other Information	32
Item 6 – Exhibits and Reports on Form 8-K	32
Signatures	33

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

INERGY, L.P. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	December 31, 2004 (Unaudited)	September 30, 2004
	(In Thousands)	
Assets		
Current assets:		
Cash	**$ 20,597**	$ 2,256
Accounts receivable, less allowance for doubtful accounts of $2,825,000 and $1,078,000 at December 31, 2004 and September 30, 2004, respectively	**150,818**	49,441
Inventories	**82,987**	56,404
Prepaid expenses and other current assets	**21,401**	5,494
Assets from price risk management activities	**12,858**	23,015
Total current assets	**288,661**	136,610
Property, plant and equipment, at cost:		
Land and buildings	**63,437**	20,246
Office furniture and equipment	**19,111**	10,173
Vehicles	**56,194**	32,719
Tanks and plant equipment	**437,592**	189,519
	576,334	252,657
Less accumulated depreciation	**(43,267)**	(37,404)
Property, plant and equipment, net	**533,067**	215,253
Intangible assets:		
Covenants not to compete	**19,733**	11,498
Deferred financing costs	**18,670**	5,242
Deferred acquisition costs	**73**	104
Customer accounts	**201,747**	74,154
	240,223	90,998
Less accumulated amortization	**(19,335)**	(17,398)
Intangible assets, net	**220,888**	73,600
Goodwill	**202,427**	78,128
Other	**1,483**	228
Total assets	**$1,246,526**	$ 503,819

Table of Contents

INERGY, L.P. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (continued)

	December 31, 2004 *(Unaudited)*	September 30, 2004
	(In Thousands)	
Liabilities and partners' capital		
Current liabilities:		
Accounts payable	**$ 137,040**	$ 54,621
Accrued expenses	**25,639**	15,977
Customer deposits	**39,724**	13,937
Liabilities from price risk management activities	**14,736**	29,640
Current portion of long-term debt	**49,470**	23,615
Total current liabilities	**266,609**	137,790
Long-term debt, less current portion	**518,485**	113,986
Partners' capital:		
Common unitholders (25,594,645 and 17,626,506 units issued and outstanding as of December 31, 2004 and September 30, 2004, respectively)	**435,047**	224,600
Senior subordinated unitholders (5,478,568 units issued and outstanding)	**24,518**	25,352
Junior subordinated unitholders (1,145,084 units issued and outstanding)	**(2,444)**	(2,296)
Non-managing general partner	**4,311**	4,387
Total partners' capital	**461,432**	252,043
Total liabilities and partners' capital	**$1,246,526**	$ 503,819

See accompanying notes.

Table of Contents

INERGY, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Unit Data)
(unaudited)

	Three Months Ended December 31,	
	2004	**2003**
Revenue:		
Propane	**$224,476**	$120,824
Other	**32,989**	11,757
	257,465	132,581
Cost of product sold	**192,777**	95,464
Gross profit	**64,688**	37,117
Expenses:		
Operating and administrative	**34,790**	20,298
Depreciation and amortization	**8,846**	4,718
Operating income (loss)	**21,052**	12,101
Other income (expense):		
Interest expense	**(3,469)**	(2,896)
Write-off of deferred financing costs	**(6,990)**	—
Gain (loss) on sale of property, plant and equipment	**173**	45
Finance charges	**236**	115
Other	**57**	36
Income (loss) before income taxes	**11,059**	9,401
Provision for income taxes	**58**	31
Net income (loss)	**$ 11,001**	$ 9,370
Partners’ interest information for the three months ended December 31, 2004 and 2003:		
Non-managing general partners’ interest in net income (loss)	**$ 728**	$ 376
Limited partners’ interest in net income (loss):		
Common unit interest	**$ 7,584**	$ 5,140
Senior subordinated unit interest	**2,224**	3,321
Junior subordinated unit interest	**465**	533
Total limited partners’ interest in net income (loss)	**$ 10,273**	$ 8,994
Net income (loss) per limited partner unit:		
Basic	**$ 0.41**	$ 0.47
Diluted	**$ 0.40**	$ 0.45
Weighted average limited partners’ units outstanding:		
Basic	**25,310**	19,325
Diluted	**25,874**	19,779

See accompanying notes.

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, 2004	$224,600	$ 25,352	$ (2,296)	$ 4,387	$252,043
Net proceeds from issuance of common units	212,274	—	—	—	212,274
Distributions	(7,363)	(2,456)	(487)	(747)	(11,053)
Comprehensive income:					
Net income	7,584	2,224	465	728	11,001
Unrealized loss on derivative instruments	(2,097)	(615)	(129)	(58)	(2,899)
Foreign currency translation	49	13	3	1	66
Comprehensive income					8,168
Balance at December 31, 2004	$435,047	$ 24,518	$ (2,444)	$ 4,311	$461,432

See accompanying notes.

Table of Contents

INERGY, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(unaudited)

	Three Months Ended December 31,	
	2004	**2003**
Operating activities		
Net income	**$ 11,001**	$ 9,370
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**5,960**	3,374
Amortization	**2,886**	1,344
Amortization of deferred financing costs	**336**	502
Write-off of deferred financing costs	**6,990**	—
Provision for doubtful accounts	**186**	82
(Gain) loss on disposal of property, plant and equipment	**(173)**	(45)
Net asset (liabilities) from price risk management activities	**(7,647)**	3,458
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	**(74,472)**	(40,832)
Inventories	**(20)**	(6,099)
Prepaid expenses and other current assets	**1,756**	(2,093)
Other assets	**105**	5
Accounts payable	**53,046**	28,730
Accrued expenses	**174**	599
Customer deposits	**(10,333)**	(3,135)
Net cash used in operating activities	**(10,205)**	(4,740)
Investing activities		
Acquisitions, net of cash acquired	**(569,918)**	(14,856)
Purchases of property, plant and equipment	**(6,039)**	(3,353)
Deferred financing and acquisition costs incurred	**(21,673)**	(26)
Proceeds from sale of property, plant and equipment	**590**	612
Net cash used in investing activities	**(597,040)**	(17,623)

[Table of Contents](#)

INERGY, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(In Thousands)
(unaudited)

	Three Months Ended December 31,	
	2004	**2003**
Financing activities		
Proceeds from issuance of long-term debt	**$1,240,508**	$ 81,267
Principal payments on long-term debt	**(816,209)**	(48,116)
Distributions	**(11,053)**	(7,788)
Net proceeds from issuance of Common Units	**212,274**	—
Net cash provided by financing activities	**625,520**	25,363
Effect of foreign exchange rate changes on cash	**66**	39
Net increase (decrease) in cash	**18,341**	3,039
Cash at beginning of period	**2,256**	3,528
Cash at end of period	**$ 20,597**	$ 6,567
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	**$ 2,892**	$ 2,280
Supplemental schedule of noncash investing and financing activities		
Additions to covenants not to compete through the issuance of noncompete obligations	**$ 6,055**	$ 387
Increase (decrease) in the fair value of senior secured notes and the related interest rate swap	**$ —**	$ (548)
Acquisitions of retail propane companies, net of cash acquired:		
Current assets	**71,316**	
Property, plant and equipment	**318,151**	
Intangible assets	**135,828**	
Goodwill	**124,300**	
Other assets	**1,359**	
Current liabilities	**(74,981)**	
Non-compete liabilities	**(6,055)**	
	$ 569,918	

See accompanying notes.

Table of Contents

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 an approximate 1.4% 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 December 31, 2004 and for the three-month period ended December 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 period ended December 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 as filed with the Securities and Exchange Commission for the year ended September 30, 2004.

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, holds propane inventory, 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 and therefore Inergy enters into fixed price forward purchase and sales contracts. 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." 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 as well as to ensure an adequate physical supply will be available.

SFAS No. 133 requires recognition of all derivative instruments in the balance sheets and measures them at fair value. Certain of Inergy's commodity derivative financial instruments have been designated as hedges of selected inventory positions, and qualify as fair value or cash flow hedges, as defined in SFAS No. 133. For derivative instruments designated as hedges, Inergy uses regression analysis and the dollar offset method 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 or variability in cash flow of hedged items. Changes in the fair value of derivative instruments designated as fair value or cash flow hedges are reported in the balance sheet as price risk management assets or liabilities. Changes in the fair value of a derivative that qualifies as a cash flow hedge are recorded in accumulated other comprehensive income until earnings are effected by the variability in cash flows of the designated hedged item. The ineffective portions of hedging derivatives are recognized immediately in cost of product sold.

During the three months ended December 31, 2004, Inergy did not recognize a $0.7 million mark to market gain in its inventory due to the ineffectiveness of the applicable hedging instrument. 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 cash flow impact of financial instruments is reflected as cash flows from operating activities in the consolidated statements of cash flows.

Furthermore, 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 is marked to market. Changes in the fair value of the hedge and the hedged item are recorded as a component of costs of products sold.

INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 – Accounting Policies (continued)

Revenue Recognition

Propane sales are recognized at the time product is shipped or delivered to the customer. Other revenues include: gas processing and fractionation fees that are recognized upon delivery of the product; other liquids that are recognized at the time product is shipped or delivered to the customer; the sale of propane appliances and equipment that is recognized at the time of sale or installation; and revenue from repairs and maintenance that is recognized upon completion of the service. All revenue is recognized pursuant to existing arrangements and fixed prices. Collectibility is reasonably assured as deliveries cease to past due accounts.

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.

Inventories

Inventories for retail operations, which mainly consist of propane gas and other liquids, are stated at the lower of cost or market and are computed using the average-cost method or on a first-in, first-out basis. 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. Wholesale propane inventories being hedged and carried at market at December 31, 2004 and September 30, 2004 amount to $35.4 million and $40.7 million, respectively.

Inventories consist of (in thousands):

	December 31, 2004	September 30, 2004
Propane gas and other liquids	**$ 73,291**	$ 53,295
Appliances, parts and supplies	**9,696**	3,109
	$ 82,987	$ 56,404

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 net income per limited partner unit (in thousands, except per unit data):

	Three Months Ended December 30,	
	2004	**2003**
Numerator:		
Net income	**$11,001**	$ 9,370
Less: Non-Managing General Partner's interest in net income	**728**	376
Limited partners' interest in net income – basic and diluted	**$10,273**	$ 8,994
Denominator:		
Weighted average limited partners' units outstanding – basic	**25,310**	19,325
Effect of dilutive unit options outstanding	**564**	454
Weighted average limited partners' units outstanding – dilutive	**25,874**	19,779
Net income per limited partner unit:		
Basic	**$ 0.41**	$ 0.47
Diluted	**$ 0.40**	$ 0.45

Table of Contents

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, since 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 months ended December 31 is as follows (in thousands, except per unit data):

	Three Months Ended December 31,	
	2004	**2003**
Net income as reported	**$ 11,001**	$ 9,370
Deduct: Total unit-based employee compensation expense determined under fair value method for all awards	**64**	59
Pro forma net income	**$ 10,937**	$ 9,311
Pro forma limited partners’ interest in net income for the three month periods ended December 31, 2004 and 2003	**$ 10,209**	$ 8,935
Net income per limited partner unit:		
Basic – as reported	**$ 0.41**	$ 0.47
Basic – pro forma	**$ 0.40**	$ 0.46
Pro forma net income per limited partner unit:		
Diluted – as reported	**$ 0.40**	$ 0.45
Diluted – pro forma	**$ 0.39**	$ 0.45

INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 – Accounting Policies (continued)

Recently Issued Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) *requires* all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

SFAS No. 123(R) must be adopted no later than July 1, 2005. Early adoptions will be permitted in periods in which financial statements have not yet been issued. We expect to adopt SFAS No. 123(R) on July 1, 2005.

SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods:

A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to effective date of SFAS No. 123(R) that remain unvested as of the effective date.

A "modified retrospective" method which includes the requirements of the modified prospective described above, but also permits entities to restate based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The company plans to adopt SFAS No. 123(R) using the modified-prospective method.

As permitted by SFAS No. 123, the company currently accounts for share-based payments to employees using Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS No. 123(R)'s fair value method will have significant impact on our results of operations, although it will have not impact on our overall financial position. The impact of adoption of SFAS No. 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share in the footnotes to the consolidated financial statements.

INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 – Accounting Policies (continued)

SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4," amends the existing standard that provides guidance on accounting for inventory costs and specifically clarifies that abnormal amounts of costs should be recognized as period costs. This statement is effective for the fiscal year beginning after June 15, 2005. The adoption of SFAS No. 151 is not expected to have a material effect on the Company's consolidated financial statements.

SFAS No. 153, "*Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions*" eliminates the narrow exception for nonmonetary exchanges of similar productive assets and replaces it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Further, the amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Previously, Opinion No. 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. The statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges in fiscal periods beginning after the date of issuance. The provisions of this statement shall be applied prospectively. The adoption of SFAS No. 153 is not expected to have a material effect on the Company's consolidated financial statements.

Note 3 – Long-Term Debt

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

	December 31, 2004	September 30, 2004
Credit agreement	**$ 132,000**	$ 132,153
Senior unsecured notes	**425,000**	—
Obligations under noncompetition agreements and notes to former owners of businesses acquired	**10,955**	5,446
Other	**—**	2
	567,955	137,601
Less current portion	**49,470**	23,615
	$ 518,485	$ 113,986

INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 3 – Long-Term Debt (continued)

Effective in December 2004, Inergy, L.P. executed a new credit agreement with its existing lenders in addition to others. The credit agreement consists of a $250.0 million revolving acquisition facility and a $75.0 million working capital facility. Inergy has the option to utilize up to $25.0 million of available borrowing capacity from our revolving acquisition facility for working capital purposes. The credit agreement expires in December 2009 and is guaranteed by all of our domestic subsidiaries. The proceeds of the new credit agreement were used to repay the outstanding balance of the existing credit agreement. This resulted in the write off of deferred financing costs associated with the existing credit agreement of $1.5 million.

Inergy is required to reduce the principal outstanding on the revolving working capital line of credit to $5 million or less for a minimum of 30 consecutive days during the period commencing March 1 and ending September 30. As such, $5 million and $4 million of the outstanding balance at December 31, 2004 and September 30, 2004, respectively, have been classified as long-term liabilities in the accompanying consolidated balance sheets. At December 31, 2004 and September 30, 2004, the total balance outstanding under the existing credit agreements was $132.0 million and $132.2 million, respectively, including $51.0 million and $26.4 million, respectively, under the working capital facilities. The prime rate and Eurodollar plus the applicable spreads were between 5.17% and 6.50% at December 31, 2004, and between 3.77% and 4.75% at September 30, 2004, for all outstanding debt under the credit agreement.

The credit agreements contain several covenants which, among other things, require the maintenance of various financial performance ratios, restrict the payment of distributions to unitholders, and require financial reports to be submitted periodically to the financial institutions. Unused borrowings under the credit agreements amounted to $177.7 million and $162.2 million at December 31, 2004 and September 30, 2004, respectively.

In December 2004, we entered into a 364-day credit facility and borrowed $375.0 million under this facility. The borrowings under this facility were used to finance part of the Star Gas Propane acquisition and related expenses. The 364-day credit facility was guaranteed by all of our domestic subsidiaries and was secured on an equal basis with our revolving credit facilities. The borrowings under this facility were permanently repaid with the net proceeds from our offering of senior unsecured notes and the 364-day facility was terminated. This resulted in the write off of deferred financing costs associated with the 364-day facility of $5.5 million.

On December 22, 2004, Inergy, L.P. and its wholly-owned subsidiary, Inergy Finance Corp., completed a private placement of $425 million in aggregate principal amount of the Issuers’ 6.875% senior unsecured notes due 2014 (the “Senior Notes”). The senior unsecured notes contain covenants similar to the credit agreement. Inergy used the net proceeds from the $425 million private placement of Senior Notes to repay all amounts drawn under the 364-day credit facility, with the $39.9 million balance of the net proceeds being applied to the revolving acquisition credit facility.

Table of Contents

Note 3 – Long-Term Debt (continued)

The notes represent senior unsecured obligations of Inergy and rank *pari passu* in right of payment with all other present and future senior indebtedness of Inergy's. The senior unsecured notes are jointly and severally guaranteed by all of Inergy's current domestic subsidiaries. The notes have certain call features which allow Inergy to redeem the notes at specified prices based on date redeemed.

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

2005	$ 49,470
2006	2,590
2007	2,412
2008	1,144
2009	86,519
Thereafter	425,820
	$567,955

In August 2002, Inergy Propane, LLC (the "Operating Company") entered into two interest rate swap agreements 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 each designed to hedge $5 million in underlying fixed rate senior secured notes. In January 2004, all interest rate swap agreements were cancelled in conjunction with the repayment of $85 million of senior secured notes.

INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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.

Note 5 – Partner's Capital

In December 2004, Inergy, L.P. issued 3,568,139 Common Units to unrelated third parties resulting in proceeds of $91.0 million, net of underwriter's discount, commission, and offering expenses. These proceeds were obtained to partially fund the acquisition of Star Gas Propane, L.P.

Also in December 2004, Inergy, L.P. issued 4,400,000 Common Units in a public offering, resulting in proceeds of $121.3 million, net of underwriter's discount, commission, and offering expenses. These funds were used to repay borrowings under our credit agreement.

Quarterly Distributions of Available Cash

On November 12, 2004, a quarterly distribution of $0.425 per limited partner unit was paid to its unitholders of record on November 5, 2004 with respect to the fourth fiscal quarter of 2004, which totaled $11.1 million. Inergy will distribute $0.475 per limited partner unit on February 14, 2005 to unitholders of record on February 7, 2005, for a total distribution of $17.6 million with respect to its first fiscal quarter of 2005.

Inergy distributed $0.385 per limited partner unit on November 14, 2003 to unitholders of record on November 7, 2003, for a total distribution of $7.8 million with respect to its fourth fiscal quarter of 2003. On February 13, 2004, Inergy distributed $0.395 per limited partner unit to its unitholders of record on February 6, 2004, for a total distribution of $9.5 million with respect to its first fiscal quarter of 2004.

INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 6 – Commitments and Contingencies

Inergy periodically enters into agreements to purchase fixed quantities of propane at fixed prices with suppliers. At December 31, 2004, the total of these firm purchase commitments was approximately $113.7 million.

At December 31, 2004, Inergy was contingently liable for letters of credit outstanding totaling $15.3 million, which guarantee various transactions.

Furthermore, at December 31, 2004, Inergy's subsidiary, Star Gas Propane, L.P. was a named defendant in a federal securities lawsuit alleging the public disclosures made by its former parent, Star Gas Partners, L.P., were in violation of various securities laws including Rule 10b-5. Star Gas Partners, L.P has agreed to indemnify the Partnership for this liability. Management does not expect this lawsuit to have a material effect on the Company's results of operations or financial condition because we believe that the claim is without merit. However, if the lawsuit was decided adversely to Star Gas Propane, L.P. and Star Gas Partners, L.P. was unable to fulfill its indemnification obligation to the Partnership, this lawsuit could have a material effect on the Company's results of operations or financial condition.

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

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 natural gas processing and NGL fractionation operations. Results of operations for acquisitions that occurred during the three months ended December 31, 2004 are included in the retail sales operation reportable segment. 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.

Table of Contents

Note 7 – Segments (continued)

The following segment information is presented in thousands of dollars:

	Three Months Ended December 31, 2004			
	Retail Sales Operations	Wholesale Sales Operations	Intersegment Eliminations	Total
Revenues	**$143,068**	**$159,388**	**$ (44,991)**	**$257,465**
Gross profit	**59,395**	**5,704**	**(411)**	**64,688**
Identifiable assets	**104,231**	**129,574**	**—**	**233,805**

	Three Months Ended December 31, 2003			
	Retail Sales Operations	Wholesale Sales Operations	Intersegment Eliminations	Total
Revenues	$ 64,379	$ 95,681	$ (27,479)	$132,581
Gross profit	31,815	5,912	(610)	37,117
Identifiable assets	25,098	79,771	—	104,869

Note 8 – Business Acquisitions

In November 2004, we acquired the propane assets of Moulton Gas Service, Inc., headquartered in Wapakoneta, OH. In December 2004, we acquired Star Gas Propane, L.P. headquartered in Stamford, CT. and the propane assets of Northwest Propane, Inc, headquartered in Holly, MI. The aggregate purchase price for these acquisition, net of cash acquired was $569.9 million.

The operating results for these acquisitions are included in Inergy's consolidated results of operations from the dates of acquisition through December 31, 2004.

Table of Contents

Note 8 – Business Acquisitions (continued)

The purchase price of Star Gas Propane, L.P. approximated $480 million, net of cash acquired. In connection with the acquisition, we entered into a 364-day credit facility and borrowed $375.0 million under this facility on November 17, 2004. On December 22, 2004, Inergy, L.P. and its wholly-owned subsidiary, Inergy Finance Corp., completed a private placement of $425 million in aggregate principal amount of 6.875% senior unsecured notes due 2014 (the "Senior Notes"). Inergy used the net proceeds from the $425 million private placement of Senior Notes to repay all amounts drawn under the 364-day credit facility, with the $39.9 million balance of the net proceeds being applied to the revolving acquisition credit facility. Inergy, L.P. also issued 3,568,139 Common Units to unrelated third parties to partially fund the acquisition. The allocation of the total consideration for the Star Gas Propane, L.P. acquisition is as follows (in millions):

Current assets, net of cash acquired	$ 54.6
Property, plant and equipment	282.4
Intangible assets	108.1
Goodwill	86.6
Other assets	1.4
Current liabilities	(51.6)
Non-compete liabilities	(1.1)
	$480.4

The purchase price allocation has been prepared on a preliminary basis, and changes are expected as appraisal is completed and additional information becomes available.

Table of Contents

INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 8 – Business Acquisitions (continued)

The following unaudited pro forma data summarizes the results of operations for the periods indicated as if the Star Gas Propane, L.P. acquisition had been completed October 1, 2003 and 2004, the beginning of the 2004 and 2005 fiscal years. The pro forma data give effect to actual operating results prior to the acquisition and adjustments to interest expense, customer accounts amortization expense and depreciation expense. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisitions had occurred on October 1, 2003 and 2004 or that will be obtained in the future.

	Three month period ended	
	December 31, 2004	**December 31, 2003**
Revenue	**$ 316,187**	$ 234,529
Net Income	**1,975**	17,539
Pro forma net income per limited partner unit:		
Basic - pro forma	**$ 0.06**	$ 0.88
Diluted - pro forma	**$ 0.05**	$ 0.86

Note 9 – Subsequent Events

In January 2005, Inergy L.P. issued 660,000 common units in a follow-on offering, resulting in proceeds of approximately $18.2 million, net of underwriters’ discounts, commissions, and offering expenses.

[Table of Contents](#)

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 for the fiscal year ended September 30, 2004 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 our wholesale supply, marketing and distribution business complements our retail distribution business, (ii) we expect recovery of goodwill through future cash flows associated with acquisitions, and (iii) we believe that anticipated cash from operations and borrowings under our credit facility will be sufficient to meet our liquidity needs for the foreseeable future. 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 also own, as part of our wholesale and supply operations, an NGL business in California, which includes natural gas processing, NGL fractionation, NGL rail and truck terminals, bulk storage, trucking and marketing operations. We have grown primarily through acquisitions of retail propane companies.

In November 2004, we acquired the propane assets of Moulton Gas Service, Inc., headquartered in Wapakoneta, OH. In December 2004, we acquired Star Gas Propane, L.P. headquartered in Stamford, CT. and the propane assets of Northwest Propane, Inc, headquartered in Holly, MI.

The operating results for Star Gas Propane, LP from December 1, 2004 are included in Inergy's consolidated results of operations. The operating results of Moulton Gas Service, Inc. and Northwest Propane, Inc. are included in Inergy's consolidated results of operations from the dates of acquisition.

The purchase price of Star Gas Propane, L.P. approximated $480 million, net of cash acquired. In connection with the acquisition, we entered into a 364-day credit facility and borrowed $375.0 million under this facility on December 17, 2004. On December 22, 2004, Inergy, L.P. and its wholly-owned subsidiary, Inergy Finance Corp., completed a private placement of $425 million in aggregate principal amount of the Issuers' 6.875% senior unsecured notes due 2014 (the "Senior Notes"). Inergy used the net proceeds from the $425 million private placement of Senior Notes to repay all amounts drawn under

the 364-day credit facility, with the $39.9 million balance of the net proceeds being applied to the revolving acquisition credit facility. Inergy, L.P. also issued 3,568,139 Common Units to unrelated third parties to partially fund the acquisition.

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.

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 over the long term in periods of rising costs.

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.

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

Volume. During the three months ended December 31, 2004, Inergy, L.P. sold 73.3 million retail gallons of propane, an increase of 30.8 million gallons, or 72%, from the 42.5 million retail gallons sold during the same three-month period in 2003. The increase in retail sales volume was principally due to the acquisition of Star Gas Propane, L.P. and ten other retail propane companies after December 31, 2003. Acquisition-related volume accounted for approximately 34.6 million gallons of the increase, offset by approximately 3.8 million lesser gallon sales due to higher selling prices as a result of an approximate 42% higher propane cost of $0.95 per gallon on average for the three months ended December 31, 2004 compared to $0.67 during the same three-month period in 2003.

Wholesale gallons delivered increased 14.9 million gallons, or 14%, to 125.2 million gallons in the three months ended December 31, 2004 from 110.3 million gallons in the same three-month period in 2003. This increase was primarily attributable to increased sales volumes and to a lesser extent, the acquisitions of Star Gas Propane, L.P., and two other retail propane companies where wholesale volumes exist.

Revenues. Revenues in the three months ended December 31, 2004 were $257.5 million, an increase of $124.9 million, or 94%, from $132.6 million of revenues during the same period in 2003.

Revenues from retail sales were $140.4 million in the three months ended December 31, 2004 (after elimination of sales to our wholesale operations), an increase of $78.1 million, or 125%, from $62.3 million during the same three-month period in 2003. This increase is primarily a result of the acquisition-related volume increase, higher selling prices of propane due to the higher cost of propane in 2004. In addition to retail propane sales, these revenues consist of transportation revenues, other gas liquid sales, tank rentals, appliance sales and service income.

Revenues from wholesale sales were $117.1 million (after elimination of sales to our retail operations) in the three months ended December 31, 2004, an increase of $46.8 million or 67%, from $70.3 million during the same three-month period in 2003. This increase was primarily attributable to, the higher per gallon selling price of propane due to its higher cost and the volume increase generated in our wholesale propane operations.

Cost of Product Sold. Retail cost of product sold in the three months ended December 31, 2004 was $81.0 million, an increase of $50.5 million or 166%, from retail cost of product sold of $30.5 million during the same three-month period in 2003. This increase was primarily attributable to the increase in the average cost of propane as described above and retail propane acquisition-related volume. Wholesale cost of product sold in the three months ended December 31, 2004 was $111.8 million, an increase of $46.8 million or 72%, from wholesale cost of product sold of $65.0 million during the same period in 2003. This increase was primarily related to the increased average cost of propane in the three months ended December 31, 2004 as well as the increased volumes experienced in our wholesale propane areas of operations.

Gross Profit. Retail gross profit was $59.4 million in the three months ended December 31, 2004 compared to $31.8 million during the same three-month period in 2003, an increase of $27.6 million, or 87%. This increase was primarily attributable to the increase in retail gallons sold primarily as a result of acquisitions which accounted for approximately $23.5 million of the increase as well as an increase in margin per gallon which amounted to an increase of approximately $0.7 million. The other $3.4 million is a result of an increase in other product sales, partially offset by the lesser retail propane volume sales as discussed above. Wholesale gross profit was $5.3 million (after elimination of gross profit attributable to our retail operations) in the three months ended December 31, 2004 and 2003.

Operating and Administrative Expenses. Operating and administrative expenses increased $14.5 million, or 71%, to $34.8 million in the three months ended December 31, 2004 as compared to $20.3 million in the same three-month period in 2003. The increase in our operating and administrative expenses were attributable to increases in personnel expenses of $8.6 million, general operating expenses of $4.0 million including insurance, professional services and facility costs, and increased vehicle costs of $1.9 million resulting primarily from acquisitions.

Depreciation and Amortization. Depreciation and amortization increased $4.1 million, or 87%, to $8.8 million in the three months ended December 31, 2004 from $4.7 million in the same three-month period in 2003 as a result of retail propane acquisitions.

Interest Expense. Interest expense increased $0.6 million, or 20%, to $3.5 million in the three months ended December 31, 2004 as compared to $2.9 million in the same three-month period in 2003. Interest expense increased primarily due to an increase in the average debt outstanding including the additional financing related to the acquisition of Star Gas Propane, L.P. and higher average interest rates.

Write-off of Deferred Financing Costs. A charge of $7.0 million was recorded in the three-month period ended December 31, 2004 as a result of the write-off of the deferred financing costs associated with the repayment of the previously existing credit agreement and the 364-day facility.

Table of Contents

Net Income. Net income for the three months ended December 31, 2004 was $11.0 million compared to net income of $9.4 million in the same three-month period in 2003. The increase in net income was attributable to the increases in retail and wholesale gross profit, partially offset by increases in operating and administrative expenses, depreciation and amortization, and interest expense, all primarily the result of acquisitions.

EBITDA. In the three months ended December 31, 2004, income before interest, taxes, depreciation and amortization was $30.4 million compared to $17.0 million in the same three-month period in 2003. The increase was primarily attributable to increased sales volumes due to acquisitions partially offset by an increase in operating and administrative expenses. EBITDA is defined as income before taxes, plus net interest expense (inclusive of write-off of deferred financing costs) and depreciation and amortization expense. EBITDA should not be considered an alternative to net income, income before income taxes, cash flows from operating activities, or any other measure of financial performance calculated in accordance with generally accepted accounting principles as those items are used to measure operating performance, liquidity or ability to service debt obligations. We believe that EBITDA provides additional information for evaluating our ability to make the minimum quarterly distribution and is presented solely as a supplemental measure. EBITDA, as we define it, may not be comparable to EBITDA or similarly titled measures used by other corporations or partnerships.

	Three Months Ended December 31,	
	2004	**2003**
	(in thousands)	
EBITDA:		
Net income	**$11,001**	$ 9,370
Interest expense, net	**3,469**	2,896
Write off of deferred financing costs	**6,990**	—
Provision for income taxes	**58**	31
Depreciation and amortization	**8,846**	4,718
EBITDA	**$30,364**	$17,015

Table of Contents

Liquidity and Sources of Capital

In December 2004, Inergy, L.P. issued 3,568,139 Common Units to unrelated third parties resulting in proceeds of $91.0 million, net of underwriter's discount, commission, and offering expenses. These proceeds were obtained to partially fund the acquisition of Star Gas Propane, L.P.

Also in December 2004, Inergy, L.P. issued 4,400,000 Common Units in a public offering, resulting in proceeds of $121.3 million, net of underwriter's discount, commission, and offering expenses. These funds were used to repay borrowings under our credit agreement.

Cash flows used in operating activities of $10.2 million in the three months ended December 31, 2004 consisted of: net income of $11.0 million; net non-cash charges of $16.2 million relating to depreciation and amortization of $8.8 million, $7.0 million in write-offs of deferred financing costs related to the repayment of the previously existing credit agreement and 364-day facility and $0.4 million of other non-cash charges; and a decrease in cash flows of $37.4 million associated with the changes in operating assets and liabilities, including net liabilities from price risk management activities. The cash used in the changes in operating assets and liabilities is primarily due to an increase in accounts receivable due to acquisition-related revenue growth, the seasonal nature of the business and increased wholesale volumes; an increase in net liabilities from price risk management activities, and an increase in customer deposits as a result of acquisition related activity offset by an increase in accounts payable due to propane purchases. Cash flows used in operating activities of $4.7 million in the three months ended December 31, 2003 consisted of: net income of $9.4 million; net non-cash charges of $5.3 million, principally related to depreciation and amortization of $4.7 million and $0.6 million of other non-cash charges; and a decrease in cash flows of $19.4 million associated with the changes in operating assets and liabilities, including net liabilities from price risk management activities. The cash used in the changes in operating assets and liabilities is primarily due to an increase of $40.8 million in accounts receivable and a $6.1 million increase in propane inventory, partially offset by an increase of $28.7 in accounts payable. These changes were attributable to the seasonal nature of our business and our retail and wholesale growth through acquisitions.

Cash used in investing activities was $597.0 million in the three months ended December 31, 2004 as compared to $17.6 million in the three months ended December 31, 2003. The three months ended December 31, 2004 investing activities included a use of cash of $569.9 million, net of cash acquired, for the acquisition of three retail propane companies, including Star Gas Propane. The three months ended December 31, 2003 investing activities included a use of cash of $14.9 million, net of cash acquired, for the acquisition of five retail propane companies and EOTT, Inergy, L.P.'s West Coast NGL business. Additionally, in the three months ended December 31, 2004 and 2003, we expended $6.0 million and $3.4 million, respectively for additions of property, plant and equipment to accommodate our growing operations. Deferred financing costs of $21.7 million were incurred in the three months ended December 31, 2004, related to debt incurred to complete the acquisitions.

Cash provided by financing activities was $625.5 million in the three months ended December 31, 2004 and $25.4 million in the three months ended December 31, 2003. Cash provided by financing activities in the three months ended December 31, 2004 and the three months ended December 31, 2003 included net borrowings of $424.3 million and $33.2 million, respectively, under debt agreements, including borrowings and repayments of our revolving working capital and acquisition credit facility and the issuance of our senior unsecured notes in the three months ended December 31, 2004. In addition,

net proceeds were received from the issuance of Common Units of $212.3 million in the three months ended December 31, 2004. Offsetting these cash sources were $11.1 million and $7.8 million of distributions in the three months ended December 31, 2004 and 2003, respectively.

The following table summarizes our company's contractual obligations as of December 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	$567,955	$49,470	$ 5,002	$87,663	$425,820
Future minimum lease payments under noncancelable operating leases	20,034	5,919	8,324	3,641	2,150
Standby letters of credit	15,296	8,012	7,284		

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

	For the three months ended	
	December 31, 2004	December 31, 2003
Net unrealized gains and (losses) in fair value of contracts outstanding at beginning of period	**$ (6,626)**	**$ 3,104**
Net unrealized gain/(loss) acquired through acquisition during the period	**1,881**	**—**
Change in fair value of contracts attributable to market movement during the year	**4,898**	**(4,175)**
Realized (gains)/losses recognized	**(2,031)**	**717**
Net unrealized losses in fair value of contracts outstanding at end of period	**$ (1,878)**	**$ (354)**

Of the outstanding unrealized gain as of December 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 in December 2004, Inergy, L.P. executed a new Credit Agreement with its existing lenders in addition to others. The Credit Agreement consists of a $250.0 million revolving acquisition facility and a $75.0 million working capital facility. Inergy has the option to utilize up to $25.0 million of available borrowing capacity from our revolving acquisition facility for working capital purposes. The Credit Agreement expires in December 2009 and carries terms, conditions, and covenants substantially similar to the previous credit agreement as described in the Form 10-K for the year ended September 30, 2004. The Credit Agreement is guaranteed by all of our domestic subsidiaries.

This Credit Agreement accrues interest at either prime rate or Eurodollar plus applicable spreads, resulting in interest rates of 5.17% to 6.50% at December 31, 2004. At December 31, 2004, borrowings outstanding under the credit facility were $132.0 million, including $51.0 million under the revolving working capital facility. Of the entire outstanding credit facility balance of $132.0 million, $86.0 million is classified as long term in the accompanying December 31, 2004 consolidated balance sheet.

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 December 31, 2004, we had floating rate obligations totaling approximately $132.0 million for amounts borrowed under our credit agreement.

If the floating rate were to increase by 100 basis points from December 2004 levels, our interest expense would increase by a total of approximately $1.3 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 as of December 31, 2004 and 2003 were propane retailers, resellers, energy marketers and dealers.

The propane industry is a “margin-based” business in which gross profits depend on the excess of sales prices over supply costs. As a result, our profitability will be sensitive to changes in wholesale prices of propane caused by changes in supply or other market conditions. When there are sudden and sharp increases in the wholesale cost of propane, we may not be able to pass on these increases to our

customers through retail or wholesale prices. Propane is a commodity and the price we pay for it can fluctuate significantly in response to supply or other market conditions. We have no control over supply or market conditions. In addition, the timing of cost pass-throughs can significantly affect margins. Sudden and extended wholesale price increases could reduce our gross profits and could, if continued over an extended period of time, reduce demand by encouraging our retail customers to conserve or convert to alternative energy sources.

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

Notional Amounts and Terms

The notional amounts and terms of these financial instruments as of December 31, 2004 and September 30, 2004 include fixed price payor for 4.3 million and 4.9 million barrels of propane and distillates, respectively, and fixed price receiver for 5.6 million and 6.5 million barrels of propane and distillates, 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 December 31, 2004, and September 30, 2004 was assets of $12.9 million and $23.0 million, respectively, and liabilities of $14.7 million and $29.6 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 a change of less than $0.1 million in the market value of the contracts as there were approximately 0.5 million gallons of net unbalanced positions at December 31, 2004.

Table of Contents

Item 4. Controls and Procedures

We maintain controls and procedures designed to ensure that information required to be disclosed in our reports that are filed or submitted 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 our 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 December 31, 2004. There have been no changes in our 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 fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting, and there have been no corrective actions with respect to significant deficiencies and material weaknesses in our internal controls.

Table of Contents

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

A federal securities class action was filed in October 2004 against Star Gas Partners, L.P. and certain of its executive officers (“Star Defendants”) in the United States District Court for the District of Connecticut. The allegations are that Star Gas Defendants purportedly violated Section 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Securities and Exchange Commission Rule 10b-5. Following the initiation of this claim, additional class action complaints were filed including White v. Star Gas, et al, filed in October 2004 in the United States District Court for the District of Connecticut. Star Gas Propane, L.P. is named as a defendant in the White case. Star Gas Partners, L.P. has agreed to indemnify the Partnership for damage relating to this claim.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In December 2004, Inergy, L.P. issued 3,568,139 Common Units to unrelated third parties resulting in proceeds of $91.0 million, net of underwriter’s discount, commission, and offering expenses. These proceeds were obtained to partially fund the acquisition of Star Gas Propane, L.P.

In December 2004, Inergy, L.P. issued 4,400,000 Common Units in a public, resulting in proceeds of $121.3 million, net of underwriter’s discount, commission, and offering expenses. These funds were used to repay borrowings under our credit agreement.

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

(a) Exhibits

10.1	Second Amendment to Employment Agreement – Phillip L. Elbert.
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.

Table of Contents

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: February 9, 2005

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 10.1

AMENDED AND RESTATED
EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of February 8, 2005, between Inergy GP, LLC, a Delaware limited liability company (the "Company"), and Phillip L. Elbert, an individual ("Employee").

The Company and Employee hereby agree as follows:

1. Employment. Employee is being employed by the Company as the Company's Executive Vice President—Operations upon and subject to the terms and conditions of this Agreement. During the term of his employment under this Agreement, Employee shall report to the Company's President (currently John J. Sherman) or to such other person or persons as the Company may designate from time to time. Employee will begin his employment with the Company under this Agreement on November 1, 2004.

2. Duties. During the term of his employment under this Agreement, Employee will perform his duties hereunder at such time or times as the Company may reasonably request. Employee's duties may be varied by the Company from time to time without violating the terms of this Agreement and shall include: (i) devoting his best efforts and his entire business time to further properly the interests of the Company to the satisfaction of the Company, (ii) being subject to the Company's direction and control at all times with respect to his activities on behalf of the Company, (iii) complying with all rules, orders, regulations, policies, practices and decisions of the Company, (iv) truthfully and accurately maintaining and preserving all records and making all reports as the Company may require, and (v) fully accounting for all monies and other property of the Company of which he may from time to time have custody and delivering the same to the Company whenever and however directed to do so.

3. Compensation. For all services rendered by Employee to the Company, the Company shall pay Employee a salary (the "Salary") at the annual rate of Two Hundred Forty Thousand Dollars ($240,000), payable in arrears in accordance with the Company's general payroll practices. All payments and benefits provided pursuant to this Agreement are subject to income tax withholding and other applicable tax and withholding requirements.

4. Expenses. The Company shall reimburse Employee for all ordinary and necessary out-of-pocket expenses incurred and paid by Employee in the course of the performance of Employee's duties pursuant to this Agreement and consistent with the Company's policies in effect from time to time with respect to travel, entertainment and other business expenses, and subject to the Company's requirements with respect to the manner of approval and reporting of such expenses.

5. Additional Benefits.

(a) Employee shall be eligible for such fringe benefits, if any, by way of insurance, hospitalization and vacations normally provided to employees of the Company generally and such additional benefits as may be from time to time agreed upon in writing between Employee and the Company.

(b) Employee will receive cash bonuses as determined by the Company in its sole discretion, payable in such amounts and at such times as the Company may determine.

(c) As part of the initial public offering on July 31, 2001 by Inergy, L.P. of common units representing limited partner interests of Inergy, L.P.:

(i) Inergy, L.P. issued senior and junior subordinated units (collectively, the "Subordinated Units") that have a yield equal to (but subordinated to) the yield on the publicly-traded common units;

(ii) The subordination period on the Subordinated Units will end once Inergy, L.P. meets the financial tests set forth in its partnership agreement. When the applicable subordination period ends, all remaining Subordinated Units will convert into common units on a one-for-one basis and will receive distributions pro rata with all other common units; and

(iii) As set forth in Inergy, L.P.'s partnership agreement, the Subordinated Units may convert to common units in whole or in part.

If the subordination period terminates with respect to all of the Subordinated Units, Employee will receive a cash bonus of $375,000, with such bonus to be paid within 60 days after the date of such termination on a proportional basis (without giving effect to the conversion of senior subordinated units that occurred in August, 2004), so that by way of example, if the subordination period terminates with respect to 33.3% of the Subordinated Units on December 31, 2005, Employee will receive a cash bonus in the amount of $125,000 on or before March 2, 2006. Notwithstanding the foregoing, in order to receive a bonus with respect to the termination of the subordination period for any Subordinated Units, Employee must have been continuously employed by the Company from the date hereof until the date of termination.

6. Covenant Not to Disclose Confidential Information. Employee acknowledges that during the course of his employment with the Company Employee has had and will continue to have access to and knowledge of certain information and data that the Company or any subsidiary, parent or affiliate of the Company considers confidential and that the release of such information or data to unauthorized persons or entities would be extremely detrimental to the Company. As a consequence, Employee hereby agrees and acknowledges that he owes a duty to the Company not to disclose, and agrees that, during and after the term of his employment, without the prior written consent of the Company, he will not communicate, publish or disclose, to any person or entity anywhere or use (for his own benefit or the benefit of others) any

Confidential Information (as defined below) for any purpose other than carrying out his duties as contemplated by this Agreement. Employee will use his best efforts at all times to hold in confidence and to safeguard any Confidential Information to ensure that any unauthorized persons and entities do not gain possession of any Confidential Information and, in particular, will not permit any Confidential Information to be read, duplicated or copied. Employee will return to the Company all originals and copies of documents and other materials, whether in printed or electronic format or otherwise, containing or derived from Confidential Information in Employee's possession or under Employee's control when the duties of Employee no longer require Employee's possession thereof, or whenever the Company requests, and in any event will return all such Confidential Information within ten days if the employment relationship with the Company is terminated for any or no reason and will not retain any copies thereof. Employee acknowledges that Employee is obligated to protect the Confidential Information from disclosure or use even after termination of the employment relationship. For purposes of this Agreement, the term "Confidential Information" means any information or data used by or belonging or relating to the Company or any subsidiary, parent or affiliate of the Company, or any party to whom the Company owes a duty of confidentiality that is not known generally to the industry in which the Company or any subsidiary, parent or affiliate of the Company, or any party to whom the Company owes a duty of confidentiality is or may be engaged, including, but not limited to, any and all trade secrets, proprietary data and information relating to the Company's or any subsidiary, parent or affiliate of the Company's, or any party to whom the Company owes a duty of confidentiality past, present or future business and products, price lists, customer lists, acquisition candidates, processes, procedures or standards, know-how, manuals, hardware, software, source code, business strategies, records, marketing plans, drawings, technical information, specifications, designs, patent information, financial information, whether or not reduced to writing, or information or data that the Company or any subsidiary, parent or affiliate of the Company or any party to whom the Company owes a duty of confidentiality advises Employee should be treated as confidential information. Confidential Information does not include any information that: (i) is rightfully known to Employee prior to Employee's employment, and independent of any disclosure or access to the information via the Company as evidenced by Employee's written records; or (ii) is or later becomes part of the public domain and known within the relevant industry through no fault of Employee.

7. Disclosure and Assignment of Intellectual Property.

(a) Employee agrees that the Company shall become the owner of all inventions, discoveries, developments, ideas, writings, and expressions, including, but not limited to, any and all concepts, improvements, techniques, know-how, innovations, systems, processes, machines, current or proposed products, works, information, reports, papers, logos, computer programs, designs, marketing materials, and methods of manufacture, distribution, management or other methods (whether or not reduced to writing and whether or not patentable or protectable by copyright), that Employee conceives, develops, creates, makes, perfects or reduces to practice in whole or in part while employed by the Company or within one year after termination of Employee's employment for any or no reason, and that: (i) directly or indirectly relate to or arise out of Employee's job responsibilities for the Company or the performance of the duties of Employee's employment by the Company; (ii) result from research, development, or other activities of the Company; or (iii) relate or pertain in any way to the existing or

reasonably anticipated scope, business or products of the Company or any subsidiary, parent or affiliate of the Company (collectively, the "Intellectual Property"). All of the right, title and interest in and to the Intellectual Property shall become exclusively owned by the Company or its nominee regardless of whether or not the conception, development, creation, making, perfection or reduction to practice of such Intellectual Property involved the use of the Company's time, facilities or materials and regardless of where such Intellectual Property may be conceived, made or perfected.

(b) Employee agrees to promptly and fully disclose in writing to the Company all inventions, discoveries, developments, ideas, writings, and expressions conceived, developed, created, made, perfected or reduced to practice, in whole or in part, while employed by the Company or within one year after termination of Employee's employment for any or no reason, regardless of whether Employee believes the invention, discovery, development, writing, expression or idea should be considered Intellectual Property of the Company under any provision of this Agreement, in order to enable the Company to make a determination as to its rights with respect to the same.

(c) Any and all information relating to Intellectual Property shall be considered Confidential Information and shall not be disclosed by Employee to any person or entity outside of the Company.

(d) Any Intellectual Property that is the subject of copyright shall be considered a "work made for hire" within the meaning of the Copyright Act of 1976, as amended, and shall be the sole property of the Company or its nominee. To the extent that the Company does not automatically own any such Intellectual Property as a work made for hire, Employee shall assign all right, title and interest in and to such Intellectual Property to the Company. All right, title and interest in and to any other Intellectual Property, including, but not limited to, patent, industrial design, trademark, trade dress and trade secret rights shall be assigned and is hereby assigned exclusively to the Company or its nominee. Employee further agrees to execute and deliver all documents and do all acts that the Company considers necessary or desirable to secure to the Company or its nominee the entire right, title and interest in and to the Intellectual Property, including, but not limited to, executing applications for any United States and/or foreign patents or copyright registrations, disclosing relevant prior art, reviewing office actions and providing technical input to assist the Company in overcoming any rejections. Any document prepared and filed pursuant to this Section 7(d) shall be prepared and filed at the Company's expense. Employee further agrees to cooperate with the Company as reasonably necessary to maintain or enforce the Company's rights in the Intellectual Property. Employee hereby irrevocably appoints the President of the Company as Employee's attorney-in-fact with authority to execute for Employee and on Employee's behalf any and all assignments, patent or copyright applications, or other instruments and documents required to be executed by Employee pursuant to this Section 7(d), if Employee is unwilling or unable to execute same.

(e) The Company shall have no obligation to use, attempt to protect by patent or copyright, or promote any of the Intellectual Property; provided, however, that the Company, in its sole discretion, may reward Employee for any especially meritorious

contributions in any manner it deems appropriate or may provide Employee with full or partial releases as to any subject matter contributed by Employee in which the Company is not interested.

8. Legal Proceedings to Compel Disclosure. In the event that Employee is requested pursuant to, or required by, applicable law, regulation, or legal process, to disclose any Confidential Information or Intellectual Property, Employee shall notify the Company of such request within five days of such request being made and shall enable the Company or any subsidiary, parent or affiliate of the Company to seek an appropriate protective order. In the event that such a protective order or other protective remedy is not obtained, Employee shall furnish only that portion of the Confidential Information or Intellectual Property that, in the opinion of Employee's counsel, is legally required and will exercise Employee's best efforts to obtain reliable assurances that confidential treatment will be accorded the Confidential Information or Intellectual Property.

9. Covenant Not to Compete. Employee acknowledges that during his employment with the Company he, at the expense of the Company, has been and will continue to be specially trained in the business of the Company, has established and will continue to establish favorable relations with the customers, clients and accounts of the Company or any subsidiary, parent or affiliate of the Company and has had and will continue to have access to the Intellectual Property, trade secrets and Confidential Information of the Company or any subsidiary, parent or affiliate of the Company. Therefore, in consideration of such training and relations, and in consideration of his employment with the Company and the additional benefits provided by this Agreement, and to further protect the Intellectual Property, trade secrets and Confidential Information of the Company or any subsidiary, parent or affiliate of the Company, Employee agrees that commencing on the date set forth in Section 1 and ending on the later of (i) one year from and after the date of the voluntary or involuntary termination of Employee's employment for any reason or no reason (including a termination resulting from the fulfillment of the term of this Agreement pursuant to Section 12(a)), provided, however, that if during the term of this Agreement (A) Employee terminates his employment as a result of Employee ceasing to report to John J. Sherman (other than as a result of the death or disability of John J. Sherman), provided that such termination occurs within 60 days after ceasing to report to Mr. Sherman, (B) Employee terminates his employment within 60 days after a change of control of the Company of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended, occurs with respect to the Company, or (C) Employee terminates his employment within 60 days after the Company assigns this Agreement to another person or entity that is not an affiliate of the Company, Inergy Propane, LLC or Inergy, L.P. (regardless of whether Employee consented to such assignment pursuant to Section 18), or (D) Inergy Holdings, LLC, ("Holdings) exercises Holdings' call as described in section 5(a)(ii) of the Interest Purchase Agreement between Employee and Holdings executed herewith, in any of such events, the Company has the option to extend such one year period of time by an additional one year period by electing to continue to pay Employee's Salary at the time of termination, payable bi-monthly in arrears, for the period of one year following the date of the termination of Employee's employment, and (ii) January 1, 2010, he will not, directly or indirectly, without the express written consent of the Company, except when and as requested to do in and about the performing of his duties under this Agreement:

(a) own, manage, operate, control or participate in the ownership, management, operation or control of, or have any interest, financial or otherwise, in or act as an officer, director, partner, manager, member, principal, employee, agent, representative, consultant or independent contractor of, or in any way assist, any individual or entity in the conduct of any business that (1) trades, markets, sells or distributes propane gas (at retail, wholesale or otherwise), gathers, processes, stores, transports, trades, markets or distributes natural gas or liquefied by-products of natural gas or petroleum (at retail, wholesale or otherwise) or sells, services and installs parts, appliances or supplies related thereto, and (2) is located in or doing business within a 50 mile radius of (i) any current business location of the Company or any subsidiary, parent or affiliate of the Company or (ii) any future business location of the Company or any subsidiary, parent or affiliate of the Company if the Company or its subsidiary, parent or affiliate had commenced business operations at such future business location before Employee had engaged in competing business operations within 50 miles of such future business location;

(b) divert or attempt to divert clients or customers (whether or not such persons have done business with the Company or any subsidiary, parent or affiliate of the Company once or more than once) or accounts of the Company or any subsidiary, parent or affiliate of the Company; or

(c) entice or induce or in any manner influence any person who is or shall be in the employ or service of the Company or any subsidiary, parent or affiliate of the Company to leave such employ or service for the purpose of engaging in a business that may be in competition with any business now or at any time during the period hereof engaged in by the Company or any subsidiary, parent or affiliate of the Company.

Notwithstanding the foregoing provisions, Employee may (i) take action for, on behalf of, and at the direction of the Company pursuant to a written agreement with the Company or otherwise, and (ii) own up to 5% of the outstanding equity securities in any corporation or entity (including, but not limited to, units in a master limited partnership) that is listed upon a national stock exchange or actively traded in the over-the-counter market.

10. Specific Performance. Recognizing that irreparable damage will result to the Company in the event of the breach or threatened breach of any of the foregoing covenants and assurances by Employee contained in Sections 6, 7, 8 or 9, and that the Company’s remedies at law for any such breach or threatened breach will be inadequate, the Company and its successors and assigns, in addition to such other remedies which may be available to them, shall be entitled to an injunction, including a mandatory injunction, to be issued by any court of competent jurisdiction ordering compliance with this Agreement or enjoining and restraining Employee, and each and every person and entity acting in concert or participation with him, from the continuation of such breach and, in addition thereto, he shall pay to the Company all ascertainable damages, including, but not limited to, costs and reasonable attorneys’ fees sustained by the Company by reason of the breach or threatened breach of such covenants and assurances. The covenants and obligations of Employee set forth in Sections 6, 7, 8 and 9 are in addition to and not in lieu of or exclusive of any other obligations and duties of Employee to the Company, whether express or implied in fact or in law.

11. Company Policies. Employee agrees to affirmatively support the Company's policies and practices as they may from time to time be adopted by the Company, including, but not limited to, policies against discrimination and harassment in the workplace.

12. Term and Termination.

(a) Subject to earlier termination as provided in Sections 12(b), 12(c) and 12(d), the term of Employee's employment under this Agreement will be through and including January 1, 2010 and will automatically be extended for consecutive one year periods thereafter unless either party elects to terminate such employment and notifies the other party of such election at least 30 days prior to the end of the then-current term.

(b) Notwithstanding Section 12(a), Employee's employment with the Company will terminate immediately upon the death, disability or adjudication of legal incompetence of Employee, or upon the Company's ceasing to carry on its business without assigning this Agreement pursuant to Section 18 or becoming bankrupt. For purposes of this Agreement, Employee will be deemed to be disabled when Employee has become unable, by reason of physical or mental disability, to satisfactorily perform the essential functions of his job and there is no reasonable accommodation that can be provided to enable him to perform satisfactorily those essential functions. Such matters will be determined by, or to the reasonable satisfaction of, the Company.

(c) Notwithstanding Section 12(a), the Company may terminate Employee's employment at any time for Cause or without Cause. "Cause" means: (i) Employee has engaged in negligence (through act or omission) or misconduct that is injurious to the Company or any subsidiary, parent or affiliate of the Company; (ii) Employee has been convicted of, or has entered a plea of nolo contendere to, any crime involving the theft or willful destruction of money or other property, any crime involving moral turpitude or fraud, or any crime constituting a felony; (iii) Employee has engaged in acts or omissions against the Company or any subsidiary, parent or affiliate of the Company constituting dishonesty, breach of fiduciary obligation, or intentional wrongdoing or misfeasance; or (iv) Employee has engaged in the use of alcohol or drugs on the job, or has engaged in excessive absenteeism from the performance of his duties as the Company's employee, other than for reasons of illness.

(d) Notwithstanding Section 12(a), Employee may terminate his employment at any time with Good Reason or without Good Reason. "Good Reason" means any of the following: (i) the Company requiring, as a condition of Employee's employment, that Employee commit a felony or engage in conduct that is a crime under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended; and (ii) Employee being required by the Company to be based at any office or location that is more than 35 miles from the location where Employee was employed immediately preceding the date of the voluntary or involuntary termination of Employee's employment; provided, however, that the Company may require Employee to travel to Kansas City, Missouri as part of his ordinary duties.

(e) If Employee's employment with the Company is terminated (1) as a result of the death, disability, adjudication of legal incompetence of Employee, (2) as a result of the Company ceasing to carry on its business without assigning this Agreement pursuant to Section 18, (3) as a result of the Company becoming bankrupt, (4) by the Company for Cause, or (5) by Employee without Good Reason, the Company shall pay or provide to Employee:

(i) such Salary as Employee has earned and not yet received through the date of such employment termination, determined on a pro rata basis based on the number of work days in the month of termination;

(ii) such earned but unpaid subordination bonus (determined as of the date of such termination), if any, pursuant to Section 5(c); and

(iii) such other fringe benefits (other than any bonus, severance pay benefit or participation in the Company's 401(k) employee benefit plan) normally provided to employees of the Company as Employee has earned and not yet received through the date of such employment termination, determined on a pro rata basis based on the number of work days in the month of termination.

(f) If Employee's employment with the Company is terminated (1) by the Company without Cause (and not due to the death, disability, adjudication of legal incompetence of Employee, or as a result of the Company ceasing to carry on its business without assigning this Agreement pursuant to Section 18, or becoming bankrupt), or (2) by Employee with Good Reason, the Company shall pay or provide to Employee:

(i) the unpaid amount of Employee's Salary for the remainder of the then-current term of this Agreement, payable bi-monthly in arrears;

(ii) such earned but unpaid subordination bonus (determined as of the date of such termination), if any, pursuant to Section 5(c); and

(iii) such other fringe benefits (other than any bonus, severance pay benefit or participation in the Company's 401(k) employee benefit plan) normally provided to employees of the Company as Employee has earned and not yet received through the date of such employment termination, determined on a pro rata basis based on the number of work days in the month of termination.

13. Survival of Obligations. All obligations of Employee that by their nature involve performance, in any particular, after the expiration or termination of Employee's employment with the Company, or that cannot be ascertained to have been fully performed until after the expiration or termination of Employee's employment with the Company, shall survive the expiration or termination of this Agreement. Except as otherwise specifically provided in this Agreement, all of the Company's obligations under this Agreement will terminate at the time this Agreement or Employee's employment with the Company is terminated for any reason.

14. Notice. Any notice, request, consent or communication under this Agreement is effective only if it is in writing and personally delivered or sent by certified mail, return receipt requested, postage prepaid, or by a nationally recognized overnight delivery service, with delivery confirmed, addressed as follows:

If to the Company:

Name:	With Copy To:
Attn: John J. Sherman Inergy GP, LLC Two Brush Creek Blvd., Suite 200 Kansas City, Missouri 64112	Attn: Laura L. Ozenberger Inergy GP, LLC Two Brush Creek Blvd., Suite 200 Kansas City, Missouri 64112

If to Employee:

Name:

Phillip L. Elbert
1456 Leech Lane
P.O. Box 372
Eastport, Michigan 49627

or such other persons and/or addresses as shall be furnished in writing by any party to the other party, and shall be deemed to have been given only upon its delivery in accordance with this Section 14.

15. No Conflicts. Employee represents and warrants to the Company that neither the execution nor delivery of this Agreement, nor the performance of Employee's obligations hereunder will conflict with, or result in a breach of, any term, condition, or provision of, or constitute a default under, any obligation, contract, agreement, covenant or instrument to which Employee is a party or under which Employee is bound, including the breach by Employee of a fiduciary duty to any former employers.

16. Entire Agreement; Amendment; Termination of Previous Agreement. This Agreement cancels and supersedes all previous agreements relating to the subject matter of this Agreement, written or oral, between the parties hereto (including the Employment Agreement, dated January 12, 2001, between Employee and Inergy Partners, LLC, as amended by the First Amendment to Employment Agreement, dated July 19, 2001, between Employee and Inergy Partners, LLC, each of which was assigned by Inergy Partners, LLC to the Company on July 31, 2001) and contains the entire understanding of the parties hereto with respect to the subject matter hereof and shall not be amended, modified or supplemented in any manner whatsoever except as otherwise provided herein or in writing signed by each of the parties hereto.

17. Potential Unenforceability of Any Provision. If a final judicial determination is made that any provision of this Agreement is an unenforceable restriction against Employee, the provisions of this Agreement will be rendered void only to the extent that such judicial determination finds such provisions unenforceable, and such unenforceable provisions will automatically be reconstituted and become a part of this Agreement, effective as of the date of

this Agreement, to the maximum extent in favor of the Company that is lawfully enforceable. A judicial determination that any provision of this Agreement is unenforceable will not render the entire Agreement unenforceable, but rather this Agreement will continue in full force and effect absent any unenforceable provision to the maximum extent permitted by law.

18. Assignment. This Agreement is personal and not assignable by Employee but it may be assigned by the Company without notice to or consent of Employee to, and shall thereafter be binding upon and enforceable by, any affiliate of the Company and any person or entity who acquires or succeeds to substantially all of the business or assets of the Company or substantially all of the business or assets of the principal operating unit that Employee oversees or to which Employee is assigned (and such person or entity will be deemed included in the definition of the "Company" for all purposes of this Agreement) but is not otherwise assignable by the Company.

19. Waiver of Breach. Failure of the Company to demand strict compliance with any of the terms, covenants or conditions hereof shall not be deemed a waiver of the term, covenant or condition, nor will any waiver or relinquishment by the Company of any right or power hereunder at any one time or more times be deemed a waiver or relinquishment of the right or power at any other time or times.

20. Expenses. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party is entitled to receive reasonable attorney's fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

21. Headings. The headings of the sections of this Agreement have been inserted for convenience of reference only and do not restrict or otherwise modify any of the terms or provisions hereof.

22. Governing Law. This Agreement and all rights and obligations of the parties hereunder are governed by the laws of the State of Missouri applicable to agreements made and to be performed entirely within the State, including all matters of enforcement, validity and performance.

23. Counterparts. This Agreement may be executed in any number of counterparts, each of which are deemed to be an original and all of which constitute one agreement that is binding upon both of the parties hereto, notwithstanding that both parties are not signatories to the same counterpart.

[The remainder of this page intentionally has been left blank]

The parties have executed this Amended and Restated Employment Agreement as of the date set forth in the introductory clause.

INERGY GP, LLC

By: /s/ John J. Sherman

Name: John J. Sherman
Title: President

/s/ Phillip L. Elbert

PHILLIP L. ELBERT

Exhibit 31.1

CERTIFICATIONS

I, John J. Sherman, certify that:

1. I have reviewed this Quarterly 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: February 9, 2005

/s/ John J. Sherman

John J. Sherman
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

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

1. I have reviewed this Quarterly 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: February 9, 2005

/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 December 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

February 9, 2005

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 December 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

February 9, 2005

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.