As filed with the Securities and Exchange Commission on May 7, 2001
Registration No. 333-56976

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

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Amendment No. 1 to
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

| Delaware | 5984 | 43-1918951 |
|---|---|---|
| (State or other jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification No.) |

1101 Walnut, Suite 1500
Kansas City, Missouri 64106
(816) 842-8181
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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John J. Sherman
1101 Walnut, Suite 1500
Kansas City, Missouri 64106
(816) 842-8181
(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Copies to:

| David P. Oelman<br>Catherine S. Gallagher<br>Vinson & Elkins L.L.P.<br>1001 Fannin, Suite 2300<br>Houston, Texas 77002-6760<br>(713) 758-2222 | Paul E. McLaughlin<br>Stinson, Mag & Fizzell, P.C.<br>1201 Walnut, Suite 2800<br>Kansas City, Missouri 64106<br>(816) 842-8600 | Joshua Davidson<br>Baker Botts L.L.P.<br>One Shell Plaza<br>910 Louisiana<br>Houston, Texas 77002<br>(713) 229-1234 |
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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [_]

If any of the securities registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [_]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act of 1933 registration statement number of the earlier effective registration statement for the same offering. [_]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act of 1933 registration statement number of the earlier effective registration statement for the same offering. [_]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act of 1933 registration statement number of the earlier effective registration statement for the same offering. [_]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [_]

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The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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+The information in this Prospectus is not complete and may be changed. We may +
+not sell these securities until the Registration Statement filed with the     +
+Securities and Exchange Commission is effective. This Prospectus is not an    +
+offer to sell these securities, and we are not soliciting an offer to buy     +
+these securities in any state where the offer or sale is not permitted.       +
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Subject to completion, dated May 7, 2001

PROSPECTUS

1,500,000 Common Units
[INERGY, L.P. LOGO]
Representing Limited Partner Interests

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We are offering 1,500,000 common units representing limited partner interests. This is the initial public offering of our common units. We expect the initial public offering price to be between $19.00 and $21.00 per unit. We intend to make a quarterly distribution of $0.60 per unit, or $2.40 per unit each year, to the extent we have sufficient cash from our operations after payment of fees and expenses, including reimbursements to our managing general partner. We have applied to list our common units on the Nasdaq National Market under the symbol "NRGY."

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Investing in our common units involves risks.

See "Risk Factors" beginning on page 10.

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PRICE $ PER COMMON UNIT

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| | Per Common Unit | Total |
|---|---|---|
| Initial public offering price | $ | $ |
| Underwriting discount | $ | $ |
| Proceeds, before expenses, to Inergy, L.P. | $ | $ |

We have granted the underwriters a 30-day option to purchase up to an additional 225,000 common units to cover over-allotments. The underwriters expect to deliver the common units to purchasers on or about , 2001.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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A.G. Edwards & Sons, Inc.
First Union Securities, Inc.
Raymond James

Prospectus dated , 2001

[PHOTOGRAPHS AND MAP OF INERGY, L.P.'S OPERATIONS]

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## GUIDE TO READING THIS PROSPECTUS

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

- Throughout this prospectus,

  (1) when we use the terms "we," "us," or "Inergy, L.P.", we are referring either to Inergy, L.P., the registrant, itself or to Inergy, L.P. and its operating subsidiaries collectively, as the context requires, and

  (2) when we use the term "our predecessor," we are referring to Inergy Partners, LLC, the entity that is currently conducting the business that will be transferred to us at the closing of the offering. Inergy, L.P. was formed as a Delaware limited partnership on March 7, 2001 and will have no operations until closing. Our predecessor commenced operations in November 1996. The discussion of our business throughout this prospectus relates to the business operations of Inergy Partners, LLC. To better understand the transactions pursuant to which we will assume the assets and operations of Inergy Partners, LLC, please read "Organization of Inergy, L.P. Prior to and Immediately Following the Offering."

- We have a managing general partner and a non-managing general partner. Our managing general partner is responsible for the management of our partnership and its operations are governed by a board of directors. Our managing general partner does not have rights to allocations or distributions from our partnership although it is entitled to reimbursement of expenses it incurs on our behalf. Our non-managing general partner owns a 2% non-managing general partner interest in our partnership. Generally, we refer to each general partner as managing or non-managing, as the case may be. We collectively refer to our managing general partner and our non-managing general partner as our "general partners."

- For ease of reference, a glossary of some terms used in this prospectus is included in this prospectus as Appendix C.

- Unless otherwise specified, the information in this prospectus assumes a public offering price of $20 per common unit and that the underwriters' over-allotment option is not exercised.

## PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus. You should read the entire prospectus carefully, including the historical and pro forma financial statements and the notes to those financial statements. You should read "Risk Factors" beginning on page 10 for more information about important factors that you should consider before buying common units.

## INERGY, L.P.

### Our Business

We own and operate a rapidly growing retail and wholesale propane marketing and distribution business. Since our inception in November 1996, we have acquired eleven propane companies for an aggregate purchase price of approximately $120 million. For the fiscal year ended September 30, 2000, on a pro forma combined basis we sold approximately 50 million gallons of propane to retail customers and approximately 210 million gallons of propane to wholesale customers.

Our retail business includes the retail marketing, sale and distribution of propane to residential, commercial, industrial and agricultural customers. We market our propane products under four regional brand names and serve approximately 71,000 retail customers in Georgia, Illinois, Indiana, Michigan, North Carolina, Ohio, Tennessee, Virginia and Wisconsin from 30 customer service centers. In addition to our retail business, we operate a wholesale supply, marketing and distribution business providing propane procurement, transportation, supply and price risk management services. We currently provide wholesale supply, marketing and distribution services to approximately 350 customers in 24 states, primarily in the Midwest and Southeast.

### Our Competitive Strengths

We believe that we are well positioned to compete in the propane industry. Our competitive strengths include:

- Proven Acquisition Expertise. Our executive officers and key employees, who average more than 15 years experience in the propane industry, have significant industry contacts that have enabled us to negotiate all 11 of our acquisitions on an exclusive basis. This acquisition expertise should allow us to continue to grow through strategic and accretive acquisitions that complement our existing operations.

- Internal Growth. We consistently promote internal growth in our retail operations through a combination of marketing programs and employee incentives. We also provide various financial and other services, including level payment, fixed price and price cap programs, supply, repair and maintenance contracts, and 24-hour customer service, in order to attract new customers and retain existing customers.

- Operations in High Growth Markets. Our Southeastern operations, which accounted for approximately 33% of our pro forma retail volumes for the fiscal year ended September 30, 2000, are concentrated in higher-than-average population growth areas, where natural gas distribution is not cost effective. We intend to pursue acquisitions in similar high growth markets.

- Regional Branding. We believe that our success in generating internal growth at our customer service centers results from our established, locally recognized trade names. We attempt to capitalize on the reputation of the companies we acquire by retaining their local brand names and employees, thereby preserving the goodwill of the acquired business and fostering employee loyalty and customer retention.

- High Percentage of Retail Sales to Residential Customers. Our retail propane operations concentrate on sales to residential customers who generate higher margins and are generally more stable purchasers than other customers. For the fiscal year ended September 30, 2000, sales to residential customers represented approximately 70% of our retail propane gallons sold and approximately 77% of our retail gross profits, on a pro forma combined basis.

- Strong Wholesale Supply, Marketing and Distribution Business. Our wholesale business provides us with a growing income stream as well as valuable market intelligence and awareness of potential acquisition opportunities. In addition, these operations help us achieve a secure, efficient source of supply and product cost advantages for our customer service centers. Moreover, the presence of our trucks across the Midwest and Southeast allows us to take advantage of various pricing and distribution inefficiencies that exist in the market from time to time.

- Flexible Financial Structure. We believe that our ability at closing to borrow $20.0 million under our $70.0 million acquisition facility, our $30.0 million working capital facility and our ability to fund acquisitions through the issuance of additional partnership interests will provide us with a flexible financial structure that will facilitate our acquisition strategy.

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

## Industry Background

Propane, a by-product of natural gas processing and petroleum refining, is a clean-burning energy source recognized for its transportability and ease of use relative to alternative stand-alone energy sources. Our retail propane business consists principally of transporting propane to our customer service centers and other distribution areas and then to tanks located on our customers' premises. Retail propane falls into three broad categories: residential, industrial and commercial and agricultural. Residential customers use propane primarily for space and water heating. Industrial customers use propane primarily as fuel for forklifts and stationary engines, to fire furnaces, as a cutting gas, in mining operations and in other process applications. Commercial customers, such as restaurants, motels, laundries and commercial buildings, use propane in a variety of applications, including cooking, heating and drying. In the agricultural market, propane is primarily used for tobacco curing, crop drying, poultry brooding and weed control.

According to the American Petroleum Institute, the domestic retail market for propane is approximately 11.2 billion gallons annually. This represents approximately 5% of household energy consumption in the United States. The propane distribution industry is characterized by a large number of relatively small, independently owned and operated local distributors. Each year a significant number of these local distributors have sought to sell their businesses for reasons that include retirement and estate planning. In addition, the propane industry faces increasing environmental regulations and escalating capital requirements needed to acquire advanced, customer-oriented technologies. Primarily as a result of these factors, the industry is undergoing consolidation, and we, as well as other national and regional distributors, have been active consolidators in the propane market. In recent years, an active, competitive market has existed for the acquisition of propane assets and businesses. We expect this acquisition market to continue for the foreseeable future.

## Summary of Risk Factors

An investment in our common units involves risks associated with our business, our partnership structure and the tax characteristics of common units. Please carefully read the risks relating to these matters described under "Risk Factors."

## SUMMARY OF CONFLICTS OF INTEREST AND FIDUCIARY RESPONSIBILITIES

Inergy GP, LLC, our managing general partner, has a legal duty to manage us in a manner beneficial to our unitholders. This legal duty originates in statutes and judicial decisions and is commonly referred to as a "fiduciary" duty. However, because our managing general partner is a subsidiary of Inergy Holdings, LLC, generally referred to as Inergy Holdings in this prospectus, its officers and directors also have fiduciary duties to manage our managing general partner's business in a manner beneficial to the members of Inergy Holdings. As a result of these relationships and others, conflicts of interest may arise in the future between us and our unitholders, on the one hand, and our general partners and their affiliates, on the other. For a more detailed description of the conflicts of interest and fiduciary responsibilities of our general partners, please read "Conflicts of Interest and Fiduciary Responsibilities."

Our partnership agreement limits the liability and reduces the fiduciary duties owed by our general partners to the unitholders. Our partnership agreement also restricts the remedies available to unitholders for actions that might otherwise constitute breaches of our general partners' fiduciary duties. By purchasing a common unit, you are treated as having consented to various actions contemplated in the partnership agreement and conflicts of interest that might otherwise be considered a breach of fiduciary or other duties under applicable state law.

## PARTNERSHIP STRUCTURE AND MANAGEMENT

Our operations will be conducted through, and our operating assets will be owned by, our subsidiaries. We will own our interests in our subsidiaries through our operating company, Inergy Propane, LLC. Upon consummation of this offering and related transactions:

- We will own a 100% membership interest in Inergy Propane, LLC. Our membership interest in Inergy Propane, LLC carries economic and voting rights.

- Inergy GP, LLC, our managing general partner, will have sole responsibility for conducting our business and managing our operations. Our managing general partner's only interest in us is its management rights. Inergy GP, LLC has no economic interest in our partnership nor will it receive any management fee.

- Inergy Partners, LLC, our non-managing general partner, will own a 2% non-managing general partner interest in us. The 2% general partner interest is entitled to its proportionate share of allocations and distributions in our partnership. Our non-managing general partner will have no operational or managerial responsibilities under our partnership agreement. In this prospectus, we refer to the interest owned by the non-managing general partner as its 2% general partner interest.

- Inergy Holdings will own 100% of our managing general partner and substantially all of our non-managing general partner. Inergy Holdings will also own all of the "incentive distribution rights," which entitle it to receive increasing percentages, up to 48%, of any cash we distribute in excess of $0.66 per unit in any quarter.

- New Inergy Propane, LLC, a wholly-owned subsidiary of our non-managing general partner, will own 1,106,266 senior subordinated units and 572,542 junior subordinated units, representing an aggregate limited partner interest in us of approximately 31%.

Our principal executive offices are located at 1101 Walnut, Suite 1500, Kansas City, Missouri 64106, and our phone number is (816) 842-8181.

The chart on the following page depicts the organization and ownership of us and our operating company, after giving effect to the offering and the related transactions.

[FLOW CHART APPEARS HERE]

THE OFFERING

| | |
|---|---|
| Common units offered..... | 1,500,000 common units.<br><br>1,725,000 common units if the underwriters exercise their over-allotment option in full. |
| Units outstanding after this offering..... | 1,500,000 common units, representing a 27.3% limited partner interest in Inergy, L.P.; 3,313,367 senior subordinated units, representing a 60.3% limited partner interest in Inergy, L.P.; and 572,542 junior subordinated units, representing a 10.4% limited partner interest in Inergy, L.P. |
| Cash distributions..... | We intend to make minimum quarterly distributions of $0.60 per unit. In general, we will pay any cash distributions we make each quarter in the following manner:<br><br>. first, 98% to the common units and 2% to the non-managing general partner, until each common unit has received a minimum quarterly distribution of $0.60 plus any arrearages from prior quarters;<br><br>. second, 98% to the senior subordinated units and 2% to the non-managing general partner, until each senior subordinated unit has received a minimum quarterly distribution of $0.60;<br><br>. third, 98% to the junior subordinated units and 2% to the non-managing general partner, until each junior subordinated unit has received a minimum quarterly distribution of $0.60; and<br><br>. fourth, 98% to all units, pro rata, and 2% to the non-managing general partner, until each unit has received a distribution of $0.66 per quarter.<br><br>If cash distributions exceed $0.66 per unit in any quarter, Inergy Holdings will receive increasing percentages, up to 48%, of the cash we distribute in excess of that amount. We refer to Inergy Holdings' right to receive these higher amounts of cash as "incentive distribution rights."<br><br>We must distribute all of our cash on hand at the end of each quarter, less reserves established by our managing general partner. We refer to this cash as "available cash," and we define its meaning in our partnership agreement and in the glossary in Appendix C. The amount of available cash may be greater than or less than the minimum quarterly distribution.<br><br>Our pro forma available cash from operating surplus for the twelve months ended March 31, 2001 would have been sufficient to allow us to pay the minimum quarterly distribution on all of the common units, all of the senior subordinated units and all of the junior subordinated units. Our pro forma available cash from operating surplus for the fiscal year ended September 30, 2000 would have been sufficient to allow us to pay the minimum quarterly distribution on all of our common units and approximately 33% of the minimum quarterly distribution on the senior subordinated units |

| | |
|---|---|
| | and no distribution on the junior subordinated units. Please read "Cash Available for Distribution." |
| Subordination periods..... | The subordination period will end once we meet the financial tests in the partnership agreement, but it generally cannot end before June 30, 2006 with respect to the senior subordinated units and June 30, 2008 with respect to the junior subordinated units.<br><br>When the applicable subordination period ends, all remaining senior subordinated units or junior subordinated units, as applicable, will convert into common units on a one-for-one basis. Once all subordinated units have been converted into common units, the common units sold in this offering will no longer be entitled to arrearages. |
| Early conversion of subordinated units..... | If we meet the applicable financial tests in the partnership agreement for any quarter ending on or after June 30, 2004, 25% of the senior subordinated units will convert into common units. If we meet these tests for any quarter ending on or after June 30, 2005, an additional 25% of the senior subordinated units will convert into common units. The early conversion of the second 25% of the senior subordinated units may not occur until at least one year after the early conversion of the first 25% of the senior subordinated units.<br><br>If we meet the applicable financial tests in the partnership agreement for any quarter ending on or after June 30, 2006, 25% of the junior subordinated units will convert into common units. If we meet these tests for any quarter ending on or after June 30, 2007, an additional 25% of the junior subordinated units will convert into common units. The early conversion of the second 25% of the junior subordinated units may not occur until at least one year after the early conversion of the first 25% of the junior subordinated units.<br><br>Notwithstanding the foregoing, all outstanding junior subordinated units may convert into common units on a one-for-one basis on or after June 30, 2006, if we have paid a distribution of at least $2.80 on each outstanding unit for each of the three preceding non-overlapping four-quarter periods, all of the senior subordinated units have been converted into common units, and we have met other applicable financial tests in the partnership agreement. |
| Issuance of additional units..... | In general, while any senior subordinated units remain outstanding, we may not issue more than 750,000 additional common units, or 50% of the common units outstanding immediately after this offering, without obtaining unitholder approval. We may, however, issue an unlimited number of common units for acquisitions that increase cash flow from operations per unit on a pro forma basis. We refer to acquisitions which increase cash flow from operations on a per unit basis as "accretive." |

| | |
|---|---|
| Voting rights..... | Unlike the holders of common stock in a corporation, you will have only limited voting rights on matters affecting our business. You will have no right to elect our managing general partner or its directors on an annual or other continuing basis. The managing general partner may not be removed except by the vote of the holders of at least 66 2/3% of the outstanding units, including units owned by the general partners and their affiliates. |
| Limited call right..... | If at any time not more than 20% of the outstanding common units are held by persons other than our general partners and their affiliates, our managing general partner has the right, but not the obligation, to purchase all of the remaining common units at a price not less than the then current market price of the common units. |
| Estimated ratio of taxable income to distributions..... | We estimate that if you own the common units you purchase in this offering through June 30, 2004, you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be no more than 20% of the cash distributed to you with respect to that period.<br><br>Please read "Tax Considerations--Tax Treatment of Unitholders--Ratio of Taxable Income to Distributions" for the basis of this estimate. |
| Exchange listing..... | We have applied to list the common units on the Nasdaq National Market under the symbol "NRGY." |

## SUMMARY HISTORICAL AND PRO FORMA FINANCIAL AND OPERATING DATA

The following table shows selected historical financial data for our predecessor, Inergy Partners, LLC, and pro forma financial and operating data of Inergy, L.P., in each case for the periods and as of the dates indicated. The selected historical financial data for the years ended September 30, 1998, 1999 and 2000 are derived from the audited financial statements of Inergy Partners, LLC. The selected historical financial data for the six months ended March 31, 2000 and 2001 are derived from the unaudited financial statements of Inergy Partners, LLC. The historical other data is unaudited. The historical financial and other data of Inergy Partners, LLC include the results of operations of Country Gas Company, Inc. from June 1, 2000, the date of acquisition, and the results of operations of the Hoosier Propane Group from January 1, 2001, the effective date of the acquisition.

The summary pro forma financial and operating data of Inergy, L.P. reflect the consolidated historical operating results of Inergy Partners, LLC., Country Gas Company, Inc. and the Hoosier Propane Group as adjusted for the offering and the related transactions. The summary pro forma financial data are derived from the unaudited pro forma financial statements. The pro forma balance sheet assumes that the offering and related transactions occurred on March 31, 2001. The pro forma statements of operations assume that the Country Gas acquisition, the Hoosier Propane Group acquisition and the offering and related transactions occurred on October 1, 1999. For a description of all of the assumptions used in preparing the summary pro forma financial data, you should read the notes to the pro forma financial statements for Inergy, L.P. The pro forma financial and operating data should not be considered as indicative of the historical results we would have had or the future results that we will have after the offering.

We define Adjusted EBITDA as shown in the table on page 9 and elsewhere in this prospectus as operating income plus depreciation and amortization, other income and non-cash charges. Adjusted 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 Adjusted EBITDA provides additional information for evaluating our ability to make the minimum quarterly distribution and is presented solely as a supplemental measure. Adjusted EBITDA, as we define it, may not be comparable to EBITDA or similarly titled measures used by other corporations or partnerships.

The following table should be read together with, and is qualified in its entirety by reference to, the historical and pro forma financial statements and the accompanying notes included in this prospectus. The table should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations."

| | Inergy Partners, LLC--Historical | | | | | Inergy, L.P Pro Forma | |
|---|---|---|---|---|---|---|---|
| | Years Ended September 30, | | | Six Months Ended March 31, | | Year Ended September 30, | Six Months Ended March 31, |
| | 1998 | 1999 | 2000 | 2000 | 2001 | 2000 | 2001 |
| | (in thousands, except per unit data) | | | | | | |
| Statement of Operations Data: | | | | | | | |
| Revenues | $ 7,507 | $ 19,135 | $ 93,595 | $ 50,457 | $170,439 | $167,031 | $201,980 |
| Cost of product sold | 4,215 | 13,754 | 81,636 | 42,054 | 141,425 | 134,534 | 166,597 |
| Gross profit | 3,292 | 5,381 | 11,959 | 8,403 | 29,014 | 32,497 | 35,383 |
| Expenses: | | | | | | | |
| Operating and administrative(a) | 2,424 | 4,119 | 8,990 | 4,093 | 11,464 | 20,076 | 13,866 |
| Depreciation and amortization | 394 | 690 | 2,286 | 887 | 2,748 | 7,689 | 3,921 |
| Operating income | 474 | 572 | 683 | 3,423 | 14,802 | 4,732 | 17,596 |
| Other income (expense): | | | | | | | |
| Interest expense | (569) | (962) | (2,740) | (1,157) | (2,860) | (5,251) | (2,807) |
| Interest income | -- | -- | -- | -- | -- | 272 | 57 |
| Gain on sale of property, plant and equipment | -- | 101 | -- | -- | -- | 72 | 10 |
| Other | 60 | 160 | 235 | 95 | 245 | 419 | 335 |
| Income (loss) before income taxes | (35) | (129) | (1,822) | 2,361 | 12,187 | 244 | 15,191 |
| Provision for income taxes | -- | 56 | 7 | -- | -- | 7 | -- |
| Net income (loss) | $ (35) | $ (185) | $ (1,829) | $ 2,361 | $ 12,187 | $ 237 | $ 15,191 |
| Pro forma non-managing general partner's interest in net income | | | | | | $ 5 | $ 304 |
| Pro forma limited partners' interest in net income | | | | | | $ 232 | $ 14,887 |
| Pro forma net income per limited partner unit | | | | | | $ 0.04 | $ 2.76 |
| Pro forma weighted average limited partners' units outstanding | | | | | | 5,330 | 5,386 |
| Balance Sheet Data (end of period): | | | | | | | |
| Current assets | $ 2,119 | $ 11,390 | $ 22,199 | $ 12,653 | $ 31,306 | | $ 29,806 |
| Total assets | 10,230 | 38,896 | 68,924 | 41,900 | 150,373 | | 148,873 |
| Long-term debt, including current portion | 5,694 | 22,337 | 34,927 | 24,413 | 84,398 | | 58,398 |
| Redeemable preferred members' interest | -- | -- | 10,896 | 1,896 | 34,313 | | -- |
| Members' equity/partners' capital | 2,611 | 5,269 | 2,972 | 7,495 | 14,453 | | 74,208 |
| Other Financial Data: | | | | | | | |
| Adjusted EBITDA (unaudited) | $ 928 | $ 1,500 | $ 3,283 | $ 4,444 | $ 17,834 | $ 12,840 | $ 21,852 |
| Net cash provided by (used in) operating activities | 362 | (847) | (309) | (839) | 2,594 | | |
| Net cash used in investing activities | (727) | (13,057) | (12,377) | (2,756) | (60,179) | | |
| Net cash provided by financing activities | 336 | 14,056 | 13,907 | 3,796 | 59,740 | | |
| Maintenance capital expenditures(b) (unaudited) | 61 | 156 | 283 | 126 | 591 | 1,234 | 748 |
| Other Operating Data (Unaudited): | | | | | | | |
| Retail propane gallons sold | 5,612 | 8,076 | 15,592 | 12,008 | 30,543 | 48,618 | 39,128 |
| Wholesale propane gallons sold | N/A | 24,745 | 142,618 | 82,232 | 137,355 | 211,491 | 188,208 |

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(a) The historical financial statements include non-cash charges related to amortization of deferred compensation of $78,000 and $79,000 for the years ended September 30, 1999 and 2000, respectively, and $39,000 for each of

the six month periods ended March 31, 2000 and 2001. These non-cash charges are included in the calculation of Adjusted EBITDA.

(b) Capital expenditures fall generally into three categories: (1) growth capital expenditures, which include expenditures for the purchase of new propane tanks and other equipment to facilitate expansion of our retail customer base, (2) maintenance capital expenditures, which include expenditures for repair and replacement of property, plant and equipment, and (3) acquisition capital expenditures.

Limited partner interests are inherently different from capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. You should carefully consider the following risk factors together with all of the other information included in this prospectus in evaluating an investment in the common units.

If any of the following risks were actually to occur, our business, financial condition or results of operations could be materially adversely affected. In that case, the trading price of our common units could decline and you could lose all or part of your investment.

## Risks Inherent in our Business

### We may not be able to generate sufficient cash from operations to allow us to pay the minimum quarterly distribution.

The amount of cash we can distribute on our common units depends upon the amount of cash we generate from our operations. The amount of cash we generate from our operations will fluctuate from quarter to quarter and will depend upon, among other things, the temperatures in our operating areas, the cost to us of the propane we buy for resale, the level of competition from other propane companies and other energy providers and prevailing economic conditions. In addition, the actual amount of cash available for distribution will also depend on other factors, such as the level of capital expenditures we make, debt service requirements, fluctuations in working capital needs, our ability to borrow under our working capital facility to make distributions, and the amount, if any, of cash reserves established by the managing general partner in its discretion for the proper conduct of our business. Because of all these factors, we may not have sufficient available cash each quarter to be able to pay the minimum quarterly distribution.

Furthermore, you should be aware that the amount of cash we have available for distribution depends primarily upon our cash flow, including cash flow from financial reserves and working capital borrowings, and is not solely a function of profitability, which will be affected by non-cash items. As a result, we may make cash distributions during periods when we record losses and may not make cash distributions during periods when we record net income.

The amount of cash needed to pay the minimum quarterly distribution for four quarters on the common units, the subordinated units and the general partner interest to be outstanding immediately after the offering is approximately $13.2 million. If we had completed the transactions contemplated in this prospectus on October 1, 1999, pro forma available cash from operating surplus generated during the fiscal year ended September 30, 2000 would have been approximately $6.4 million. This amount would have been sufficient to allow us to pay the minimum quarterly distribution on all of the common units and approximately 33% of the minimum quarterly distribution on the senior subordinated units, but would have been insufficient to allow us to pay any distribution on the junior subordinated units. For a calculation of our ability to make distributions to you based on our pro forma results for the fiscal year ended September 30, 2000 and for the twelve months ended March 31, 2001, please read "Cash Available for Distribution" and Appendix D. The terms "available cash" and "operating surplus" are technical terms which are precisely defined in our partnership agreement. We have included these definitions in our glossary. "Available cash" generally means cash on hand at the end of the quarter, including any working capital borrowings, less appropriate reserves. "Operating surplus" generally means cash received from our operations, as opposed to long-term borrowings or major asset sales, less our operating expenses.

### Since weather conditions may adversely affect the demand for propane, our financial condition and results of operations are vulnerable to, and will be adversely affected by, warm winters.

Weather conditions have a significant impact on the demand for propane because our customers depend on propane principally for heating purposes. As a result, warm weather conditions will adversely impact our operating results and financial condition. On a pro forma basis for the fiscal year ended September 30, 2000, approximately 72% of our retail propane volume and approximately 73% of our gross profit was attributable to sales during the peak heating season of October through March. Actual weather conditions can substantially

change from one year to the next. Furthermore, warmer than normal temperatures in one or more regions in which we operate can significantly decrease the total volume of propane we sell. Consequently, our operating results may vary significantly due to actual changes in temperature. During the fiscal years ended September 30, 1999 and 2000, temperatures were significantly warmer than normal in our areas of operation. We believe the Adjusted EBITDA we generated during fiscal 1999 and 2000 was adversely affected primarily due to this abnormally warm weather.

**Sudden and sharp propane price increases that cannot be passed on to customers may adversely affect our profit margins.**

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.

**If we are not able to purchase propane from our principal supplier, our results of operations would be adversely affected.**

During the fiscal year ended September 30, 2000, BP Amoco p.l.c. accounted for approximately 21% of our volume of propane purchases on a pro forma combined basis. Substantially all of these purchases were made under supply contracts that have a term of one year, are subject to annual renewal and provide various pricing formulas. In the event that we are unable to purchase propane from this supplier, our failure to obtain alternate sources of supply at competitive prices and on a timely basis would hurt our ability to satisfy customer demand, reduce our revenues and adversely affect our results of operations.

**Our business would be adversely affected if service at our principal storage facilities or on common carrier pipelines we use is interrupted.**

Historically, a substantial portion of the propane purchased to support our operations has originated at Conway, Kansas, Hattiesburg, Mississippi and Mont Belvieu, Texas and has been shipped to us through major common carrier pipelines. Any significant interruption in the service at these storage facilities or on the common carrier pipelines we use would adversely affect our ability to obtain propane.

**If we do not make acquisitions on economically acceptable terms, our future financial performance will be limited.**

The propane industry is not a growth industry because of increased competition from alternative energy sources. In addition, as a result of longstanding customer relationships that are typical in the retail home propane industry, the inconvenience of switching tanks and suppliers and propane's higher cost as compared to certain other energy sources, we may have difficulty in increasing our retail customer base other than through acquisitions. Therefore, while our business strategy includes internal growth, our ability to grow will depend principally on acquisitions. Our future financial performance depends on our ability to make acquisitions at attractive prices. We cannot assure you that we will be able to identify attractive acquisition candidates in the future or that we will be able to acquire businesses on economically acceptable terms. In particular, competition for acquisitions in the propane business has intensified and become more costly. We may not be able to grow as rapidly as we expect through acquiring additional businesses after this offering closes for various reasons, including the following:

- This offering will not provide us with any cash for acquisitions and we expect we will use our cash from operations primarily for reinvestment in our business and distributions to unitholders.

Consequently, the extent to which we are unable to use cash or access capital to pay for additional acquisitions may limit our growth and impair operating results. Further, any debt incurred to finance acquisitions may affect our ability to make distributions to the unitholders.

- Although we intend to use common units as an acquisition currency, some prospective sellers may not be willing to hold units and their issuance in some circumstances may be dilutive.

Moreover, any acquisition involves potential risks, including:

- the inability to integrate the operations of recently acquired businesses,
- the diversion of management's attention from other business concerns,
- customer or key employee loss from the acquired businesses, and
- a significant increase in our indebtedness.

**Our indebtedness may limit our ability to borrow additional funds, make distributions to you or capitalize on acquisition or other business opportunities.**

As of March 31, 2001, our total long-term indebtedness was approximately $84.4 million. Upon completion of the offering, we expect our total outstanding long-term indebtedness to be approximately $54.0 million, including approximately $49.0 million under our acquisition facility, $4.0 million under our working capital facility and $1.0 million of other indebtedness. Our payment of principal and interest on the indebtedness will reduce the cash available for distribution on the units. We will be prohibited by our credit facility from making cash distributions during an event of default under any of our indebtedness. Furthermore, our leverage and various limitations in the credit facility may reduce our ability to incur additional indebtedness, to engage in some transactions and to capitalize on acquisition or other business opportunities. Any subsequent refinancing of our current indebtedness or any new indebtedness could have similar or greater restrictions.

**The highly competitive nature of the retail propane business could cause us to lose customers, thereby reducing our revenues.**

We have competitors and potential competitors who are larger and have substantially greater financial resources than we do, which may provide them with some advantages. Also, because of relatively low barriers to entry into the retail propane business, numerous small retail propane distributors, as well as companies not engaged in retail propane distribution, may enter our markets and compete with us. Competition in the past several years has intensified, partly as a result of warmer-than-normal weather and general economic conditions. Most of our propane retail branch locations compete with several marketers or distributors. The principal factors influencing competition with other retail marketers are:

- price,
- reliability and quality of service,
- responsiveness to customer needs,
- safety concerns,
- long-standing customer relationships,
- the inconvenience of switching tanks and suppliers, and
- the lack of growth in the industry.

We can make no assurances that we will be able to compete successfully on the basis of these factors. If a competitor attempts to increase market share by reducing prices, we may lose customers, which would reduce our revenues.

Competition from alternative energy sources may cause us to lose customers, thereby reducing our revenues.

Competition from alternative energy sources, including natural gas and electricity, has been increasing as a result of reduced regulation of many utilities, including natural gas and electricity. Propane is generally not competitive with natural gas in areas where natural gas pipelines already exist because natural gas is a less expensive source of energy than propane. The gradual expansion of natural gas distribution systems and availability of natural gas in many areas that previously depended upon propane could cause us to lose customers, thereby reducing our revenues.

We are subject to operating and litigation risks that could adversely affect our operating results to the extent not covered by insurance.

Our operations are subject to all operating hazards and risks incident to handling, storing, transporting and providing customers with combustible liquids such as propane. As a result, we may be a defendant in various legal proceedings and litigation arising in the ordinary course of business. Our insurance may not be adequate to protect us from all material expenses related to potential future claims for personal and property damage. In addition, the occurrence of a serious accident, whether or not we are involved, may have an adverse effect on the public's desire to use our products.

Our results of operations and financial condition may be adversely affected by governmental regulation and associated environmental and regulatory costs.

The propane business is subject to a wide range of federal and state laws and regulations related to environmental and other regulated matters. We may have higher costs in the future due to stricter pollution control requirements or liabilities resulting from non-compliance with operating or other regulatory permits. New environmental regulations might adversely impact our operations, as well as the storage and transportation of propane.

Energy efficiency and new technology may reduce the demand for propane.

The national trend toward increased conservation and technological advances, including installation of improved insulation and the development of more efficient furnaces and other heating devices, has adversely affected the demand for propane by retail customers. Future conservation measures or technological advances in heating, conservation, energy generation or other devices might reduce demand for propane.

Risks Inherent in an Investment in Inergy, L.P.

Unitholders have less ability to elect or remove management than holders of common stock in a corporation.

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business, and therefore limited ability to influence management's decisions regarding our business. Unitholders did not elect our managing general partner or its board of directors and will have no right to elect our managing general partner or its board of directors on an annual or other continuing basis. The board of directors of our managing general partner is chosen by the sole member of our managing general partner, Inergy Holdings. Although our managing general partner has a fiduciary duty to manage our partnership in a manner beneficial to Inergy, L.P. and the unitholders, the directors of the managing general partner have a fiduciary duty to manage the managing general partner in a manner beneficial to its member, Inergy Holdings.

Furthermore, if the unitholders are dissatisfied with the performance of our managing general partner, they will have little ability to remove our managing general partner. First of all, the managing general partner

generally may not be removed except upon the vote of the holders of 66 2/3% of the outstanding units voting together as a single class. Because the general partners and their affiliates will own approximately 40% of all the units, the managing general partner currently cannot be removed without the consent of the general partners. Furthermore, if the managing general partner is removed without cause during the subordination period and units held by the general partners and their affiliates are not voted in favor of that removal, all remaining subordinated units will automatically be converted into common units and any existing arrearages on the common units will be extinguished. A removal under these circumstances would adversely affect the common units by prematurely eliminating their distribution and liquidation preference over the subordinated units which would otherwise have continued until we had met certain distribution and performance tests.

Cause is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding the managing general partner liable for actual fraud, gross negligence, or willful or wanton misconduct in its capacity as our managing general partner. Cause does not include most cases of charges of poor management of the business, so the removal of the managing general partner because of the unitholders' dissatisfaction with the managing general partner's performance in managing our partnership will most likely result in the termination of the subordination period.

Furthermore, unitholders' voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than the general partners and their affiliates, cannot be voted on any matter.

**The control of our managing general partner may be transferred to a third party without unitholder consent.**

The managing general partner may transfer its general partner interest to a third party in a merger or in a sale of substantially all of its assets without the consent of the unitholders. Furthermore, there is no restriction in the partnership agreement on the ability of the owner of the managing general partner, Inergy Holdings, from transferring its ownership interest in the managing general partner to a third party. The new owner of the managing general partner would then be in a position to replace the board of directors and officers of the managing general partner with its own choices and to control the decisions taken by the board of directors and officers.

**Our managing general partner has a limited call right that may require you to sell your common units at an undesirable time or price.**

If at any time less than 20% of the outstanding units of any class are held by persons other than our general partners and their affiliates, our managing general partner has the right to acquire all, but not less than all, of those units held by the unaffiliated persons. The price for these units will not be less than the then-current market price of the units. As a consequence, you may be required to sell your common units at an undesirable time or price. Our managing general partner may assign this acquisition right to any of its affiliates or to the partnership.

**Cost reimbursements due our managing general partner may be substantial and reduce our ability to pay the minimum quarterly distribution.**

Prior to making any distributions on the units, we will reimburse our managing general partner for all expenses it has incurred on our behalf. In addition, our general partners and their affiliates may provide us with services for which we will be charged reasonable fees as determined by the managing general partner. The reimbursement of these expenses and the payment of these fees could adversely affect our ability to make distributions to you. Our managing general partner has sole discretion to determine the amount of these expenses and fees.

**You will experience immediate and substantial dilution in net tangible book value of $15.53 per common unit.**

The assumed initial public offering price of $20.00 per unit exceeds pro forma net tangible book value of $4.47 per unit. Based on the assumed offering price, you will incur immediate and substantial dilution of $15.53 per common unit. Please read "Dilution."

**We may issue additional common units without your approval, which would dilute your existing ownership interests.**

While any senior subordinated units remain outstanding, our managing general partner may cause us to issue up to 750,000 additional common units without your approval. Our managing general partner may also cause us to issue an unlimited number of additional common units, without your approval, in a number of circumstances, such as:

- the issuance of common units in connection with acquisitions that increase cash flow from operations per unit on a pro forma basis,
- the conversion of subordinated units into common units,
- the conversion of the general partner interests and the incentive distribution rights into common units as a result of the withdrawal of our general partners, or
- issuances of common units under our long-term incentive plan.

The issuance of additional common units or other equity securities of equal rank will have the following effects:

- your proportionate ownership interest in us will decrease,
- the amount of cash available for distribution on each common unit may decrease,
- since a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by the common unitholders will increase,
- the relative voting strength of each previously outstanding common unit may be diminished, and
- the market price of the common units may decline.

Once no senior subordinated units remain outstanding, we may issue an unlimited number of limited partner interests of any type without the approval of the unitholders. Our partnership agreement does not give the unitholders the right to approve our issuance of equity securities ranking junior to the common units.

**You may not have limited liability if a court finds that unitholder actions constitute control of our business.**

Under Delaware law, you could be held liable for our obligations to the same extent as a general partner if a court determined that the right of unitholders to remove our managing general partner or to take other action under the partnership agreement constituted participation in the "control" of our business.

Our general partners generally have unlimited liability for the obligations of the partnership, such as its debts and environmental liabilities, except for those contractual obligations of the partnership that are expressly made without recourse to the general partners.

In addition, Section 17-607 of the Delaware Revised Uniform Limited Partnership Act provides that, under some circumstances, a unitholder may be liable to us for the amount of a distribution for a period of three years

from the date of the distribution. Please read "The Partnership Agreement--Limited Liability" for a discussion of the implications of the limitations on liability to a unitholder.

**Our general partners have conflicts of interest and limited fiduciary responsibilities, which may permit our general partners to favor their own interests to the detriment of unitholders.**

Following this offering, Inergy Holdings will indirectly own an aggregate limited partner interest of approximately 31% in us and the incentive distribution rights, will own and control our managing general partner and will own and control our non-managing general partner, which owns the 2% general partner interest. Conflicts of interest could arise in the future as a result of relationships between Inergy Holdings, our general partners and their affiliates, on the one hand, and the partnership or any of the limited partners, on the other hand. As a result of these conflicts our general partners may favor their own interests and those of their affiliates over the interests of the unitholders. The nature of these conflicts includes the following considerations:

- Our general partners may limit their liability and reduce their fiduciary duties, while also restricting the remedies available to unitholders for actions that might, without the limitations, constitute breaches of fiduciary duty. Unitholders are deemed to have consented to some actions and conflicts of interest that might otherwise be deemed a breach of fiduciary or other duties under applicable state law.

- Our general partners are allowed to take into account the interests of parties in addition to the partnership in resolving conflicts of interest, thereby limiting their fiduciary duties to the unitholders.

- Our general partners' affiliates are not prohibited from engaging in other business or activities, including those in direct competition with us.

- Our managing general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings and reserves, each of which can affect the amount of cash that is distributed to unitholders.

- Our managing general partner determines whether to issue additional units or other equity securities of the partnership.

- Our managing general partner determines which costs are reimbursable by us.

- Our managing general partner controls the enforcement of obligations owed to us by it.

- Our managing general partner decides whether to retain separate counsel, accountants or others to perform services for us.

- Our managing general partner is not restricted from causing us to pay it or its affiliates for any services rendered on terms that are fair and reasonable to us or entering into additional contractual arrangements with any of these entities on our behalf.

- In some instances our managing general partner may borrow funds in order to permit the payment of distributions, even if the purpose or effect of the borrowing is to make a distribution on the subordinated units or to make incentive distributions or hasten the expiration of the subordination period.

**Unitholders may have limited liquidity for their units, a trading market may not develop for the units and you may not be able to resell your units at the initial public offering price.**

Prior to the offering, there has been no public market for the common units. After the offering, there will be only 1,500,000 publicly-traded common units. We do not know the extent to which investor interest will lead to the development of a trading market or how liquid that market might be. You may not be able to resell your common units at or above the initial public offering price. Additionally, the lack of liquidity may result in

wide bid-ask spreads, contribute to significant fluctuations in the market price of the common units and limit the number of investors who are able to buy the common units.

Tax Risks To Common Unitholders

You should read "Tax Considerations" for a more complete discussion of the following expected material federal income tax consequences of owning and disposing of our common units.

The IRS could treat us as a corporation for tax purposes, which would substantially reduce the cash available for distribution to you.

The federal income tax treatment of an investment in our common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other matter affecting us.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our income at the corporate tax rate, which is currently a maximum of 35%. Distributions to you would generally be taxed again to you as corporate distributions, and none of our income, gains, losses or deductions would flow through to you. Because a tax would be imposed upon us as a corporation, our cash available for distribution to you would be substantially reduced. As a result, if we are treated as a corporation there would be a material reduction in the after-tax return to the unitholders, likely causing substantial reduction in the value of our common units.

Current law may change so as to cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. The partnership agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that causes us to be treated as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, then the minimum quarterly distribution and the target distribution levels will be decreased to reflect that impact on us.

A successful IRS contest of the federal income tax positions we take may adversely affect the market for common units.

We have not requested a ruling from the IRS with respect to any matter affecting us. The IRS may adopt positions that differ from the conclusions of our counsel expressed in this prospectus or from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain our counsel's conclusions or the positions we take. A court may not concur with our counsel's conclusions or the positions we take. Any contest with the IRS may materially and adversely affect the market for our common units and the price at which they trade. In addition, some or all of our unitholders and our general partners will bear the costs of any contest with the IRS, principally legal, accounting and related fees, either directly or indirectly.

You may be required to pay taxes even if you do not receive any cash distributions.

You will be required to pay federal income taxes and, in some cases, state and local income taxes on your share of our taxable income even if you do not receive any cash distributions from us. You may not receive cash distributions from us equal to your share of our taxable income or even equal to the actual tax liability that results from the taxation of your share of our taxable income.

Tax gain or loss on disposition of common units could be different than expected.

If you sell your common units, you will recognize gain or loss equal to the difference between the amount realized and your tax basis in those common units. Prior distributions to you in excess of the total net taxable income you were allocated for a common unit which decreased your tax basis in that common unit will, in effect, become taxable income to you if the common unit is sold at a price greater than your tax basis in that

common unit, even if the price you receive is less than your original cost. A substantial portion of the amount you realize, whether or not representing gain, may be ordinary income to you. Should the IRS successfully contest some positions we take, you could recognize more gain on the sale of your common units than would be the case under those positions, without the benefit of decreased income in prior years. Also, if you sell your common units, you may incur a tax liability in excess of the amount of cash you receive from the sale.

**Tax-exempt entities, regulated investment companies and foreign persons face unique tax issues from owning common units which may result in adverse tax consequences to them.**

Investment in common units by tax-exempt entities, regulated investment companies (known as mutual funds) and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations exempt from federal income tax, including individual retirement accounts and other retirement plans, will be unrelated business taxable income and will be taxable to them. Very little of our income will be qualifying income to a regulated investment company. Distributions to non-U.S. persons will be reduced by withholding taxes, currently at the rate of 39.6%, and non-U.S. persons will be required to file federal income tax returns and pay tax on their share of our taxable income.

**We will register as a tax shelter. This may increase the risk of an IRS audit of us or a unitholder.**

We intend to register with the IRS as a "tax shelter." We will advise you of our tax shelter registration number once that number has been assigned. The IRS requires that some types of entities, including some partnerships, register as "tax shelters" in response to the perception that they claim tax benefits that the IRS may believe to be unwarranted. As a result, we may be audited by the IRS and tax adjustments could be made. Any unitholder owning less than a 1% profits interest in us has very limited rights to participate in the income tax audit process. Further, any adjustments in our tax returns will lead to adjustments in your tax returns and may lead to audits of your tax returns and adjustments of items unrelated to us. You will bear the cost of any expense incurred in connection with an examination of your personal tax return.

**We will treat each purchaser of units as having the same tax benefits without regard to the units purchased. The IRS may challenge this treatment, which could adversely affect the value of the units.**

Because we cannot match transferors and transferees of common units, we will adopt depreciation and amortization positions that do not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to you. It also could affect the timing of these tax benefits or the amount of gain from your sale of common units and could reduce the value of the common units or result in audit adjustments to your tax returns. Please read "Tax Considerations--Uniformity of Units" for a further discussion of the effect of the depreciation and amortization positions we adopt.

**You will likely be subject to state and local taxes in states where you do not live as a result of an investment in the units.**

In addition to federal income taxes, you will likely be subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property and in which you do not reside. You may be required to file state and local income tax returns and pay state and local income taxes in many or all of the jurisdictions in which we do business. Further, you may be subject to penalties for failure to comply with those requirements. We presently anticipate that substantially all of our income will be generated in the following states: Georgia, Illinois, Indiana, Michigan, Missouri, North Carolina, Ohio, Tennessee and Wisconsin. Each of these states imposes a personal income tax. If we expand our operations into other states, you may have to file state and local income tax returns in additional jurisdictions. If we conduct operations in other states, you may be required to file state and local income tax returns in additional jurisdictions. It is your responsibility to file all United States federal, state and local tax returns. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in the common units.

## USE OF PROCEEDS

Assuming a public offering price of $20.00 per unit, we expect to receive net proceeds of approximately $26.0 million (or $30.2 million if the underwriters exercise their over-allotment option) from the sale of the 1,500,000 common units offered by this prospectus, after deducting underwriting discounts and estimated offering expenses. We intend to use $5.0 million of the net proceeds of this offering to repay our subordinated debt in full and $21.0 million to repay a portion of our borrowings under our bank credit facility. We will use any net proceeds from the exercise of the over-allotment option to further repay borrowings under our bank credit faciltiy.

Our subordinated debt bears interest at 9% per annum and matures on January 12, 2004. As of March 31, 2001, total borrowings under our credit facility were approximately $78.3 million and had a weighted average interest rate 8.83%. The credit facility has a maturity date of January 10, 2004. We incurred all of our debt to fund our acquisitions and for working capital purposes.

## CAPITALIZATION

The following table shows (1) our historical capitalization as of March 31, 2001 on an actual basis, and (2) our pro forma capitalization as of March 31, 2001, as adjusted to reflect the offering of the common units and the application of the net proceeds we receive in the offering as described under "Use of Proceeds." We derived this table from, and it should be read in conjunction with and is qualified in its entirety by reference to, the historical and pro forma financial statements and the accompanying notes included elsewhere in this prospectus.

| | As of March 31, 2001 | | |
|---|---|---|---|
| | Actual | Offering Adjustments | Pro Forma as Adjusted |
| | (in thousands) | | |
| Cash and cash equivalents | $ 3,528 | $ (1,500)(a) | $ 2,028 |
| Debt: | | | |
| Current portion of long-term debt | $ 5,631 | $ -- | $ 5,631 |
| Long-term debt, less current portion | 73,767 | (21,000)(b) | 52,767 |
| Subordinated debt | 5,000 | (5,000)(c) | -- |
| Total debt | 84,398 | (26,000) | 58,398(e) |
| Redeemable preferred members' interest | 34,313 | (34,313)(d) | -- |
| Members' equity/partners' capital: | | | |
| Members' equity | 14,453 | (558)(a) | -- |
| | | (13,895)(d) | |
| Common unitholders | -- | 26,000 (d) | 26,000 |
| Senior subordinated unitholders | -- | 42,204 (d) | 42,204 |
| Junior subordinated unitholders | -- | 4,520 (d) | 4,520 |
| Non-managing general partner | -- | 1,484 (d) | 1,484 |
| Total members' equity/partners' capital | 14,453 | 59,755 | 74,208 |
| Total capitalization | $133,164 | $ (558) | $132,606 |

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(a) Reflects the $558,000 reduction in members' equity related to $1,500,000 of cash and the $942,000 deferred tax liabilities of Inergy Partners, LLC not transferred to Inergy, L.P. in connection with the offering.

(b) Reflects the repayment of a portion of the borrowings under our bank credit facility.

(c) Reflects the repayment in full of our subordinated debt.

(d) For an explanation of the allocation of the members' equity accounts to partners' capital accounts, please read the footnotes to the unaudited pro forma consolidated balance sheet. Upon the closing of this offering, there will be issued and outstanding 1,500,000 common units, 3,313,367 senior subordinated units, 572,542 junior subordinated units and the 2% general partner interest (which has a dilutive effect equivalent to 109,917 units).

(e) Upon consummation of this offering, we expect to have long-term indebtedness of approximately $54.0 million.

## DILUTION

On a pro forma basis as of March 31, 2001 after giving effect to the offering of common units and the related transactions, our net tangible book value was $24.6 million, or $4.47 per common unit. Purchasers of common units in this offering will experience immediate dilution in net tangible book value per common unit for financial accounting purposes, as illustrated in the following table:

| | | |
|---|---|---|
| Assumed initial public offering price per common unit..... | | $20.00 |
| Pro forma net tangible book value per common unit before the offering(a)..... | $(8.80) | |
| Increase in net tangible book value per common unit attributable to new investors and conversion of redeemable preferred interests..... | 13.27 | |
| Less: Pro forma net tangible book value per common unit after the offering(b)..... | | 4.47 |
| Immediate dilution in net tangible book value per common unit to new investors..... | | $15.53 |

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(a) Determined by dividing the total number of units (3,313,367 senior subordinated units, 572,542 junior subordinated units and the 2% general partner interest, which has a dilutive effect equivalent to 109,917 units) to be issued to Inergy Holdings and its subsidiaries and other investors for their contribution of assets and liabilities to Inergy, L.P., into the net tangible book value of the contributed assets and liabilities.

(b) Determined by dividing the total number of units (1,500,000 common units, 3,313,367 senior subordinated units, 572,542 junior subordinated units and the 2% general partner interest, which has a dilutive effect equivalent to 109,917 units) to be outstanding after the offering into the pro forma net tangible book value of Inergy, L.P., after giving effect to the application of the net proceeds of the offering.

The following table sets forth the number of units that we will issue and the total consideration contributed to us by the general partners, their affiliates and other investors in respect of their units and by the purchasers of common units in this offering upon consummation of the transactions contemplated by this prospectus:

| | Units Acquired | | | |
|---|---|---|---|---|
| | Number | Percent | Total Consideration | Percent |
| General Partners, their affiliates and other investors(a)..... | 3,995,826 | 72.7% | $48,208,000 | 61.6% |
| New investors..... | 1,500,000 | 27.3% | 30,000,000 | 38.4% |
| Total..... | 5,495,826 | 100.0% | $78,208,000 | 100.0% |

- --------

(a) Upon the consummation of the transactions contemplated by this prospectus, (i) Inergy Holdings and its subsidiaries will own an aggregate of 1,106,266 senior subordinated units, 572,542 junior subordinated units and the 2% general partner interest, which has a dilutive effect equivalent to 109,917 units, and (ii) other investors will own an aggregate of 2,207,101 senior subordinated units.

## Distributions of Available Cash

General. Within approximately 45 days after the end of each quarter, beginning with the quarter ending September 30, 2001, we will distribute all of our available cash to unitholders of record on the applicable record date. We will adjust the minimum quarterly distribution for the period from the closing of the offering through September 30, 2001 based on the actual length of the period.

Definition of Available Cash. We define available cash in the glossary, and it generally means, for each fiscal quarter, all cash on hand at the end of the quarter less the amount of cash that the managing general partner determines in its reasonable discretion is necessary or appropriate to:

- provide for the proper conduct of our business,
- comply with applicable law, any of our debt instruments, or other agreements, or
- provide funds for distributions to unitholders (including units held by affiliates of Inergy Holdings) and to our non-managing general partner for any one or more of the next four quarters,

plus all cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter. Working capital borrowings are generally borrowings that are made under our working capital facility and in all cases are used solely for working capital purposes or to pay distributions to partners.

Intent to Distribute the Minimum Quarterly Distribution. We intend, to the extent we have sufficient available cash from operating surplus, as defined below, to distribute to each common unit and subordinated unit at least the minimum quarterly distribution of $0.60 per quarter or $2.40 per year. However, there is no guarantee that we will pay the minimum quarterly distribution on the common units in any quarter, and we will be prohibited from making any distributions to unitholders if it would cause an event of default under our credit facility.

## Operating Surplus and Capital Surplus

General. All cash distributed to unitholders will be characterized either as "operating surplus" or "capital surplus." We distribute available cash from operating surplus differently than available cash from capital surplus.

Definition of Operating Surplus. We define operating surplus in the glossary, and for any period it generally means:

- our cash balance on the closing date of this offering,
- plus $8.5 million,
- plus all of our cash receipts since the closing of this offering, excluding cash from borrowings that are not working capital borrowings, sales of equity and debt securities and sales of assets outside the ordinary course of business,
- plus working capital borrowings made after the end of a quarter but before the date of determination of operating surplus for the quarter,
- less all of our operating expenditures since the closing of this offering, including the repayment of working capital borrowings, but not the repayment of other borrowings, and including maintenance capital expenditures.

Definition of Capital Surplus. We also define capital surplus in the glossary, and it will generally be generated only by:

- borrowings other than working capital borrowings,
- sales of debt and equity securities, and
- sales or other disposition of assets for cash, other than inventory, accounts receivable and other current assets sold in the ordinary course of business or as part of normal retirements or replacements of assets.

Characterization of Cash Distributions. We will treat all available cash distributed as coming from operating surplus until the sum of all available cash distributed since we began operations equals the operating surplus as of the most recent date of determination of available cash. We will treat any amount distributed in excess of operating surplus, regardless of its source, as capital surplus. We do not anticipate that we will make any distributions from capital surplus.

Subordination Period

General. During the subordination period, which we define below, the common units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of $0.60 per quarter, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on any junior or senior subordinated units. The purpose of the subordinated units is to increase the likelihood that during the subordination period there will be available cash to be distributed on the common units. The majority of our senior subordinated units are held by persons who received preferred equity in our predecessor when we bought their propane business or when they made a preferred investment. Our management owns all of our junior subordinated units and a portion of our senior subordinated units.

Definition of Subordination Period. We define the subordination period in the glossary. The subordination period will extend until the first day of any quarter beginning after June 30, 2006 for the senior subordinated units and June 30, 2008 for the junior subordinated units that each of the following tests are met:

- distributions of available cash from operating surplus on each of the outstanding common units and subordinated units equaled or exceeded the minimum quarterly distribution for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date,
- the adjusted operating surplus generated during each of the three immediately preceding non-overlapping four-quarter periods equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units and subordinated units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods, and
- there are no arrearages in payment of the minimum quarterly distribution on the common units.

Before the end of the subordination period, a portion of the senior subordinated units may convert into common units on a one-for-one basis on the first day after the record date established for the distribution for any quarter ending on or after:

- June 30, 2004 with respect to 25% of the senior subordinated units, and
- June 30, 2005 with respect to 25% of the senior subordinated units.

Before the end of the subordination period, a portion of the junior subordinated units may convert into common units on a one-for-one basis on the first day after the record date established for the distribution for any quarter ending on or after:

- June 30, 2006 with respect to 25% of the junior subordinated units, and
- June 30, 2007 with respect to 25% of the junior subordinated units.

The early conversions will occur if at the end of the applicable quarter each of the following occurs:

- distributions of available cash from operating surplus on the common units and the subordinated units equal or exceed the sum of the minimum quarterly distributions on all of the outstanding common units and subordinated units for each of the three non-overlapping four-quarter periods immediately preceding that date,

- the adjusted operating surplus generated during each of the three immediately preceding non-overlapping four-quarter periods equals or exceeds the sum of the minimum quarterly distributions on all of the outstanding common units and subordinated units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods, and

- there are no arrearages in payment of the minimum quarterly distribution on the common units.

However, the early conversion of the second 25% of the senior or junior subordinated units, as applicable, may not occur until at least one year following the early conversion of the first 25% of the senior or junior subordinated units, as applicable.

Notwithstanding the foregoing, all outstanding junior subordinated units may convert into common units on a one-for-one basis on the first day after the record date established for the distribution for any quarter ending on or after June 30, 2006, if each of the following tests is met:

- distributions of available cash from operating surplus on each of the outstanding common units and the subordinated units equaled or exceeded the sum of $2.80 for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date,

- the adjusted operating surplus generated during each of the three immediately preceding non-overlapping four-quarter periods equaled or exceeded the sum of $2.80 on all of the outstanding common units and senior and junior subordinated units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods,

- all of the senior subordinated units have been converted into common units, and

- there are no arrearages in payment of the minimum quarterly distribution on the common units.

Definition of Adjusted Operating Surplus. We define "adjusted operating surplus" in the glossary and for any period as:

- operating surplus generated during that period,

- less any net increase in working capital borrowings during that period,

- less any net reduction in cash reserves for operating expenditures during that period not relating to an operating expenditure made during that period,

- plus any net decrease in working capital borrowings during that period,

- plus any net increase in cash reserves for operating expenditures during that period required by any debt instrument for the repayment of principal, interest or premium.

Adjusted operating surplus is intended to reflect the cash generated from operations during a particular period and therefore excludes net increases in working capital borrowings and net drawdowns of reserves of cash generated in prior periods.

Effect of Expiration of the Subordination Period. Upon expiration of the subordination period, each outstanding subordinated unit will convert into one common unit and will then participate pro rata with the other common units in distributions of available cash. In addition, if the unitholders remove our managing general partner other than for cause, the subordination period will end, any then-existing arrearages on the common units will terminate, and each subordinated unit will immediately convert into one common unit.

Distributions of Available Cash from Operating Surplus During the Subordination Period

We will make distributions of available cash from operating surplus for any quarter during the subordination period in the following manner:

- First, 98% to the common unitholders, pro rata, and 2% to the non-managing general partner until we distribute for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter,

- Second, 98% to the common unitholders, pro rata, and 2% to the non-managing general partner until we distribute for each outstanding common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on the common units for any prior quarters during the subordination period,

- Third, 98% to the senior subordinated unitholders, pro rata, and 2% to the non-managing general partner until we distribute for each senior subordinated unit an amount equal to the minimum quarterly distribution for that quarter,

- Fourth, 98% to the junior subordinated unitholders, pro rata, and 2% to the non-managing general partner until we distribute for each junior subordinated unit an amount equal to the minimum quarterly distribution for that quarter, and

- Thereafter, in the manner described in "--Incentive Distribution Rights--Hypothetical Annualized Yield" below.

Distributions of Available Cash from Operating Surplus After the Subordination Period

- First, 98% to all unitholders, pro rata, and 2% to the non-managing general partner until we distribute for each outstanding unit an amount equal to the minimum quarterly distribution for that quarter, and

- Thereafter, in the manner described in "--Incentive Distribution Rights--Hypothetical Annualized Yield" below.

Incentive Distribution Rights--Hypothetical Annualized Yield

Incentive distribution rights represent the right to receive an increasing percentage of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. Inergy Holdings, which owns our managing general partner and substantially all of our non-managing general partner, currently holds the incentive distribution rights, but may transfer these rights separately from its general partner interest to an entity that controls or is controlled by the managing general partner.

If for any quarter:

- we have distributed available cash from operating surplus to the common and subordinated unitholders in an amount equal to the minimum quarterly distribution, and

- we have distributed available cash from operating surplus on outstanding common units in an amount necessary to eliminate any cumulative arrearages in payment of the minimum quarterly distribution,

then, we will distribute any additional available cash from operating surplus for that quarter among the unitholders and the non-managing general partner in the following manner:

- First, 98% to all unitholders, pro rata, and 2% to the non-managing general partner, until each unitholder receives a total of $0.66 per unit for that quarter (the "first target distribution"),

- Second, 85% to all unitholders, pro rata, 2% to the non-managing general partner and 13% to Inergy Holdings, until each unitholder receives a total of $0.75 per unit for that quarter (the "second target distribution"),

. Third, 75% to all unitholders, pro rata, 2% to the non-managing general partner and 23% to Inergy Holdings, until each unitholder receives a total of $0.90 per unit for that quarter (the "third target distribution"), and

. Thereafter, 50% to all unitholders, pro rata, 2% to the non-managing general partner and 48% to Inergy Holdings.

In each case, the amount of the target distribution set forth above is exclusive of any distributions to common unitholders to eliminate any cumulative arrearages in payment of the minimum quarterly distribution on the common units.

The following table illustrates the percentage allocations of the additional available cash from operating surplus among the unitholders, the non-managing general partner and Inergy Holdings up to the various target distribution levels and a hypothetical annualized percentage yield to be realized by a unitholder at each target distribution level. For purposes of the following table, we calculated the annualized percentage yield on a pretax basis assuming that (1) the common unit was purchased at an amount equal to $20.00 per common unit and (2) we distributed each quarter during the first year following the investment the amount set forth under the column "Total Quarterly Distribution Target Amount." We also based the calculations on the assumption that the quarterly distribution amounts shown do not include any common unit arrearages. The amounts set forth under "Marginal Percentage Interest in Distributions" are the percentage interests of the unitholders, non-managing general partner and Inergy Holdings in any available cash from operating surplus we distribute up to and including the corresponding amount in the column "Total Quarterly Distribution Target Amount," until available cash we distribute reaches the next target distribution level, if any. The percentage interests shown for the unitholders and the non-managing general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution.

| | | | Marginal Percentage Interest in Distributions | | |
|---|---|---|---|---|---|
| | Total Quarterly Distribution Target Amount | Hypothetical Annualized Yield | Unitholders | Non-managing General Partner | Inergy Holdings, LLC |
| Minimum Quarterly Distribution..... | $0.60 | 12.0% | 98% | 2% | -- |
| First Target Distribution..... | up to $0.66 | up to 13.2% | 98% | 2% | -- |
| Second Target Distribution..... | above $0.66 up to $0.75 | up to 15.0% | 85% | 2% | 13% |
| Third Target Distribution..... | above $0.75 up to $0.90 | up to 18.0% | 75% | 2% | 23% |
| Thereafter..... | above $0.90 | above 18.0% | 50% | 2% | 48% |

Distributions from Capital Surplus

How Distributions from Capital Surplus Will Be Made. We will make distributions of available cash from capital surplus in the following manner:

. First, 98% to all unitholders, pro rata, and 2% to the non-managing general partner, until we distribute for each common unit that was issued in this offering, an amount of available cash from capital surplus equal to the initial public offering price,

. Second, 98% to the common unitholders, pro rata, and 2% to the non-managing general partner, until we distribute for each common unit that was issued in the offering, an amount of available cash from capital surplus equal to any unpaid arrearages in payment of the minimum quarterly distribution on the common units, and

. Thereafter, we will make all distributions of available cash from capital surplus as if they were from operating surplus.

Effect of a Distribution from Capital Surplus. The partnership agreement treats a distribution of capital surplus as the repayment of the initial unit price from this initial public offering, which is a return of capital. The initial public offering price less any distributions of capital surplus per unit is referred to as the "unrecovered initial unit price." Each time a distribution of capital surplus is made, the minimum quarterly distribution and the target distribution levels will be reduced in the same proportion as the corresponding reduction in the unrecovered initial unit price. Because distributions of capital surplus will reduce the minimum quarterly distribution, after any of these distributions are made, it may be easier for Inergy Holdings to receive incentive distributions and for the subordinated units to convert into common units. However, any distribution of capital surplus before the unrecovered initial unit price is reduced to zero cannot be applied to the payment of the minimum quarterly distribution or any arrearages.

Once we distribute capital surplus on a unit issued in this offering in an amount equal to the initial unit price, we will reduce the minimum quarterly distribution and the target distribution levels to zero and we will make all future distributions from operating surplus, with 50% being paid to the holders of units, 2% to our non-managing general partner and 48% to Inergy Holdings.

Adjustment to the Minimum Quarterly Distribution and Target Distribution Levels

In addition to adjusting the minimum quarterly distribution and target distribution levels to reflect a distribution of capital surplus, we will proportionately adjust the minimum quarterly distribution, target distribution levels, unrecovered initial unit price, the number of common units issuable during the subordination period without a unitholder vote and the number of common units into which a subordinated unit is convertible if we combine our units into fewer units or subdivide our units into a greater number of units. In addition, if legislation is enacted or if existing law is modified or interpreted in a manner that causes us to become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes, we will reduce the minimum quarterly distribution and the target distribution levels by multiplying the same by one minus the sum of the highest marginal federal corporate income tax rate that could apply and any increase in the effective overall state and local income tax rates. For example, if we became subject to a maximum marginal federal, and effective state and local income tax rate of 38%, then the minimum quarterly distribution and the target distributions levels would each be reduced to 62% of their previous levels.

Distributions of Cash Upon Liquidation

If we dissolve in accordance with the partnership agreement, we will sell or otherwise dispose of our assets in a process called a liquidation. We will first apply the proceeds of liquidation to the payment of our creditors. We will distribute any remaining proceeds to the unitholders and our non-managing general partner, in accordance with their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of our assets in liquidation.

The allocations of gain and loss upon liquidation are intended, to the extent possible, to entitle the holders of outstanding common units to a preference over the holders of outstanding subordinated units upon the liquidation of Inergy, to the extent required to permit common unitholders to receive their unrecovered initial unit price plus the minimum quarterly distribution for the quarter during which liquidation occurs plus any unpaid arrearages in payment of the minimum quarterly distribution on the common units. However, there may not be sufficient gain upon our liquidation to enable the holder of common units to fully recover all of these amounts, even though there may be cash available for distribution to the holders of subordinated units. Any further net gain recognized upon liquidation will be allocated in a manner that takes into account the incentive distribution rights of Inergy Holdings.

Manner of Adjustments for Gain. The manner of the adjustment is set forth in the partnership agreement. If our liquidation occurs before the end of the subordination period, we will allocate any gain to the partners in the following manner:

. First, to the non-managing general partner and the holders of units who have negative balances in their capital accounts to the extent of and in proportion to those negative balances, which are not expected,

. Second, 98% to the common unitholders, pro rata, and 2% to the non-managing general partner until the capital account for each common unit is equal to the sum of:

(1) the unrecovered initial unit price for that common unit, plus

(2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs, plus

(3) any unpaid arrearages in payment of the minimum quarterly distribution on that common unit,

. Third, 98% to the senior subordinated unitholders, pro rata, and 2% to the non-managing general partner until the capital account for each senior subordinated unit is equal to the sum of:

(1) the unrecovered initial unit price on that senior subordinated unit, and

(2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs,

. Fourth, 98% to the junior subordinated unitholders, pro rata, and 2% to the non-managing general partner until the capital account for each junior subordinated unit is equal to the sum of:

(1) the unrecovered initial unit price on that junior subordinated unit, and

(2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs,

. Fifth, 98% to all unitholders, pro rata, and 2% to the non-managing general partner, until we allocate under this paragraph an amount per unit equal to:

(1) the sum of the excess of the first target distribution per unit over the minimum quarterly distribution per unit for each quarter of our existence, less

(2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the minimum quarterly distribution per unit that we distributed 98% to the unitholders, pro rata, and 2% to our non-managing general partner for each quarter of our existence,

. Sixth, 85% to all unitholders, pro rata, 2% to the non-managing general partner and 13% to Inergy Holdings, until we allocate under this paragraph an amount equal to:

(1) the sum of the excess of the second target distribution per unit over the first target distribution per unit for each quarter of our existence, less

(2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the first target distribution per unit that we distributed 85% to the unitholders, pro rata, 2% to our non-managing general partner and 13% to Inergy Holdings for each quarter of our existence,

. Seventh, 75% to all unitholders, pro rata, 2% to the non-managing general partner and 23% to Inergy Holdings, until we allocate under this paragraph an amount per unit equal to:

(1) the sum of the excess of the third target distribution per unit over the second target distribution per unit for each quarter of our existence, less

(2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the second target distribution per unit that we distributed 75% to the unitholders, pro rata, 2% to our managing general partner and 23% to Inergy Holdings for each quarter of our existence,

. Thereafter, 50% to all unitholders, pro rata, 2% to the non-managing general partner and 48% to Inergy Holdings.

If the liquidation occurs after the end of the subordination period, the distinction between common units, senior subordinated units and junior subordinated units will disappear, so that clause (3) of the second priority above and all of the third and fourth priorities above will no longer be applicable.

Manner of Adjustments for Losses. Upon our liquidation, we will generally allocate any loss to our non-managing general partner and the unitholders in the following manner:

- First, 98% to holders of junior subordinated units in proportion to the positive balances in their capital accounts and 2% to our non-managing general partner until the capital accounts of the holders of the junior subordinated units have been reduced to zero,

- Second, 98% to the holders of senior subordinated units in proportion to the positive balances in their capital accounts and 2% to our non-managing general partner until the capital accounts of the holders of the senior subordinated units have been reduced to zero,

- Third, 98% to the holders of common units in proportion to the positive balances in their capital accounts and 2% to our non-managing general partner until the capital accounts of the common unitholders have been reduced to zero, and

- Thereafter, 100% to our non-managing general partner.

If the liquidation occurs after the end of the subordination period, the distinction between common units, senior subordinated units and junior subordinated units will disappear, so that all of the first and second bullets point above will no longer be applicable.

Adjustments to Capital Accounts Upon the Issuance of Additional Units. We will make adjustments to capital accounts upon the issuance of additional units. In doing so, we will allocate any unrealized, and, for tax purposes, unrecognized gain or loss resulting from the adjustments to the unitholders and our managing general partner in the same manner as we allocate gain or loss upon liquidation. In the event that we make positive interim adjustments to the capital accounts, we will allocate any later negative adjustments to the capital accounts resulting from the issuance of additional units or upon our liquidation in a manner which results, to the extent possible, in the capital account balances of our non-managing general partner equaling the amount which would have been in its capital account balance if no earlier positive adjustments to the capital accounts had been made.

## CASH AVAILABLE FOR DISTRIBUTION

Available cash for any quarter will consist generally of all cash on hand at the end of that quarter as adjusted for reserves. Operating surplus generally consists of cash on hand at closing of this offering, plus cash generated from operations after deducting related expenditures and other items, plus working capital borrowings after the end of the quarter, plus $8.5 million. The definitions of available cash and operating surplus are contained in the glossary.

The amount of available cash from operating surplus needed to pay the minimum quarterly distribution for one quarter and for four quarters on the common units, the senior subordinated units and junior subordinated units, and the 2% general partner interest to be outstanding immediately after the transactions is approximately:

| | One Quarter | Four Quarters |
|---|---|---|
| Common Units | $ 900 | $ 3,600 |
| 2% General Partner Interest | 18 | 74 |
| Senior Subordinated Units | 1,988 | 7,952 |
| 2% General Partner Interest | 40 | 162 |
| Junior Subordinated Units | 344 | 1,374 |
| 2% General Partner Interest | 7 | 28 |
| Total | $3,297 | $13,190 |

The amount of available cash needed to pay the minimum quarterly distribution for four quarters on the common units, the senior subordinated units and junior subordinated units and the 2% general partner interest to be outstanding immediately after the offering is approximately $13.2 million. If we had completed the transactions contemplated in this prospectus on April 1, 2000, our pro forma available cash from operating surplus generated for the twelve months ended March 31, 2001, would have been approximately $14.7 million. Our pro forma available cash from operating surplus for the twelve months ended March 31, 2001 would have been sufficient to allow us to pay the minimum quarterly distribution on all of the common units, all of the senior subordinated units and all of the junior subordinated units. If we had completed the transactions contemplated in this prospectus on October 1, 1999, pro forma available cash from operating surplus generated during the twelve months ended September 30, 2000 would have been approximately $6.4 million. Our pro forma available cash from operating surplus for the fiscal year ended September 30, 2000 would have been sufficient to allow us to pay the minimum quarterly distribution on all of our common units and approximately 33% of the minimum quarterly distribution on the senior subordinated units and no distribution on the junior subordinated units. Pro forma available cash from operating surplus shown above does not include approximately $500,000 of incremental general and administrative expenses that we expect to incur annually as a result of being a public entity.

We derived the amounts of pro forma available cash from operating surplus shown above from our pro forma financial statements in the manner described in Appendix D. The pro forma adjustments are based upon currently available information and specific estimates and assumptions. The pro forma financial statements do not purport to present our results of operations had the transactions contemplated in this prospectus actually been completed as of the dates indicated. In addition, available cash from operating surplus as defined in the partnership agreement is a cash accounting concept, while our pro forma financial statements have been prepared on an accrual basis. As a result, you should only view the amount of pro forma available cash from operating surplus as a general indication of the amount of available cash from operating surplus that we might have generated had Inergy, L.P. been formed in earlier periods.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2000 and

as of and for the Six Months Ended March 31, 2001

The unaudited pro forma consolidated balance sheet of Inergy, L.P. as of March 31, 2001 was prepared to reflect the effects of the formation of Inergy, L.P. and related transactions as if the formation had been completed in its entirety, and the related transactions had been completed, as of March 31, 2001.

The unaudited pro forma consolidated statements of operations of Inergy, L.P. for the year ended September 30, 2000 and for the six months ended March 31, 2001 were prepared to reflect the effects of the formation of Inergy, L.P. and related transactions as if the formation had been completed in its entirety, and the related transactions had been completed, as of October 1, 1999.

The unaudited pro forma consolidated financial statements of Inergy, L.P. have been derived from the audited historical statement of operations of Inergy Partners, LLC for the year ended September 30, 2000, and the unaudited historical financial statements of Inergy Partners, LLC as of and for the six months ended March 31, 2001, and from the historical statements of income of the Hoosier Propane Group, Country Gas Company, Inc. and Butane-Propane Gas Company of Tennessee, Inc. until the date of acquisition, after giving effect to the pro forma adjustments discussed below. Therefore, the unaudited pro forma consolidated statement of income for the six months ended March 31, 2001 reflects only three months of pre-acquisition operations of the Hoosier Propane Group and the unaudited pro forma consolidated statement of income for the year ended September 30, 2000 reflects only eight months of pre-acquisition operations of Country Gas Company, Inc. and one month of pre-acquisition operations of Butane-Propane Company of Tennessee, Inc.

In preparing the unaudited pro forma consolidated financial statements of Inergy, L.P., we have made two sets of adjustments to the historical financial statements. The first set of adjustments are acquisition related and reflect:

- the acquisition in purchase business combinations of assets of the Hoosier Propane Group in January 2001 for $74.0 million, of Country Gas Company, Inc. in June 2000 for $18.6 million and of Butane-Propane Gas Company of Tennessee, Inc., in November 1999 for $0.5 million in aggregate consideration, in each case including assumed liabilities and acquisition costs. The pre-acquisition historical results of operations for each acquired company are presented separately from acquisition adjustments.

- the issuance in January 2001 of $14.5 million (net of offering costs of $471,000) of Class A preferred interests by Inergy Partners in a private placement completed in conjunction with the acquisition of the Hoosier Propane Group, and

- the incurrence of $76.4 million of indebtedness under our bank credit facility and related repayment of approximately $36.1 million of indebtedness and accrued interest.

The second set of adjustments reflect the offering and related transactions, including:

- the public offering of 1,500,000 common units of Inergy, L.P. at an assumed initial public offering price of $20.00 per common unit,

- the issuance to Inergy Partners of the 2% general partner interest,

- the issuance of 1,106,266 senior subordinated units and 572,542 junior subordinated units to an affiliate of Inergy Holdings,

- the issuance of 2,207,101 senior subordinated units to owners of certain acquired businesses and other investors in exchange for Class A preferred interests of Inergy Partners,

- the application of the net proceeds of this offering to repay $26.0 million of indebtedness, and

- the payment of approximately $4.0 million of underwriting fees and commissions and other fees and expenses associated with this offering.

Upon completion of the offering, we anticipate that we will incur incremental general and administrative costs (e.g. costs associated with reports to unitholders, preparation of tax information for unitholders and investor relations) at an annual rate of approximately $500,000. The unaudited pro forma consolidated financial statements do not include these estimated incremental costs.

The unaudited pro forma consolidated financial statements do not purport to present the financial position or results of operations of Inergy, L.P. had the transactions described above actually been completed as of the dates indicated. In addition, the unaudited pro forma consolidated financial statements are not necessarily indicative of the results of future operations of Inergy, L.P. and should be read in conjunction with the audited historical financial statements of Inergy Partners and the notes thereto, the audited historical financial statements of Hoosier Propane Group and the notes thereto, and the audited historical financial statements of Country Gas Company, Inc. and the notes thereto, appearing elsewhere in this prospectus.

INERGY, L.P.

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET

March 31, 2001
(in thousands)

| | Inergy, L.P. | Inergy Partners, LLC and Subsidiaries | Offering Adjustments | Pro Forma As Adjusted |
|---|---|---|---|---|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash | $ -- | $ 3,528 | $(1,500)A<br>30,000 B<br>(4,000)C<br>(26,000)D | $ 2,028 |
| Accounts receivable, net | -- | 22,660 | | 22,660 |
| Inventories | -- | 3,617 | | 3,617 |
| Prepaid expenses and other current assets | -- | 1,068 | | 1,068 |
| Assets from price risk management activities | -- | 433 | | 433 |
| Total current assets | -- | 31,306 | (1,500) | 29,806 |
| Property, plant and equipment, at cost: | | 73,127 | | 73,127 |
| Less accumulated depreciation | -- | (3,829) | | (3,829) |
| Net property, plant and equipment | -- | 69,298 | | 69,298 |
| Intangible assets: | | | | |
| Covenants not to compete | -- | 3,763 | | 3,763 |
| Deferred financing costs | -- | 1,989 | | 1,989 |
| Deferred acquisition costs | -- | 111 | | 111 |
| Customer accounts | -- | 14,000 | | 14,000 |
| Goodwill | -- | 32,063 | | 32,063 |
| | | 51,926 | | 51,926 |
| Less accumulated amortization | -- | (2,294) | | (2,294) |
| Net intangible assets | -- | 49,632 | | 49,632 |
| Other | -- | 137 | | 137 |
| Total assets | $ -- | $150,373 | $(1,500) | $148,873 |
| LIABILITIES AND MEMBERS' EQUITY/ PARTNERS' CAPITAL | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ -- | $ 10,797 | $ | $ 10,797 |
| Accrued expenses | -- | 4,616 | | 4,616 |
| Customer deposits | -- | 761 | | 761 |
| Liabilities from price risk management activities | -- | 93 | | 93 |
| Current portion of long-term debt | -- | 5,631 | | 5,631 |
| Total current liabilities | -- | 21,898 | | 21,898 |
| Deferred income taxes | -- | 942 | (942)A | -- |
| Long-term debt, less current portion | -- | 78,767 | (26,000)D | 52,767 |
| Redeemable preferred members' interest | -- | 34,313 | (34,313)E | -- |
| Members' equity/partners' capital: | | | | |
| Class A preferred interest | -- | 4,851 | (4,851)F | -- |
| Common interest | -- | 9,797 | (558)A<br>(195)G<br>(9,044)F | -- |
| Deferred compensation | -- | (195) | 195 G | -- |
| Common unitholders (1,500,000 units issued and outstanding, pro forma, as adjusted) | -- | -- | 30,000 B<br>(4,000)C | 26,000 |
| Senior subordinated unitholders (3,313,367 units issued and outstanding, pro forma, as adjusted) | -- | -- | 34,313 E<br>9,156 F<br>(1,265)H | 42,204 |
| Junior subordinated unitholders (572,542 units issued and outstanding, pro forma, as adjusted) | -- | -- | 4,739 F<br>(219)H | 4,520 |
| Non-managing general partner (2% interest with dilutive effect equivalent to 109,917 units issued and outstanding, pro forma, as adjusted) | -- | -- | 1,484 H | 1,484 |
| Total members' equity/partners' capital | -- | 14,453 | 59,755 | 74,208 |

| | | | | |
|---|---|---|---|---|
| Total liabilities and members' equity/partners' capital..... | $ -- | $150,373 | $(1,500) | $148,873 |

INERGY, L.P.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

For the six months ended March 31, 2001

(in thousands, except per unit data)

| | Inergy, L.P. | Inergy Partners, LLC and Subsidiaries | Hoosier Propane Group | Acquisition Adjustments | Offering Adjustments | Pro Forma As Adjusted |
|---|---|---|---|---|---|---|
| Revenues | $ -- | $170,439 | $31,541 | $ | $ | $201,980 |
| Cost of product sold | -- | 141,425 | 25,172 | | | 166,597 |
| Gross profit | -- | 29,014 | 6,369 | | | 35,383 |
| Expenses: | | | | | | |
| Operating and administrative | -- | 11,464 | 2,538 | (97)I | (39)G | 13,866 |
| Depreciation and amortization | -- | 2,748 | 373 | 634 J | | 3,921 |
| | -- | | | 166 K | | |
| Operating income | -- | 14,802 | 3,458 | (703) | 39 | 17,596 |
| Other income (expense): | | | | | | |
| Interest expense | -- | (2,860) | (246) | 246 L | 1,112 N | (2,807) |
| | | | | (1,059)M | | |
| Interest income | -- | -- | 57 | | | 57 |
| Gain on sale of property, plant and equipment | -- | -- | 10 | | | 10 |
| Other | -- | 245 | 90 | | | 335 |
| Net income | $ -- | $ 12,187 | $ 3,369 | $(1,516) | $1,151 | $ 15,191 |
| Non-managing general partner's interest in net income | | | | | | $ 304 O |
| Limited partners' interest in net income: | | | | | | |
| Common unit interest | | | | | | $ 4,147 |
| Senior subordinated unit interest | | | | | | 9,160 |
| Junior subordinated unit interest | | | | | | 1,580 |
| Total limited partners' interest in net income | | | | | | $ 14,887 |
| Net income per limited partner's unit | | | | | | $ 2.76 O |
| Weighted average limited partners' units outstanding | | | | | | 5,386 |

INERGY, L.P.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended September 30, 2000

(in thousands, except per unit data)

| | Inergy, L.P. | Inergy Partners, LLC and Subsidiaries | Hoosier Propane Group | Country Gas Company, Inc. | Butane-Propane Gas Company of Tennessee,Inc. | Acquisition Adjustments | Offering Adjustments | Pro Forma As Adjusted |
|---|---|---|---|---|---|---|---|---|
| Revenues | $ -- | $93,595 | $65,595 | $7,751 | $90 | $ | $ | $167,031 |
| Cost of product sold | | 81,636 | 49,049 | 3,792 | 57 | | | 134,534 |
| Gross profit | -- | 11,959 | 16,546 | 3,959 | 33 | | | 32,497 |
| Expenses: | | | | | | | | |
| Operating and administrative | -- | 8,990 | 9,375 | 2,220 | 30 | (460)I | (79)G | 20,076 |
| Depreciation and amortization | -- | 2,286 | 1,623 | 304 | 2 | 2,404 J<br>407 P<br>663 K | | 7,689 |
| Operating income | -- | 683 | 5,548 | 1,435 | 1 | (3,014) | 79 | 4,732 |
| Other income (expense): | | | | | | | | |
| Interest expense | -- | (2,740) | (1,029) | -- | -- | 1,029 L<br>(4,736)M | 2,225 N | (5,251) |
| Interest income | -- | -- | 230 | 42 | -- | | | 272 |
| Gain on sale of property, plant and equipment | -- | -- | 51 | 21 | -- | | | 72 |
| Other | -- | 235 | 184 | -- | -- | | 419 | |
| Income (loss) before income tax | -- | (1,822) | 4,984 | 1,498 | 1 | (6,721) | 2,304 | 244 |
| Provision for income taxes | -- | 7 | -- | -- | -- | | | 7 |
| Net income (loss) | $ -- | $(1,829) | $ 4,984 | $1,498 | $ 1 | $(6,721) | $2,304 | $ 237 |
| Non-managing general partner's interest in net income | | | | | | | | $ 5 O |
| Limited partners' interest in net income: | | | | | | | | |
| Common unit interest | | | | | | | | $ 65 |
| Senior subordinated unit interest | | | | | | | | 143 |
| Junior subordinated unit interest | | | | | | | | 24 |
| Total limited partners' interest in net income | | | | | | | | $ 232 |
| Net income per limited partner's unit | | | | | | | | $ 0.04 O |
| Weighted average limited partners' units outstanding | | | | | | | | 5,330 |

(A) Reflects $1.5 million of cash and $942,000 of deferred tax liabilities that Inergy Partners is retaining when it transfers the remainder of its assets and liabilities to Inergy, L.P. immediately prior to the consummation of the offering.

(B) Reflects the gross proceeds to Inergy, L.P. of $30.0 million from the issuance and sale of 1,500,000 common units at an assumed offering price of $20.00 per common unit.

(C) Reflects the payment of the underwriters' discounts and commissions and offering expenses, estimated to be $4.0 million.

(D) Reflects the partial repayment of the borrowings under our bank credit facility and repayment of its subordinated debt with the proceeds from the sale of the common units in this offering.

(E) Reflects the conversion of $34.3 million in Inergy Partners, LLC redeemable preferred interests held by owners of certain acquired businesses and other investors into 2,207,101 senior subordinated units of Inergy, L.P. pursuant to Inergy Partners' limited liability company agreement.

(F) Reflects the allocation of the remainder of the Class A preferred interest ($4.9 million) and the common interest ($9.0 million) in Inergy Partners to senior subordinated units and junior subordinated units of Inergy, L.P. The dollar amounts assigned are based on the pro rata number of units of each class issued (1,106,266 senior subordinated units and 572,542 junior subordinated units).

(G) Reflects the accelerated vesting of the Class A preferred interests recorded as deferred compensation, and the reduction of operating and administrative expenses related to the amortization of deferred compensation recorded in the historical statements of operations.

(H) Reflects the issuance by Inergy, L.P. of a 2% general partner interest to Inergy Partners, LLC.

(I) Reflects reduction in operating costs resulting from the Hoosier Propane Group and Country Gas Company Inc. acquisitions, consisting of eliminated salary and benefit expenses of certain former owners of the acquired businesses. For the year ended September 30, 2000, $393,000 of this acquisition adjustment relates to the Hoosier Propane Group and $67,000 relates to Country Gas Company, Inc.

(J) Reflects pro forma depreciation and amortization based on the portion of the purchase price of the Hoosier Propane Group allocated to property, plant and equipment and intangible assets, as follows:

| | Amount | Composite Life | Depreciation and Amortization | |
|---|---|---|---|---|
| | | | Year Ended September 30, 2000 | Six Months Ended March 31, 2001 |
| | (in thousands) | (in years) | (in thousands) | |
| Property, plant and equipment (excluding land) | $33,423 | 19.67(a) | $1,699 | $ 850 |
| Covenants not to compete | 465 | 7.00 | 66 | 33 |
| Customer accounts | 10,500 | 18.00 | 583 | 292 |
| Goodwill | 25,183 | 15.00 | 1,679 | 839 |
| | | | 4,027 | 2,014 |
| Historical depreciation and amortization expense of the Hoosier Propane Group | | | 1,623 | 1,380 |
| Pro forma adjustment to depreciation and amortization expense | | | $2,404 | $ 634 |

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(a) The composite life is calculated by taking the weighted average lives of the assets. Propane tanks, which were allocated $25.3 million of the $33.4 million allocated to property, plant and equipment, are depreciated over 30 years; buildings are depreciated over 25 years; and office furniture and equipment, vehicles and other plant equipment are depreciated over four to eight years.

(K) Reflects amortization of the deferred financing fees over the three year term of our predecessor's bank credit facility, which was used to fund the acquisition of the Hoosier Propane Group and repay certain existing debt.

(L) Reflects the reduction of interest expense related to the Hoosier Propane Group debt that was not assumed in the acquisition.

(M) Reflects the adjustment to interest expense resulting from the transactions described in (B) and (C) above, reconciled as follows:

| | Year Ended September 30, 2000 | Six Months Ended March 31, 2001 |
|---|---|---|
| | (in thousands) | |
| Historical interest expense attributable to debt refinanced in connection with the acquisition of the Hoosier Propane Group | $(2,548) | $(2,583) |
| Pro forma interest expense attributable to the financing of the Hoosier Propane Group acquisition and the refinancing of existing indebtedness: | | |
| Interest on term loan at various rates ranging from 8.45% to 8.95% per annum on bank facility | 6,229 | 3,114 |
| Interest on revolving credit facility at 8.45% per annum | 605 | 302 |
| Interest on subordinated debt at 9.00% per annum | 450 | 226 |
| | 7,284 | 3,642 |
| Pro forma adjustment to interest expense | $ 4,736 | $ 1,059 |

The interest rates used in determining the amount of pro forma interest expense were based upon Inergy Partners' borrowing rate at March 31, 2001 under its bank facility. Assuming a change in the interest rate on Inergy's floating rate debt of 1/8%, interest expense would have been $98,000 and $49,000 greater or lesser than the amounts shown above for the fiscal year ended September 30, 2000 and the six months ended March 31, 2001, respectively.

(N) Reflects reduction of interest expense resulting from the retirement of $5.0 million of our subordinated debt and $21.0 million of term loans.

(O) The non-managing general partner's allocation of net income is based on its 2% general partner interest in Inergy, L.P. The non-managing general partner's 2% allocation of net income has been deducted before calculating the net income per limited partners' unit. The computation of net income per limited partner unit assumes that 1,500,000 common units, 3,313,367 senior subordinated units and 572,542 junior subordinated units were outstanding at all times during the periods presented.

(P) Reflects pro forma depreciation and amortization based on the portion of the purchase price of Country Gas Company, Inc. allocated to property, plant and equipment and intangible assets, as follows:

| | Amount | Composite Life | Depreciation and Amortization Year Ended September 30, 2000 |
|---|---|---|---|
| | (in thousands) | (in years) | (in thousands) |
| Property, plant and equipment.. | $8,347 | 18.55 | $ 450 |
| Covenants not to compete..... | 102 | 10.00 | 10 |
| Customer accounts..... | 3,500 | 15.00 | 233 |
| Goodwill..... | 5,594 | 15.00 | 373 |
| | | | 1,066 |
| Historical depreciation and amortization expense of Country Gas Company, Inc. .... | | | 659 |
| Pro forma adjustment to depreciation and amortization expense..... | | | $ 407 |

## SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

The following table sets forth selected financial data and other operating data of our predecessor, Inergy Partners, LLC, the Hoosier Propane Group and Country Gas Company, Inc. Inergy Partners was formed on November 8, 1996 to acquire the propane and fuel oil operations of McCracken Enterprises, Inc. The selected historical financial data of Inergy Partners for the period from November 8, 1996 (date of formation) to September 30, 1997, and the years ended September 30, 1998, 1999 and 2000 and as of September 30, 1997, 1998, 1999 and 2000 are derived from the audited financial statements of Inergy Partners. The selected historical financial data of Inergy Partners for the six months ended March 31, 2000 and 2001 are derived from the unaudited financial statements of Inergy Partners. The historical financial data of Inergy Partners include the results of operations of Country Gas Company, Inc. from June 1, 2000, the date of acquisition, and the results of operations of the Hoosier Propane Group from January 1, 2001, the effective date of the acquisition, which closed on January 12, 2001. The selected historical financial data for the Hoosier Propane Group as of and for the years ended September 30, 1998, 1999 and 2000 and the three months ended December 31, 2000 and are derived from the audited financial statements of the Hoosier Propane Group. The selected historical financial data of the Hoosier Propane Group for the three months ended December 31, 1999 are derived from the unaudited financial statements of the Hoosier Propane Group. The selected historical financial data for Country Gas Company, Inc. as of and for the years ended May 31, 1998, 1999 and 2000 are derived from the audited financial statements of Country Gas Company, Inc.

In the opinion of our management, each of the unaudited financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position and results of operations for the unaudited periods. Operating results for the six months ended March 31, 2001 are not necessarily indicative of the results that can be expected for the entire year ending September 30, 2001.

"Adjusted EBITDA" shown in the table below is defined as operating income plus depreciation and amortization, other income and non-cash charges. Adjusted 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 Adjusted EBITDA provides additional information for evaluating our ability to make the minimum quarterly distribution and is presented solely as a supplemental measure. Adjusted EBITDA, as we define it, may not be comparable to EBITDA or similarly titled measures used by other corporations or partnerships.

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

| | Inergy Partners, LLC | | | | | |
|---|---|---|---|---|---|---|
| | November 8, 1996 to September 30, 1997 | Years Ended September 30, 1998 | 1999 | 2000 | Six Months Ended March 31, 2000 | 2001 |
| | (in thousands) | | | | (unaudited) | |
| Statement of Operations Data: | | | | | | |
| Revenues | $ 6,966 | $ 7,507 | $ 19,135 | $ 93,595 | $50,457 | $170,439 |
| Costs of product sold | 4,366 | 4,215 | 13,754 | 81,636 | 42,054 | 141,425 |
| Gross profit | 2,600 | 3,292 | 5,381 | 11,959 | 8,403 | 29,014 |
| Expenses: | | | | | | |
| Operating and administrative(a) | 2,196 | 2,424 | 4,119 | 8,990 | 4,093 | 11,464 |
| Depreciation and amortization | 325 | 394 | 690 | 2,286 | 887 | 2,748 |
| Operating income | 79 | 474 | 572 | 683 | 3,423 | 14,802 |
| Other income (expense): | | | | | | |
| Interest expense | (398) | (569) | (962) | (2,740) | (1,157) | (2,860) |
| Gain on sale of property, plant and equipment | -- | -- | 101 | -- | -- | -- |
| Other | 45 | 60 | 160 | 235 | 95 | 245 |
| Income (loss) before income taxes | (274) | (35) | (129) | (1,822) | 2,361 | 12,187 |
| Provision for income taxes | -- | -- | 56 | 7 | -- | -- |
| Net income (loss) | $ (274) | $ (35) | $ (185) | $ (1,829) | $ 2,361 | $ 12,187 |
| Balance Sheet Data (end of period): | | | | | | |
| Current assets | $ 2,282 | $ 2,119 | $ 11,390 | $ 22,199 | $12,653 | $ 31,306 |
| Total assets | 8,457 | 10,230 | 38,896 | 68,924 | 41,900 | 150,373 |
| Long-term debt, including current portion | 5,382 | 5,694 | 22,337 | 34,927 | 24,413 | 84,398 |
| Redeemable preferred members' interest | -- | -- | -- | 10,896 | 1,896 | 34,313 |
| Members' equity | 1,209 | 2,611 | 5,269 | 2,972 | 7,495 | 14,453 |
| Other Financial Data: | | | | | | |
| Adjusted EBITDA (unaudited) | $ 449 | $ 928 | $ 1,500 | $ 3,283 | $ 4,444 | $ 17,834 |
| Net cash provided by (used in) operating activities | 555 | 362 | (847) | (309) | (839) | 2,594 |
| Net cash used in investing activities | (6,640) | (727) | (13,057) | (12,377) | (2,756) | (60,179) |
| Net cash provided by financing activities | 6,114 | 336 | 14,056 | 13,907 | 3,796 | 59,740 |
| Maintenance capital expenditures(b) (unaudited) | -- (c) | 61 | 156 | 283 | 126 | 591 |
| Other Operating Data (unaudited): | | | | | | |
| Retail propane gallons sold | 4,765 | 5,612 | 8,076 | 15,592 | 12,008 | 30,543 |
| Wholesale propane gallons sold | N/A | N/A | 24,745 | 142,618 | 82,232 | 137,355 |

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(a) The historical financial statements include non-cash charges related to amortization of deferred compensation of $78,000 and $79,000 for the years ended September 30, 1999 and 2000, respectively, and $39,000 for each of the six month periods ended March 31, 2000 and 2001. These non-cash charges are included in the calculation of Adjusted EBITDA.
(b) Capital expenditures fall generally into three categories: (1) growth capital expenditures, which include expenditures for the purchase of new propane tanks and other equipment to facilitate expansion of our retail customer base, (2) maintenance capital expenditures, which include expenditures for repair and replacement of property, plant and equipment, and (3) acquisition capital expenditures.
(c) Maintenance capital expenditures are not available for this period.

| | Hoosier Propane Group | | | | |
|---|---|---|---|---|---|
| | Years Ended September 30, | | | Three Months Ended December 31, | |
| | 1998 | 1999 | 2000 | 1999 | 2000 |
| | | | | (unaudited) | |
| | (in thousands) | | | | |
| Statement of Income Data: | | | | | |
| Revenues | $55,740 | $43,678 | $65,595 | $20,780 | $31,541 |
| Cost of product sold | 42,823 | 28,889 | 49,049 | 15,604 | 25,172 |
| Gross profit | 12,917 | 14,789 | 16,546 | 5,176 | 6,369 |
| Expenses: | | | | | |
| Operating and administrative | 7,617 | 8,274 | 9,375 | 2,493 | 2,538 |
| Depreciation and amortization | 1,529 | 1,690 | 1,623 | 389 | 373 |
| Operating income | 3,771 | 4,825 | 5,548 | 2,294 | 3,458 |
| Other income (expense): | | | | | |
| Interest expense | (594) | (941) | (1,029) | (287) | (246) |
| Interest income | 239 | 205 | 230 | 32 | 57 |
| Gain (loss) on sales of property, plant and equipment | (43) | (63) | 51 | 17 | 10 |
| Other | 158 | 130 | 184 | 81 | 90 |
| Net income | $ 3,531 | $ 4,156 | $ 4,984 | $ 2,137 | $ 3,369 |
| Balance Sheet Data (end of period): | | | | | |
| Current assets | $11,680 | $11,431 | $ 8,377 | $12,408 | $18,677 |
| Total assets | 32,237 | 36,079 | 33,117 | 37,707 | 43,298 |
| Long-term debt, including current portion | 7,711 | 9,543 | 7,559 | 9,868 | 6,268 |
| Stockholders' equity | 13,910 | 15,700 | 16,506 | 17,479 | 18,798 |
| Other Financial Data: | | | | | |
| Adjusted EBITDA (unaudited) | $ 5,458 | $ 6,645 | $ 7,355 | $ 2,764 | $ 3,921 |
| Net cash provided by (used in) operating activities | 8,845 | 1,152 | 9,274 | 3,734 | (321) |
| Net cash used in investing activities | (4,648) | (4,893) | (1,527) | (615) | (239) |
| Net cash provided by (used in) financing activities | (2,640) | 2,540 | (7,822) | (1,007) | 1,569 |
| Maintenance capital expenditures(a) (unaudited) | 968 | 795 | 764 | 198 | 117 |
| Other Operating Data (unaudited): | | | | | |
| Retail propane gallons sold | 17,440 | 22,780 | 22,911 | 7,228 | 8,581 |
| Wholesale propane gallons sold | 85,451 | 63,632 | 68,873 | 29,202 | 23,686 |

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(a) Capital expenditures fall generally into three categories: (1) growth capital expenditures, which include expenditures for the purchase of new propane tanks and other equipment to facilitate expansion of our retail customer base, (2) maintenance capital expenditures, which include expenditures for repair and replacement of property, plant and equipment, and (3) acquisition capital expenditures.

| | Country Gas Company, Inc. | | |
|---|---|---|---|
| | Years Ended May 31, | | |
| | 1998 | 1999 | 2000 |
| | (in thousands) | | |
| Statement of Income Data: | | | |
| Revenues | $ 8,167 | $8,487 | $9,641 |
| Cost of product sold | 3,396 | 3,181 | 4,672 |
| Gross profit | 4,771 | 5,306 | 4,969 |
| Expenses: | | | |
| Operating and administrative | 2,755 | 3,003 | 3,176 |
| Depreciation and amortization | 312 | 354 | 342 |
| Operating income | 1,704 | 1,949 | 1,451 |
| Other income: | | | |
| Interest income | 165 | 176 | 145 |
| Gain on sales of assets | 26 | 304 | 21 |
| Net income | $ 1,895 | $2,429 | $1,617 |
| Balance Sheet Data (end of period): | | | |
| Current assets | $ 3,583 | $2,784 | $2,942 |
| Total assets | 6,455 | 6,094 | 6,178 |
| Stockholders' equity | 6,241 | 5,810 | 5,867 |
| Other Financial Data: | | | |
| Adjusted EBITDA (unaudited) | $ 2,016 | $2,303 | $1,793 |
| Net cash provided by operating activities | 2,553 | 2,595 | 1,529 |
| Net cash used in investing activities | (446) | (574) | (201) |
| Net cash used in financing activities | (1,690) | (2,860) | (1,560) |
| Maintenance capital expenditures(a) (unaudited) | 230 | 175 | 187 |
| Other Operating Data (unaudited): | | | |
| Retail propane gallons sold | 8,381 | 10,421 | 9,882 |

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(a) Capital expenditures fall generally into three categories: (1) growth capital expenditures, which include expenditures for the purchase of new propane tanks and other equipment to facilitate expansion of our retail customer base, (2) maintenance capital expenditures, which include expenditures for repair and replacement of property, plant and equipment, and (3) acquisition capital expenditures.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with the historical financial statements included in this prospectus. For more detailed information regarding the basis of presentation for the following information, you should read the notes to the historical and pro forma financial statements included in this prospectus.

### General

We are a Delaware limited partnership recently formed to own and operate a rapidly growing retail and wholesale propane marketing and distribution business. For the fiscal year ended September 30, 2000, on a pro forma combined basis we sold approximately 50 million gallons of propane to retail customers and approximately 210 million gallons of propane to wholesale customers. Our retail business includes the retail marketing, sale and distribution of propane, including the sale and lease of propane supplies and equipment, to residential, commercial, industrial and agricultural customers. In addition to our retail business, we operate a wholesale supply, marketing and distribution business, providing propane procurement, transportation, supply and price risk management services to our customer service centers, as well as to independent dealers and multistate marketers and, to a lesser extent, selling propane as standby fuel to industrial end-users.

Since the inception of our predecessor, Inergy Partners, LLC, in November 1996, we have acquired 11 propane companies for an aggregate purchase price of approximately $120 million, including assumed liabilities and acquisition costs. These acquisitions have significantly increased the size of our operations over the periods discussed below and, accordingly, impact the comparability of the financial results presented. Our most recent acquisitions include:

- The acquisition of the Hoosier Propane Group on January 12, 2001, effective January 1, 2001. At the time of the acquisition, the Hoosier Propane Group had approximately 26,000 residential customers and annual sales of approximately 22.8 million retail gallons and 63 million wholesale gallons.

- The acquisition of Country Gas Company, Inc. on June 1, 2000. At the time of the acquisition, Country Gas had approximately 8,000 retail customers and annual sales of approximately 9.9 million retail gallons.

On a pro forma basis in the fiscal year ended September 30, 2000, we sold approximately 70% of our retail gallons to residential customers, 20% to industrial and commercial customers and, 10% to agricultural customers. Sales to residential customers during that period accounted for approximately 77% of our pro forma gross profit on propane sales, reflecting the higher profitability of this segment of the business.

The retail distribution business is largely seasonal due to propane's primary use as a heating source in residential and commercial buildings. As a result, cash flows from operations are highest from November through April when customers pay for propane purchased during the six-month peak heating season of October through March. On a pro forma basis in the fiscal year ended September 30, 2000, approximately 72% of our retail propane volume and approximately 73% of our gross profit was attributable to sales during this six-month period. We generally experience losses in the six-month, off season of April through September.

Because a substantial portion of our propane is used in the weather-sensitive residential markets, the temperatures realized in our areas of operations, particularly during the six-month peak heating season, have a significant effect on our financial performance. In any given area, warmer-than-normal temperatures will tend to result in reduced propane use, while sustained colder-than-normal temperatures will tend to result in greater propane use. Therefore, we use information on normal temperatures in understanding how historical results of operations are affected by temperatures that are colder or warmer than normal and in preparing forecasts of future operations, which are based on the assumption that normal weather will prevail in each of our regions.

"Heating degree days" are a general indicator of weather impacting propane usage and are calculated by taking the difference between 65 degrees and the average temperature of the day (if less than 65 degrees).

In determining actual and normal weather for a given period of time, we compare the actual number of heating degree days for such period to the average number of heating degree days for a longer time period assumed to more accurately reflect the average normal weather, in each case as such information is published by the National Oceanic and Atmospheric Administration, for each measuring point in each of our regions. When we discuss "normal" weather in our results of operations presented below we are referring to a 30 year average consisting of the years 1961 through 1990. We then calculate weighted averages, based on retail volumes attributable to each measuring point, of actual and normal heating degree days within each region. Based on this information, we calculate a ratio of actual heating degree days to normal heating degree days, first on a regional basis and then on a partnership-wide basis.

Although we believe that comparing temperature information for a given period of time to "normal" temperatures is helpful for an understanding of our results of operations, when comparing variations in weather to changes in total revenues or operating profit, we draw your attention to the fact that a portion of our total revenues is not weather-sensitive and other factors such as price, competition, product supply costs and customer mix also affect the results of operations. For example, our sales to industrial customers are generally not sensitive to fluctuations in the weather. Sales to residential customers ordinarily generate higher margins than sales to other customer groups, such as commercial or agricultural customers.

The propane business is a "margin-based" business where the level of profitability is largely dependent on the difference between sales prices and product cost. The unit cost of propane is subject to volatile changes as a result of product supply or other market conditions. Propane unit cost changes can occur rapidly over a short period of time and can impact margins. There is no assurance that we will be able to fully pass on product cost increases, particularly when product costs increase rapidly. We have generally been successful in passing on higher propane costs to our customers and have historically maintained or increased our gross margin per gallon in periods of rising costs. As expected, in periods of increasing costs, we have experienced a decline in our gross profit as a percentage of revenues. Our retail propane operations generated margins averaging $0.44 per retail gallon for the fiscal year ended September 30, 2000 on a pro forma basis. Retail sales generate significantly higher margins than wholesale sales and sales to residential customers generally generate higher margins than sales to our other retail customers.

We believe our wholesale supply, marketing and distribution business complements our retail distribution business. For the fiscal year ended September 30, 2000, on a pro forma combined basis, we sold approximately 210 million gallons of propane on a wholesale basis. Although sales to wholesale customers would have accounted for approximately 81% of our total volumes on a pro forma basis, such sales would have accounted for only 12% of our pro forma gross profit from propane sales, reflecting the lower margins our wholesale business generates. Through our wholesale operations, we also offer price risk management services to propane retailers and other related businesses through a variety of financial and other instruments, including:

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

We purchase a portion of our propane (approximately 60% of a given typical year's projected propane needs) pursuant to agreements with terms of one year that contain various pricing formulas. The balance of our propane needs are satisfied in the spot market. On a pro forma basis, during the fiscal year ended September 30, 2000, we purchased approximately 20% of our propane supplies from one supplier, and no other single supplier provided more than ten percent of our total propane supply.

We engage in hedging transactions to reduce the effect of price volatility on our product costs and to help ensure the availability of propane during periods of short supply. We attempt to balance our contractual

portfolio by purchasing volumes only when we have a matching purchase commitment from our wholesale customers. However, we may experience net unbalanced positions from time to time which we believe to be immaterial in amount. In addition to our ongoing policy to maintain a balanced position, for accounting purposes we are required, on an ongoing basis, to track and report the market value of our purchase obligations and our sales commitments.

In addition to the revenues we generate from our retail and wholesale propane operations, we generate additional revenues from truck fabrication and maintenance as well as from sales of propane appliance and propane service operations.

Inergy Partners

The results of operations discussed below are those of our predecessor, Inergy Partners, LLC. Audited and unaudited financial statements for Inergy Partners are included elsewhere in this prospectus. The results discussed below include the results of operations of Country Gas beginning on June 1, 2000, the date of its acquisition, and the results of operations of the Hoosier Propane Group beginning on January 1, 2001, the effective date of the acquisition.

Six Months Ended March 31, 2001 Compared to Six Months Ended March 31, 2000

Volume. During the six months ended March 31, 2001, Inergy Partners sold 30.5 million retail gallons of propane, an increase of 18.5 million gallons, or 154%, from the 12.0 million retail gallons sold during the same six month period in 2000. The increase in retail sales volume was principally due to the acquisitions of Country Gas and the Hoosier Propane Group. In addition, the six months ended March 31, 2001 were approximately 21% colder than the six months ended March 31, 2000 and approximately 9% colder than normal in our retail areas of operation. A limited portion of this increase in volume was attributable to internal growth.

Wholesale gallon sales increased 55.2 million gallons, or 67%, to 137.4 million gallons in the six months ended March 31, 2001 from 82.2 million gallons in the same six month period in 2000. This increase was attributable to the growth of our wholesale operations which were initiated in April 1999, the acquisition of the Hoosier Propane Group and colder weather in our wholesale areas of operation.

Revenues. Revenues in the six months ended March 31, 2001 were $170.4 million, an increase of $119.9 million, or 238%, from $50.5 million of revenues in the same six month period in 2000.

Revenues from retail propane sales were $48.3 million in the six months ended March 31, 2001, an increase of $35.9 million, or 290%, from $12.4 million for the same six month period in 2000. This increase was attributable to the acquisitions of Country Gas and the Hoosier Propane Group, higher sales prices and colder weather in our retail areas of operations. Other retail revenues increased approximately $2.6 million, or 100%, from $2.6 million in the same six month period in 2000 to $5.2 million in the six months ended March 31, 2001. These revenues consist of tank rentals, heating oil sales, appliance sales and service with the increase attributable to the acquisitions of Country Gas and the Hoosier Propane Group.

Revenues from wholesale sales were $117.0 million (after elimination of sales to our retail operations) in the six months ended March 31, 2001, an increase of $81.5 million, or 230%, from $35.5 million for the same six month period in 2000. This increase was attributable to the acquisition of the Hoosier Propane Group, the growth of our wholesale operations as described above and colder weather in our wholesale areas of operations.

Cost of Product Sold. Cost of product sold in the six months ended March 31, 2001 was $141.4 million, an increase of $99.3 million, or 236%, over cost of product sold of $42.1 million in the same six month period in 2000. This increase was attributable to both a significant increase in retail and wholesale volumes and a significant increase in the average cost of propane.

Gross Profit. Retail gross profit was $24.2 million in the six months ended March 31, 2001 compared to $7.7 million in the six months ended March 31, 2000, an increase of $16.6 million, or 216%. Wholesale gross profit was $4.8 million (after elimination of gross profit attributable to our retail operations) in the six months ended March 31, 2001 compared to $0.7 million in the same six month period in 2000, an increase of $4.1 million. These increases were attributable to higher retail and wholesale volumes and an increase in margin per gallon. The increase in margin per gallon was attributable to our ability to increase retail prices during periods of rising market prices while effectively controlling product costs. However, as discussed above, gross profit as a percentage of sales has decreased despite the increase in margin per gallon.

Operating and Administrative Expenses. Operating and administrative expenses increased $7.4 million, or 180%, to $11.5 million in the six month period ended March 31, 2001 as compared to $4.1 million in the same period in 2000. Approximately $1.7 million of this increase was attributable to the Country Gas acquisition and approximately $3.0 million of the increase resulted from the Hoosier Propane Group acquisition. In addition, approximately $1.8 million of the increase was related to personnel costs including performance incentives accrued as a result of the increased profitability of the six months ended March 31, 2001 with the remaining increase primarily attributable to higher vehicle fuel and maintenance costs as a result of the increased retail volumes.

Depreciation and Amortization. Depreciation and amortization increased $1.8 million, or 210%, to $2.7 million in the six months ended March 31, 2001 from $0.9 million in the same six month period in 2000 primarily as a result of the Country Gas and the Hoosier Propane Group acquisitions.

Net Income. Net income increased $9.8 million, or 416%, to $12.2 million in the six months ended March 31, 2001 from $2.4 million in the same six month period in 2000. This increase in net income was attributable to the increase in operating income offset by an increase in interest expense as a result of higher average outstanding borrowings associated with the acquisitions.

Adjusted EBITDA. Adjusted EBITDA increased $13.4 million, or 301%, to $17.8 million in the six months ended March 31, 2001 from $4.4 million in the same six month period in 2000. This increase was attributable to increased volumes and margin per gallon associated with our retail and wholesale sales partially offset by increased operating and administrative expenses.

Fiscal Year Ended September 30, 2000 Compared to Fiscal Year Ended September 30, 1999

Volume. During fiscal 2000, Inergy Partners sold 15.6 million retail gallons of propane, an increase of 7.5 million gallons, or 93%, from the 8.1 million retail gallons sold in fiscal 1999. This increase was primarily attributable to the acquisition of six retail propane distributors during fiscal 1999 and two retail propane distributors in fiscal 2000. The balance of the increase was attributable to a winter that was slightly colder in fiscal 2000 than in fiscal 1999 as well as internal growth. Fiscal 2000 was 17% warmer than normal in our retail areas of operation.

Wholesale gallon sales increased 117.9 million gallons, or 476%, to 142.6 million gallons in fiscal 2000 from 24.7 million gallons in fiscal 1999. This increase was primarily attributable to the growth of our wholesale sales operations, which were initiated after the fiscal 1999 winter season. Fiscal 2000 was approximately 14% warmer than normal in our wholesale areas of operations.

Revenues. Revenues in fiscal 2000 were $93.6 million, an increase of $74.5 million, or 389%, over $19.1 million of revenues in fiscal 1999. Revenues from retail propane sales increased $12.0 million, or 175%, from $6.9 million in fiscal 1999 to $18.9 million in fiscal 2000. This increase is attributable to our retail acquisitions and internal growth. Other retail revenues increased approximately $1.7 million, or 57%, to $4.6 million in fiscal 2000 from $2.9 million in fiscal 1999. These revenues consist of tank rentals, heating oil sales, appliance sales and service and were largely attributable to our retail acquisitions in fiscal 1999 and 2000.

Revenues from wholesale propane sales increased $60.7 million, or 650%, from $9.4 million in fiscal 1999 to $70.1 million (after elimination of sales to our retail operations) in fiscal 2000. This increase was a result of our significant increase in wholesale volumes.

Cost of Product Sold. Cost of product sold in fiscal 2000 was $81.6 million, an increase of $67.8 million, or 494%, over fiscal 1999 cost of sales of $13.8 million. The increase was attributable to significant increases in wholesale and retail volumes and the average cost of propane.

Gross Profit. Retail gross profit was $10.7 million in fiscal 2000 compared to $4.9 million in fiscal 1999, an increase of $5.8 million, or 120%. This increase was attributable to higher retail gallons and a slight increase in margin per gallon.

Wholesale gross profit was $1.3 million (after elimination of gross profit attributable to our retail operations) in fiscal 2000 compared to $0.5 million in fiscal 1999, an increase of $0.8 million, or 148%. This increase was attributable to higher wholesale gallon sales in fiscal 2000 partially offset by a decrease in gross profit per gallon.

Operating and Administrative Expenses. Operating and administrative expenses were $9.0 million in fiscal 2000 as compared to $4.1 million in fiscal 1999, an increase of $4.9 million, or 118%. This increase primarily resulted from acquisitions.

Depreciation and Amortization. Depreciation and amortization increased $1.6 million, or 231%, to $2.3 million in fiscal 2000 from $0.7 million in fiscal 1999. This increase was attributable to depreciation and amortization of acquired assets, including intangible assets and, to a lesser extent, the amortization of acquisition financing costs.

Net Loss. Net loss increased $1.6 million to $1.8 million in fiscal 2000 from $0.2 million in fiscal 1999. This increase in net loss was primarily attributable to an increase in interest expense of $1.8 million, most of which was incurred in connection with acquisitions.

Adjusted EBITDA. Adjusted EBITDA increased $1.8 million, or 119%, to $3.3 million in fiscal 2000 from $1.5 million in fiscal 1999. The increase in Adjusted EBITDA was attributable to increased retail and wholesale volumes, largely offset by higher operating and administrative expenses.

Fiscal Year Ended September 30, 1999 Compared to Fiscal Year Ended September 30, 1998

Volume. During fiscal 1999, Inergy Partners sold 8.1 million retail gallons of propane, an increase of 2.5 million gallons, or 44%, from the 5.6 million retail gallons sold in fiscal 1998. This increase was primarily attributable to the acquisition of six retail propane distributors during fiscal 1999, partially offset by weather that was 11% warmer in fiscal 1999 than in fiscal 1998. Fiscal 1999 was 16% warmer than normal in our primary areas of operation.

Inergy Partners initiated wholesale operations in April 1999 and sold approximately 24.7 million gallons during the remainder of that fiscal year.

Revenues. Revenues for retail propane sales increased $2.1 million, or 44%, from $4.8 million in fiscal 1998 to $6.9 million in fiscal 1999. This increase was due to acquisitions and higher propane selling prices partially offset by warmer weather. Other retail revenues increased $0.2 million, or 7%, to $2.9 million in fiscal 1999 from $2.7 million in fiscal 1998. The increase is a result of the acquisitions during fiscal 1999.

Wholesale revenues were $9.4 million in fiscal 1999, our initial year of wholesale operations.

Cost of Product Sold. Cost of product sold in fiscal 1999 was $13.8 million, an increase of $9.6 million, or 226%, over fiscal 1998 cost of product sold of $4.2 million. The increase in cost of product sold was primarily attributable to increased retail and wholesale volumes, partially offset by a slight decrease in the cost of propane.

Gross Profit. Retail gross profit was $4.9 million in fiscal 1999 compared to $3.3 million in fiscal 1998, an increase of $1.6 million, or 48%. This increase was attributable to increased retail volumes and margins. Wholesale gross profit was $0.5 million in fiscal 1999, our initial year of wholesale operations.

Operating and Administrative Expenses. Operating and administrative expenses were $4.1 million in fiscal 1999 as compared to $2.4 million in fiscal 1998, an increase of $1.7 million, or 70%. This increase was related to acquisitions and the initiation of our wholesale operations.

Depreciation and Amortization. Depreciation and amortization increased $0.3 million, or 75%, to $0.7 million in fiscal 2000 from $0.4 million in fiscal 1999. This increase was attributable to the depreciation and amortization of acquired assets, including intangible assets, and amortization of acquisition financing costs.

Net Loss. Net loss was $0.2 million in fiscal 1999 compared to an approximate break-even level in fiscal 1998. This increase in net loss was primarily attributable to an increase in acquisition-related interest expense, partially offset by an increase in operating income.

Adjusted EBITDA. Adjusted EBITDA increased $0.6 million, or 62%, to $1.5 million in fiscal 1999 from $0.9 million in fiscal 1998. The increase in Adjusted EBITDA was primarily attributable to increased retail and wholesale volumes, partially offset by higher operating and administrative expenses.

Hoosier Propane Group

Our acquisition of the Hoosier Propane Group was completed effective January 1, 2001. The audited and unaudited financial statements of the Hoosier Propane Group are included elsewhere in this prospectus.

Three Months Ended December 31, 2000 Compared to Three Months Ended December 31, 1999

Volume. During the three months ended December 31, 2000, the Hoosier Propane Group sold 8.6 million retail gallons of propane, an increase of 1.4 million gallons, or 19%, from the 7.2 million retail gallons sold in the same period in fiscal 1999. This increase was attributable to colder weather and internal growth.

The Hoosier Propane Group sold 23.7 million wholesale gallons of propane in the three months ended December 31, 2000, a decrease of 5.5 million gallons, or 19%, from the 29.2 million wholesale gallons sold in the same period in fiscal 1999. This decrease was attributable to less competitive pricing in the 2000 period due to higher product costs.

Revenues. Revenues in the three months ended December 31, 2000 were $31.5 million, an increase of $10.7 million, or 52%, over $20.8 million of revenues in the same period of fiscal 1999. This increase was attributable to increased propane and freight revenues.

Revenues from propane sales increased $10.1 million, or 53%, to $29.2 million in the three months ended December 31, 2000 from $19.1 million in the same period in fiscal 1999. This increase was primarily attributable to higher prices and increased retail volumes, and was partially offset by decreased wholesale volumes.

Freight revenues increased $0.6 million, or 49%, to $2.0 million in the three months ended December 31, 2000 from $1.4 million in the same period in fiscal 1999. The colder weather in the 2000 period resulted in more deliveries of propane to independent propane distributors and other contract customers.

Cost of Product Sold. Cost of product sold in the three months ended December 31, 2000 was $25.2 million, an increase of $9.6 million, or 61%, over the 1999 period of $15.6 million. This increase was attributable to a significant increase in the average cost of propane and increased retail volumes, partially offset by a decrease in wholesale volumes.

Gross Profit. Gross profit was $6.4 million in the three months ended December 31, 2000 compared to $5.2 million in the fiscal 1999 period, an increase of $1.2 million, or 23%. This increase was attributable to an increase in retail volumes and margins, partially offset by decreases in wholesale volumes and margins. The increase in retail gross margin per gallon was attributable to favorable propane purchases during a period of increasing retail prices and colder weather in our areas of operation.

Operating and Administrative Expenses. Operating and administrative expenses remained constant at $2.5 million, in the three month periods ended December 31, 2000 and 1999.

Depreciation and Amortization. Depreciation and amortization remained constant at $0.4 million in the three month periods ended December 31, 2000 and 1999, primarily as a result of maintaining existing assets in 2000 as opposed to the replacement of these assets.

Net Income. Net income increased $1.3 million, or 58%, to $3.4 million in the three months ended December 31, 2000 from $2.1 million in the fiscal 1999 period. This increase was attributable to an increase in operating income while interest expense and other income remained relatively constant in the fiscal 2000 period as compared to the fiscal 1999 period.

Fiscal Year Ended September 30, 2000 Compared to Fiscal Year Ended September 30, 1999

Volume. During fiscal 2000, the Hoosier Propane Group sold 22.9 million retail gallons of propane, an increase of 0.1 million gallons from the 22.8 million retail gallons sold in fiscal 1999. This increase was attributable to fiscal 2000 being 3% colder than fiscal 1999 in the Hoosier Propane Group's areas of operation and internal growth, partially offset by decreases in agricultural and commercial volumes resulting from an increased focus on higher margin sales. Fiscal 2000 was 10% warmer than normal in our area of operations.

The Hoosier Propane Group sold 68.9 million wholesale gallons of propane in fiscal 2000, an increase of 5.3 million gallons, or 8%, over the 63.6 million wholesale gallons sold in fiscal 1999. This increase was attributable to the favorable sales opportunities and the slightly colder weather in the Hoosier Propane Group's areas of operation in fiscal 2000 as compared to fiscal 1999. Wholesale marketing efforts were primarily concentrated in the Southeast and Midwest where fiscal 2000 temperatures were approximately 14% warmer than normal.

Revenues. Revenues in fiscal 2000 were $65.6 million, an increase of $21.9 million, or 50%, over $43.7 million of revenues in fiscal 1999. Increased propane revenues accounted for approximately $19.9 million of this increase with freight and other revenues increasing approximately $2.0 million from fiscal 1999 to fiscal 2000.

Revenues from propane sales increased $19.9 million, or 51%, from $38.8 million in fiscal 1999 to $58.7 million in fiscal 2000. This increase was primarily attributable to higher sales prices and an increase in wholesale volumes.

Freight revenues increased $1.2 million, or 25%, to $5.7 million fiscal 2000 from $4.5 million in fiscal 1999 as a result of growth in market share.

Other revenues increased $0.8 million, or 241%, to $1.2 million in fiscal 2000 from $0.4 million in fiscal 1999 due to increased vehicle service revenues.

Cost of Product Sold. Cost of product sold in fiscal 2000 was $49.0 million, an increase of $20.1 million, or 70%, over the fiscal 1999 cost of product sold of $28.9 million. This increase was attributable to a significant increase in the average cost of propane in fiscal 2000 compared to fiscal 1999 and to increased wholesale volumes in fiscal 2000.

Gross Profit. Gross profit was $16.5 million in fiscal 2000 compared to $14.8 million in fiscal 1999, an increase of $1.7 million, or 12%. This increase was attributable to an increase in retail margins and wholesale

volumes. The increase in retail gross margin per gallon was attributable to an increased focus on higher margin gallon sales.

Operating and Administrative Expenses. Operating and administrative expenses were $9.4 million in fiscal 2000 as compared to $8.3 million in fiscal 1999, an increase of $1.1 million, or 13%. This increase primarily resulted from increased labor costs and vehicle expenses associated with higher retail and wholesale volumes together with growth in freight revenues. In addition, the increased cost per gallon of vehicle fuel in fiscal 2000 over fiscal 1999 contributed to the increase in vehicle costs.

Depreciation and Amortization. Depreciation and amortization decreased $0.1 million to $1.6 million in fiscal 2000 from $1.7 million in fiscal 1999.

Net Income. Net income increased $0.8 million, or 20%, to $5.0 million in fiscal 2000 from $4.2 million in fiscal 1999. This increase in net income was attributable to the increase in operating income.

Fiscal Year Ended September 30, 1999 Compared to Fiscal Year Ended September 30, 1998

Volume. During fiscal 1999, the Hoosier Propane Group sold 22.8 million retail gallons of propane, an increase of 5.4 million gallons, or 31%, from the 17.4 million retail gallons sold in fiscal 1998. At the end of fiscal 1998 and the beginning of fiscal 1999, the Hoosier Propane Group acquired three retail propane distributors that accounted for 4.1 million gallons of the 5.4 million gallon increase in retail propane volume. The remaining 1.3 million gallon increase in retail volume resulted from internal growth and, to a lesser extent, slightly colder weather in fiscal 1999 as compared to fiscal 1998.

During fiscal 1999, the Hoosier Propane Group sold 63.6 million wholesale gallons, a decrease of 21.9 million gallons, or 26%, from the 85.5 million wholesale gallons sold in fiscal 1998. The decrease in wholesale volumes is due in part to the loss of the business of a multi-state retail propane marketer.

Revenues. Revenues in fiscal 1999 were $43.7 million, a decrease of $12.0 million, or 22%, from $55.7 million in fiscal 1998. Revenues from propane sales decreased $11.8 million, or 23%, from $50.6 million in fiscal 1998 to $38.8 million in fiscal 1999 primarily due to a decrease in prices. Freight revenues decreased $0.3 million, or 6%, from $4.8 million in fiscal 1998 to $4.5 million in fiscal 1999 due to the loss of the business of a multi-state marketer while other revenues increased $0.1 million, or 24%, to $0.4 million in fiscal 1999 from $0.3 million in fiscal 1998.

Cost of Product Sold. Cost of product sold in fiscal 1999 was $28.9 million, a decrease of $13.9 million, or 33%, from fiscal 1998 cost of product sold of $42.8 million. The decrease in cost of product sold was primarily attributable to a decrease in the cost of propane per gallon in fiscal 1999 as compared to fiscal 1998 and, to a lesser extent, decreased wholesale volumes, partially offset by an increase in retail volumes.

Gross Profit. Gross profit was $14.8 million in fiscal 1999 compared to $12.9 million in fiscal 1998, an increase of $1.9 million, or 14%. This increase was attributable to an increase in retail volumes and margins, partially offset by a decrease in wholesale volume. The increase in our retail gross margin per gallon resulted from our focus on higher margin gallon sales.

Operating and Administrative Expenses. Operating and administrative expenses were $8.3 million in fiscal 1999 as compared to $7.6 million in fiscal 1998, an increase of $0.7 million, or 9%. This increase was attributable to increased personnel costs resulting from acquisitions.

Depreciation and Amortization. Depreciation and amortization increased $0.2 million, or 11%, to $1.7 million in fiscal 1999 from $1.5 million in fiscal 1998. This increase was primarily attributable to the depreciation of the assets acquired in acquisitions.

Net Income. Net income increased $0.7 million, or 18%, to $4.2 million in fiscal 1999 from $3.5 million in fiscal 1998. This increase in net income was attributable to the increase in operating income offset by a $0.3 million increase in acquisition related interest expense.

Country Gas Company, Inc.

We acquired Country Gas on June 1, 2000. Audited financial statements of Country Gas are included elsewhere in this prospectus.

Fiscal Year Ended May 31, 2000 Compared to Fiscal Year Ended May 31, 1999

Volume. During fiscal 2000, Country Gas sold 9.9 million retail gallons of propane, a decrease of 0.5 million gallons, or 5%, from the 10.4 million gallons sold in fiscal 1999. This decrease was principally due to warmer weather in fiscal 2000 as compared to fiscal 1999. In addition, Country Gas sold fewer agricultural gallons in fiscal 2000 than in fiscal 1999 due to a decreased focus on agricultural sales.

Revenues. Revenues in fiscal 2000 were $9.6 million, an increase of $1.1 million, or 14%, over $8.5 million of revenues in fiscal 1999. Revenues from propane sales increased $1.3 million, or 16%, from $7.7 million in fiscal 1999 to $9.0 million in fiscal 2000. This increase was attributable to an increase in the average selling price of propane, and was partially offset by a decrease in gallons sold in fiscal 2000. Other revenues decreased $0.1 million to $0.7 million in fiscal 2000 from $0.8 million in fiscal 1999.

Cost of Product Sold. Cost of product sold in fiscal 2000 was $4.7 million, an increase of $1.5 million, or 47%, over fiscal 1999 cost of product sold of $3.2 million. This increase in cost of product sold was attributable to increasing propane costs.

Gross Profit. Gross profit was $5.0 million in fiscal 2000 compared to $5.3 million in fiscal 1999, a decrease of $0.3 million, or 6%. This decrease was attributable to a decrease in gross profit from propane sales of $0.2 million and a decrease in other gross profit of $0.1 million. The decrease in gross profit from propane sales was due to a 5% decrease in the gallons sold in fiscal 2000 and to a lower average gross profit per gallon resulting from the lower percentage of residential retail gallons sold. Other gross profit decreased $0.1 million in fiscal 2000 as compared to fiscal 1999 as a result of warmer weather conditions.

Operating and Administrative Expenses. Operating and administrative expenses were $3.2 million in fiscal 2000 as compared to $3.0 million in fiscal 1999, an increase of $0.2 million, or 6%. This increase primarily resulted from increased vehicle operating costs in fiscal 2000 as compared to fiscal 1999 due to higher vehicle fuel and maintenance costs.

Depreciation and Amortization. Depreciation and amortization remained constant at approximately $0.4 million in fiscal 1999 and fiscal 2000.

Net Income. Net income decreased $0.8 million, or 33%, to $1.6 million in fiscal 2000 from $2.4 million in fiscal 1999. This decrease was attributable to the $0.5 million decline in operating income and the $0.3 million gain on the sale of product line recognized in fiscal 1999.

Fiscal Year Ended May 31, 1999 Compared to Fiscal Year Ended May 31, 1998

Volume. During fiscal 1999, Country Gas sold 10.4 million retail gallons of propane, an increase of 2.0 million gallons, or 24%, from the 8.4 million gallons sold in fiscal 1998. This increase was principally due to an increase in lower margin industrial gallons sold in fiscal 1999 over 1998.

Revenues. Revenues in fiscal 1999 were $8.5 million, an increase of $0.3 million, or 4%, over $8.2 million of revenues in fiscal 1998. Revenues from propane sales increased $0.2 million, or 4%, from $7.5 million in fiscal 1998 to $7.7 million in fiscal 1999. This increase was attributable to an increase in gallons sold in fiscal

1999 largely offset by a decrease in the average selling price of propane. Other revenues increased $0.1 million to $0.8 million in fiscal 1999 from $0.7 million in fiscal 1998.

Cost of Product Sold. Cost of product sold in fiscal 1999 was $3.2 million, a decrease of $0.2 million, or 6%, from fiscal 1998 cost of product sold of $3.4 million. This decrease in cost of product sold was attributable to decreasing propane costs.

Gross Profit. Gross profit was $5.3 million in fiscal 1999 compared to $4.8 million in fiscal 1999, an increase of $0.5 million, or 11%. This increase was attributable to an increase in gross profit from propane sales of $0.5 million. The increase in gross profit from propane sales was due to a 24% increase in the gallons sold in fiscal 1999 partially offset by a lower average gross profit per gallon resulting from certain lower margin gallons sold.

Operating and Administrative Expenses. Operating and administrative expenses were $3.0 million in fiscal 1999 as compared to $2.8 million in fiscal 1998, an increase of $0.2 million, or 9%. This increase primarily resulted from increased operating costs in fiscal 1999 as compared to fiscal 1998 as a result of the increase in gallons sold.

Depreciation and Amortization. Depreciation and amortization increased approximately $0.1 million to $0.4 million in fiscal 1999 from $0.3 million in 1998.

Net Income. Net income increased $0.5 million, or 28%, to $2.4 million in fiscal 1999 from $1.9 million in fiscal 1998. This increase was attributable to a $0.3 million gain on the sale of a product line recognized in fiscal 1999 and an increase in gross profit partially offset by an increase in operating and administrative expenses.

Liquidity and Capital Resources

Inergy Partners, LLC Cash Flows and Capital Expenditures

Cash used in operating activities was $0.3 million in fiscal 2000 and $0.8 million in fiscal 1999. The uses of cash from operating activities for these periods are principally due to the net losses incurred of $1.8 million in fiscal 2000 and $0.2 million in fiscal 1999. These net losses resulted from the development of management and infrastructure sufficient to accommodate planned future growth. Depreciation and amortization increased to $2.3 million in fiscal 2000 from $0.7 million in fiscal 1999 due to the effects of acquisitions completed in these two years. Net increases in operating assets and liabilities, including net liabilities from price risk management activities, required a use of cash amounting to $1.0 million in fiscal 2000 and $1.4 million in fiscal 1999. We finance these working capital needs with borrowings under our revolving credit facilities as discussed below.

During the six months ended March 31, 2001, operating activities provided cash of $2.6 million compared to a $0.8 million use of cash in the same fiscal 2000 period. These six month periods include our winter season in which the majority of our sales occur. Net income increased to $12.2 million for the six months ended March 31, 2001 from $2.4 million for the same fiscal 2000 period due to the effects of the acquisitions completed in fiscal 2000 and 2001 and the colder weather in the 2001 period. Depreciation and amortization increased to $2.7 million in the six months ended March 31, 2001 from $0.9 million in the same fiscal 2000 period due to the effects of acquisitions, particularly the Hoosier Propane Group acquisition completed in January 2001. Increases in net operating assets, including net liabilities from price risk management activities, required a use of cash amounting to $13.2 million in the six months ended March 31, 2001 and $4.1 million in the same fiscal 2000 period. The higher use of cash in the fiscal 2001 period was principally attributable to the $10.9 million increase in accounts receivable associated with the growth of our business and the colder winter.

Cash used in investing activities was $12.4 million in 2000 and $13.1 million in 1999. These amounts included the use of $9.6 million in 2000 and $11.4 million in 1999 for acquisitions in those periods. Additionally, we expended $2.3 million in 2000 and $1.4 million in 1999, for additions of property and

equipment to accommodate our growing operations. During the six months ended March 31, 2001, we used $60.2 million in investing activities, including $56.3 million to acquire the Hoosier Propane Group and one other retail propane distributorship. The remaining use of cash in investing activities related to $1.9 million for maintenance and growth capital expenditures and $2.0 million for deferred financing and acquisition costs associated with the refinancing of our credit facilities in January 2001. We have budgeted maintenance capital expenditures of approximately $1.3 million for the fiscal year ending September 30, 2001. In addition, we expect to incur growth capital expenditures of $2.5 million over the same period. We expect to fund these capital expenditures through a combination of cash flows from operating activities and borrowings under our revolving credit facility.

Cash provided by financing activities was $13.9 million in fiscal 2000 and $14.1 million in fiscal 1999. The $13.9 million of cash provided by financing activities in fiscal 2000 was comprised of net proceeds from long-term debt used to finance increased working capital, acquisitions and capital expenditures of approximately $12.6 million and net proceeds from the issuance of preferred interests of $1.9 million, partially offset by $0.5 million used for the payment of distributions. In fiscal 1999, approximately $14.2 million was provided by net proceeds from the issuance of long term debt, partially offset by distributions of approximately $0.2 million. Cash provided by financing activities of $59.7 million in the six months ended March 31, 2001 and $3.8 million in the same 1999 period was used to finance acquisitions, working capital and capital expenditures during these periods.

At March 31, 2001, Inergy Partners had goodwill of $32.1 million, representing approximately 21% of total assets. This goodwill is primarily attributable to our acquisition of the Hoosier Propane Group and Country Gas. We expect recovery of the goodwill through future cash flows associated with these acquisitions.

Inergy, L.P. Liquidity

Our primary short-term liquidity needs are to fund general working capital requirements while our long-term liquidity needs are primarily associated with capital expenditures for the growth and maintenance of our existing businesses together with funding for strategic business acquisitions. Growth capital expenditures are primarily for the purchase of customer storage tanks while maintenance capital expenditures are primarily related to repair and replacement of propane delivery vehicles and maintenance associated with existing customer installations. At March 31, 2001, we had outstanding commitments for capital expenditures of approximately $1.2 million. Our primary sources of funds for our short-term liquidity needs will be cash flows from operations and borrowings under a short-term working capital facility while our long-term sources of funds will be from long-term bank borrowings and equity or debt financings.

At the closing of this offering, we will assume $5.0 million of subordinated debt from Inergy Partners and all outstanding indebtedness under Inergy Partners' existing bank credit facility. We plan to use the net proceeds of this offering to repay all $5.0 million of subordinated indebtedness and $21.0 million of indebtedness under the credit facility. We will refinance the remaining indebtedness, expected to be approximately $54.0 million, with borrowings under a new senior secured credit facility.

We expect to enter into a commitment letter for a new senior secured credit facility, which we expect will permit us to borrow up to an aggregate principal amount of $100.0 million. This credit facility will consist of an acquisition facility with a borrowing limit of $70.0 million and a working capital facility with a borrowing limit of $30.0 million. The acquisition facility will be used to refinance existing indebtedness and provide financing for future acquisitions.

We believe that the proceeds of this offering, anticipated cash from operations, and borrowings under our amended and restated credit facility 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.

Environmental Matters

Environmental liabilities have not materially impacted our financial condition, results of operations or liquidity since our inception. We do not expect environmental liabilities to materially impact our operations in the future.

Recent Accounting Pronouncements

In 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

Adoption of SFAS No. 133 is required for fiscal years beginning after June 15, 2000. We have adopted SFAS No. 133 during the first quarter of fiscal 2001. We believe that the effect of adopting SFAS 133 is limited to disclosures in its financial statements since we currently utilize the mark-to-market method of accounting.

Quantitative and Qualitative Disclosure About Market Risk

We have long-term debt and a revolving line of credit subject to the risk of loss associated with movements in interest rates.

At March 31, 2001, we had floating rate obligations totaling approximately $78.3 million for amounts borrowed under our revolving line of credit and long-term debt. We have entered into interest rate hedging agreements in the form of interest rate swaps that have provided us with a fixed rate of approximately 8.75% on $25.0 million of these obligations at March 31, 2001. We believe the recorded amount of this fixed rate debt approximates its fair value. The resulting floating rate obligations of $53.3 million expose us to the risk of increased interest expense in the event of increases in short-term interest rates. If the floating interest rate were to increase by 100 basis points from March 31, 2001 levels, our combined interest expense would increase by a total of approximately $44,000 per month.

Propane Price Risk

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

Trading Activities

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

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

We have recorded our trading activities at fair value in accordance with Emerging Issues Task Force Issue (EITF) No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." EITF No. 98-10 requires energy trading contracts to be recorded at fair value on the balance sheet, with the changes in fair value included in earnings.

Notional Amounts and Terms

The notional amounts and terms of these financial instruments at September 30, 1999 and 2000 include fixed price payor for 1 million and 1.5 million barrels, respectively and fixed price receiver for 1.2 million and 1.5 million barrels, respectively. The notional amounts and terms of these financial instruments at March 31, 2001 include fixed price payor for 97,000 barrels and fixed price receiver for 269,000 barrels.

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

Fair Value

The fair value of the financial instruments related to price risk management activities as of September 30, 1999 and 2000 was assets of $582,000 and $3.6 million, respectively and liabilities of $1.8 million and $2.3 million, respectively related to propane. The fair value of the financial instruments related to price risk management activities as of March 31, 2001 was assets of $433,000 and liabilities of $93,000 related to propane. All intercompany transactions have been appropriately eliminated.

The income before interest, taxes and certain unallocated expenses arising from trading and price risk management activities for the years ended September 30, 1999 and 2000 and for the six months ended March 31, 2001 was immaterial.

Market and Credit Risk

Inherent in the resulting contractual portfolio are certain business risks, including market risk and credit risk. Market risk is the risk that the value of the portfolio will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers or financial counterparties to a contract. We take an active role in managing and controlling market and credit risk and has 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 value to senior management. We attempt to minimize credit risk exposure through credit policies and periodic monitoring procedures. The counterparties associated with assets from price risk management activities as of September 30, 1999 and 2000 and as of March 31, 2001 were energy marketers.

# BUSINESS

## General

We own and operate a rapidly growing retail and wholesale propane marketing and distribution business. Since our predecessor's inception in November 1996, we have acquired 11 propane companies for an aggregate purchase price of approximately $120 million, including assumed liabilities and acquisition costs. For the fiscal year ended September 30, 2000, on a pro forma combined basis we sold approximately 50 million gallons of propane to retail customers and approximately 210 million gallons of propane to wholesale customers.

Our retail business includes the retail marketing, sale and distribution of propane, including the sale and lease of propane supplies and equipment, to residential, commercial, industrial and agricultural customers. We market our propane products under four regional brand names: Bradley Propane, Country Gas, Hoosier Propane, and McCracken. We serve approximately 71,000 retail customers in Georgia, Illinois, Indiana, Michigan, North Carolina, Ohio, Tennessee, Virginia and Wisconsin from 30 customer service centers which have an aggregate of approximately 1.8 million gallons of above-ground propane storage capacity. In addition to our retail business, we operate a wholesale supply, marketing and distribution business, providing propane procurement, transportation and supply and price risk management services to our customer service centers, as well as to independent dealers and multistate marketers and, to a lesser extent, selling propane as a standby fuel to industrial end users. We currently provide wholesale supply and distribution services to approximately 350 customers in 24 states, primarily in the Midwest and Southeast.

We have grown primarily through acquisitions of propane operations and, to a lesser extent, through internal growth. Since our initial acquisition of McCracken Oil & Propane Company in 1996, we have completed ten additional acquisitions in North Carolina, Tennessee, Illinois and Indiana. The following chart sets forth certain retail propane statistics about each company we have acquired:

| Company(1) | Location | Acquisition Date | Customers(2) | Approximate Retail Gallons(3) |
|---|---|---|---|---|
| McCracken Oil & Propane Company, LLC | Wake Forest, NC | November 1996 | 6,000 | 4,800,000 |
| Wilson Oil Company of Johnston County, Inc. | Wilson's Mills, NC | December 1998 | 2,750 | 1,800,000 |
| Ernie Lee Oil & LP Gas, LLC | Raleigh, NC | December 1998 | 3,200 | 1,400,000 |
| Langston Gas & Oil Co., Inc. | Four Oaks, NC | May 1999 | 1,500 | 800,000 |
| Castleberry's, Inc. | Smithfield, NC | July 1999 | 1,500 | 900,000 |
| Rolesville Gas & Oil Company, Inc. | Raleigh, NC | August 1999 | 3,000 | 2,200,000 |
| Bradley Propane, Inc. | Chattanooga, TN | October 1999 | 4,700 | 2,600,000 |
| Butane-Propane Gas Company of Tenn., Inc. | Marion, TN | November 1999 | 850 | 700,000 |
| Country Gas Company, Inc. | Crystal Lake, IL | June 2000 | 8,000 | 9,900,000 |
| Bear-Man Propane | Hixson, TN | November 2000 | 750 | 600,000 |
| Hoosier Propane Group | Kendalville, IN | January 2001 | 26,000 | 22,800,000 |
| Total | | | 58,250 | 48,500,000 |

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(1) Name of acquired company as of acquisition date.
(2) Number of customers as of acquisition date.
(3) Represents retail gallons sold during the twelve-month period preceding acquisition date.

Industry Background and Competition

Propane, a by-product of natural gas processing and petroleum refining, is a clean-burning energy source recognized for its transportability and ease of use relative to alternative stand-alone energy sources. Our retail propane business consists principally of transporting propane to our customer service centers and other distribution areas and then to tanks located on our customers' premises. Retail propane falls into three broad categories: residential, industrial and commercial and agricultural. Residential customers use propane primarily for space and water heating. Industrial customers use propane primarily as fuel for forklifts and stationary engines, to fire furnaces, as a cutting gas, in mining operations and in other process applications. Commercial customers, such as restaurants, motels, laundries and commercial buildings, use propane in a variety of applications, including cooking, heating and drying. In the agricultural market, propane is primarily used for tobacco curing, crop drying, poultry brooding and weed control.

Propane is extracted from natural gas or oil wellhead gas at processing plants or separated from crude oil during the refining process. Propane is normally transported and stored in a liquid state under moderate pressure or refrigeration for ease of handling in shipping and distribution. When the pressure is released or the temperature is increased, it is usable as a flammable gas. Propane is colorless and odorless; an odorant is added to allow its detection. Propane is clean-burning, producing negligible amounts of pollutants when consumed.

The retail market for propane is seasonal because it is used primarily for heating in residential and commercial buildings. Approximately 70-75% 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.

According to the American Petroleum Institute, the domestic retail market for propane is approximately 11.2 billion gallons annually. This represents approximately 5% of household energy consumption in the United States. Propane competes primarily with natural gas, electricity and fuel oil as an energy source, principally on the basis of price, availability and portability. Propane is more expensive than natural gas on an equivalent BTU basis in locations served by natural gas, but serves as an alternative to natural gas in rural and suburban areas where natural gas is unavailable or portability of product is required. Historically, the expansion of natural gas into traditional propane markets has been inhibited by the capital costs required to expand pipeline and retail distribution systems. Although the extension of natural gas pipelines tends to displace propane distribution in areas affected, we believe that new opportunities for propane sales arise as more geographically remote neighborhoods are developed. Propane is generally less expensive to use than electricity for space heating, water heating, clothes drying and cooking. Although propane is similar to fuel oil in certain applications and market demand, propane and fuel oil compete to a lesser extent than propane and natural gas, primarily because of the cost of converting to fuel oil. The costs associated with switching from appliances that use fuel oil to appliances that use propane are a significant barrier to switching. By contrast, natural gas can generally be substituted for propane in appliances designed to use propane as a principal fuel source.

In addition to competing with alternative energy sources, we compete with other companies engaged in the retail propane distribution business. Competition in the propane industry is highly fragmented and generally occurs on a local basis with other large full-service multi-state propane marketers, smaller local independent marketers and farm cooperatives. Based on industry publications, we believe that the ten largest retailers account for less than 37% of the total retail sales of propane in the United States, and that no single marketer has a greater than 10% share of the total retail market in the United States. Most of our customer service centers compete with several marketers or distributors. Each customer service center operates in its own competitive environment because retail marketers tend to locate in close proximity to customers. Our typical customer service center generally has an effective marketing radius of approximately 25 miles, although in certain rural areas the marketing radius may be extended by a satellite location.

The ability to compete effectively further depends on the reliability of service, responsiveness to customers and the ability to maintain competitive prices. We believe that our safety programs, policies and procedures are more comprehensive than many of our smaller, independent competitors and give us a competitive advantage over such retailers. We also believe that our service capabilities and customer responsiveness differentiate us from many of these smaller competitors. Our employees are on call 24-hours and seven-days-a-week for emergency repairs and deliveries.

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

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

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

Competitive Strengths

We believe that we are well-positioned to compete in the propane industry. Our competitive strengths include:

Proven Acquisition Expertise

Since our inception, we have acquired and successfully integrated 11 propane companies with an aggregate purchase price of approximately $120 million, including five propane distributors since September 1999. Our executive officers and key employees, who average more than 15 years experience in the propane industry, have developed business relationships with retail propane owners and businesses throughout the United States. These significant industry contacts have enabled us to negotiate all of our acquisitions on an exclusive basis. This acquisition expertise should allow us to continue to grow through strategic and accretive acquisitions. Our acquisition program will continue to seek:

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

Internal Growth

We consistently promote internal growth in our retail operations through a combination of marketing programs and employee incentives. We enjoy strong relationships with builders, mortgage companies and real estate agents which enable us to access customers as new residences are built. We also provide various

financial incentives for customers who sign up for our automatic delivery program, including level payment, fixed price and price cap programs. We provide all customers with supply, repair and maintenance contracts and 24-hour customer service. Finally, we have instituted an employee bonus program and other incentives that foster an entrepreneurial environment by rewarding employees who expand revenues by attracting new customers while controlling costs. We intend to continue to aggressively seek new customers and promote internal growth through local marketing and service programs in our residential propane business.

Operations in High Growth Markets

Our Southeastern operations, which represented approximately 33% of our pro forma retail volumes for the fiscal year ended September 30, 2000, are concentrated in higher-than-average population growth areas, where natural gas distribution is not cost effective. These markets have experienced strong economic growth which has spurred the development of sizable, low density and relatively affluent residential communities which are significant consumers of propane. We intend to pursue acquisitions in similar high growth markets.

Regional Branding

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

High Percentage of Retail Sales to Residential Customers

Our retail propane operations concentrate on sales to residential customers. Residential customers tend to generate higher margins and are generally more stable purchasers than other customers. For the fiscal year ended September 30, 2000, sales to residential customers represented approximately 70% of our retail propane gallons sold and approximately 77% of our retail gross profits, on a pro forma combined basis. Although overall demand for propane is affected by weather and other factors, we believe that residential propane consumption is not materially affected by general economic conditions because most residential customers consider home space heating to be an essential purchase. In addition, we own approximately 90% of the propane tanks located at our customers' homes. In many states, fire safety regulations restrict the refilling of a leased tank solely to the propane supplier that owns the tank. These regulations, which require customers to switch propane tanks when they switch suppliers, help enhance the stability of our customer base because of the inconvenience and costs involved with switching tanks and suppliers.

Strong Wholesale Supply, Marketing and Distribution Business

One of our distinguishing strengths is our procurement and distribution expertise and capabilities. For the fiscal year ended September 30, 2000, on a pro forma combined basis we sold approximately 210 million gallons of propane on a wholesale basis to independent dealers and multistate marketers. These operations are significantly larger on a relative basis than the wholesale operations of most publicly traded propane businesses. We also provide transportation services to these distributors through our fleet of transport vehicles and price risk management services to our customers through a variety of financial and other instruments. Our wholesale business provides us with a growing income stream as well as valuable market intelligence and awareness of potential acquisition opportunities. Because we sell on a wholesale basis to many residential and commercial retailers, we have an ongoing relationship with a large number of businesses that may be attractive acquisition opportunities for us. In addition, because of the scale of our wholesale purchases, we believe that we will have an adequate supply of propane to support our growing retail operations at prices which are generally available

only to large wholesale purchasers. This purchasing scale and resulting expertise also helps us avoid shortages during periods of tight supply to an extent not generally available to other retail propane distributors. Moreover, the presence of our trucks across the Midwest and Southeast allows us to take advantage of various pricing and distribution inefficiencies that exist in the market from time to time.

Flexible Financial Structure

We believe that our ability at closing to borrow $20.0 million under our $70.0 million acquisition facility, our $30.0 million working capital facility and our ability to fund acquisitions through the issuance of additional partnership interests will provide us with a flexible financial structure that will facilitate our acquisition strategy.

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

Retail Operations

We currently distribute propane to approximately 71,000 retail customers in eight states from 30 customer service centers. We market propane primarily in rural areas, but also have a significant number of customers in suburban areas where energy alternatives to propane such as natural gas are generally not available.

We market our propane primarily in the Southeast and Midwest regions of the United States through our customer service centers using four regional brand names. The following chart shows our customer service centers by location.

| | |
|---|---|
| Bradley Propane | Hoosier Propane |
| Chattanooga, TN | Albion, IN |
| Cleveland, TN | Barryton, MI |
| Etowah, TN | Blakeslee, OH |
| | Cecil, OH |
| Country Gas | Decatur, IN |
| Crystal Lake, IL (Chicago area) | Greenfield, IN |
| Wasco, IL | Hillman, MI |
| | Marion, IN |
| McCracken | Mendon, MI |
| Creedmoor, NC | |
| | Monrovia, IN |
| Fremont, NC | Pendleton, IN |
| Garner, NC | |
| Louisburg, NC | Roanoke, IN |
| | Shipshewana, IN |
| Oxford, NC | South Whitley, IN |
| Rolesville, NC | |
| Spring Hope, NC | Stanton, MI |
| | Waterloo, IN |
| Wake Forest, NC | |
| Wilson's Mills, NC | |

From our customer service centers, we also sell, install and service equipment related to our propane distribution business, including heating and cooking appliances. Typical customer service centers consist of an office and service facilities, with one or more 12,000 to 30,000 gallon bulk storage tanks. Some of our customer service centers also have an appliance showroom. We have 29 satellite facilities that typically contain only large capacity storage tanks. We have approximately 1.8 million gallons of above-ground propane storage capacity at our customer service centers and satellite locations.

Retail deliveries of propane are usually made to customers by means of our fleet of bobtail and rack trucks. At March 31, 2001, we operated 134 bobtail and rack trucks. Propane is pumped from the bobtail truck, which generally holds 2,500 to 3,000 gallons, into a stationary storage tank at the customer's premises. The capacity of these tanks ranges from approximately 100 gallons to approximately 1,200 gallons, with a typical tank having a capacity of 100 to 300 gallons in milder climates and 500 to 1,000 gallons in colder climates. We also deliver propane to retail customers in portable cylinders, which typically have a capacity of five to 35 gallons. These cylinders are picked up and replenished at our distribution locations, then returned to the retail customer. To a limited extent, we also deliver propane to certain end users in larger trucks known as transports, which have an average capacity of approximately 10,000 gallons. At March 31, 2001 we operated 80 transports. These customers include industrial customers, large-scale heating accounts and large agricultural accounts.

During the fiscal year ended September 30, 2000, on a pro forma basis, approximately 18% and 82% of our propane sales by volume of gallons sold were to retail and wholesale customers, respectively. Our retail sales were comprised of approximately:

- 70% to residential customers;
- 20% to industrial and commercial customers; and
- 10% to agricultural customers.

Sales to residential customers during the fiscal year ended September 30, 2000, accounted for approximately 77% of our gross profit on retail propane sales, reflecting the higher-margin nature of this segment of the market. No single retail customer accounted for more than 1% of our pro forma revenue during the fiscal year ended September 30, 2000. No single wholesale customer accounted for more than 5% of our pro forma revenue for the same period.

Approximately 50% of our residential customers receive their propane supply under an automatic delivery program. Under the automatic delivery program, we deliver propane to our heating customers approximately six times during the year. We determine the amount of propane delivered based on weather conditions and historical consumption patterns. Our automatic delivery program eliminates the customer's need to make an affirmative purchase decision, promotes customer retention by ensuring an uninterrupted supply and enables us to efficiently route deliveries on a regular basis. We promote this program by offering level payment billing, discounts, fixed price options and price caps. In addition, we provide emergency service 24 hours a day, seven days a week, 52 weeks a year. More than 90% of our retail propane customers lease their tanks from us. In most states, due to fire safety regulations, a leased tank may only be refilled by the propane distributor that owns that tank. The inconvenience and costs associated with switching tanks and suppliers greatly reduces a customer's tendency to change distributors. Our tank lease programs are very valuable to us from the standpoint of retaining customers and maintaining profitability.

The propane business is very seasonal with weather conditions significantly affecting demand for propane. We believe that the geographic diversity of our areas of operations helps to minimize our exposure to regional weather. Although overall demand for propane is affected by climate, changes in price and other factors, we believe our residential and commercial business to be relatively stable due to the following characteristics: (i) residential and commercial demand for propane has been relatively unaffected by general economic conditions due to the largely non-discretionary nature of most propane purchases by our customers, (ii) loss of customers to competing energy sources has been low, (iii) the tendency of our customers to remain with us due to the product being delivered pursuant to a regular delivery schedule and to our ownership of over 90% of the storage tanks utilized by our customers and (iv) our ability to offset customer losses through internal growth of our customer base in existing markets. Since home heating usage is the most sensitive to temperature, residential customers account for the greatest usage variation due to weather. Variations in the weather in one or more regions in which we operate, however, can significantly affect the total volumes of propane we sell and the margins we realize and, consequently, our results of operations. We believe that sales to the commercial

and industrial markets, while affected by economic patterns, are not as sensitive to variations in weather conditions as sales to residential and agricultural markets.

Wholesale Supply, Marketing and Distribution Operations

In addition to our core retail operations, we are also engaged in the wholesale marketing of propane to independent dealers, multi-state marketers and, to a lesser extent, local gas utilities that use propane as supplemental fuel to meet peak demand requirements. We currently provide wholesale supply, marketing and distribution services to 350 customers in 24 states, primarily in the Midwest and Southeast. On a pro forma basis, our wholesale supply, marketing and distribution operations accounted for approximately 81% of total volumes and 12% of our pro forma gross profit during the fiscal year ended September 30, 2000.

One of our distinguishing strengths is our procurement and distribution expertise and capabilities. For the fiscal year ended September 30, 2000, on a pro forma combined basis we sold approximately 210 million gallons of propane on a wholesale basis to independent dealers and multistate marketers. Because of the size of our wholesale operations, we have developed significant procurement and distribution expertise. This is partly the result of the unique background of our management team, which has significant experience in the procurement aspects of the propane business. We also offer transportation services to these distributors through our fleet of transport trucks and price risk management services to our customers through a variety of financial and other instruments. Our wholesale supply, marketing and distribution business provides us with a relatively stable and growing income stream as well as extensive market intelligence and acquisition opportunities. In addition, these operations provide us with more secure supplies and better pricing for our customer service centers. Moreover, the presence of our trucks across the Midwest and Southeast allows us to take advantage of various pricing and distribution inefficiencies that exist in the market from time to time.

Transportation Assets, Truck Fabrication and Maintenance

The transportation of propane requires specialized equipment. Propane trucks carry specialized steel tanks that maintain the propane in a liquefied state. As of March 31, 2001, we owned a fleet of 27 tractors, 80 transports, 134 bobtail and rack trucks and 112 other service and pick-up trucks. The average age of our trucks between five and six years. In addition to supporting our retail and wholesale propane operations, our trucks are used to deliver butane for third parties and to distribute natural gas for various processors and refiners.

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

Supply

We obtain propane from over 75 sources. During the fiscal year ended September 30, 2000 on a pro forma basis, BP Amoco p.l.c. accounted for approximately 21% of our volume of propane purchases. Substantially all of these purchases were made under supply contracts that have a term of one year, are subject to annual renewal and provide various pricing formulas. No other single supplier accounted for more than 7% of our volume propane purchases during the fiscal year ended September 30, 2000 on a pro forma basis. We believe that our diversification of suppliers will enable us to purchase all of our supply needs at market prices if supplies are interrupted from any of the sources without a material disruption of our operations.

We purchased approximately 90% of our propane supplies from domestic suppliers during the fiscal year ended September 30, 2000 on a pro forma basis. Our remaining purchases were from suppliers in Canada. During the fiscal year ended September 30, 2000 on a pro forma basis, we purchased approximately 60% of our propane supplies pursuant to contracts that have a term of one year; the balance of our purchases were made on the spot market. The percentage of our contract purchases varies from year to year. Supply contracts

generally provide for pricing in accordance with posted prices at the time of delivery or the current prices established at major storage points, and some contracts include a pricing formula that typically is based on such market prices. Some of these agreements provide maximum and minimum seasonal purchase guidelines.

Propane is generally transported from refineries, pipeline terminals, storage facilities and marine terminals to our 48 storage facilities. We accomplish this by using our transports and contracting with common carriers, owner-operators and railroad tank cars. Our customer service centers and satellite locations typically have one or more 12,000 to 30,000 gallon storage tanks, generally adequate to meet customer usage requirements for seven days during normal winter demand. Additionally, we lease underground storage facilities from third parties under annual lease agreements.

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

Pricing Policy

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

Billing and Collection Procedures

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

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

Properties

We own 29 of our 60 customer service centers, satellite storage facilities and administrative offices and lease the balance. Our headquarters in Kansas City, Missouri are leased. We operate bulk storage facilities at 48 locations and own 25 of the storage locations. We lease underground storage facilities with an aggregate capacity of seven million gallons of propane at six locations under annual lease agreements. We also lease capacity in seven pipelines pursuant to annual lease agreements.

Tank ownership and control at customer locations are important components to our operations and customer retention. As of March 31, 2001 we owned the following:

- 74 bulk storage tanks with typical capacities of 12,000 to 30,000 gallons,
- approximately 50,000 stationary customer storage tanks with typical capacities of 100 to 1,200 gallons, and
- approximately 30,000 portable propane cylinders with typical capacities of up to 35 gallons.

We believe that we have satisfactory title or valid rights to use all of our material properties. Although some of these properties are subject to liabilities and leases, liens for taxes not yet due and payable, encumbrances securing payment obligations under non-competition agreements entered in connection with acquisitions and immaterial encumbrances, easements and restrictions, we do not believe that any of these burdens will materially interfere with our continued use of these properties in our business, taken as a whole. Our obligations under our borrowings are secured by liens and mortgages on all of our real and personal property.

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

Trademark and Tradenames

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

Employees

As of April 30, 2001, we had 322 full-time employees of which 18 were general and administrative and 304 were operational employees. We employed 21 part-time employees, all of whom were operational employees. None of our employees is a member of a labor union. We believe that our relations with our employees are satisfactory.

Government Regulation

We are subject to various federal, state and local environmental, health and safety laws and regulations. Generally, these laws impose limitations on the discharge of pollutants and establish standards for the handling of solid and hazardous wastes. These laws generally include the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), the Clean Air Act, the Occupational Safety and Health Act, the Emergency Planning and Community Right to Know Act, the Clean Water Act and comparable state or local statutes. CERCLA, also known as the "Superfund" law, imposes joint and several liability without regard to fault or the legality of the original conduct on certain classes of persons that are considered to have contributed to the release or threatened release of a hazardous substance into the environment. While propane is not a hazardous substance within the meaning of CERCLA, other chemicals used in our operations may be classified as hazardous. These laws and regulations could result in civil or criminal penalties in cases of non-compliance or impose liability for remediation costs. To date, we have not received any notices in which we are alleged to have violated or otherwise incurred liability under any of the above laws and regulations.

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

National Fire Protection Association Pamphlets No. 54 and No. 58, which establish rules and procedures governing the safe handling of propane, or comparable regulations, have been adopted as the industry standard in all of the states in which we operate. In some states these laws are administered by state agencies, and in others they are administered on a municipal level. Regarding the transportation of propane by truck, we are subject to regulations promulgated under the Federal Motor Carrier Safety Act. These regulations cover the transportation of hazardous materials and are administered by the United States Department of Transportation. We conduct ongoing training programs to help ensure that our operations are in compliance with applicable regulations. We maintain various permits that are necessary to operate some of our facilities, some of which may be material to our operations. Management believes that the procedures currently in effect at all of our facilities for the handling, storage and distribution of propane are consistent with industry standards and are in compliance in all material respects with applicable laws and regulations.

On August 18, 1997, the U.S. Department of Transportation published its Final Rule for Continued Operation of the Present Propane Trucks. This final rule is intended to address perceived risks during the transfer of propane and required certain immediate changes in industry operating procedures, including retrofitting all propane delivery trucks. We, as well as the National Propane Gas Association and the propane industry in general, believe that the Final Rule for Continued Operation of the Present Propane Trucks cannot practicably be complied with in its current form. On October 15, 1997, five of the principal multi-state propane marketers, all of whom were unrelated to us, filed an action against the U.S. Department of Transportation in the United States District Court for the Western District of Missouri seeking to enjoin enforcement of the Final Rule for Continued Operation of the Present Propane Trucks. On February 13, 1998, the Court issued a preliminary injunction prohibiting the enforcement of this final rule pending further action by the Court. This suit is still pending. In addition, Congress passed, and on October 21, 1998, the President of the United States signed, the FY 1999 Transportation Appropriations Act, which included a provision restricting the authority of the U.S. Department of Transportation from enforcing specific provisions of the Final Rule for Continued Operation of the Present Propane Trucks. At this time, Inergy cannot determine the likely outcome of the litigation or the proposed legislation or what the ultimate long-term cost of compliance with the Final Rule for Continued Operation of the Present Propane Trucks will be to Inergy and the propane industry in general.

Future developments, such as stricter environmental, health or safety laws and regulations could affect our operations. It is not anticipated that our compliance with or liabilities under environmental, health and safety laws and regulations, including CERCLA, will have a material adverse effect on us. To the extent that we do not know of any environmental liabilities, or environmental, health or safety laws, or regulations are made more stringent, there can be no assurance that our results of operations will not be materially and adversely affected.

Litigation

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

## Our Managing General Partner Manages Inergy, L.P.

Our managing general partner manages our operations and activities. Our managing general partner is not elected by our unitholders and will not be subject to re-election on a regular basis in the future. Our managing general partner received its management rights in connection with transactions described under "Organization of Inergy, L.P. Prior to and Immediately Following the Offering." Our managing general partner may be removed by our unitholders under the circumstances described under "The Partnership Agreement." Unitholders do not directly or indirectly participate in our management or operation. Please see "The Partnership Agreement--Limited Liability" for a discussion of actions that might be deemed to constitute participation in the control of our business. Our managing general partner owes a fiduciary duty to the unitholders. Our managing general partner is liable, as a general partner, for all of our debts (to the extent not paid from our assets), except for specific non-recourse indebtedness or other obligations. Whenever possible, our managing general partner intends to incur indebtedness or other obligations that are non-recourse.

Our managing general partner intends to appoint two or more of its directors to serve on a conflicts committee to review specific matters which the board of directors believes may involve conflicts of interest. The conflicts committee will determine if the resolution of the conflict of interest is fair and reasonable to us. The members of the conflicts committee must meet the independence standards to serve on an audit committee of a board of directors established by the Nasdaq Stock Market and certain other requirements. Any matters approved by the conflicts committee will be conclusively deemed to be fair and reasonable to us, approved by all of our partners, and not a breach by our managing general partner of any duties it may owe us or our unitholders. For more information relating to conflicts of interest that may arise, please read "Conflicts of Interest and Fiduciary Responsibilities." Two members of the board of directors will also serve on a compensation committee, which will oversee compensation decisions for the officers of Inergy GP, LLC as well as the compensation plans described below. In addition, three members of the board of directors will serve on an audit committee which will review our external financial reporting, recommend engagement of our independent auditors and review procedures for internal auditing and the adequacy of our internal accounting controls. The members of the audit committee must meet the independence standards established by the Nasdaq Stock Market.

As is commonly the case with publicly-traded limited partnerships, we are managed and operated by the officers and are subject to the oversight of the directors of our managing general partner. All of our personnel are employees of our managing general partner or its affiliates.

The board of directors of the managing general partner is presently composed of five directors.

## Directors, Executive Officers and Other Key Employees of Inergy GP, LLC

The following table sets forth certain information with respect to the executive officers and members of the board of directors of our managing general partner. Executive officers and directors will serve until their successors are duly appointed or elected. We have also set forth in the table below information with respect to certain of our key employees who are officers of our managing general partner or one of its affiliates.

| Name | Age | Position with the Managing General Partner |
|---|---|---|
| **Executive Officers and Directors** | | |
| John J. Sherman..... | 46 | President, Chief Executive Officer and Director |
| Phillip L. Elbert..... | 42 | Senior Vice President--Operations and Director |
| R. Brooks Sherman Jr.... | 35 | Vice President and Chief Financial Officer |
| Carl A. Hughes..... | 47 | Vice President--Business Development |
| Michael D. Fox..... | 43 | Vice President--Wholesale Marketing |
| William C. Gautreaux.... | 37 | Vice President--Supply |
| Richard C. Green, Jr.... | 46 | Director |
| Warren H. Gfeller..... | 49 | Director |
| David J. Schulte..... | 40 | Director |

| Name | Age | Position with the Managing General Partner |
|---|---|---|
| Key Employees | | |
| Michael L. Hendren..... | 45 | President--McCracken Propane |
| James Pratt..... | 51 | President--Bradley Propane |
| Gary Komosa..... | 48 | President--Country Gas Co. |
| Dan Manson..... | 50 | President--Hoosier Propane |
| Joseph Donnell..... | 40 | President--L&L Transportation |

Executive Officers and Directors

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

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

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

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

Michael D. Fox. Mr. Fox joined our predecessor in 1998 as Vice President of Wholesale Marketing Operations. From 1996 through 1998, he served as a regional manager with Dynegy, Inc., responsible for wholesale propane marketing activities in nine southeastern states. From 1992 through 1996, he served as regional marketing manager for LPG Services Group, Inc. From 1985 through 1991, Mr. Fox was employed by Ferrellgas where he served in a variety of sales and marketing positions.

William C. Gautreaux. Mr. Gautreaux joined our predecessor in 1998 as Vice President of Supply. From 1996 through 1998, he served as a managing director for Dynegy, Inc., responsible for bulk natural gas liquids marketing and risk management. Mr. Gautreaux was a co-founder of LPG Services Group, Inc. and served as its vice president of supply from 1991 through 1996. From 1985 through 1991, Mr. Gautreaux was employed by Ferrellgas where he served as a regional manager in the company's wholesale supply logistics division.

Richard C. Green, Jr. Mr. Green has been a member of our predecessor's board of directors since January 2001. He currently serves as chairman and chief executive officer of UtiliCorp United, Inc., a Fortune 100 global energy services company. Mr. Green is currently a special limited partner of Kansas City Equity Partners and has previously served as its president and chairman of its advisory board. He also serves as a director of Aquila, Inc., BHA Group, Inc. and Yellow Corp.

Warren H. Gfeller. Mr. Gfeller has been a member of our predecessor's board of directors since January 2001. He has engaged in private investments since 1991. From 1985 to 1991, Mr. Gfeller served as president and chief executive officer of Ferrellgas, Inc., a retail and wholesale marketer of propane and other natural gas liquids. Mr. Gfeller began his career with Ferrellgas in 1983 as an executive vice president and financial officer. He also serves as a director of Zapata Corporation.

David J. Schulte. Mr. Schulte has been a member of our predecessor's board of directors since January 2001. He has been a managing director of private equity firm Kansas City Equity Partners since 1994, focusing on industries undergoing consolidation. Prior to joining Kansas City Equity Partners, Mr. Schulte was an investment banker with Fahnestock & Co. from 1988 to 1994. He is a member of the AICPA and the Missouri Bar Association. He also serves as a director of Elecsys Corp.

Key Employees

Michael L. Hendren. Mr. Hendren joined our predecessor in connection with our acquisition of McCracken Propane in November 1996 and presently serves as President of McCracken Propane. From 1988 until joining our predecessor, he had overall responsibility for McCracken's retail propane operations.

James Pratt. Mr. Pratt joined our predecessor in connection with our acquisition of Bradley Propane in September 1999. He has over 26 years of experience in the propane industry. From 1975 until joining our predecessor, he had responsibility for the operations and growth of Bradley Propane and Zero Butane, its predecessor company.

Gary Komosa. Mr. Komosa joined our predecessor in connection with our acquisition of Country Gas Company, Inc. in May 2000. He has over 22 years experience in the propane industry. From 1979 until joining our predecessor, he was employed by Country Gas, most recently serving as general manager responsible for day-to-day operations since 1991.

Dan Manson. Mr. Manson joined our predecessor in connection with our acquisition of the Hoosier Propane Group in January 2001. From 1995 until joining our predecessor, he served as an area manager of Hoosier's retail operations prior to his promotion to general manager of the Hoosier Propane Group's retail operations in 1998. Prior to his service with the Hoosier Propane Group, Mr. Manson held positions of increasing responsibility in operations management with various companies in the manufacturing segment. Mr. Manson has over 25 years of management experience.

Joseph Donnell. Mr. Donnell joined our predecessor in connection with our acquisition of the Hoosier Propane Group in January 2001. From 1998 until joining our predecessor, he served as general manager of Hoosier's trucking operations, L & L Transportation. Prior to joining the Hoosier Propane Group, Mr. Donnell served as general manager and vice president of finance and audit for an industrial processing company in Indiana from 1994 to 1998. As a certified public accountant, he has four years of public accounting experience with Arthur Andersen and Coopers Lybrand.

Reimbursement of Expenses of the Managing General Partner

The managing general partner will not receive any management fee or other compensation for its management of Inergy, L.P. The managing general partner and its affiliates will be reimbursed for expenses incurred on our behalf. These expenses include the costs of employee, officer and director compensation and

benefits properly allocable to Inergy, L.P. and all other expenses necessary or appropriate to the conduct of the business of, and allocable to, Inergy, L.P. The partnership agreement provides that the managing general partner will determine the expenses that are allocable to Inergy, L.P. in any reasonable manner determined by the managing general partner in its sole discretion.

Compensation of Directors

Officers or employees of the managing general partner who also serve as directors will not receive additional compensation. The managing general partner anticipates that each independent director will receive compensation for attending meetings of the board of directors as well as committee meetings. In addition, each independent director will be reimbursed for out-of-pocket expenses in connection with attending meetings of the board of directors or committees. Each director will be fully indemnified for actions associated with being a director to the extent permitted under Delaware law.

Employment Agreements

We expect to enter into employment agreements with the following individuals prior to the consummation of this offering:

- John J. Sherman, President and Chief Executive Officer;
- Phillip L. Elbert, Executive Vice President--Retail Operations;
- R. Brooks Sherman, Jr., Vice President--Chief Financial Officer;
- Carl A. Hughes, Vice President--Business Development;
- Michael D. Fox, Vice President--Wholesale Marketing; and
- William C. Gautreaux, Vice President--Supply Logistics and Risk Management.

The following summary of these employment agreements does not purport to be complete and is qualified in its entirety by reference to the employment agreements, which have been filed as exhibits to the registration statement of which this prospectus is a part.

The employment agreements of Mr. John Sherman, Mr. Elbert, Mr. Brooks Sherman, Mr. Hughes, Mr. Fox and Mr. Gautreaux are substantially similar, with certain exceptions as set forth below. Except for Mr. Brooks Sherman, whose employment agreement is for a term of three years, the employment agreements are for terms of five years. The annual salaries for these individuals are as follows:

- John J. Sherman..... $250,000
- Phillip L. Elbert..... $150,000 (to be increased to $200,000 upon the closing of this offering)
- R. Brooks Sherman Jr..... $125,000 (with an additional $50,000 bonus upon the closing of this offering)
- Carl A. Hughes..... $125,000
- Michael D. Fox..... $125,000
- William C. Gautreaux..... $125,000

These employees will be reimbursed for all expenses in accordance with our policies. They are also eligible for fringe benefits normally provided to other members of our executive management and any other benefits agreed to by us. Each of these employees will be eligible to participate in the Inergy Long Term Incentive Plan.

Each of these individuals (other than Mr. John Sherman) will be entitled to performance bonuses ranging from $25,000 to $200,000 upon our attaining certain levels of distributable cash flow on an annual basis for each year during the term of his employment.

The employment agreements provide for additional bonuses conditioned upon the conversion of subordinated units into common units. Messrs. Hughes, Fox and Gautreaux will be entitled to bonuses in the amounts of $300,000 at the end of the subordination period for the junior subordinated units. Messrs. Brooks Sherman and Elbert will be entitled to bonuses in the amounts of $200,000 and $500,000, respectively, payable upon, and in the same proportion as the conversion of senior and junior subordinated units into common units. Finally, Mr. John Sherman may receive performance bonuses at the discretion of the board of directors and will be entitled to a bonus in the amount of $500,000 at the end of the subordination period for the junior subordinated units.

In order for any of these individuals to receive any benefits under (i) the Inergy Long Term Incentive Plan, (ii) the performance bonus based on target distributable cash flow, or (iii) the bonus tied to the expiration of the subordination period for the junior subordinated units, the individual must have been continuously employed by Inergy Holdings or one of our affiliates from the date of his employment agreement up to the date for determining eligibility to receive such amounts.

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

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

In addition to his employment agreement, Mr. Elbert has entered into an option contract with Inergy Holdings whereby Inergy Holdings has granted Mr. Elbert the right and option to invest in Inergy Holdings an aggregate of $2,292,000, subject to adjustment, for a percentage interest in Inergy Holdings equal to 7.1%, subject to adjustment.

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

Long-Term Incentive Plan

The managing general partner has adopted the Inergy Long-Term Incentive Plan for employees and directors of the managing general partner and employees of its affiliates who perform services for us. The summary of the long-term incentive plan contained herein does not purport to be complete but outlines its material provisions. The long-term incentive plan currently permits the grant of awards covering an aggregate of 549,000 common units (572,500 common units if the over-allotment option is exercised) which can be granted in the form of unit options and/or restricted units; however not more than 192,000 restricted units may be granted under the plan. With the exception of approximately 30,000 unit options expected to be granted under the plan to non-executive officers in exchange for option grants in our predecessor, all unit options and restricted units granted under the plan will vest no sooner than, and in the same proportion as, senior subordinated units convert into common units. The plan is administered by the compensation committee of the managing general partner's board of directors.

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

If a grantee's employment or membership on the board of directors terminates for any reason, the grantee's restricted units will be automatically forfeited unless, and to the extent, the compensation committee provides otherwise. Common units to be delivered upon the vesting of rights may be common units acquired by the managing general partner in the open market, common units already owned by the managing general partner, common units acquired by the managing general partner directly from us or any other person or any combination of the foregoing. The managing general partner will be entitled to reimbursement by us for the cost incurred in acquiring common units. If we issue new common units upon vesting of the restricted units, the total number of common units outstanding will increase. Following the subordination period, the compensation committee, in its discretion, may grant tandem distribution equivalent rights with respect to restricted units. Distribution equivalent rights entitle the holder to receive distributions as if the holder owned the restricted unit.

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

Unit Options. The long-term incentive plan currently permits the grant of options covering common units. The compensation committee may, in the future, determine to make grants under the plan to employees and directors containing such terms as the committee shall determine. Unit options will have an exercise price equal to the fair market value of the units on the date of grant. In general, unit options granted will become exercisable over a period determined by the compensation committee; provided, however, that unit options will not vest before the conversion of any senior subordinated units and will only vest upon, and in the same proportion as, the conversion of senior subordinated units into common units. In addition, the unit options will become exercisable upon a change of control of the managing general partner or us. Generally, units options will expire after 10 years.

At the closing of this offering, will receive options under such plan for 50,000 common units and each of Mr. Brooks Sherman, Mr. Hughes, Mr. Fox and Mr. Gautreaux will each receive options under such plan for 25,000 common units, respectively, at an exercise price equal to $20, which options are subject to forfeiture in certain cases if such employee retires or is terminated for cause prior to the expiration of five years from the date of this offering.

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

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

Unit Purchase Plan

Our managing general partner has adopted a unit purchase plan for employees of the managing general partner and its affiliates. The unit purchase plan permits participants to purchase common units in market transactions, from us, our general partners or any other person. We currently expect such purchases to occur primarily in market transactions, although our plan allows us to issue additional units. Pursuant to the unit purchase plan, the managing general partner has agreed to pay the brokerage commissions, transfer taxes and other transaction fees associated with a participant's purchase of common units in market transactions and will reimburse to each participant an amount up to 10% of the costs of such units. The maximum amount that a participant may be reimbursed with respect to unit purchases in any calendar year may not exceed 10% of his or her base salary or wages for the year. Further, if any participant sells or otherwise disposes of units for which he or she has been reimbursed under this plan, the participant will thereafter be precluded from participating in the unit purchase plan. The unit purchase plan is intended to serve as a means for encouraging participants to invest in our common units.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows the beneficial ownership upon completion of this offering of units of Inergy held by:

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

| Name of Beneficial Owner(1) | Common Units to be Beneficially Owned | Senior Subordinated Units to be Beneficially Owned | Percentage of Senior Subordinated Units to be Beneficially Owned | Junior Subordinated Units to be Beneficially Owned | Percentage of Junior Subordinated Units to be Beneficially Owned | Percentage of Total Units to be Beneficially Owned |
|---|---|---|---|---|---|---|
| Inergy Holdings, LLC(2)... | -- | 1,106,266 | 33.4% | 572,542 | 100% | 31.2% |
| Country Partners, Inc.(3)..... 4010 Highway 14 Crystal Lake, IL 60014 | -- | 450,000 | 13.6% | -- | -- | 8.4% |
| KCEP Ventures II, L.P.(4)..... 253 West 47th Street Kansas City, MO 64112 | -- | 435,000 | 13.1% | -- | -- | 8.1% |
| Hoosier Propane Group(5).. P. O. Box 9 Kendallville, IN 46755 | -- | 370,101 | 11.2% | -- | -- | 6.9% |
| Rocky Mountain Mezzanine Fund(6)..... 1125 17th Street Suite 2260 Denver, CO 80202 | -- | 266,000 | 8.0% | -- | -- | 4.9% |
| John J. Sherman(7)..... | -- | 1,106,266 | 33.4% | 572,542 | 100% | 31.2% |
| Phillip L. Elbert(5)..... | -- | -- | -- | -- | -- | -- |
| R. Brooks Sherman Jr..... | -- | -- | -- | -- | -- | -- |
| Carl A. Hughes(8)..... | -- | -- | -- | -- | -- | -- |
| Michael D. Fox(8)..... | -- | -- | -- | -- | -- | -- |
| William C. Gautreaux(8)... | -- | -- | -- | -- | -- | -- |
| Richard C. Green, Jr.(9).. | -- | 35,000 | 1.1% | -- | -- | * |
| Warren H. Gfeller(10)..... | -- | 7,000 | * | -- | -- | * |
| David J. Schulte(4)..... | -- | 435,000 | 13.1% | -- | -- | 8.1% |
| All directors and executive officers as a group (9 persons)..... | -- | 1,583,266 | 47.8% | 572,542 | 100% | 40.0% |

- --------
* less than 1%

(1) Unless otherwise indicated, the address of each person listed above is: 1101 Walnut, Suite 1500, Kansas City, Missouri 64141. All persons listed have sole voting power and investment power with respect to their units unless otherwise indicated.

(2) The units indicated as beneficially owned by Inergy Holdings are held by New Inergy Propane, LLC, a wholly-owned subsidiary of Inergy Partners, LLC and an indirect subsidiary of Inergy Holdings. Owners of certain acquired propane businesses own a minority interest in Inergy Partners.

(3) Country Partners, Inc. (formerly Country Gas Company, Inc.) is controlled by Leonard Peterson and Arlene Peterson.

(4) KCEP Ventures II, LP ("KCEP II") owns 435,000 senior subordinated units. KCEP II is a Missouri limited partnership. Mr. Schulte in his capacity as a managing director of KCEP II may be deemed to beneficially own these

units. Mr. Green is a special limited partner in KCEP II. Both Mr. Schulte and Mr. Green disclaim beneficial ownership of these units.

(5) The Hoosier Propane Group consists of Domex, Inc., Investors, Inc. and L&L Leasing, Inc. (collectively, the "Hoosier Entities"). Each of Jerry Boman, Glen Cook and Wayne Cook own 31.8% of the Hoosier Entities. Mr. Elbert, one of our executive officers, holds the remaining ownership interest in the Hoosier Entities. He disclaims beneficial ownership of the shares held by the Hoosier Entities.

(6) Edward C. Brown in his capacity as managing partner of Rocky Mountain Capital Partners, LLP, the general partner of Rocky Mountain Mezzanine Fund, may be deemed to beneficially own these units.

(7) Mr. Sherman holds an ownership interest in and has voting control of Inergy Holdings, as indicated in the following table.

(8) Messrs. Hughes, Fox and Gautreaux each hold an ownership interest in Inergy Holdings, as indicated in the following table.

(9) Mr. Green in his capacity as a general partner of RNG Investments, LP, a Delaware limited partnership ("RNG Investments"), may be deemed to beneficially own 35,000 senior subordinated units held by RNG Investments.

(10) Mr. Gfeller in his capacity as managing member of Clayton-Hamilton, LLC may be deemed to beneficially own 7,000 units held by Clayton-Hamilton.

The following table shows the beneficial ownership upon completion of this offering of Inergy Holdings, LLC of the directors and executive officers of the managing general partner. As reflected above, Inergy Holdings owns our managing general partner, substantially all of our non-managing general partner, the incentive distribution rights and, through a subsidiary, approximately 31% of our outstanding units.

| Name of Beneficial Owner(1) | Inergy Holdings, LLC Percent of Class(2) |
|---|---|
| John J. Sherman | 61.4% |
| Phillip L. Elbert(3) | -- |
| R. Brooks Sherman Jr | -- |
| Carl A. Hughes | 7.7 |
| Michael D. Fox | 7.7 |
| William C. Gautreaux | 7.7 |
| Richard C. Green, Jr | -- |
| Warren H. Gfeller | -- |
| David J. Schulte | -- |
| All directors and executive officers as a group (9 persons)(3) | 84.3% |

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(1) The address of each person listed above is 1101 Walnut, Suite 1500, Kansas City, Missouri 64141.

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

(3) Mr. Elbert holds an option to acquire 7.1% of Inergy Holdings, which option is subject to the terms of the Inergy Holdings, LLC Employee Option Plan. The option vests fully at the end of five years and upon a sale of control as defined in the plan. The option vests 20% each year in the event Mr. Elbert's employment terminates as a result of his death, disability or termination without cause (as defined in Mr. Elbert's employment agreement). Mr. Elbert's option expires on January 12, 2011. In the event Mr. Elbert exercises his option, the respective ownership interests of the persons listed above will be reduced on a pro rata basis.

## ORGANIZATION OF INERGY, L.P. PRIOR TO AND IMMEDIATELY FOLLOWING THE OFFERING

Following this offering, our propane operations will be conducted through our operating company, Inergy Propane, LLC, and its subsidiaries. The following discussion summarizes the material transactions that will occur in connection with this offering. These and other transactions are described in the contribution agreement which is filed as an exhibit to the registration statement of which this prospectus forms a part.

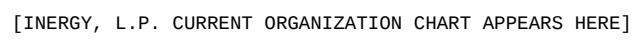
### Formative Transactions

- In March 2001, Inergy Holdings formed a Delaware limited liability company, Inergy GP, LLC, to serve as our managing general partner.
- We were formed in March 2001 by our predecessor and non-managing general partner, Inergy Partners, which initially held a 99% limited partner interest and a 1% general partner interest in us, and by Inergy GP, which held management rights.
- In May 2001, Inergy Partners formed a Delaware limited liability company, New Inergy Propane, LLC. Inergy Partners contributed cash in exchange for all of the interest in New Inergy Propane.

### Transactions to Occur at the Closing of this Offering

- Inergy Partners will transfer substantially all of its operating assets to our operating company as a capital contribution.
- Inergy Partners will contribute its interest in our operating company to us in exchange for a 2% non-managing general partner interest in us, 3,135,831 senior subordinated units, 480,659 junior subordinated units and the assumption by us of all liability for funded debt of Inergy Partners.
- Inergy Partners will contribute 928,730 senior subordinated units and 480,659 junior subordinated units to New Inergy Propane in exchange for all of the common interests in New Inergy Propane.
- New Inergy Propane will contribute its interest in our operating company to us in exchange for 177,536 senior subordinated units and 91,838 junior subordinated units.
- The public will contribute cash to us in exchange for 1,500,000 common units.
- We will contribute cash from the public and other sources to our operating company as a capital contribution in exchange for a 100% membership interest in our operating company.
- Inergy Partners will distribute its incentive distribution rights to Inergy Holdings.
- Inergy Partners will distribute 2,207,101 subordinated units in redemption of preferred interests held by owners of certain acquired businesses and other investors pursuant to existing contractual commitments.

The first chart below illustrates the current organization and ownership of Inergy, L.P., Inergy Propane, LLC, Inergy Partners, LLC and Inergy GP, LLC. The second chart illustrates the organization and ownership of Inergy, L.P. and related entities immediately following this offering.


[INERGY, L.P. CURRENT ORGANIZATION CHART APPEARS HERE]

[INERGY, L.P. ORGANIZATION IMMEDIATELY FOLLOWING THE OFFERING CHART APPEARS HERE]

## CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS

### Related Party Transactions

On December 31, 1999, KCEP Ventures II, L.P. ("KCEP II") acquired a preferred interest in a predecessor entity of Inergy, L.P., for $2,000,000 in cash ("KCEP II 1999 Investment"). David Schulte, one of our directors, holds voting power in KCEP II. Richard Green, one of our directors, is a limited partner of KCEP II. Under the terms of its investment in us, KCEP II will concurrently with the closing of this offering exchange the KCEP II 1999 Investment for 225,000 of our senior subordinated units. Further, pursuant to the terms of the KCEP II 1999 Investment, KCEP II will have the right to elect one member of the board of directors of our general partner until certain events related to subordination occur. David Schulte is currently serving as KCEP II's board designee. The terms of this investment also provide for certain limited registration rights which are described below.

On June 1, 2000, a predecessor entity of Inergy, L.P. acquired all of the propane assets of Country Gas Company, Inc. for a purchase price of approximately $17.0 million. The consideration paid in respect of the purchase price consisted of approximately $8.0 million in cash and a $9.0 million preferred interest in a predecessor entity. Under the terms of its preferred interest, Country Gas will concurrently with the closing of this offering exchange its preferred interest for 450,000 senior subordinated units.

As a result of the Country Gas acquisition, we lease three properties from Country Enterprises, an Illinois general partnership ("Country Enterprises"). Country Enterprises is controlled by Leonard and Arlene Peterson, the controlling shareholders of Country Partners (formerly Country Gas). The leases provide for aggregate monthly payments of $16,000, which are subject to adjustment based on the consumer price index. During the fiscal year ended September 30, 2000, we paid Country Enterprises an aggregate of $64,000 in respect of these leases. In addition, we pay for all utilities, taxes, insurance and normal maintenance on these properties. Each lease has an initial term of five years expiring on May 31, 2005. We have the right to extend each lease for one successive term of five years.

On January 12, 2001, a predecessor entity of Inergy, L.P. sold preferred interests to various investors (the "2001 Investor Group"), including KCEP II, RNG Investments, L.P. and Clayton-Hamilton, LLC for $15 million in cash. After giving effect to the exercise of options that expire on March 31, 2001,KCEP II will have invested, as part of the 2001 Investor Group, $3 million in our predecessor. Mr. Schulte, one of our directors, is a managing director of KCEP II. Mr. Green, one of our directors, is a limited partner of KCEP II and is the managing general partner of RNG Investments. Clayton-Hamilton is an affiliate of Mr. Gfeller, one of our directors. KCEP II, RNG Investments and Clayton-Hamilton acquired their preferred interests, for $3,000,000, $500,000 and $100,000, respectively. Concurrently with the closing of this offering, these investors will receive 210,000, 35,000 and 7,000 senior subordinated units, respectively.

As a group, all members of the 2001 Investor Group have the right to elect one director to our board of directors until certain events related to subordination occur. Mr. Green is currently the board designee of these investors. These investors are also entitled to registration rights, which are described below.

On January 12, 2001, our predecessor entered into an Investors Rights Agreement with the 2001 Investor Group. That agreement provides the members of the 2001 Investor Group with the following registration rights:

- The 2001 Investor Group may demand registration once following each date senior subordinated units are converted to common units. This demand, if made, must be made with respect to 50% or more of the common units then held by the 2001 Investor Group.

- If we meet the eligibility requirements of Form S-3, then members of the 2001 Investor Group representing 33 1/3% or more of the common units held by the 2001 Investor Group can demand that we file a registration statement on Form S-3 to register their common units.

- We are not required to effect more than one registration in any twelve-month period.

- If we file a registration statement (other than one relating to employee benefit plans or exchange offers), the members of the 2001 Investor Group have piggy-back registration rights subject to limitations specified in the Investors Rights Agreement.

- The right of the 2001 Investor Group to demand registration of their common units expires on the third anniversary of the final subordination release date and their right to piggy-back registration rights expires on the fifth anniversary of the final subordination release date.

- All costs of any registration exclusive of any underwriting discounts or commissions will be borne by Company.

On January 12, 2001, a predecessor entity of Inergy, L.P., acquired all of the propane assets of Investors 300, Inc., Domex, Inc. and L&L Leasing, Inc. (collectively, the "Hoosier Propane Group"), for a purchase price of approximately $70.2 million. Mr. Elbert, one of our executive officers, is a stockholder of the companies comprising the Hoosier Propane Group. The consideration paid in respect of the purchase price consisted of approximately $58.0 million in cash and assumed liabilities, a subordinated promissory note of $5.0 million and a preferred interest in our predecessor entity of $7.4 million. It is expected that the subordinated promissory note will be repaid at the closing of this offering. The preferred interest held by the Hoosier Propane Group will concurrently with the closing of this offering be exchanged for approximately 370,101 senior subordinated units.

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

The following table summarizes the distributions and payments to be made by us to our managing general partner and its affiliates in connection with the formation, ongoing operation and the liquidation of Inergy. These distributions and payments were determined by and among affiliated entities and are not the result of arm's length negotiations.

| | |
|---|---|
| Formation Stage | |
| The consideration received by Inergy Holdings and its affiliates for the transfer of the affiliates' interests in the subsidiaries and a capital contribution..... | 1,106,266 senior subordinated units and 572,542 junior subordinated units; a 2% general partner interest in Inergy and Inergy Propane, LLC; and the incentive distribution rights. |
| Operational Stage | |
| Distributions of available cash to our managing general partner and its affiliates..... | Cash distributions will generally be made 98% to the unitholders, including affiliates of the managing general partner as holders of common units and senior and junior subordinated units, and 2% to the non-managing general partner. In addition, if distributions exceed the target levels in excess of the minimum quarterly distribution, Inergy Holdings will be entitled to receive increasing percentages of the distributions, up to 48% of the distributions above the highest target level.<br><br>Assuming we have sufficient available cash to pay the full minimum quarterly distribution on all of our outstanding units for four quarters, our non-managing general partner and its affiliates would receive a |

| | |
|---|---|
| | distribution of approximately $263,801 on the 2% general partner interest and a distribution of approximately $4,029,139 on their senior and junior subordinated units. |
| Payments to our managing general partner and its affiliates..... | Our managing general partner and its affiliates will not receive any management fee or other compensation for the management of Inergy. Our managing general partner and its affiliates will be reimbursed, however, for direct and indirect expenses incurred on our behalf. On a pro forma basis for the fiscal year ended September 30, 2000, the expense reimbursement to the managing general partner and its affiliates would have been $20.1 million. |
| Withdrawal or removal of our managing general partner..... | If our managing general partner withdraws in violation of the partnership agreement or is removed for cause, a successor general partner has the option to buy the general partner interests and incentive distribution rights from our non-managing general partner for a cash price equal to fair market value. If our managing general partner withdraws or is removed under any other circumstances, our non-managing general partner has the option to require the successor general partner to buy its general partner interests and incentive distribution rights for a cash price equal to fair market value.<br><br>If either of these options is not exercised, the general partner interests and incentive distribution rights will automatically convert into common units equal to the fair market value of those interests. In addition, we will be required to pay the departing general partner for expense reimbursements. |
| Liquidation Stage | |
| Liquidation..... | Upon our liquidation, the partners, including our non-managing general partner, will be entitled to receive liquidating distributions according to their particular capital account balances. |

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

Following this offering, a subsidiary of our non-managing general partner will own an approximate 31% limited partner interest in us. Inergy Holdings owns substantially all of our non-managing general partner and all of our managing general partner. The managing general partner's ability to manage and operate Inergy, L.P. coupled with Inergy Holdings' ownership of an aggregate 31% limited partner interest in us effectively gives Inergy Holding the right to veto some actions of Inergy, L.P. and to control the management of Inergy.

Contribution Agreement

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

## CONFLICTS OF INTEREST AND FIDUCIARY RESPONSIBILITIES

### Conflicts of Interest

Conflicts of interest exist and may arise in the future as a result of the relationships between the general partners and their affiliates (including Inergy Holdings), on the one hand, and Inergy, L.P. and its limited partners, on the other hand. The directors and officers of our managing general partner and the non-managing general partner have fiduciary duties to manage each general partner in a manner beneficial to its owners. At the same time, the general partners have a fiduciary duty to manage Inergy, L.P. in a manner beneficial to Inergy, L.P. and the unitholders.

The partnership agreement contains provisions that allow our managing general partner to take into account the interests of parties in addition to ours in resolving conflicts of interest. In effect, these provisions limit the general partners' fiduciary duties to the unitholders. The partnership agreement also restricts the remedies available to unitholders for actions taken that might, without those limitations, constitute breaches of fiduciary duty. Whenever a conflict arises between a general partner or its affiliates, on the one hand, and Inergy, L.P. or any other partner, on the other, the managing general partner will resolve that conflict. A conflicts committee of the board of directors of the managing general partner will, at the request of the managing general partner, review conflicts of interest. Our managing general partner will not be in breach of its obligations under the partnership agreement or its duties to us or the unitholders if the resolution of the conflict is considered to be fair and reasonable to us. Any resolution is considered to be fair and reasonable to us if that resolution is:

- approved by the conflicts committee, although no party is obligated to seek approval of the conflicts committee and the managing general partner may adopt a resolution or course of action that has not received approval,

- on terms no less favorable to us than those generally being provided to or available from unrelated third parties, or

- fair to us, taking into account the totality of the relationships between the parties involved, including other transactions that may be particularly favorable or advantageous to us.

In resolving a conflict, our managing general partner may, unless the resolution is specifically provided for in the partnership agreement, consider:

- the relative interests of the parties involved in the conflict or affected by the action,

- any customary or accepted industry practices or historical dealings with a particular person or entity, and

- generally accepted accounting practices or principles and other factors it considers relevant, if applicable.

Conflicts of interest could arise in the situations described below, among others:

**Actions taken by our managing general partner may affect the amount of cash available for distribution to unitholders or accelerate the right to convert subordinated units.**

The amount of cash that is available for distribution to unitholders is affected by decisions of our managing general partner regarding matters, including:

- amount and timing of asset purchases and sales,

- cash expenditures,

- borrowings,

- issuance of additional units, and

. the creation, reduction or increase of reserves in any quarter.

In addition, borrowings by Inergy, L.P. and its affiliates do not constitute a breach of any duty owed by the managing general partner to the unitholders, including borrowings that have the purpose or effect of:

. enabling an affiliate of our managing general partner to receive distributions on any subordinated units held by it or the incentive distribution rights; or

. hastening the expiration of the subordination period.

The partnership agreement provides that Inergy and our subsidiaries may borrow funds from our managing general partner and its affiliates. Our managing general partner and its affiliates may not borrow funds from us, our operating company or its subsidiaries.

**We will reimburse the managing general partner and its affiliates for expenses.**

We will reimburse the managing general partner and its affiliates for costs incurred in managing and operating Inergy, L.P., including costs incurred in rendering corporate staff and support services to Inergy, L.P. The partnership agreement provides that the managing general partner will determine the expenses that are allocable to Inergy, L.P. in any reasonable manner determined by the managing general partner in its sole discretion.

**The managing general partner intends to limit the liability of the general partners regarding Inergy, L.P.'s obligations.**

The managing general partner intends to limit the liability of the general partners under contractual arrangements so that the other party has recourse only to Inergy, L.P.'s assets and not against the general partners or their assets. The partnership agreement provides that any action taken by the managing general partner to limit its liability or the liability of the non-managing general partner is not a breach of the managing general partner's fiduciary duties, even if we could have obtained more favorable terms without the limitation on liability.

**Common unitholders will have no right to enforce obligations of the managing general partner and its affiliates under agreements with us.**

Any agreements between Inergy, L.P. on the one hand, and the managing general partner and its affiliates, on the other, will not grant to the unitholders, separate and apart from Inergy, L.P., the right to enforce the obligations of the managing general partner and its affiliates in our favor.

**Contracts between us, on the one hand, and the managing general partner and its affiliates, on the other, will not be the result of arm's-length negotiations.**

The partnership agreement allows the managing general partner to pay itself or its affiliates for any services rendered, provided these services are rendered on terms that are fair and reasonable to us. The managing general partner may also enter into additional contractual arrangements with any of its affiliates on our behalf. Neither the partnership agreement nor any of the other agreements, contracts and arrangements between us and the managing general partner and its affiliates are or will be the result of arm's-length negotiations.

All of these transactions entered into after the sale of the common units offered in this offering are to be on terms that are fair and reasonable to Inergy, L.P.

The managing general partner and its affiliates will have no obligation to permit us to use any facilities or assets of the managing general partner and its affiliates, except as may be provided in contracts entered into

specifically dealing with that use. There is no obligation of the managing general partner and its affiliates to enter into any contracts of this kind.

Common units are subject to the managing general partner's limited call right.

The managing general partner may exercise its limited right to call and purchase common units as provided in the partnership agreement or assign this right to one of its affiliates or to us. The managing general partner may use its own discretion, free of fiduciary duty restrictions, in determining whether to exercise this right. As a result, a common unitholder may have his common units purchased from him at an undesirable time or price. Please read "The Partnership Agreement--Limited Call Right."

We may not choose to retain separate counsel for ourselves or for the holders of common units.

The attorneys, independent accountants and others who perform services for us have been retained by the managing general partner. Attorneys, independent accountants and others who perform services for us are selected by the managing general partner or the conflicts committee and also may perform services for the managing general partner and its affiliates. We may retain separate counsel for ourselves or the holders of common units in the event of a conflict of interest between the managing general partner and its affiliates, on the one hand, and us or the holders of common units, on the other, depending on the nature of the conflict. We do not intend to do so in most cases.

The general partners' affiliates may compete with us.

The partnership agreement provides that the managing general partner will be restricted from engaging in any business activities other than those incidental to its ownership of interests in us. Affiliates of the general partners are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us.

Fiduciary duties owed to unitholders by the general partners are prescribed by law and the partnership agreement

The general partners are accountable to us and our unitholders as fiduciaries. The Delaware Act provides that Delaware limited partnerships may, in their partnership agreements, restrict or expand the fiduciary duties owed by the managing general partner to limited partners and the partnership.

Our partnership agreement contains various provisions restricting the fiduciary duties that might otherwise be owed by the managing general partner. The following is a summary of the material restrictions of the fiduciary duties owed by our managing general partner to the limited partners:

| | |
|---|---|
| State-law fiduciary duty standards..... | Fiduciary duties are generally considered to include an obligation to act with due care and loyalty. The duty of care, in the absence of a provision in a partnership agreement providing otherwise, would generally require a general partner to act for the partnership in the same manner as a prudent person would act on his own behalf. The duty of loyalty, in the absence of a provision in a partnership agreement providing otherwise, would generally prohibit a general partner of a Delaware limited partnership from taking any action or engaging in any transaction where a conflict of interest is present.<br><br>The Delaware Act generally provides that a limited partner may institute legal action on behalf of the partnership to recover damages from a third party where a general partner has refused to institute the action or where an effort to cause a general partner to do so is not likely to succeed. In addition, the statutory or case law of some |

| | |
|---|---|
| | jurisdictions may permit a limited partner to institute legal action on behalf of himself and all other similarly situated limited partners to recover damages from a general partner for violations of its fiduciary duties to the limited partners. |
| Partnership agreement modified standards..... | Our partnership agreement contains provisions that waive or consent to conduct by our general partners and their affiliates that might otherwise raise issues as to compliance with fiduciary duties or applicable law. For example, our partnership agreement permits our managing general partner to make a number of decisions in its "sole discretion." This entitles the managing general partner to consider only the interests and factors that it desires and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner. Other provisions of the partnership agreement provide that the managing general partner's actions must be made in its reasonable discretion.<br><br>Our partnership agreement generally provides that affiliated transactions and resolutions of conflicts of interest not involving a required vote of unitholders must be "fair and reasonable" to us under the factors previously set forth. In determining whether a transaction or resolution is "fair and reasonable" our managing general partner may consider interests of all parties involved, including its own. Unless our managing general partner has acted in bad faith, the action taken by our managing general partner shall not constitute a breach of its fiduciary duty. These standards reduce the obligations to which our managing general partner would otherwise be held.<br><br>In addition to the other more specific provisions limiting the obligations of the general partners, our partnership agreement further provides that the general partners and their officers and directors will not be liable for monetary damages to us, the limited partners or assignees for errors of judgment or for any acts or omissions if the general partners and those other persons acted in good faith. |

In order to become one of our limited partners, a common unitholder is required to agree to be bound by the provisions in the partnership agreement, including the provisions discussed above. This is in accordance with the policy of the Delaware Act favoring the principle of freedom of contract and the enforceability of partnership agreements. The failure of a limited partner or assignee to sign a partnership agreement does not render the partnership agreement unenforceable against that person.

We must indemnify our general partners and their respective officers, directors, employees, affiliates, partners, members, agents and trustees, to the fullest extent permitted by law, against liabilities, costs and expenses incurred by the general partners or these other persons. We must provide this indemnification if our general partners or these persons acted in good faith and in a manner they reasonably believed to be in, or (in the case of a person other than the general partners) not opposed to, our best interests. We also must provide this indemnification for criminal proceedings if our general partners or these other persons had no reasonable cause to believe their conduct was unlawful. Thus, our general partners and their respective affiliates could be indemnified for their negligent acts if they meet these requirements concerning good faith and our best interests. Please read "The Partnership Agreement--Indemnification."

## DESCRIPTION OF THE COMMON UNITS

### The Units

The common units and the subordinated units represent limited partner interests in us. The holders of units are entitled to participate in partnership distributions and exercise the rights or privileges available to limited partners under our partnership agreement. For a description of the relative rights and preferences of holders of common units and subordinated units in and to partnership distributions, please read "Cash Distribution Policy" and "Description of Subordinated Units." For a description of the rights and privileges of limited partners under our partnership agreement, including voting rights, please read "The Partnership Agreement."

### Transfer Agent and Registrar

#### Duties

American Stock Transfer & Trust Company will serve as registrar and transfer agent for the common units. We pay all fees charged by the transfer agent for transfers of common units, except the following that must be paid by unitholders:

- surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges,
- special charges for services requested by a holder of a common unit, and
- other similar fees or charges.

There is no charge to unitholders for disbursements of our cash distributions. We will indemnify the transfer agent, its agents and each of their stockholders, directors, officers and employees against all claims and losses that may arise out of acts performed or omitted for its activities in that capacity, except for any liability due to any gross negligence or intentional misconduct of the indemnified person or entity.

#### Resignation or Removal

The transfer agent may resign, by notice to us, or be removed by us. The resignation or removal of the transfer agent will become effective upon our appointment of a successor transfer agent and registrar and its acceptance of the appointment. If no successor has been appointed and accepted the appointment within 30 days after notice of the resignation or removal, the managing general partner may act as the transfer agent and registrar until a successor is appointed.

#### Transfer of Common Units

The transfer of the common units to persons that purchase directly from the underwriters will be accomplished through the completion, execution and delivery of a transfer application by the investor. Any later transfers of a common unit will not be recorded by the transfer agent or recognized by us unless the transferee executes and delivers a transfer application. By executing and delivering a transfer application, the transferee of common units:

- becomes the record holder of the common units and is an assignee until admitted into our partnership as a substituted limited partner,
- automatically requests admission as a substituted limited partner in our partnership,
- agrees to be bound by the terms and conditions of, and executes, our partnership agreement,
- represents that the transferee has the capacity, power and authority to enter into the partnership agreement,
- grants powers of attorney to officers of our managing general partner and any liquidator of us as specified in the partnership agreement, and

. makes the consents and waivers contained in the partnership agreement.

An assignee will become a substituted limited partner of our partnership for the transferred common units upon the consent of our managing general partner and the recording of the name of the assignee on our books and records. The managing general partner may withhold its consent in its sole discretion.

A transferee's broker, agent or nominee may complete, execute and deliver a transfer application. We are entitled to treat the nominee holder of a common unit as the absolute owner. In that case, the beneficial holder's rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Common units are securities and are transferable according to the laws governing transfer of securities. In addition to other rights acquired upon transfer, the transferor gives the transferee the right to request admission as a substituted limited partner in our partnership for the transferred common units. A purchaser or transferee of common units who does not execute and deliver a transfer application obtains only:

. the right to assign the common unit to a purchaser or other transferee, and

. the right to transfer the right to seek admission as a substituted limited partner in our partnership for the transferred common units.

Thus, a purchaser or transferee of common units who does not execute and deliver a transfer application:

. will not receive cash distributions or federal income tax allocations, unless the common units are held in a nominee or "street name" account and the nominee or broker has executed and delivered a transfer application, and

. may not receive some federal income tax information or reports furnished to record holders of common units.

The transferor of common units has a duty to provide the transferee with all information that may be necessary to transfer the common units. The transferor does not have a duty to insure the execution of the transfer application by the transferee and has no liability or responsibility if the transferee neglects or chooses not to execute and forward the transfer application to the transfer agent. Please read "The Partnership Agreement--Status as Limited Partner or Assignee."

Until a common unit has been transferred on our books, we and the transfer agent, may treat the record holder of the unit as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations.

## DESCRIPTION OF THE SUBORDINATED UNITS

The senior subordinated units and junior subordinated units are separate classes of limited partner interests in our partnership, and the rights of holders to participate in distributions to partners differ from, and are subordinated to, the rights of the holders of common units. For any given quarter, any available cash will first be distributed to the non-managing general partner and to the holders of common units, until the holders of common units have received the minimum quarterly distribution plus any arrearages, and then will be distributed to the holders of subordinated units. The subordination period will end once we meet the financial tests in the partnership agreement, but it generally cannot end before June 30, 2006 with respect to the senior subordinated units and June 30, 2008 with respect to the junior subordinated units. Please read "Cash Distribution Policy."

### Limited Voting Rights

Holders of subordinated units sometimes vote as a single class together with the common units and sometimes vote as a class separate from the holders of common units. Holders of senior subordinated units and junior subordinated sometimes vote together as a class and sometimes vote as separate classes. Holders of subordinated units, like holders of common units, have very limited voting rights. During the subordination period, common units and subordinated units each vote separately as a class on the following matters:

- a sale or exchange of all or substantially all of our assets,
- the election of a successor managing general partner in connection with the removal of the managing general partner,
- dissolution or reconstitution of Inergy, L.P.,
- a merger,
- issuance of limited partner interests in some circumstances, and
- some amendments to the partnership agreement, including any amendment that would cause us to be treated as an association taxable as a corporation.

The subordinated units are not entitled to vote on approval of the withdrawal of the managing general partner or the transfer by the managing general partner of its general partner interest. Removal of the managing general partner requires:

- a 66 2/3% vote of all outstanding units voting as a single class, and
- the election of a successor general partner by the holders of a majority of the outstanding common units and subordinated units, voting as separate classes.

Under the partnership agreement, the managing general partner generally will be permitted to effect amendments to the partnership agreement that do not materially adversely affect unitholders without the approval of any unitholders.

### Distributions Upon Liquidation

If we liquidate during the subordination period, in some circumstances holders of outstanding common units will be entitled to receive more per unit in liquidating distributions than holders of outstanding subordinated units. The per unit difference will be dependent upon the amount of gain or loss that we recognize in liquidating our assets. Following conversion of the subordinated units into common units, all units will be treated the same upon liquidation.

## THE PARTNERSHIP AGREEMENT

The following is a summary of the material provisions of our partnership agreement. Our partnership agreement and the limited liability company agreement governing our operating company are included as exhibits to the registration statement of which this prospectus constitutes a part. We will provide prospective investors with a copy of these agreements upon request at no charge.

We summarize the following provisions of the partnership agreement elsewhere in this prospectus:

- With regard to the transfer of common units, please read "Description of the Common Units--Transfer of Common Units."
- With regard to distributions of available cash, please read "Cash Distribution Policy."
- With regard to allocations of taxable income and taxable loss, please read "Tax Considerations."

### Organization

We were organized on March 7, 2001 and will have a perpetual existence.

### Purpose

Our purpose under the partnership agreement is limited to serving as a member of the operating company and engaging in any business activities that may be engaged in by the operating company or that are approved by the managing general partner. All of our operations will be conducted through our operating company, Inergy Propane, LLC, and its subsidiaries. We own 100% of the outstanding membership interest of the operating company. The limited liability company agreement of the operating company provides that the operating company may, directly or indirectly, engage in:

(1) its operations as conducted immediately before our initial public offering,

(2) any other activity approved by the managing general partner but only to the extent that the managing general partner reasonably determines that, as of the date of the acquisition or commencement of the activity, the activity generates "qualifying income" as this term is defined in Section 7704 of the Internal Revenue Code, or

(3) any activity that enhances the operations of an activity that is described in (1) or (2) above.

Although the managing general partner has the ability to cause Inergy, L.P., the operating company or its subsidiaries to engage in activities other than the wholesale and retail marketing and transportation of propane, the managing general partner has no current plans to do so. The managing general partner is authorized in general to perform all acts deemed necessary to carry out our purposes and to conduct our business.

### Power of Attorney

Each limited partner, and each person who acquires a unit from a unitholder and executes and delivers a transfer application, grants to the managing general partner and, if appointed, a liquidator, a power of attorney to, among other things, execute and file documents required for our qualification, continuance or dissolution. The power of attorney also grants the managing general partner the authority to amend, and to make consents and waivers under, the partnership agreement.

### Capital Contributions

Unitholders are not obligated to make additional capital contributions, except as described below under "--Limited Liability."

Limited Liability

Assuming that a limited partner does not participate in the control of our business within the meaning of the Delaware Act and that he otherwise acts in conformity with the provisions of the partnership agreement, his liability under the Delaware Act will be limited, subject to possible exceptions, to the amount of capital he is obligated to contribute to us for his common units plus his share of any undistributed profits and assets. If it were determined, however, that the right, or exercise of the right, by the limited partners as a group:

- to remove or replace the managing general partner,
- to approve some amendments to the partnership agreement, or
- to take other action under the partnership agreement,

constituted "participation in the control" of our business for the purposes of the Delaware Act, then the limited partners could be held personally liable for our obligations under the laws of Delaware, to the same extent as the managing general partner. This liability would extend to persons who transact business with us who reasonably believe that the limited partner is a general partner. Neither the partnership agreement nor the Delaware Act specifically provides for legal recourse against the general partners if a limited partner were to lose limited liability through any fault of the general partners. While this does not mean that a limited partner could not seek legal recourse, we know of no precedent for this type of a claim in Delaware case law.

Under the Delaware Act, a limited partnership may not make a distribution to a partner if, after the distribution, all liabilities of the limited partnership, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of the assets of the limited partnership. For the purpose of determining the fair value of the assets of a limited partnership, the Delaware Act provides that the fair value of property subject to liability for which recourse of creditors is limited shall be included in the assets of the limited partnership only to the extent that the fair value of that property exceeds the nonrecourse liability. The Delaware Act provides that a limited partner who receives a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Act shall be liable to the limited partnership for the amount of the distribution for three years. Under the Delaware Act, an assignee who becomes a substituted limited partner of a limited partnership is liable for the obligations of his assignor to make contributions to the partnership, except the assignee is not obligated for liabilities unknown to him at the time he became a limited partner and that could not be ascertained from the partnership agreement.

Our subsidiaries conduct business in nine states. Maintenance of our limited liability as a member of the operating company, may require compliance with legal requirements in the jurisdictions in which the operating company conducts business, including qualifying our subsidiaries to do business there. Limitations on the liability of members for the obligations of a limited liability company have not been clearly established in many jurisdictions. If it were determined that we were, by virtue of our membership interest in the operating company or otherwise, conducting business in any state without compliance with the applicable limited partnership or limited liability company statute, or that the right or exercise of the right by the limited partners as a group to remove or replace the managing general partner, to approve some amendments to the partnership agreement, or to take other action under the partnership agreement constituted "participation in the control" of our business for purposes of the statutes of any relevant jurisdiction, then the limited partners could be held personally liable for our obligations under the law of that jurisdiction to the same extent as the managing general partner under the circumstances. We will operate in a manner that the managing general partner considers reasonable and necessary or appropriate to preserve the limited liability of the limited partners.

Issuance of Additional Securities

The partnership agreement authorizes us to issue an unlimited number of additional limited partner interests and other equity securities for the consideration and on the terms and conditions established by the managing general partner in its sole discretion without the approval of any limited partners. While any senior

subordinated units remain outstanding, however, except as we discuss in the following paragraph, we may not issue equity securities ranking senior to the common units or an aggregate of more than 750,000 additional common units or units on a parity with the common units, in each case, without the approval of the holders of a majority of the outstanding common units and subordinated units, voting as separate classes.

During or after the subordination period, we may issue an unlimited number of common units as follows:

- upon exercise of the underwriters' over-allotment option,
- upon conversion of the subordinated units,
- under employee benefit plans,
- upon conversion of the general partner interests and incentive distribution rights as a result of a withdrawal of a general partner,
- in the event of a combination or subdivision of common units, or
- in connection with an acquisition or a capital improvement that would have resulted, on a pro forma basis, in an increase in adjusted operating surplus on a per unit basis for the preceding four-quarter period.

It is possible that we will fund acquisitions through the issuance of additional common units or other equity securities. Holders of any additional common units we issue will be entitled to share equally with the then-existing holders of common units in our distributions of available cash. In addition, the issuance of additional partnership interests may dilute the value of the interests of the then-existing holders of common units in our net assets.

In accordance with Delaware law and the provisions of our partnership agreement, we may also issue additional partnership interests that, in the sole discretion of the managing general partner, have special voting rights to which the common units are not entitled.

Upon issuance of additional partnership interests excluding any interests issued in connection with the exercise of the underwriters' over-allotment option, the non-managing general partner will be required to make additional capital contributions to the extent necessary to maintain its 2% general partner interest in us and the operating company. Moreover, the non-managing general partner will have the right, which it may from time to time assign in whole or in part to any of its affiliates, to purchase common units, subordinated units or other equity securities whenever, and on the same terms that, we issue those securities to persons other than the non-managing general partner and its affiliates, to the extent necessary to maintain its percentage interest, including its interest represented by common units and subordinated units, that existed immediately prior to each issuance. The holders of common units will not have preemptive rights to acquire additional common units or other partnership interests.

## Amendment of the Partnership Agreement

### General

Amendments to the partnership agreement may be proposed only by or with the consent of the managing general partner, which consent may be given or withheld in its sole discretion. In order to adopt a proposed amendment, other than the amendments discussed below, the managing general partner must seek written approval of the holders of the number of units required to approve the amendment or call a meeting of the limited partners to consider and vote upon the proposed amendment. Except as we describe below, an amendment must be approved:

- during the subordination period, by a majority of the common units, excluding those common units held by our general partners and their affiliates, voting as a class, and a majority of the senior subordinated units and the junior subordinated units, voting together as a class, and

. after the subordination period, by a majority of the common units.

We refer to the voting provisions described above as a "unit majority."

Prohibited Amendments

No amendment may be made that would:

(1) enlarge the obligations of any limited partner without its consent, unless approved by at least a majority of the type or class of limited partner interests so affected,

(2) enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable by us to the general partners or any of their affiliates without the consent of the managing general partner, which may be given or withheld in its sole discretion,

(3) change the term of our partnership,

(4) provide that our partnership is not dissolved upon an election to dissolve our partnership by the managing general partner that is approved by the holders of a majority of the outstanding common units and subordinated units, voting as separate classes, or

(5) give any person the right to dissolve our partnership other than the managing general partner's right to dissolve our partnership with the approval of the holders of a majority of the outstanding common units and subordinated units, voting as separate classes.

The provision of the partnership agreement preventing the amendments having the effects described in clauses (1) through (5) above can be amended upon the approval of the holders of at least 90% of the outstanding units voting together as a single class.

No Unitholder Approval

The managing general partner may generally make amendments to the partnership agreement without the approval of any limited partner or assignee to reflect:

(1) a change in our name, the location of our principal place of business, our registered agent or our registered office,

(2) the admission, substitution, withdrawal or removal of partners in accordance with the partnership agreement,

(3) a change that, in the sole discretion of the managing general partner, is necessary or advisable for us to qualify or to continue our qualification as a limited partnership or a partnership in which the limited partners have limited liability under the laws of any state or to ensure that neither we, the operating company nor its subsidiaries will be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes,

(4) an amendment that is necessary, in the opinion of our counsel, to prevent us or our managing general partner or its directors, officers, agents or trustees, from in any manner being subjected to the provisions of the Investment Company Act of 1940, the Investment Advisors Act of 1940, or "plan asset" regulations adopted under the Employee Retirement Income Security Act of 1974, whether or not substantially similar to plan asset regulations currently applied or proposed,

(5) subject to the limitations on the issuance of additional common units or other limited or general partner interests described above, an amendment that in the discretion of the managing general partner is necessary or advisable for the authorization of additional limited or general partner interests,

(6) any amendment expressly permitted in the partnership agreement to be made by the managing general partner acting alone,

(7) an amendment effected, necessitated or contemplated by a merger agreement that has been approved under the terms of the partnership agreement,

(8) any amendment that, in the discretion of the managing general partner, is necessary or advisable for the formation by us of, or our investment in, any corporation, partnership or other entity, as otherwise permitted by the partnership agreement,

(9) a change in our fiscal year or taxable year and related changes, and

(10) any other amendments substantially similar to any of the matters described in (1) through (9) above.

In addition, the managing general partner may make amendments to the partnership agreement without the approval of any limited partner or assignee if those amendments, in the discretion of the managing general partner:

(1) do not adversely affect the limited partners (or any particular class of limited partners) in any material respect,

(2) are necessary or advisable to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute,

(3) are necessary or advisable to facilitate the trading of limited partner interests or to comply with any rule, regulation, guideline or requirement of any securities exchange on which the limited partner interests are or will be listed for trading, compliance with any of which the managing general partner deems to be in our best interest and the best interest of limited partners,

(4) are necessary or advisable for any action taken by the managing general partner relating to splits or combinations of units under the provisions of the partnership agreement, or

(5) are required to effect the intent expressed in this prospectus or the intent of the provisions of the partnership agreement or are otherwise contemplated by the partnership agreement.

Opinion of Counsel and Unitholder Approval

Our managing general partner will not be required to obtain an opinion of counsel that an amendment will not result in a loss of limited liability to the limited partners or result in our being treated as an entity for federal income tax purposes if one of the amendments described above under "--No Unitholder Approval" should occur. No other amendments to the partnership agreement will become effective without the approval of holders of at least 90% of the units unless we obtain an opinion of counsel to the effect that the amendment will not affect the limited liability under applicable law of any of our limited partners or cause us, the operating company or its subsidiaries to be taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes (to the extent not previously taxed as such).

Any amendment that would have a material adverse effect on the rights or preferences of any type or class of outstanding units in relation to other classes of units will require the approval of at least a majority of the type or class of units so affected. Any amendment that reduces the voting percentage required to take any action must be approved by the affirmative vote of limited partners constituting not less than the voting requirement sought to be reduced.

Merger, Sale or Other Disposition of Assets

The partnership agreement generally prohibits the managing general partner, without the prior approval of the holders of units representing a unit majority, from causing us to, among other things, sell, exchange or otherwise dispose of all or substantially all of our assets in a single transaction or a series of related transactions, including by way of merger, consolidation or other combination, or approving on our behalf the

sale, exchange or other disposition of all or substantially all of the assets of our subsidiaries. The managing general partner may, however, mortgage, pledge, hypothecate or grant a security interest in all or substantially all of our assets without that approval. The managing general partner may also sell all or substantially all of our assets under a foreclosure or other realization upon those encumbrances without that approval.

If conditions specified in the partnership agreement are satisfied, the managing general partner may merge us or any of our subsidiaries into, or convey some or all of our assets to, a newly formed entity if the sole purpose of that merger or conveyance is to effect a mere change in our legal form into another limited liability entity. The unitholders are not entitled to dissenters' rights of appraisal under the partnership agreement or applicable Delaware law in the event of a merger or consolidation, a sale of substantially all of our assets or any other transaction or event.

Termination and Dissolution

We will continue as a limited partnership until terminated under the partnership agreement. We will dissolve upon:

(1) the election of the managing general partner to dissolve us, if approved by the holders of units representing a unit majority,

(2) the sale, exchange or other disposition of all or substantially all of our assets and properties and our subsidiaries,

(3) the entry of a decree of judicial dissolution of Inergy, L.P., or

(4) the withdrawal or removal of our managing general partner or any other event that results in its ceasing to be the managing general partner other than by reason of a transfer of its general partner interest in accordance with the partnership agreement or withdrawal or removal of the managing general partner following approval and admission of a successor.

Upon a dissolution under clause (4), the holders of a majority of the outstanding common units and subordinated units, voting as separate classes, may also elect, within specific time limitations, to reconstitute us and continue our business on the same terms and conditions described in the partnership agreement by forming a new limited partnership on terms identical to those in the partnership agreement and having as managing general partner an entity approved by the holders of a majority of the outstanding common units and subordinated units, voting as separate classes, subject to our receipt of an opinion of counsel to the effect that:

(1) the action would not result in the loss of limited liability of any limited partner, and

(2) neither us, the reconstituted limited partnership nor the operating company would be treated as an association taxable as a corporation or otherwise be taxable as an entity for federal income tax purposes upon the exercise of that right to continue.

Liquidation and Distribution of Proceeds

Upon our dissolution, unless we are reconstituted and continued as a new limited partnership, the liquidator authorized to wind up our affairs will, acting with all of the powers of the managing general partner that the liquidator deems necessary or desirable in its judgment, liquidate our assets and apply the proceeds of the liquidation as provided in "Cash Distribution Policy--Distributions of Cash upon Liquidation." The liquidator may defer liquidation of our assets for a reasonable period of time or distribute assets to partners in kind if it determines that a sale would be impractical or would cause undue loss to the partners.

Withdrawal or Removal of the General Partners

Except as described below, our managing general partner has agreed not to withdraw voluntarily as a general partner prior to June 30, 2011 without obtaining the approval of the holders of at least a majority of the

outstanding common units, excluding common units held by the general partners and their affiliates, and furnishing an opinion of counsel regarding limited liability and tax matters. On or after June 30, 2011 our managing general partner may withdraw as managing general partner without first obtaining approval of any unitholder by giving 90 days' written notice, and that withdrawal will not constitute a violation of the partnership agreement. Notwithstanding the information above, our managing general partner may withdraw without unitholder approval upon 90 days' notice to the limited partners if at least 50% of the outstanding common units are held or controlled by one person and its affiliates other than the general partners and their affiliates. Our non-managing general partner must withdraw as a general partner at any time after a transfer of its general partner interest upon obtaining the consent of the managing general partner. If our non-managing general partner is removed or withdraws and no successor is appointed, the managing general partner will continue the business of Inergy, L.P.

Upon the withdrawal of the managing general partner under any circumstances, other than as a result of a transfer by the managing general partner of all or a part of its general partner interest in us, the holders of a majority of the outstanding common units and subordinated units, voting as separate classes, may select a successor to that withdrawing managing general partner. If a successor is not elected, or is elected but an opinion of counsel regarding limited liability and tax matters cannot be obtained, we will be dissolved, wound up and liquidated, unless within 180 days after that withdrawal, the holders of a majority of the outstanding common units and subordinated units, voting as separate classes, agree in writing to continue our business and to appoint a successor general partner. Please read "--Termination and Dissolution."

Neither the managing general partner nor the non-managing general partner may be removed unless that removal is approved by the vote of the holders of not less than 66 2/3% of the outstanding units, including units held by the general partners and their affiliates, and we receive an opinion of counsel regarding limited liability and tax matters. Any removal of the managing general partner is also subject to the approval of a successor managing general partner by the vote of the holders of a majority of the outstanding common units and subordinated units, voting as separate classes. The ownership of more than 33 1/3% of the outstanding units by the general partners and their affiliates give the managing general partner the practical ability to prevent its removal. At the closing of this offering, a subsidiary of our non-managing general partner will own approximately 31% of the outstanding units.

The partnership agreement also provides that if Inergy GP, LLC is removed as our managing general partner under circumstances where cause does not exist and units held by the managing general partner and its affiliates are not voted in favor of that removal:

(1) the subordination period will end and all outstanding subordinated units will immediately convert into common units on a one-for-one basis,

(2) any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished, and

(3) the non-managing general partner will have the right to convert its general partner interest and Inergy Holdings will have the right to convert its incentive distribution rights into common units or to receive cash in exchange for those interests.

In the event of removal of a general partner under circumstances where cause exists or withdrawal of a general partner where that withdrawal violates the partnership agreement, a successor general partner will have the option to purchase the general partner interest of the departing general partner for a cash payment equal to the fair market value of those interests. Under all other circumstances where a general partner withdraws or is removed by the limited partners, the departing general partner will have the option to require the successor general partner to purchase the general partner interests of the departing general partner and Inergy Holdings will have the option to require the successor managing general partner to purchase incentive distribution rights

for fair market value. In each case, this fair market value will be determined by agreement between the departing general partner, and the successor general partner and, in the case of a purchase of incentive distribution rights, Inergy Holdings. If no agreement is reached, an independent investment banking firm or other independent expert selected by the departing general partner, Inergy Holdings and the successor general partner will determine the fair market value. Or, if the departing general partner, Inergy Holdings and the successor general partner cannot agree upon an expert, then an expert chosen by agreement of the experts selected by each of them will determine the fair market value.

If the option described above is not exercised by either the departing general partner or the successor general partner, the departing general partner's general partner interest and Inergy Holdings' incentive distribution rights will automatically convert into common units equal to the fair market value of those interests as determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph.

In addition, we will be required to reimburse the departing general partner for all amounts due the departing general partner, including, without limitation, all employee-related liabilities, including severance liabilities, incurred for the termination of any employees employed by the departing general partner or its affiliates for our benefit.

Transfer of General Partner Interests

Except for a transfer by either general partner of all, but not less than all, of its general partner interest to:

(1) an affiliate of the general partner (other than an individual), or

(2) another entity as part of the merger or consolidation of the general partner with or into another entity or the transfer by the general partner of all or substantially all of its assets to another entity.

The general partner may not transfer all or any part of its general partner interest to another person prior to June 30, 2011 without the approval of the holders of at least a majority of the outstanding common units, excluding common units held by the general partners and their affiliates. As a condition of this transfer, the transferee must, among other things, assume the rights and duties of the general partner to whose interest that transferee has succeeded, agree to be bound by the provisions of the partnership agreement and furnish an opinion of counsel regarding limited liability and tax matters.

The general partners and their affiliates may at any time transfer units to one or more persons, without unitholder approval, except that they may not transfer subordinated units to us.

Transfer of Incentive Distribution Rights

Inergy Holdings or a later holder of the incentive distribution rights may transfer its incentive distribution rights to an affiliate of the holder (other than an individual) without the approval of the unitholders, provided, in each case, the transferee agrees to be bound by the provisions of the partnership agreement. Prior to June 30, 2011, other transfers of the incentive distribution rights will require the affirmative vote of holders of a majority of the outstanding common units, excluding common units held by the general partners and their affiliates. On or after June 30, 2011 the incentive distribution rights will be freely transferable.

Transfer of Ownership Interests in General Partners

At any time, the members of either general partner may sell or transfer all or part of their membership interests in the managing general partner or the non-managing general partner without the approval of the unitholders.

Change of Management Provisions

The partnership agreement contains specific provisions that are intended to discourage a person or group from attempting to remove Inergy GP, LLC as our managing general partner or otherwise change management.

If any person or group other than the general partners and their affiliates acquires beneficial ownership of 20% or more of any class of units, that person or group loses voting rights on all of its units. This loss of voting rights does not apply to any person or group that acquires the units concurrently with this offering from our general partners or their affiliates and any transferees of that person or group approved by our managing general partner.

The partnership agreement also provides that if the managing general partner is removed under circumstances where cause does not exist and units held by the general partners and their affiliates are not voted in favor of that removal:

(1) the subordination period will end and all outstanding subordinated units will immediately convert into common units on a one-for-one basis,

(2) any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished, and

(3) the non-managing general partner will have the right to convert its general partner interest and Inergy Holdings will have the right to convert its incentive distribution rights into common units or to receive cash in exchange for those interests.

Limited Call Right

If at any time not more than 20% of the then-issued and outstanding limited partner interests of any class are held by persons other than the general partners and their affiliates, the managing general partner will have the right, which it may assign in whole or in part to any of its affiliates or to us, to acquire all, but not less than all, of the remaining limited partner interests of the class held by unaffiliated persons as of a record date to be selected by the managing general partner, on at least ten but not more than 60 days' notice. The purchase price in the event of this purchase is the greater of:

(1) the highest cash price paid by either of the general partners or any of their affiliates for any limited partner interests of the class purchased within the 90 days preceding the date on which the managing general partner first mails notice of its election to purchase those limited partner interests, and

(2) the current market price as of the date three days before the date the notice is mailed.

As a result of the managing general partner's right to purchase outstanding limited partner interests, a holder of limited partner interests may have his limited partner interests purchased at an undesirable time or price. The tax consequences to a unitholder of the exercise of this call right are the same as a sale by that unitholder of his common units in the market. Please read "Tax Considerations--Disposition of Common Units."

Meetings; Voting

Except as described below regarding a person or group owning 20% or more of any class of units then outstanding, unitholders or assignees who are record holders of units on the record date will be entitled to notice of, and to vote at, meetings of our limited partners and to act upon matters for which approvals may be solicited. Common units that are owned by an assignee who is a record holder, but who has not yet been admitted as a limited partner, will be voted by the managing general partner at the written direction of the record holder. Absent direction of this kind, the common units will not be voted, except that, in the case of common units held by the managing general partner on behalf of non-citizen assignees, the managing general partner will distribute the votes on those common units in the same ratios as the votes of limited partners on other units are cast.

The managing general partner does not anticipate that any meeting of unitholders will be called in the foreseeable future. Any action that is required or permitted to be taken by the unitholders may be taken either at a meeting of the unitholders or without a meeting if consents in writing describing the action so taken are

signed by holders of the number of units as would be necessary to authorize or take that action at a meeting. Meetings of the unitholders may be called by the managing general partner or by unitholders owning at least 20% of the outstanding units of the class for which a meeting is proposed. Unitholders may vote either in person or by proxy at meetings. The holders of a majority of the outstanding units of the class or classes for which a meeting has been called, represented in person or by proxy, will constitute a quorum unless any action by the unitholders requires approval by holders of a greater percentage of the units, in which case the quorum will be the greater percentage.

Each record holder of a unit has a vote according to his percentage interest in us, although additional limited partner interests having special voting rights could be issued. Please read "--Issuance of Additional Securities." However, if at any time any person or group, other than the managing general partner and its affiliates, or a direct or subsequently approved transferee of the managing general partner or its affiliates, acquires, in the aggregate, beneficial ownership of 20% or more of any class of units then outstanding, that person or group will lose voting rights on all of its units and the units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes, determining the presence of a quorum or for other similar purposes. Common units held in nominee or street name account will be voted by the broker or other nominee in accordance with the instruction of the beneficial owner unless the arrangement between the beneficial owner and his nominee provides otherwise. Except as the partnership agreement otherwise provides, subordinated units will vote together with common units as a single class.

Any notice, demand, request, report or proxy material required or permitted to be given or made to record holders of common units under the partnership agreement will be delivered to the record holder by us or by the transfer agent.

Status as Limited Partner or Assignee

Except as described above under "--Limited Liability," the common units will be fully paid, and unitholders will not be required to make additional contributions.

An assignee of a common unit, after executing and delivering a transfer application, but pending its admission as a substituted limited partner, is entitled to an interest equivalent to that of a limited partner for the right to share in allocations and distributions from us, including liquidating distributions. The managing general partner will vote and exercise other powers attributable to common units owned by an assignee that has not become a substitute limited partner at the written direction of the assignee. See "--Meetings; Voting." Transferees that do not execute and deliver a transfer application will be treated neither as assignees nor as record holders of common units, and will not receive cash distributions, federal income tax allocations or reports furnished to holders of common units. Please read "Description of the Common Units--Transfer of Common Units."

Non-Citizen Assignees; Redemption

If we are or become subject to federal, state or local laws or regulations that, in the reasonable determination of the managing general partner, create a substantial risk of cancellation or forfeiture of any property that we have an interest in because of the nationality, citizenship or other related status of any limited partner or assignee, we may redeem the units held by the limited partner or assignee at their current market price. In order to avoid any cancellation or forfeiture, the managing general partner may require each limited partner or assignee to furnish information about his nationality, citizenship or related status. If a limited partner or assignee fails to furnish information about this nationality, citizenship or other related status within 30 days after a request for the information or the managing general partner determines after receipt of the information that the limited partner or assignee is not an eligible citizen, the limited partner or assignee may be treated as a non-citizen assignee. In addition to other limitations on the rights of an assignee that is not a substituted limited partner, a non-citizen assignee does not have the right to direct the voting of his units and may not receive distributions in kind upon our liquidation.

Indemnification

Under the partnership agreement, in most circumstances, we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages or similar events:

- the general partners,
- any departing general partner,
- any person who is or was an affiliate of a general partner or any departing general partner,
- any person who is or was a member, partner, officer, director, employee, agent or trustee of the managing general partner or any departing general partner or any affiliate of a managing general partner or any departing general partner, or
- any person who is or was serving at the request of a managing general partner or any departing general partner or any affiliate of a managing general partner or any departing general partner as an officer, director, employee, member, partner, agent or trustee of another person.

Any indemnification under these provisions will only be out of our assets. The general partners and their affiliates will not be personally liable for, or have any obligation to contribute or loan funds or assets to us to enable us to effectuate, indemnification. We may purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under the partnership agreement.

Books and Reports

The managing general partner is required to keep appropriate books of our business at our principal offices. The books will be maintained for both tax and financial reporting purposes on an accrual basis. For fiscal reporting purposes, our fiscal year ends September 30 of each calendar year. For tax reporting purposes, our tax year ends December 31 each year.

We will furnish or make available to record holders of common units, within 120 days after the close of each fiscal year, an annual report containing audited financial statements and a report on those financial statements by our independent public accountants. Except for our fourth quarter, we will also furnish or make available summary financial information within 90 days after the close of each quarter.

We will furnish each record holder of a unit with information reasonably required for tax reporting purposes within 90 days after the close of each calendar year. This information is expected to be furnished in summary form so that some complex calculations normally required of partners can be avoided. Our ability to furnish this summary information to unitholders will depend on the cooperation of unitholders in supplying us with specific information. Every unitholder will receive information to assist him in determining his federal and state tax liability and filing his federal and state income tax returns, regardless of whether he supplies us with information.

Right to Inspect our Books and Records

The partnership agreement provides that a limited partner can, for a purpose reasonably related to his interest as a limited partner, upon reasonable demand and at his own expense, have furnished to him:

- a current list of the name and last known address of each partner,
- a copy of our tax returns,
- information as to the amount of cash, and a description and statement of the agreed value of any other property or services, contributed or to be contributed by each partner and the date on which each became a partner,

- copies of the partnership agreement, the certificate of limited partnership of the partnership, related amendments and powers of attorney under which they have been executed,

- information regarding the status of our business and financial condition, and

- any other information regarding our affairs as is just and reasonable.

The managing general partner may, and intends to, keep confidential from the limited partners trade secrets or other information the disclosure of which the managing general partner believes in good faith is not in our best interests or which we are required by law or by agreements with third parties to keep confidential.

Registration Rights

Under the partnership agreement, we have agreed to register for resale under the Securities Act of 1933 and applicable state securities laws any common units, senior or junior subordinated units or other partnership securities proposed to be sold by the general partners or any of their affiliates or their assignees if an exemption from the registration requirements is not otherwise available. These registration rights continue for two years following any withdrawal or removal of Inergy GP, LLC as our managing general partner. We are obligated to pay all expenses incidental to the registration, excluding underwriting discounts and commissions. Please read "Units Eligible for Future Sale."

## UNITS ELIGIBLE FOR FUTURE SALE

After the sale of the common units offered by this prospectus, affiliates of the managing general partner, former owners of propane businesses we have acquired and some of our original investors will hold 3,313,367 senior subordinated units and 572,542 junior subordinated units. All of the subordinated units will convert into common units at the end of the subordination period and some may convert earlier. The sale of these units could have an adverse impact on the price of the common units or on any trading market that may develop. Upon conversion, these units will be entitled to registration rights as described under "Certain Relationships and Related Transactions" or freely transferable without restriction or further registration under the Securities Act of 1933, subject to the affiliate restrictions described below.

The common units sold in the offering will generally be freely transferable without restriction or further registration under the Securities Act of 1933, except that any resale of common units purchased by an "affiliate" of Inergy, L.P. will be subject to the volume limitations contained in Rule 144 of the Securities Act.

While any senior subordinated units remain outstanding, we may not issue equity securities of the partnership ranking prior or senior to the common units or an aggregate of more than 750,000 additional common units or an equivalent amount of securities ranking on a parity with the common units, without the approval of the holders of a majority of the outstanding common units and subordinated units, voting as separate classes, subject to certain exceptions described under "The Partnership Agreement--Issuance of Additional Securities."

The partnership agreement provides that, once no senior subordinated units remain outstanding, we may issue an unlimited number of limited partner interests of any type without a vote of the unitholders. The partnership agreement does not restrict our ability to issue equity securities ranking junior to the common units at any time. Any issuance of additional common units or other equity securities would result in a corresponding decrease in the proportionate ownership interest in us represented by, and could adversely affect the cash distributions to and market price of, common units then outstanding. Please read "The Partnership Agreement--Issuance of Additional Securities."

Under the partnership agreement, the general partners and their affiliates have the right to cause us to register under the Securities Act of 1933 and state laws the offer and sale of any units that they hold.

Subject to the terms and conditions of the partnership agreement, these registration rights allow the general partners and their affiliates or their assignees holding any units to require registration of any of these units and to include any of these units in a registration by us of other units, including units offered by us or by any unitholder. Each general partner will continue to have these registration rights for two years following its withdrawal or removal as a general partner. In connection with any registration of this kind, we will indemnify each unitholder participating in the registration and its officers, directors and controlling persons from and against any liabilities under the Securities Act of 1933 or any state securities laws arising from the registration statement or prospectus. We will bear all costs and expenses incidental to any registration, excluding any underwriting discounts and commissions. Except as described below, the general partners and their affiliates may sell their units in private transactions at any time, subject to compliance with applicable laws.

Inergy, L.P., New Inergy Propane, LLC, the general partners and certain of their affiliates have agreed not to sell any common units they beneficially own for a period of 180 days from the date of this prospectus. Please read "Underwriting" for a description of these lock-up provisions.

# TAX CONSIDERATIONS

This section is a summary of all the material tax considerations that may be relevant to prospective unitholders who are individual citizens or residents of the United States and, unless otherwise noted in the following discussion, expresses the opinion of Vinson & Elkins L.L.P., special counsel to the general partners and us, insofar as it relates to matters of United States federal income tax law and legal conclusions with respect to those matters. This section is based upon current provisions of the Internal Revenue Code, existing and proposed regulations and current administrative rulings and court decisions, all of which are subject to change. Later changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to "us" or "we" are references to Inergy, L.P. and the operating company.

No attempt has been made in the following discussion to comment on all federal income tax matters affecting us or the unitholders. Moreover, the discussion focuses on unitholders who are individual citizens or residents of the United States and has only limited application to corporations, estates, trusts, nonresident aliens or other unitholders subject to specialized tax treatment, such as tax-exempt institutions, non-U.S. persons, individual retirement accounts (IRAs), real estate investment trusts (REITs) or mutual funds. Accordingly, we recommend that each prospective unitholder consult, and depend on, his own tax advisor in analyzing the federal, state, local and foreign tax consequences particular to him of the ownership or disposition of common units.

All statements as to matters of law and legal conclusions, but not as to factual matters, contained in this section, unless otherwise noted, are the opinion of counsel and are based on the accuracy of the representations made by us.

No ruling has been or will be requested from the IRS regarding any matter affecting us or prospective unitholders. An opinion of counsel represents only that counsel's best legal judgment and does not bind the IRS or the courts. Accordingly, the opinions and statements made here may not be sustained by a court if contested by the IRS. Any contest of this sort with the IRS may materially reduce the market value of the common units. In addition, the costs of any contest with the IRS will be borne directly or indirectly by the unitholders and our general partners. Furthermore, the tax treatment of us, or of an investment in us, may be significantly modified by future legislative or administrative changes or court decisions. Any modifications may or may not be retroactively applied.

For the reasons described below, counsel has not rendered an opinion with respect to the following federal income tax issues:

(1) the treatment of a unitholder whose common units are loaned to a short seller to cover a short sale of common units (please read "--Tax Consequences of Unit Ownership--Treatment of Short Sales"),

(2) whether our monthly convention for allocating taxable income and losses is permitted by existing Treasury regulations (please read "--Disposition of Common Units--Allocations Between Transferors and Transferees"), and

(3) whether our method for depreciating Section 743 adjustments is sustainable (please read "--Tax Consequences of Unit Ownership--Section 754 Election").

## Partnership Status

A partnership is not a taxable entity and incurs no federal income tax liability. Instead, each partner of a partnership is required to take into account his share of items of income, gain, loss and deduction of the partnership in computing his federal income tax liability, regardless of whether cash distributions are made to him by the partnership. Distributions by a partnership to a partner are generally not taxable unless the amount of cash distributed to him is in excess of his adjusted basis in his partnership interest.

No ruling has been or will be sought from the IRS and the IRS has made no determination as to our status or the status of the operating company as partnerships for federal income tax purposes or whether our operations generate "qualifying income" under Section 7704 of the Code. Instead, we will rely on the opinion of counsel that, based upon the Internal Revenue Code, its regulations, published revenue rulings and court decisions and the representations described below, we and the operating company will be treated as a partnership for federal income tax purposes.

In rendering its opinion, counsel has relied on factual representations made by us and the managing general partner. The representations made by us and our managing general partner upon which counsel has relied are:

(a) Neither we nor the operating company will elect to be treated as a corporation, and

(b) For each taxable year, more than 90% of our gross income will be income from sources that our counsel has opined, or will opine, is "qualifying income" within the meaning of Section 7704(d) of the Internal Revenue Code.

Section 7704 of the Internal Revenue Code provides that publicly-traded partnerships will, as a general rule, be taxed as corporations. However, an exception, referred to as the "Qualifying Income Exception," exists with respect to publicly-traded partnerships of which 90% or more of the gross income for every taxable year consists of "qualifying income." Qualifying income includes income and gains derived from the wholesale and retail marketing and transportation of propane. Other types of qualifying income include interest other than from a financial business, dividends, gains from the sale of real property and gains from the sale or other disposition of assets held for the production of income that otherwise constitutes qualifying income. We estimate that less than 7% of our current income is not qualifying income; however, this estimate could change from time to time. Based upon and subject to this estimate, the factual representations made by us and the managing general partner and a review of the applicable legal authorities, counsel is of the opinion that at least 90% of our current gross income constitutes qualifying income.

If we fail to meet the Qualifying Income Exception, other than a failure which is determined by the IRS to be inadvertent and which is cured within a reasonable time after discovery, we will be treated as if we had transferred all of our assets, subject to liabilities, to a newly formed corporation, on the first day of the year in which we fail to meet the Qualifying Income Exception, in return for stock in that corporation, and then distributed that stock to the unitholders in liquidation of their interests in us. This contribution and liquidation should be tax-free to unitholders and us so long as we, at that time, do not have liabilities in excess of the tax basis of our assets. Thereafter, we would be treated as a corporation for federal income tax purposes.

If we were treated as a corporation in any taxable year, either as a result of a failure to meet the Qualifying Income Exception or otherwise, our items of income, gain, loss and deduction would be reflected only on our tax return rather than being passed through to the unitholders, and our net income would be taxed to us at corporate rates. In addition, any distribution made to a unitholder would be treated as either taxable dividend income, to the extent of our current or accumulated earnings and profits, or, in the absence of earnings and profits, a nontaxable return of capital, to the extent of a unitholder's tax basis in his common units, or taxable capital gain, after the unitholder's tax basis in his common units is reduced to zero. Accordingly, treatment as a corporation would materially reduce a unitholder's cash flow and after-tax return and thus would reduce of the value of the units.

The discussion below is based on the conclusion that we will be treated as a partnership for federal income tax purposes.

Limited Partner Status

Unitholders who have become limited partners of Inergy, L.P. will be treated as partners of Inergy, L.P. for federal income tax purposes. Also:

(a) assignees who have executed and delivered transfer applications, and are awaiting admission as limited partners, and

(b) unitholders whose common units are held in street name or by a nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their common units,

will be treated as partners of Inergy, L.P. for federal income tax purposes. As there is no direct authority addressing assignees of common units who are entitled to execute and deliver transfer applications and become entitled to direct the exercise of attendant rights, but who fail to execute and deliver transfer applications, counsel's opinion does not extend to these persons. Furthermore, a purchaser or other transferee of common units who does not execute and deliver a transfer application may not receive some federal income tax information or reports furnished to record holders of common units unless the common units are held in a nominee or street name account and the nominee or broker has executed and delivered a transfer application for those common units.

A beneficial owner of common units whose units have been transferred to a short seller to complete a short sale would appear to lose his status as a partner with respect to those units for federal income tax purposes. Please read "--Tax Consequences of Unit Ownership--Treatment of Short Sales."

Income, gain, deductions or losses would not appear to be reportable by a unitholder who is not a partner for federal income tax purposes, and any cash distributions received by a unitholder who is not a partner for federal income tax purposes would therefore be fully taxable as ordinary income. These holders should consult their own tax advisors with respect to their status as partners in Inergy, L.P. for federal income tax purposes.

Tax Consequences of Unit Ownership

Flow-through of Taxable Income. We will not pay any federal income tax. Instead, each unitholder will be required to report on his income tax return his share of our income, gains, losses and deductions without regard to whether we make cash distributions to him. Consequently, we may allocate income to a unitholder even if he has not received a cash distribution from us. Each unitholder will be required to include in income his allocable share of our income, gains, losses and deductions for our taxable year ending with or within his taxable year.

Treatment of Distributions. Our distributions to a unitholder generally will not be taxable to the unitholder for federal income tax purposes to the extent of his tax basis in his common units immediately before the distribution. Our cash distributions in excess of a unitholder's tax basis generally will be considered to be gain from the sale or exchange of the common units, taxable in accordance with the rules described under "--Disposition of Common Units" below. Any reduction in a unitholder's share of our liabilities for which no partner, including our general partners, bears the economic risk of loss, known as "nonrecourse liabilities," will be treated as a distribution of cash to that unitholder. We do not currently have any nonrecourse liabilities. To the extent our distributions cause a unitholder's "at risk" amount to be less than zero at the end of any taxable year, he must recapture any losses deducted in previous years. Please read "--Limitations on Deductibility of Losses."

A decrease in a unitholder's percentage interest in us because of our issuance of additional common units will decrease his share of our nonrecourse liabilities, and thus will result in a corresponding deemed distribution of cash to him. A non-pro rata distribution of cash may result in ordinary income to a unitholder, regardless of his tax basis in his common units, if the distribution reduces his share of our "unrealized receivables," including depreciation recapture, and/or substantially appreciated "inventory items," both as defined in the Internal Revenue Code, and collectively, "Section 751 Assets."

To that extent, he will be treated as having received his proportionate share of our Section 751 Assets and having exchanged those assets with us in return for the non-pro rata portion of the distribution made to him.

This latter deemed exchange will generally result in the unitholder's realization of ordinary income. That income will equal the excess of (1) the non-pro rata portion of that distribution over (2) the unitholder's tax basis for the share of Section 751 Assets deemed relinquished in the exchange.

Ratio of Taxable Income to Distributions. We estimate that a purchaser of common units in this offering who owns those common units from the date of closing of this offering through June 30, 2004, will be allocated an amount of federal taxable income for that period that will be no more than 20% of the cash distributed with respect to that period. We anticipate that after the taxable year ending June 30, 2004, the ratio of allocable taxable income to cash distributions to the unitholders will increase. These estimates are based upon the assumption that gross income from operations will approximate the amount required to make the minimum quarterly distribution on all units and other assumptions with respect to capital expenditures, cash flow and anticipated cash distributions. These estimates and assumptions are subject to, among other things, numerous business, economic, regulatory, competitive and political uncertainties beyond our control. Further, the estimates are based on current tax law and tax reporting positions that we will adopt and with which the IRS could disagree. Accordingly, we cannot assure you that these estimates will prove to be correct. The actual percentage that will constitute taxable income could be higher or lower, and any differences could be material and could materially affect the value of the common units.

Basis of Common Units. A unitholder's initial tax basis for his common units will be the amount he paid for the common units plus his share of our nonrecourse liabilities. That basis will be increased by his share of our income and by any increases in his share of our nonrecourse liabilities. That basis will be decreased, but not below zero, by our distributions to him, by his share of our losses, by any decreases in his share of our nonrecourse liabilities and by his share of our expenditures that are not deductible in computing taxable income and are not required to be capitalized. A unitholder will have no share of our debt which is recourse to either general partner, but will have a share, generally based on his share of profits, of our nonrecourse liabilities. Please read "--Disposition of Common Units--Recognition of Gain or Loss."

Limitations on Deductibility of Losses. The deduction by a unitholder of his share of our losses will be limited to the tax basis in his units and, in the case of an individual unitholder or a corporate unitholder, if more than 50% of the value of the corporate unitholder's stock is owned directly or indirectly by five or fewer individuals or some tax-exempt organizations, to the amount for which the unitholder is considered to be "at risk" with respect to our activities, if that is less than his tax basis. A unitholder must recapture losses deducted in previous years to the extent that distributions cause his at risk amount to be less than zero at the end of any taxable year. Losses disallowed to a unitholder or recaptured as a result of these limitations will carry forward and will be allowable to the extent that his tax basis or at risk amount, whichever is the limiting factor, is subsequently increased. Upon the taxable disposition of a unit, any gain recognized by a unitholder can be offset by losses that were previously suspended by the at risk limitation but may not be offset by losses suspended by the basis limitation. Any excess loss above that gain previously suspended by the at risk or basis limitations is no longer utilizable.

In general, a unitholder will be at risk to the extent of the tax basis of his units, excluding any portion of that basis attributable to his share of our nonrecourse liabilities, reduced by any amount of money he borrows to acquire or hold his units, if the lender of those borrowed funds owns an interest in us, is related to the unitholder or can look only to the units for repayment. A unitholder's at risk amount will increase or decrease as the tax basis of the unitholder's units increases or decreases, other than tax basis increases or decreases attributable to increases or decreases in his share of our nonrecourse liabilities.

The passive loss limitations generally provide that individuals, estates, trusts and some closely-held corporations and personal service corporations can deduct losses from passive activities, which are generally partnership or corporate activities in which the taxpayer does not materially participate, only to the extent of the taxpayer's income from those passive activities. The passive loss limitations are applied separately with respect to each publicly-traded partnership. Consequently, any passive losses we generate will only be available to offset our passive income generated in the future and will not be available to offset income from other

passive activities or investments, including any dividend income we derive or from our investments or investments in other publicly-traded partnerships, or salary or active business income. Passive losses that are not deductible because they exceed a unitholder's share of our income may be deducted in full when he disposes of his entire investment in us in a fully taxable transaction with an unrelated party. The passive activity loss rules are applied after other applicable limitations on deductions, including the at risk rules and the basis limitation.

A unitholder's share of our net income may be offset by any suspended passive losses, but it may not be offset by any other current or carryover losses from other passive activities, including those attributable to other publicly-traded partnerships.

Limitations on Interest Deductions. The deductibility of a non-corporate taxpayer's "investment interest expense" is generally limited to the amount of that taxpayer's "net investment income." The IRS has announced that Treasury Regulations will be issued that characterize net passive income from a publicly-traded partnership as investment income for purposes of the limitations on the deductibility of investment interest. In addition, the unitholder's share of our portfolio income will be treated as investment income. Investment interest expense includes:

- interest on indebtedness properly allocable to property held for investment,
- our interest expense attributed to portfolio income, and
- the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income.

The computation of a unitholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a unit. Net investment income includes gross income from property held for investment and amounts treated as portfolio income under the passive loss rules, less deductible expenses, other than interest, directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment.

Entity-Level Collections. If we are required or elect under applicable law to pay any federal, state, foreign or local income tax on behalf of any unitholder or the non-managing general partner or any former unitholder, we are authorized to pay those taxes from our funds. That payment, if made, will be treated as a distribution of cash to the unitholder on whose behalf the payment was made. If the payment is made on behalf of a person whose identity cannot be determined, we are authorized to treat the payment as a distribution to all current unitholders. We are authorized to amend the partnership agreement in the manner necessary to maintain uniformity of intrinsic tax characteristics of units and to adjust later distributions, so that after giving effect to these distributions, the priority and characterization of distributions otherwise applicable under the partnership agreement is maintained as nearly as is practicable. Payments by us as described above could give rise to an overpayment of tax on behalf of an individual unitholder in which event the unitholder would be required to file a claim in order to obtain a credit or refund.

Allocation of Income, Gain, Loss and Deduction. In general, if we have a net profit, our items of income, gain, loss and deduction will be allocated among the non-managing general partner and the unitholders in accordance with their percentage interests in us. At any time that distributions are made to the common units in excess of distributions to the senior subordinated units or junior subordinated units, or incentive distributions are made to Inergy Holdings, gross income will be allocated to the recipients to the extent of these distributions. If we have a net loss for the entire year, that loss will be allocated first to the non-managing general partner and the unitholders in accordance with their percentage interests in us to the extent of their positive capital accounts and, second, to the non-managing general partner.

Items of our income, gain, loss and deduction will be allocated to account for the difference between the tax basis and fair market value of property contributed to us by the non-managing general partner and its

affiliates, referred to in this discussion as "Contributed Property." The effect of these allocations to a unitholder purchasing common units in this offering will be essentially the same as if the tax basis of our assets were equal to their fair market value at the time of this offering. In addition, recapture income will be allocated to the extent possible to the unitholder who was allocated the deduction giving rise to that recapture income in order to minimize the recognition of ordinary income by other unitholders. Finally, although we do not expect that our operations will result in the creation of negative capital accounts, if negative capital accounts nevertheless result, our income and gain will be allocated in an amount and manner to eliminate the negative balance as quickly as possible.

An allocation of our income, gain, loss or deduction, other than an allocation required by the Internal Revenue Code to eliminate the difference between a partner's "book" capital account, credited with the fair market value of Contributed Property, and "tax" capital account, credited with the tax basis of Contributed Property, referred to in this discussion as the "Book-Tax Disparity," will generally be given effect for federal income tax purposes in determining a unitholder's share of an item of income, gain, loss or deduction only if the allocation has substantial economic effect. In any other case, a unitholder's share of an item will be determined on the basis of his interest in us, which will be determined by taking into account all the facts and circumstances, including his relative contributions to us, the interests of all the unitholders in profits and losses, the interest of all the unitholders in cash flow and other nonliquidating distributions and rights of all the unitholders to distributions of capital upon liquidation.

Counsel is of the opinion that, with the exception of the issues described in "--Tax Consequences of Unit Ownership--Section 754 Election" and "--Disposition of Common Units--Allocations Between Transferors and Transferees," allocations under our partnership agreement will be given effect for federal income tax purposes in determining a unitholder's share of our income, gain, loss or deduction.

Treatment of Short Sales. A unitholder whose units are loaned to a "short seller" to cover a short sale of units may be considered as having disposed of those units. If so, he would no longer be a partner in us for tax purposes with respect to those units during the period of the loan and may recognize gain or loss from the disposition. As a result, during this period:

- any of our income, gain, loss or deduction with respect to those units would not be reportable by the unitholder,
- any cash distributions received by the unitholder as to those units would be fully taxable, and
- all of these distributions would appear to be ordinary income.

Counsel has not rendered an opinion regarding the treatment of a unitholder where he loans common units to a short seller to cover a short sale of common units; therefore, unitholders who want to assure their status as partners in us for tax purposes and avoid the risk of gain recognition from a loan to a short seller should modify any applicable brokerage account agreements to prohibit their brokers from loaning their units. The IRS has announced that it is studying issues relating to the tax treatment of short sales of partnership interests. Please also read "--Disposition of Common Units--Recognition of Gain or Loss."

Alternative Minimum Tax. Each unitholder will be required to take into account his share of any items of our income, gain, loss or deduction for purposes of the alternative minimum tax. The current minimum tax rate for noncorporate taxpayers is 26% on the first $175,000 of alternative minimum taxable income in excess of the exemption amount and 28% on any additional alternative minimum taxable income. Prospective unitholders should consult with their tax advisors as to the impact of an investment in units on their liability for the alternative minimum tax.

Tax Rates. In general the highest effective United States federal income tax rate for individuals for 2001 is 39.6% and the maximum United States federal income tax rate for net capital gains of an individual for 2001 is 20% if the asset disposed of was held for more than 12 months at the time of disposition.

Section 754 Election. We will make the election permitted by Section 754 of the Internal Revenue Code. That election is irrevocable without the consent of the IRS. The election will generally permit us to adjust a common unit purchaser's tax basis in our assets ("inside basis") under Section 743(b) of the Internal Revenue Code to reflect his purchase price when he buys units in the market. The Section 743(b) adjustment belongs to the purchaser and not to other unitholders. For purposes of this discussion, a unitholder's inside basis in our assets will be considered to have two components: (1) his share of our tax basis in our assets ("common basis") and (2) his Section 743(b) adjustment to that basis.

Treasury regulations under Section 743 of the Internal Revenue Code require, if the remedial allocation method is adopted (which we will adopt), a portion of the Section 743(b) adjustment attributable to recovery property to be depreciated over the remaining cost recovery period for the Section 704(c) built-in gain. Under Treasury Regulation Section 1.167(c)-l(a)(6), a Section 743(b) adjustment attributable to property subject to depreciation under Section 167 of the Internal Revenue Code rather than cost recovery deductions under Section 168 is generally required to be depreciated using either the straight-line method or the 150% declining balance method. Under our partnership agreement, the managing general partner is authorized to take a position to preserve the uniformity of units even if that position is not consistent with these Treasury Regulations. Please read "--Tax Treatment of Operations--Uniformity of Units."

Although counsel is unable to opine as to the validity of this approach because there is no clear authority on this issue, we intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the common basis of the property, or treat that portion as non-amortizable to the extent attributable to property the common basis of which is not amortizable. This method is consistent with the regulations under Section 743 but is arguably inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6) which is not expected to directly apply to a material portion of our assets. To the extent a Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Treasury Regulations and legislative history. If we determine that this position cannot reasonably be taken, we may take a depreciation or amortization position under which all purchasers acquiring units in the same month would receive depreciation or amortization, whether attributable to common basis or a Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our assets. This kind of aggregate approach may result in lower annual depreciation or amortization deductions than would otherwise be allowable to some unitholders. Please read "--Tax Treatment of Operations--Uniformity of Units."

A Section 754 election is advantageous if the transferee's tax basis in his units is higher than the units' share of the aggregate tax basis of our assets immediately prior to the transfer. In that case, as a result of the election, the transferee would have, among other items, a greater amount of depreciation and depletion deductions and his share of any gain or loss on a sale of our assets would be less. Conversely, a Section 754 election is disadvantageous if the transferee's tax basis in his units is lower than those units' share of the aggregate tax basis of our assets immediately prior to the transfer. Thus, the fair market value of the units may be affected either favorably or unfavorably by the election.

The calculations involved in the Section 754 election are complex and will be made on the basis of assumptions as to the value of our assets and other matters. For example, the allocation of the Section 743(b) adjustment among our assets must be made in accordance with the Internal Revenue Code. The IRS could seek to reallocate some or all of any Section 743(b) adjustment allocated by us to our tangible assets to goodwill instead. Goodwill, as an intangible asset, is generally amortizable over a longer period of time or under a less accelerated method than our tangible assets. We cannot assure you that the determinations we make will not be successfully challenged by the IRS and that the deductions resulting from them will not be reduced or disallowed altogether. Should the IRS require a different basis adjustment to be made, and should, in our opinion, the expense of compliance exceed the benefit of the election, we may seek permission from the IRS to

revoke our Section 754 election. If permission is granted, a subsequent purchaser of units may be allocated more income than he would have been allocated had the election not been revoked.

Tax Treatment of Operations

Accounting Method and Taxable Year. We use the year ending December 31 as our taxable year and the accrual method of accounting for federal income tax purposes. Each unitholder will be required to include in income his share of our income, gain, loss and deduction for our taxable year ending within or with his taxable year. In addition, a unitholder who has a taxable year ending on a date other than December 31 and who disposes of all of his units following the close of our taxable year but before the close of his taxable year must include his share of our income, gain, loss and deduction in income for his taxable year, with the result that he will be required to include in income for his taxable year his share of more than one year of our income, gain, loss and deduction. Please read "--Disposition of Common Units--Allocations Between Transferors and Transferees."

Initial Tax Basis, Depreciation and Amortization. The tax basis of our assets will be used for purposes of computing depreciation and cost recovery deductions and, ultimately, gain or loss on the disposition of these assets. The federal income tax burden associated with the difference between the fair market value of our assets and their tax basis immediately prior to this offering will be borne by the non-managing general partner and its affiliates. Please read "--Allocation of Income, Gain, Loss and Deduction."

To the extent allowable, we may elect to use the depreciation and cost recovery methods that will result in the largest deductions being taken in the early years after assets are placed in service. We will not take any amortization deductions with respect to any goodwill conveyed to us on formation. Property we subsequently acquire or construct may be depreciated using accelerated methods permitted by the Internal Revenue Code.

If we dispose of depreciable property by sale, foreclosure, or otherwise, all or a portion of any gain, determined by reference to the amount of depreciation previously deducted and the nature of the property, may be subject to the recapture rules and taxed as ordinary income rather than capital gain. Similarly, a unitholder who has taken cost recovery or depreciation deductions with respect to property we own will likely be required to recapture some or all of those deductions as ordinary income upon a sale of his interest in us. Please read "--Tax Consequences of Unit Ownership--Allocation of Income, Gain, Loss and Deduction" and "--Disposition of Common Units--Recognition of Gain or Loss."

The costs incurred in selling our units (called "syndication expenses") must be capitalized and cannot be deducted currently, ratably or upon our termination. There are uncertainties regarding the classification of costs as organization expenses, which may be amortized by us, and as syndication expenses, which may not be amortized by us. The underwriting discounts and commissions we incur will be treated as a syndication cost.

Valuation and Tax Basis of Our Properties. The federal income tax consequences of the ownership and disposition of units will depend in part on our estimates of the relative fair market values of our assets. Although we may from time to time consult with professional appraisers regarding valuation matters, we will make many of the relative fair market value estimates ourselves. These estimates are subject to challenge and will not be binding on the IRS or the courts. If the estimates of fair market value are later found to be incorrect, the character and amount of items of income, gain, loss or deductions previously reported by unitholders might change, and unitholders might be required to adjust their tax liability for prior years and incur interest and penalties with respect to those adjustments.

Disposition of Common Units

Recognition of Gain or Loss. Gain or loss will be recognized on a sale of units equal to the difference between the amount realized and the unitholder's tax basis for the units sold. A unitholder's amount realized will be measured by the sum of the cash or the fair market value of other property received by him plus his

share of our nonrecourse liabilities. Because the amount realized includes a unitholder's share of our nonrecourse liabilities, the gain recognized on the sale of units could result in a tax liability in excess of any cash received from the sale. We do not currently have any nonrecourse liabilities.

Our distributions in excess of cumulative net taxable income for a common unit that decreased a unitholder's tax basis in that common unit will, in effect, become taxable income if the common unit is sold at a price greater than the unitholder's tax basis in that common unit, even if the price received is less than his original cost.

Except as noted below, gain or loss recognized by a unitholder, other than a "dealer" in units, on the sale or exchange of a unit held for more than one year will generally be taxable as capital gain or loss. Capital gain recognized by an individual on the sale of units held more than 12 months will generally be taxed at a maximum rate of 20%. A portion of this gain or loss, which will likely be substantial, however, will be separately computed and taxed as ordinary income or loss under Section 751 of the Internal Revenue Code to the extent attributable to Section 751 Assets. Ordinary income attributable to Section 751 Assets may exceed net taxable gain realized upon the sale of a unit and may be recognized even if there is a net taxable loss realized on the sale of a unit. Thus, a unitholder may recognize both ordinary income and a capital loss upon a sale of units. Net capital loss may offset capital gains and no more than $3,000 of ordinary income, in the case of individuals, and may only be used to offset capital gain in the case of corporations.

The IRS has ruled that a partner who acquires interests in a partnership in separate transactions must combine those interests and maintain a single adjusted tax basis for all those interests. Upon a sale or other disposition of less than all of those interests, a portion of that tax basis must be allocated to the interests sold based upon relative fair market values. Although the ruling is unclear as to how the holding period of these interests is determined once they are combined, recently finalized regulations allow a selling unitholder who can identify common units transferred with an ascertainable holding period to elect to use the actual holding period of the common units transferred. Thus, according to the ruling, a common unitholder will be unable to select high or low basis common units to sell as would be the case with corporate stock, but, according to the regulations, may designate specific common units sold for purposes of determining the holding period of units transferred. A unitholder electing to use the actual holding period of common units transferred must consistently use that identification method for all subsequent sales or exchanges of common units. A unitholder considering the purchase of additional units or a sale of common units purchased in separate transactions should consult his tax advisor as to the possible consequences of this ruling and application of the final regulations.

Specific provisions of the Internal Revenue Code affect the taxation of some financial products and securities, including partnership interests such as our units, by treating a taxpayer as having sold an "appreciated" partnership interest, one in which gain would be recognized if it were sold, assigned or terminated at its fair market value, if the taxpayer or related persons enter(s) into:

- a short sale,
- an offsetting notional principal contract, or
- a futures or forward contract with respect to the partnership interest or substantially identical property.

Moreover, if a taxpayer has previously entered into a short sale, an offsetting notional principal contract or a futures or forward contract with respect to the partnership interest, the taxpayer will be treated as having sold that position if the taxpayer or a related person then acquires the partnership interest or substantially identical property. The Secretary of Treasury is also authorized to issue regulations that treat a taxpayer that enters into transactions or positions that have substantially the same effect as the preceding transactions as having constructively sold the financial position.

Allocations Between Transferors and Transferees. In general, our taxable income and losses will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the

unitholders in proportion to the number of units owned by each of them as of the opening of the applicable exchange on the first business day of the month (the "Allocation Date"). However, gain or loss realized on a sale or other disposition of our assets other than in the ordinary course of business will be allocated among the unitholders on the Allocation Date in the month in which that gain or loss is recognized. As a result, a unitholder transferring units may be allocated income, gain, loss and deduction realized after the date of transfer.

The use of this method may not be permitted under existing Treasury regulations. Accordingly, counsel is unable to opine on the validity of this method of allocating income and deductions between unitholders. If this method is not allowed, our taxable income or losses might be reallocated among the unitholders. We are authorized to revise our method of allocation between unitholders to conform to a permitted method.

A unitholder who owns units at any time during a quarter and who disposes of them prior to the record date set for a cash distribution for that quarter will be allocated a share of our income, gain, loss and deductions attributable to that quarter but will not be entitled to receive that cash distribution.

Notification Requirements. A unitholder who sells or exchanges units is required to notify us in writing of that sale or exchange within 30 days after the sale or exchange. We are required to notify the IRS of that transaction and to furnish specified information to the transferor and transferee. However, these reporting requirements do not apply to a sale by an individual who is a citizen of the United States and who effects the sale or exchange through a broker. Additionally, a transferor and a transferee of a unit will be required to furnish statements to the IRS, filed with their income tax returns for the taxable year in which the sale or exchange occurred, that describe the amount of the consideration received for the unit that is allocated to our goodwill or going concern value. Failure to satisfy these reporting obligations may lead to the imposition of substantial penalties.

Constructive Termination. We will be considered to have been terminated for tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. A constructive termination results in the closing of our taxable year for all unitholders. In the case of a unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of our taxable year may result in more than 12 months of our taxable income or loss being includable in his taxable income for the year of termination. We would be required to make new tax elections after a termination, including a new election under Section 754 of the Internal Revenue Code, and a termination would result in a deferral of our deductions for depreciation. A termination could also result in penalties if we were unable to determine that the termination had occurred. Moreover, a termination might either accelerate the application of, or subject us to, any tax legislation enacted before the termination.

Uniformity of Units

Because we cannot match transferors and transferees of units, we must maintain uniformity of the economic and tax characteristics of the units to a purchaser of these units. In the absence of uniformity, we may be unable to completely comply with a number of federal income tax requirements, both statutory and regulatory. A lack of uniformity can result from a literal application of Treasury Regulation Section 1.167(c)-1(a)(6). Any non-uniformity could have a negative impact on the value of the units. Please read "--Tax Consequences of Unit Ownership--Section 754 Election."

We intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the common basis of that property, or treat that portion as nonamortizable, to the extent attributable to property the common basis of which is not amortizable, consistent with the regulations under Section 743, even though that position may be inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6) which is not expected to directly apply to a material portion of our assets. Please read "--Tax Consequences of Unit Ownership--

Section 754 Election." To the extent that the Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Treasury Regulations and legislative history. If we determine that this position cannot reasonably be taken, we may adopt a depreciation and amortization position under which all purchasers acquiring units in the same month would receive depreciation and amortization deductions, whether attributable to a common basis or Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our property. If this position is adopted, it may result in lower annual depreciation and amortization deductions than would otherwise be allowable to some unitholders and risk the loss of depreciation and amortization deductions not taken in the year that these deductions are otherwise allowable. This position will not be adopted if we determine that the loss of depreciation and amortization deductions will have a material adverse effect on the unitholders. If we choose not to utilize this aggregate method, we may use any other reasonable depreciation and amortization method to preserve the uniformity of the intrinsic tax characteristics of any units that would not have a material adverse effect on the unitholders. The IRS may challenge any method of depreciating the Section 743(b) adjustment described in this paragraph. If this challenge were sustained, the uniformity of units might be affected, and the gain from the sale of units might be increased without the benefit of additional deductions. Please read "--Disposition of Common Units--Recognition of Gain or Loss."

Tax-Exempt Organizations and Other Investors

Ownership of units by employee benefit plans, other tax-exempt organizations, non-resident aliens, foreign corporations, other non-U.S. persons and regulated investment companies (mutual funds) raises issues unique to those investors and, as described below, may have substantially adverse tax consequences to them.

Employee benefit plans and most other organizations exempt from federal income tax, including individual retirement accounts and other retirement plans, are subject to federal income tax on unrelated business taxable income. Virtually all of our income allocated to a unitholder which is a tax-exempt organization will be unrelated business taxable income and will be taxable to them.

A regulated investment company is required to derive 90% or more of its gross income from interest, dividends and gains from the sale of stocks or securities or foreign currency or specified related sources. It is not anticipated that any significant amount of our gross income will include that type of income.

Non-resident aliens and foreign corporations, trusts or estates that own units will be considered to be engaged in business in the United States because of the ownership of units. As a consequence they will be required to file federal tax returns to report their share of our income, gain, loss or deduction and pay federal income tax at regular rates on their share of our net income or gain. And, under rules applicable to publicly traded partnerships, we will withhold (currently at the rate of 39.6%) on cash distributions made quarterly to foreign unitholders. Each foreign unitholder must obtain a taxpayer identification number from the IRS and submit that number to our transfer agent on a Form W-8 or applicable substitute form in order to obtain credit for these withholding taxes.

In addition, because a foreign corporation that owns units will be treated as engaged in a United States trade or business, that corporation may be subject to the United States branch profits tax at a rate of 30%, in addition to regular federal income tax, on its share of our income and gain, as adjusted for changes in the foreign corporation's "U.S. net equity," which are effectively connected with the conduct of a United States trade or business. That tax may be reduced or eliminated by an income tax treaty between the United States and the country in which the foreign corporate unitholder is a "qualified resident." In addition, this type of unitholder is subject to special information reporting requirements under Section 6038C of the Internal Revenue Code.

Under a ruling of the IRS, a foreign unitholder who sells or otherwise disposes of a unit will be subject to federal income tax on gain realized on the sale or disposition of that unit to the extent that this gain is effectively connected with a United States trade or business of the foreign unitholder. Apart from the ruling, a

foreign unitholder will not be taxed or subject to withholding upon the sale or disposition of a unit if he has owned less than 5% in value of the units during the five-year period ending on the date of the disposition and if the units are regularly traded on an established securities market at the time of the sale or disposition.

Administrative Matters

Information Returns and Audit Procedures. We intend to furnish to each unitholder, within 90 days after the close of each calendar year, specific tax information, including a Schedule K-1, which describes his share of our income, gain, loss and deduction for our preceding taxable year. In preparing this information, which will not be reviewed by counsel, we will take various accounting and reporting positions, some of which have been mentioned earlier, to determine his share of income, gain, loss and deduction. We cannot assure you that those positions will yield a result that conforms to the requirements of the Internal Revenue Code, regulations or administrative interpretations of the IRS. Neither we nor counsel can assure prospective unitholders that the IRS will not successfully contend in court that those positions are impermissible. Any challenge by the IRS could negatively affect the value of the units.

The IRS may audit our federal income tax information returns. Adjustments resulting from an IRS audit may require each unitholder to adjust a prior year's tax liability, and possibly may result in an audit of his own return. Any audit of a unitholder's return could result in adjustments not related to our returns as well as those related to our returns.

Partnerships generally are treated as separate entities for purposes of federal tax audits, judicial review of administrative adjustments by the IRS and tax settlement proceedings. The tax treatment of partnership items of income, gain, loss and deduction are determined in a partnership proceeding rather than in separate proceedings with the partners. The Internal Revenue Code requires that one partner be designated as the "Tax Matters Partner" for these purposes. The partnership agreement names Inergy GP, LLC as our Tax Matters Partner.

The Tax Matters Partner will make some elections on our behalf and on behalf of unitholders. In addition, the Tax Matters Partner can extend the statute of limitations for assessment of tax deficiencies against unitholders for items in our returns. The Tax Matters Partner may bind a unitholder with less than a 1% profits interest in us to a settlement with the IRS unless that unitholder elects, by filing a statement with the IRS, not to give that authority to the Tax Matters Partner. The Tax Matters Partner may seek judicial review, by which all the unitholders are bound, of a final partnership administrative adjustment and, if the Tax Matters Partner fails to seek judicial review, judicial review may be sought by any unitholder having at least a 1% interest in profits or by any group of unitholders having in the aggregate at least a 5% interest in profits. However, only one action for judicial review will go forward, and each unitholder with an interest in the outcome may participate.

A unitholder must file a statement with the IRS identifying the treatment of any item on his federal income tax return that is not consistent with the treatment of the item on our return. Intentional or negligent disregard of this consistency requirement may subject a unitholder to substantial penalties.

Nominee Reporting. Persons who hold an interest in us as a nominee for another person are required to furnish to us:

(a) the name, address and taxpayer identification number of the beneficial owner and the nominee,

(b) whether the beneficial owner is:

(1) a person that is not a United States person,

(2) a foreign government, an international organization or any wholly owned agency or instrumentality of either of the foregoing, or

(3) a tax-exempt entity,

(c) the amount and description of units held, acquired or transferred for the beneficial owner, and

(d) specific information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales.

Brokers and financial institutions are required to furnish additional information, including whether they are United States persons and specific information on units they acquire, hold or transfer for their own account. A penalty of $50 per failure, up to a maximum of $100,000 per calendar year, is imposed by the Internal Revenue Code for failure to report that information to us. The nominee is required to supply the beneficial owner of the units with the information furnished to us.

Registration as a Tax Shelter. The Internal Revenue Code requires that "tax shelters" be registered with the Secretary of the Treasury. The temporary Treasury Regulations interpreting the tax shelter registration provisions of the Internal Revenue Code are extremely broad. It is arguable that we are not subject to the registration requirement on the basis that we will not constitute a tax shelter. However, we will register as a tax shelter with the Secretary of Treasury in the absence of assurance that we will not be subject to tax shelter registration and in light of the substantial penalties which might be imposed if registration is required and not undertaken.

Issuance of this registration number does not indicate that investment in us or the claimed tax benefits have been reviewed, examined or approved by the IRS.

We will supply our tax shelter registration number to you when one has been assigned to us. A unitholder who sells or otherwise transfers a unit in a later transaction must furnish the registration number to the transferee. The penalty for failure of the transferor of a unit to furnish the registration number to the transferee is $100 for each failure. The unitholders must disclose our tax shelter registration number on Form 8271 to be attached to the tax return on which any deduction, loss or other benefit we generate is claimed or on which any of our income is included. A unitholder who fails to disclose the tax shelter registration number on his return, without reasonable cause for that failure, will be subject to a $250 penalty for each failure. Any penalties discussed are not deductible for federal income tax purposes.

Accuracy-related Penalties. An additional tax equal to 20% of the amount of any portion of an underpayment of tax that is attributable to one or more specified causes, including negligence or disregard of rules or regulations, substantial understatements of income tax and substantial valuation misstatements, is imposed by the Internal Revenue Code. No penalty will be imposed, however, for any portion of an underpayment if it is shown that there was a reasonable cause for that portion and that the taxpayer acted in good faith regarding that portion.

A substantial understatement of income tax in any taxable year exists if the amount of the understatement exceeds the greater of 10% of the tax required to be shown on the return for the taxable year or $5,000 ($10,000 for most corporations). The amount of any understatement subject to penalty generally is reduced if any portion is attributable to a position adopted on the return:

(1) for which there is, or was, "substantial authority," or

(2) as to which there is a reasonable basis and the pertinent facts of that position are disclosed on the return.

More stringent rules apply to "tax shelters," a term that in this context does not appear to include us. If any item of income, gain, loss or deduction included in the distributive shares of unitholders might result in that kind of an "understatement" of income for which no "substantial authority" exists, we must disclose the pertinent facts on our return. In addition, we will make a reasonable effort to furnish sufficient information for unitholders to make adequate disclosure on their returns to avoid liability for this penalty.

A substantial valuation misstatement exists if the value of any property, or the adjusted basis of any property, claimed on a tax return is 200% or more of the amount determined to be the correct amount of the valuation or adjusted basis. No penalty is imposed unless the portion of the underpayment attributable to a substantial valuation misstatement exceeds $5,000 ($10,000 for most corporations). If the valuation claimed on a return is 400% or more than the correct valuation, the penalty imposed increases to 40%.

State, Local and Other Tax Considerations

In addition to federal income taxes, you will be subject to other taxes, including state and local income taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which we do business or own property or in which you are a resident. Although an analysis of those various taxes is not presented here, each prospective unitholder should consider their potential impact on his investment in us. We presently anticipate that substantially all of our income will be generated in the following states: Georgia, Illinois, Indiana, Michigan, Missouri, North Carolina, Ohio, Tennessee and Wisconsin. Each of these states currently imposes a personal income tax. Although you may not be required to file a return and pay taxes in some of those states because your income from that state falls below the filing and payment requirement, you will be required to file state income tax returns and to pay state income taxes in many of these states in which we do business or own property and may be subject to penalties for failure to comply with those requirements. In some states, tax losses may not produce a tax benefit in the year incurred and also may not be available to offset income in subsequent taxable years. Some of the states may require us, or we may elect, to withhold a percentage of income from amounts to be distributed to a unitholder who is not a resident of the state. Withholding, the amount of which may be greater or less than a particular unitholder's income tax liability to the state, generally does not relieve a nonresident unitholder from the obligation to file an income tax return. Amounts withheld may be treated as if distributed to unitholders for purposes of determining the amounts distributed by us. Please read "--Tax Consequences of Unit Ownership--Entity-Level Collections." Based on current law and our estimate of our future operations, the managing general partner anticipates that any amounts required to be withheld will not be material. We may also own property or do business in other states in the future.

It is the responsibility of each unitholder to investigate the legal and tax consequences, under the laws of pertinent states and localities, of his investment in us. Accordingly, each prospective unitholder should consult, and must depend upon, his own tax counsel or other advisor with regard to those matters. Further, it is the responsibility of each unitholder to file all state and local, as well as United States federal tax returns, that may be required of him. Counsel has not rendered an opinion on the state or local tax consequences of an investment in us.

## INVESTMENT IN INERGY, L.P. BY EMPLOYEE BENEFIT PLANS

An investment in us by an employee benefit plan is subject to additional considerations because the investments of these plans are subject to the fiduciary responsibility and prohibited transaction provisions of ERISA, and restrictions imposed by Section 4975 of the Internal Revenue Code. For these purposes the term "employee benefit plan" includes, but is not limited to, qualified pension, profit-sharing and stock bonus plans, Keogh plans, simplified employee pension plans and tax deferred annuities or IRAs established or maintained by an employer or employee organization. Among other things, consideration should be given to:

(a) whether the investment is prudent under Section 404(a)(1)(B) of ERISA,

(b) whether in making the investment, that plan will satisfy the diversification requirements of Section 404(a)(1)(C) of ERISA, and

(c) whether the investment will result in recognition of unrelated business taxable income by the plan and, if so, the potential after-tax investment return.

The person with investment discretion with respect to the assets of an employee benefit plan, often called a fiduciary, should determine whether an investment in us is authorized by the appropriate governing instrument and is a proper investment for the plan.

Section 406 of ERISA and Section 4975 of the Internal Revenue Code prohibits employee benefit plans, and also IRAs that are not considered part of an employee benefit plan, from engaging in specified transactions involving "plan assets" with parties that are "parties in interest" under ERISA or "disqualified persons" under the Internal Revenue Code with respect to the plan.

In addition to considering whether the purchase of common units is a prohibited transaction, a fiduciary of an employee benefit plan should consider whether the plan will, by investing in us, be deemed to own an undivided interest in our assets, with the result that the managing general partner also would be fiduciaries of the plan and our operations would be subject to the regulatory restrictions of ERISA, including its prohibited transaction rules, as well as the prohibited transaction rules of the Internal Revenue Code.

The Department of Labor regulations provide guidance with respect to whether the assets of an entity in which employee benefit plans acquire equity interests would be deemed "plan assets" under some circumstances. Under these regulations, an entity's assets would not be considered to be "plan assets" if, among other things,

(a) the equity interests acquired by employee benefit plans are publicly offered securities; i.e., the equity interests are widely held by 100 or more investors independent of the issuer and each other, freely transferable and registered under some provisions of the federal securities laws,

(b) the entity is an "operating company,"--i.e., it is primarily engaged in the production or sale of a product or service other than the investment of capital either directly or through a majority owned subsidiary or subsidiaries, or

(c) there is no significant investment by benefit plan investors, which is defined to mean that less than 25% of the value of each class of equity interest, disregarding some interests held by the managing general partner, its affiliates, and some other persons, is held by the employee benefit plans referred to above, IRAs and other employee benefit plans not subject to ERISA, including governmental plans.

Our assets should not be considered "plan assets" under these regulations because it is expected that the investment will satisfy the requirements in (a) above.

Plan fiduciaries contemplating a purchase of common units should consult with their own counsel regarding the consequences under ERISA and the Internal Revenue Code in light of the serious penalties imposed on persons who engage in prohibited transactions or other violations.

## UNDERWRITING

Subject to the terms and conditions of the underwriting agreement between us and the underwriters, the underwriters have agreed severally to purchase from us the following number of common units at the offering price less the underwriting discount set forth on the cover page of this prospectus.

| Underwriter | Number of Common Units |
|---|---|
| A.G. Edwards & Sons, Inc. | |
| First Union Securities, Inc. | |
| Raymond James & Associates, Inc. | |
| Total | 1,500,000 |

The underwriting agreement provides that the obligations of the underwriters are subject to certain conditions and that the underwriters will purchase all such common units if any of the units are purchased. The underwriters are obligated to take and pay for all of the common units offered hereby, other than those covered by the over-allotment option described below, if any are taken.

The underwriters have advised us that they propose to offer the common units to the public at the offering price set forth on the cover page of this prospectus and to certain dealers at such price less a concession not in excess of $ per unit. The underwriters may allow, and such dealers may re-allow, a concession not in excess of $ per unit to certain other dealers. After the offering, the offering price and other selling terms may be changed by the underwriters.

Pursuant to the underwriting agreement, we have granted to the underwriters an option, exercisable for 30 days after the date of this prospectus, to purchase up to 225,000 additional common units at the offering price, less the underwriting discount set forth on the cover page of this prospectus, solely to cover over-allotments.

To the extent the underwriters exercise such option, the underwriters will become obligated, subject to certain conditions, to purchase approximately the same percentage of such additional units as the number set forth next to such underwriter's name in the preceding table bears to the total number of units in the table, and we will be obligated, pursuant to the option, to sell such units to the underwriters.

Inergy, L.P., New Inergy Propane, LLC, the general partners and certain other affiliates have agreed that during the 180 days after the date of this prospectus, they will not, without the prior written consent of A.G. Edwards & Sons, Inc., directly or indirectly, offer for sale, contract to sell, sell, distribute, grant any option, right or warrant to purchase, pledge, hypothecate or otherwise dispose of any common units, any securities convertible into, or exercisable or exchangeable for, common units or any other rights to acquire such common units, other than pursuant to employee benefit plans as in existence as of the date of this prospectus. A.G. Edwards may, in its sole discretion, allow any of these parties to offer for sale, contract to sell, sell, distribute, grant any option, right or warrant to purchase, pledge, hypothecate or otherwise dispose of any common units, any securities convertible into, or exercisable or exchangeable for, common units or any other rights to acquire such common units prior to the expiration of such 180-day period. There are, however, no agreements between A.G. Edwards and these parties that would allow them to do so as of the date of this prospectus.

Prior to this offering, there has been no public market for the common units. The initial public offering price will be determined by negotiation between us and the underwriters. The principal factors to be considered in determining the public offering price will include the following:

- the information set forth in this prospectus and otherwise available to the underwriters,
- market conditions for initial public offerings,
- the history and the prospects for the industry in which we compete,

- the ability of our management,
- our prospects for future earnings,
- the present state of our development and our current financial condition,
- the general condition of the securities markets at the time of this offering, and
- the recent market prices of, and the demand for, publicly traded common units of generally comparable entities.

The following table summarizes the discounts that Inergy, L.P. will pay to the underwriters in the offering. These amounts assume both no exercise and full exercise of the underwriters' option to purchase additional common units.

| | No Exercise | Full Exercise |
|---|---|---|
| Per Unit | $ | $ |
| Total | $ | $ |

We expect to incur expenses of approximately $1,900,000 in connection with this offering.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act.

Until the distribution of the common units is completed, rules of the SEC may limit the ability of the underwriters and certain selling group members to bid for and purchase the common units. As an exception to these rules, the underwriters are permitted to engage in certain transactions that stabilize, maintain or otherwise affect the price of the common units.

In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Over-allotment transactions involve sales by the underwriters of the common units in excess of the number of units the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or an naked short position. In a covered short position, the number of units over-alloted by the underwriters is not greater than the number of units they may purchase in the over-allotment option. In a naked short position, the number of units involved is greater than the number of units in the over-allotment option. The underwriters may close out any short position by either exercising their over-allotment option and/or purchasing common units in the open market.
- Syndicate covering transactions involve purchases of the common units in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of the common units to close out the short position, the underwriters will consider, among other things, the price of common units available for purchase in the open market as compared to the price at which they may purchase common units through the over-allotment option. If the underwriters sell more common units than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying common units in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the common units in the open market after pricing that could adversely affect investors who purchase in the offering.
- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common units originally sold by the syndicate member are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales may have the effect of raising or maintaining the markert price of the common units or preventing or retarding a

decline in the market price of the common units. As a result, the price of the common units may be higher than the price that might otherwise exist in the open market.

The underwriters will deliver a prospectus to all purchasers of common units in the short sales. The purchasers of common units in short sales are entitled to the same remedies under the federal securities laws as any other purchaser of common units covered by this prospectus.

The underwriters are not obligated to engage in any of the transactions described above. If they do engage in any of these transactions, they may discontinue them at any time.

At the request of Inergy, L.P., the underwriters are reserving up to 75,000 common units for sale at the initial public offering price to directors, officers, employees and friends through a directed share program. The number of common units available for sale to the general public in the public offering will be reduced to the extent these persons purchase these reserved units. Any common units not so purchased will be offered by the underwriters to the general public on the same basis as the other common units offered by this prospectus.

Neither Inergy, L.P. nor the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common units. In addition, neither Inergy, L.P. nor the underwriters make any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Because the National Association for Securities Dealers, Inc. views the common units offered hereby as interests in a direct participation program, the offering is being made in compliance with Rule 2810 of the NASD's Conduct Rules. Investor suitability with respect to the common units should be judged similarly to the suitability with respect to other securities that are listed for trading on a national securities exchange.

No sales to accounts of which the underwriter exercises discretionary authority may be made without the prior written approval of the customer.

A.G. Edwards & Sons, Inc. has provided financial advisory services to Inergy Partners, L.L.C. for which it will receive customary compensation.

## VALIDITY OF THE COMMON UNITS

The validity of the common units will be passed upon for us by Vinson & Elkins L.L.P., Houston, Texas. Certain legal matters in connection with the common units offered hereby will be passed upon for the underwriters by Baker Botts L.L.P., Houston, Texas.

## EXPERTS

Ernst & Young LLP, independent auditors, have audited the consolidated financial statements of Inergy Partners, LLC at September 30, 1999 and 2000, and for each of the two years in the period ended September 30, 2000, the combined financial statements of the Hoosier Propane Group at September 30, 1999 and 2000 and December 31, 2000, and for each of the three years in the period ended September 30, 2000 and the three months ended December 31, 2000, the financial statements of Country Gas Company, Inc. at May 31, 1999 and 2000, and for each of the three years in the period ended May 31, 2000, the balance sheet of Inergy, L.P. at March 7, 2001 and the balance sheet of Inergy GP, LLC at March 2, 2001, as set forth in their reports. We have included these financial statements in the prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's reports, given on their authority as experts in accounting and auditing.

Batchelor, Tillery & Roberts, LLP, independent auditors, have audited our consolidated financial statements for the year ended September 30, 1998, as set forth in their report. We have included these financial statements in the prospectus and elsewhere in the registration statement in reliance on Batchelor, Tillery & Roberts, LLP's report, given on their authority as experts in accounting and auditing.

## WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 regarding the common units. This prospectus does not contain all of the information found in the registration statement. For further information regarding Inergy and the common units offer by this prospectus, you may desire to review the full registration statement, including its exhibits and schedules, filed under the Securities Act of 1933. The registration statement of which this prospectus forms a part, including its exhibits and schedules, may be inspected and copied at the public reference room maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the SEC's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and at Seven World Trade Center, Suite 1300, New York, New York 10048. Copies of the materials may also be obtained from the SEC at prescribed rates by writing to the public reference room maintained by the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330.

The SEC maintains a World Wide Web site on the Internet at http://www.sec.gov. Our registration statement, of which this prospectus constitutes a part, can be downloaded from the SEC's web site.

We intend to furnish our unitholders annual reports containing our audited financial statements and furnish or make available quarterly reports containing our unaudited interim financial information for the first three fiscal quarters of each of our fiscal years.

## FORWARD-LOOKING STATEMENTS

Some of the information in this prospectus may contain forward-looking statements. These statements can be identified by the use of forward-looking terminology including "may," "believe," "will," "expect," "anticipate," "estimate," "continue" or other similar words. These statements discuss future expectations, contain projections of results of operations or of financial condition or state other "forward-looking" information. These forward-looking statements involve risks and uncertainties. When considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this prospectus. The risk factors and other factors noted throughout this prospectus could cause our actual results to differ materially from those contained in any forward-looking statement.

INDEX TO FINANCIAL STATEMENTS

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Members
Inergy Partners, LLC and Subsidiaries

We have audited the accompanying consolidated balance sheets of Inergy Partners, LLC (a subsidiary of Inergy Holdings, LLC) and subsidiaries (the "Company") as of September 30, 1999 and 2000, and the related consolidated statements of operations, redeemable preferred members' interest and members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Inergy Partners, LLC and subsidiaries at September 30, 1999 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Kansas City, Missouri
December 6, 2000, except for

Notes 4 and 12, as to which
the date is January 12, 2001,

and Note 13, as to which the
date is March 7, 2001

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Members
Inergy Partners, LLC and Subsidiary

We have audited the accompanying consolidated statements of operations, redeemable preferred members' interest and members' equity and cash flows of Inergy Partners, LLC and subsidiary (the "Company") for the year ended September 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of its operations, changes in its members' equity and its cash flows for the year ended September 30, 1998 in conformity with accounting principles generally accepted in the United States.

/s/ Batchelor, Tillery & Roberts, LLP

Raleigh, North Carolina
November 20, 1998

INERGY PARTNERS, LLC AND SUBSIDIARIES
(a subsidiary of Inergy Holdings, LLC)

CONSOLIDATED BALANCE SHEETS
(In thousands)

| | September 30, | | March 31, |
|---|---|---|---|
| | 1999 | 2000 | 2001 |
| | | | (Unaudited) |
| ASSETS (Note 4) | | | |
| Current assets: | | | |
| Cash | $ 152 | $ 1,373 | $ 3,528 |
| Accounts receivable, less allowance for doubtful accounts of $86 and $225 at September 30, 1999 and 2000, respectively and $988 at March 31, 2001 | 5,075 | 12,602 | 22,660 |
| Inventories | 5,025 | 3,630 | 3,617 |
| Prepaid expenses and other current assets | 556 | 1,014 | 1,068 |
| Assets from price risk management activities | 582 | 3,580 | 433 |
| Total current assets | 11,390 | 22,199 | 31,306 |
| Property, plant and equipment, at cost: | | | |
| Land and buildings | 562 | 740 | 4,487 |
| Office furniture and equipment | 546 | 808 | 938 |
| Vehicles | 2,131 | 4,138 | 10,086 |
| Tanks and plant equipment | 20,959 | 30,283 | 57,616 |
| | 24,198 | 35,969 | 73,127 |
| Less accumulated depreciation | (1,092) | (2,533) | (3,829) |
| Net property, plant and equipment | 23,106 | 33,436 | 69,298 |
| Intangible assets (Note 2): | | | |
| Organization costs | 70 | -- | -- |
| Covenants not to compete | 3,110 | 3,228 | 3,763 |
| Deferred financing costs | 308 | 333 | 1,989 |
| Deferred acquisition costs | -- | 460 | 111 |
| Customer accounts | -- | 3,500 | 14,000 |
| Goodwill | 1,286 | 6,880 | 32,063 |
| | 4,774 | 14,401 | 51,926 |
| Less accumulated amortization | (387) | (1,246) | (2,294) |
| Net intangible assets | 4,387 | 13,155 | 49,632 |
| Other | 13 | 134 | 137 |
| Total assets | $38,896 | $68,924 | $150,373 |
| LIABILITIES AND MEMBERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | $ 5,562 | $11,502 | $ 10,797 |
| Accrued expenses | 1,666 | 3,715 | 4,616 |
| Customer deposits | 1,332 | 1,676 | 761 |
| Liabilities from price risk management activities | 1,788 | 2,294 | 93 |
| Current portion of long-term debt (Note 4) | 732 | 605 | 5,631 |
| Total current liabilities | 11,080 | 19,792 | 21,898 |
| Deferred income taxes (Note 6) | 942 | 942 | 942 |
| Long-term debt, less current portion (Note 4) | 21,605 | 34,322 | 78,767 |
| Redeemable preferred members' interest (Notes 2 and 7) | -- | 10,896 | 34,313 |
| Members' equity (Notes 2, 4 and 7): | | | |
| Class A preferred interest | 4,893 | 4,892 | 4,851 |
| Common interest | 690 | (1,686) | 9,797 |
| Deferred compensation | (314) | (234) | (195) |
| Total members' equity | 5,269 | 2,972 | 14,453 |
| Total liabilities and members' equity | $38,896 | $68,924 | $150,373 |

See accompanying notes.

INERGY PARTNERS, LLC AND SUBSIDIARIES
(a subsidiary of Inergy Holdings, LLC)

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands)

| | Year Ended September 30, | | | Six Months Ended March 31, | |
|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2000 | 2001 |
| | | | | (Unaudited) | |
| Revenue: | | | | | |
| Propane | $4,794 | $16,227 | $89,042 | $47,857 | $165,209 |
| Other | 2,713 | 2,908 | 4,553 | 2,600 | 5,230 |
| | 7,507 | 19,135 | 93,595 | 50,457 | 170,439 |
| Cost of product sold | 4,215 | 13,754 | 81,636 | 42,054 | 141,425 |
| Gross profit | 3,292 | 5,381 | 11,959 | 8,403 | 29,014 |
| Operating and administrative expenses | 2,424 | 4,119 | 8,990 | 4,093 | 11,464 |
| Depreciation and amortization | 394 | 690 | 2,286 | 887 | 2,748 |
| Operating income | 474 | 572 | 683 | 3,423 | 14,802 |
| Other income (expense): | | | | | |
| Interest expense | (569) | (962) | (2,740) | (1,157) | (2,860) |
| Gain on sale of property, plant and equipment | -- | 101 | -- | -- | -- |
| Other | 60 | 160 | 235 | 95 | 245 |
| Income (loss) before income taxes | (35) | (129) | (1,822) | 2,361 | 12,187 |
| Provision for income taxes | -- | 56 | 7 | -- | -- |
| Net income (loss) | $ (35) | $ (185) | $(1,829) | $ 2,361 | $ 12,187 |

See accompanying notes.

INERGY PARTNERS, LLC AND SUBSIDIARIES
(a subsidiary of Inergy Holdings, LLC)

CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED MEMBERS'

INTEREST AND MEMBERS' EQUITY
(In thousands)

| | | Members' Equity | | | |
|---|---|---|---|---|---|
| | Redeemable Preferred Members' Interest | Class A Preferred Interest | Common Interest | Deferred Compensation | Total Members' Equity |
| Balance at September 30, 1997 | -- | $ -- | $ 1,209 | $ -- | $ 1,209 |
| Members' contributions | -- | -- | 220 | -- | 220 |
| Members' distributions | -- | -- | (196) | -- | (196) |
| Capital restructuring | -- | 2,345 | (540) | (392) | 1,413 |
| Net loss | -- | -- | (35) | -- | (35) |
| Balance at September 30, 1998 | -- | 2,345 | 658 | (392) | 2,611 |
| Common and preferred interests issued in acquisitions (Note 2) | -- | 2,548 | 397 | -- | 2,945 |
| Amortization of deferred compensation | -- | -- | -- | 78 | 78 |
| Members' distributions | -- | -- | (180) | -- | (180) |
| Net loss | -- | -- | (185) | -- | (185) |
| Balance at September 30, 1999 | -- | 4,893 | 690 | (314) | 5,269 |
| Redeemable preferred interests issued in acquisitions (Note 2) | 9,000 | -- | -- | -- | -- |
| Redeemable preferred interests issued for cash, net of offering costs of $104 (Note 7) | 1,896 | -- | -- | -- | -- |
| Redemption of preferred interest | -- | (1) | -- | 1 | -- |
| Amortization of deferred compensation | -- | -- | -- | 79 | 79 |
| Members' distributions | -- | -- | (547) | -- | (547) |
| Net loss | -- | -- | (1,829) | -- | (1,829) |
| Balance at September 30, 2000 | 10,896 | 4,892 | (1,686) | (234) | 2,972 |
| Redeemable preferred interests issued in acquisition (unaudited) | 7,402 | -- | -- | -- | -- |
| Redeemable preferred interests issued for cash, net of offering costs of $485 (unaudited) | 16,015 | -- | -- | -- | -- |
| Redemption of preferred interest (unaudited) | -- | (41) | 8 | -- | (33) |
| Amortization of deferred compensation (unaudited) | -- | -- | -- | 39 | 39 |
| Members' distributions (unaudited) | -- | -- | (712) | -- | (712) |
| Net income (unaudited) | -- | -- | 12,187 | -- | 12,187 |
| Balance at March 31, 2001 | $34,313 | $4,851 | $ 9,797 | $(195) | $14,453 |

See accompanying notes.

INERGY PARTNERS, LLC AND SUBSIDIARIES
(a subsidiary of Inergy Holdings, LLC)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

| | Year Ended September 30, | | | Six months ended March 31, | |
|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2000 | 2001 |
| | | | | (Unaudited) | |
| Operating activities | | | | | |
| Net income (loss) | $ (35) | $ (185) | $ (1,829) | $ 2,361 | $12,187 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Provision for doubtful accounts | 28 | 77 | 139 | -- | 812 |
| Depreciation | 322 | 440 | 1,427 | 585 | 1,368 |
| Amortization | 72 | 250 | 859 | 302 | 1,380 |
| Gain on disposal of property, plant and equipment | -- | (101) | -- | -- | -- |
| Deferred income taxes | -- | 8 | -- | -- | -- |
| Net liabilities from price risk management activities | -- | 1,206 | (2,492) | (1,549) | 946 |
| Deferred compensation | -- | 78 | 79 | 39 | 39 |
| Changes in operating assets and liabilities, net of effects from acquisition of retail propane companies: | | | | | |
| Accounts receivable | 40 | (3,451) | (5,842) | (2,434) | (10,869) |
| Inventories | (166) | (3,812) | 1,660 | 2,064 | 2,922 |
| Prepaid expenses and other current assets | 43 | (86) | (388) | 30 | 22 |
| Other assets | -- | (13) | (121) | (1) | (3) |
| Accounts payable | (246) | 2,642 | 3,836 | (436) | (3,596) |
| Accrued expenses | 194 | 913 | 2,049 | (856) | 807 |
| Customer deposits | 110 | 1,187 | 314 | (944) | (3,421) |
| Net cash provided by (used in) operating activities | 362 | (847) | (309) | (839) | 2,594 |
| Investing activities | | | | | |
| Acquisition of retail propane companies | -- | (11,430) | (9,600) | (1,170) | (56,263) |
| Purchases of property, plant and equipment | (750) | (1,354) | (2,275) | (1,517) | (1,861) |
| Deferred financing and acquisition costs incurred | (21) | (400) | (486) | (69) | (1,989) |
| Proceeds from the sale of property, plant and equipment | 44 | 127 | -- | -- | -- |
| Other | -- | -- | (16) | -- | (66) |
| Net cash used in investing activities | (727) | (13,057) | (12,377) | (2,756) | (60,179) |

INERGY PARTNERS, LLC AND SUBSIDIARIES
(a subsidiary of Inergy Holdings, LLC)

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In thousands)

| | Year Ended September 30, | | | Six Months Ended March 31, | |
|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2000 | 2001 |
| | | | | (Unaudited) | |
| Financing activities | | | | | |
| Proceeds from issuance of long-term debt | $ 1,374 | $ 25,373 | $ 35,787 | $ 16,161 | $106,675 |
| Principal payments on long-term debt and noncompete obligations | (1,062) | (11,137) | (23,229) | (14,086) | (62,205) |
| Net proceeds from issuance of redeemable preferred members' interest | -- | -- | 1,896 | 1,896 | 16,015 |
| Net proceeds from issuance of common interest | 220 | -- | -- | -- | -- |
| Distributions to members | (196) | (180) | (547) | (175) | (745) |
| Net cash provided by financing activities | 336 | 14,056 | 13,907 | 3,796 | 59,740 |
| Net increase (decrease) in cash | (29) | 152 | 1,221 | 201 | 2,155 |
| Cash at beginning of period | 29 | -- | 152 | 152 | 1,373 |
| Cash at end of period | $ -- | $ 152 | $ 1,373 | $ 353 | $ 3,528 |
| Supplemental disclosure of cash flow information | | | | | |
| Cash paid during the period for interest | $ 584 | $ 823 | $ 2,538 | $ 1,029 | $ 1,929 |
| Supplemental schedule of noncash investing and financing activities | | | | | |
| Additions to covenants not to compete through the issuance of noncompete obligations | $ -- | $ 2,052 | $ 32 | $ -- | $ -- |
| Acquisitions of retail propane companies through the issuances of common and preferred interests | $ -- | $ 2,945 | $ 9,000 | $ -- | $ 7,402 |
| Acquisitions of retail propane companies through the issuance of subordinated debt | $ -- | $ -- | $ -- | $ -- | $ 5,000 |

See accompanying notes.

INERGY PARTNERS, LLC AND SUBSIDIARIES
(a subsidiary of Inergy Holdings, LLC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information pertaining to the six months ended

March 31, 2000 and 2001 is unaudited)
(In thousands)

1. Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Inergy Partners, LLC (the "Company") and its wholly-owned subsidiaries, Inergy Propane Company, LLC ("Inergy Propane"), Wilson Oil Company of Johnston County, Inc. ("Wilson") and Rolesville Gas & Oil Company, Inc. ("Rolesville"). All significant intercompany accounts and transactions have been eliminated. The Company is a 98.5%-owned subsidiary of Inergy Holdings, LLC (Holdings), and all operations of Holdings are conducted through the Company and its subsidiaries.

Nature of Operations

The Company was organized as a Delaware limited liability company on November 8, 1996. The Company terminates December 31, 2026 unless extended by agreement of its members. The Company is engaged primarily in the sale, distribution, marketing and trading of propane and other natural gas liquids. The retail market is seasonal because propane is used primarily for heating in residential and commercial buildings, as well as for agricultural purposes.

The business and affairs of the Company are conducted by the voting members of the Company holding the majority of the common member interests. Under the terms of the operating agreement, neither the members nor the managers of the Company are liable for any debt, obligations or liabilities of the Company, other than certain guarantees described in Note 4. In addition, the liability of each member to third parties is limited to the amount of the member's capital contribution. The Company has two classes of members' interests--common and Class A preferred.

Capital Restructuring

Effective September 30, 1998, the Company, Holdings and Inergy Propane (then known as McCracken Oil & Propane Company) completed a capital restructuring. This transaction involved the simultaneous purchase of the employee-owned minority nonvoting interest in McCracken and the purchase of the controlling member's voting interest in the Company (then known as Mid-Atlantic Energy, LLC) through an issuance of predominantly Class A 9% preferred member interests, and to a lesser extent, common interests in the Company and Holdings.

The purchase of the non-voting, employee-owned minority interest in McCracken through the issuance of a 1.5% non-voting common interest in Mid-Atlantic Energy, LLC (Mid-Atlantic) and a $784,000 (33.37%) preferred interest (paying a 9% dividend) in Mid-Atlantic, was accounted for using the purchase method of accounting. Pursuant to the terms this portion of the restructuring, 50% of the preferred interests issued in this purchase of minority interest vested over the employees' next five years of employment. As such, $392,000 was recorded as deferred compensation in the accompanying consolidated balance sheet and is being amortized to compensation expense over the five-year vesting period.

The purchase of the controlling member's voting interest in Mid-Atlantic occurred in two immediately consecutive transactions. First, the controlling member exchanged approximately 80% of his voting interest in Mid-Atlantic for a $1,565,000 (66.63%) preferred interest (paying a 9% dividend) and an 8% common interest in Mid-Atlantic. This purchase by Mid-Atlantic of a member's interest was accounted for similar to a treasury stock purchase.

Upon completion of the above transactions, Holdings, then known as Integrated Energy Holdings, immediately purchased the remaining 8% common interest in Mid-Atlantic discussed above through the issuance of an 8% common interest in Holdings. This transaction was accounted for as a purchase of a minority interest in Mid-Atlantic by Holdings, whereby purchase accounting was applied.

These transactions resulted in Holdings owning 98.5% of the common interest (and 100% of the voting interest) of the Company, which owned 100% of McCracken. The basis of Holding's investment in Mid-Atlantic was then pushed down to its 98.5% owned subsidiary, Mid-Atlantic. The result of the above transactions was an excess of the fair value of consideration issued over historical cost of Mid-Atlantic's net assets, amounting to $1,413. This amount, which is reflected as a capital restructuring line in the consolidated statements of members' equity for the year ended September 30, 1998, was principally allocated to tanks and plant equipment, the primary operating assets of the Company.

Credit Concentrations

The Company is both a retail and wholesale supplier of propane gas. The Company generally extends unsecured credit to its wholesale customers throughout the midwestern and eastern portions of the United States. Credit is generally extended to retail customers through delivery into company and customer owned propane gas storage tanks. Provisions for doubtful accounts receivable are reflected in the Company's consolidated financial statements and have consistently been within management's expectations.

Unaudited Financial Information

The financial information as of March 31, 2001 and for the six-month periods ended March 31, 2000 and 2001 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 results of operations for the six-month period ended March 31, 2001 are not necessarily indicative of the results of operations that may be expected for the entire year.

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 liquid propane, are stated at the lower of cost, determined using the average cost method, or market. Inventories for wholesale operations, which consist mainly of liquid propane commodities, are stated at market, as discussed in Note 3. The market adjustment was an unrealized gain (loss) of $1,052 and $39 at September 30, 1999 and 2000, respectively, and $(73) and $(68) at March 31, 2000 and 2001, respectively.

Accounting for Price Risk Management

The Company, through its wholesale operations, offers price risk management services to its customers and, in addition, trades for its own account. Financial instruments utilized in connection with trading activities are accounted for using the mark-to-market method. Under the mark-to-market method of accounting, forwards,

swaps, options and storage contracts are reflected at fair value, inclusive of reserves, and are shown in the consolidated balance sheet as assets and liabilities from price risk management activities. Unrealized gains and losses from newly originated contracts, contract restructuring and the impact of price movements are recognized as cost of sales. Changes in the assets and liabilities from trading and price risk management activities result primarily from changes in the market prices, newly originated transactions and the timing of settlement relative to the receipt of cash for certain contracts. The market prices used to value these transactions reflect management's best estimate considering various factors including closing exchange and over-the-counter quotations, time value and volatility factors underlying the commitments. The values are adjusted to reflect the potential impact of liquidating the Company's position in an orderly manner over a reasonable period of time under present market conditions.

The cash flow impact of financial instruments is reflected as cash flows from operating activities in the consolidated statement of cash flows. See Note 3 for further discussion of the Company's price risk management activities.

Revenue Recognition

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

Shipping and Handling Costs

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

Property, Plant and Equipment

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

| | Years |
|---|---|
| Buildings and improvements | 25 |
| Office furniture and equipment | 5-10 |
| Vehicles | 5-10 |
| Tanks and plant equipment | 10-30 |

Intangible Assets

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

| | Years |
|---|---|
| Covenants not to compete | 5-10 |
| Deferred financing costs | 1-3 |
| Customer accounts | 15-18 |
| Goodwill | 15 |

Deferred financing costs represent financing costs incurred in obtaining financing and are being amortized over the term of the debt. Covenants not to compete, customer accounts and goodwill arose from the various

acquisitions by the Company and are discussed in Note 2. In accordance with Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities," the Company expensed $58 of unamortized organization costs during the year ended September 30, 2000.

Deferred acquisition costs represent costs incurred to date on acquisitions that the Company is actively pursuing, most of which relate to the acquisition completed subsequent to year end, as discussed in Note 12.

The Company reviews its long-lived assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of," for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such events or changes in circumstances are present, a loss is recognized if the carrying value of the asset is in excess of the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Income Taxes

The members of the Company report their respective member interest in the Company's income and deductions on their personal income tax returns; therefore, federal and state income taxes have not been provided for in the Company's consolidated financial statements.

Two of the Company's subsidiaries, Wilson and Rolesville, are C corporations and account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." The liability method provides that deferred tax assets and liabilities are recorded based on the differences between financial reporting and tax bases of assets and liabilities as measured by the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Customer Deposits

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

Fair Value

The carrying amounts of cash, accounts receivable and accounts payable approximate their fair value. Based on the estimated borrowing rates currently available to the Company for long-term debt with similar terms and maturities, as evidenced by the refinancing completed in January 2001, as discussed in Note 4, the aggregate fair value of the Company's long-term debt approximates the aggregate carrying amount as of September 30, 1999 and 2000 and March 31, 2001.

Recently Issued Accounting Pronouncements

In 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

Adoption of SFAS No. 133 is required for fiscal years beginning after June 15, 2000. The Company will be required to adopt SFAS No. 133 during the first quarter of fiscal 2001. The Company believes that the effect of adopting SFAS 133 will be limited to disclosures in its financial statements since the Company utilizes the mark-to-market method of accounting.

Segment Information

In fiscal 1999, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for reporting information about operating segments as well as related disclosures about products and services, geographic areas, and major customers. Further, SFAS No. 131 defines operating segment as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resource and assessing performance. In determining the Company's reportable segments under the provisions of SFAS No. 131, the Company examined the way it organizes its business internally for making operating decisions and assessing business performance. See Note 11 for disclosures related to the Company's retail and wholesale segments. No single customer represents 10% or more of consolidated revenues. In addition, nearly all of the Company's revenues are derived from sources within the United States, and all of its long-lived assets are located in the United States.

2. Acquisitions

During fiscal 1999, Inergy Propane acquired substantially all of the assets of Ernie Lee Oil & LP Gas, LLC (December 1998), Langston Gas & Oil Company, Inc. (May 1999), Castleberry's, Inc. (July 1999) and Bradley Propane, Inc. (September 1999). In addition, the Company acquired 100% of the outstanding stock of Wilson Oil Company of Johnston County, Inc. (December 1998) and Rolesville Gas & Oil Company, Inc. (August 1999) through a stock exchange and a purchase agreement. These acquired retail companies are involved in the sale and distribution of propane to local customer bases throughout the United States. The acquisitions have been accounted for using the purchase method of accounting. The acquired companies were purchased in separate transactions for an aggregate purchase price of $19,659 including acquisition costs and $3,232 in liabilities assumed. The consideration utilized in the fiscal 1999 acquisitions consisted of cash payments of $11,430 funded by the issuance of long-term debt, common and Class A preferred interests issued to certain former owners of these companies totaling $2,945, and the issuance of noncompete obligations in the amount of $2,052. Of the aggregate purchase price, $2,810 (including cash paid at closing) was allocated to covenants not to compete. The excess of aggregate purchase price over the fair market values of the net tangible and identifiable intangible assets acquired amounted to $942 and has been recorded as an increase in goodwill. The operating results of all acquisitions are included in the Company's consolidated results of operations from the dates of acquisition.

During fiscal 2000, Inergy Propane acquired substantially all of the assets of Butane-Propane Gas Company of Tenn., Inc. of Tennessee (November 1999), and the Company acquired substantially all of the assets of Country Gas Company, Inc. (June 2000). These acquired retail companies are involved in the sale of propane to local customer bases throughout the United States. The acquisitions have been accounted for using the purchase method of accounting. The acquired companies were purchased in separate transactions for an aggregate purchase price of $19,787 including acquisition costs and $1,155 in liabilities assumed. The consideration utilized in the fiscal 2000 acquisitions consisted of cash payments of $9,600 funded by the issuance of long-term debt, redeemable Class A preferred interest issued to certain former owners of these companies totaling $9,000 (see Note 7) and the issuance of noncompete obligations in the amount of $32. Of the aggregate purchase price, $102 (including cash paid at closing) was allocated to covenants not to compete. The excess of aggregate purchase prices over the fair market values of the net tangible and identifiable intangible assets acquired, including $3,500 allocated to customer accounts, amounted to $5,594 and has been recorded as an increase in goodwill. The operating results of all acquisitions are included in the Company's consolidated results of operations from the dates of acquisition.

During November 2000, the Company acquired substantially all the assets of Bear-Man Propane for $520 in cash.

The following unaudited pro forma data summarize the results of operations for the periods indicated as if these acquisitions had been completed October 1, 1999 and 1998, the beginning of the 2000 and 1999 fiscal years. The pro forma data give effect to actual operating results prior to the acquisitions and adjustments to interest expense, goodwill and customer accounts amortization and income taxes. 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, 1999 and 1998 or that will be obtained in the future. The pro forma data do not give effect to acquisitions completed subsequent to September 30, 2000.

| | Year Ended September 30, | |
|---|---|---|
| | 1999 | 2000 |
| Sales | $39,906 | $101,436 |
| Net income (loss) | 1,727 | (935) |

3. Price Risk Management and Financial Instruments

The Company has recorded its trading activities at fair value in accordance with Emerging Issues Task Force Issue (EITF) No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." EITF No. 98-10 requires energy trading contracts to be recorded at fair value on the balance sheet, with the changes in fair value included in earnings.

Trading Activities

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

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

Instruments used for trading purposes include forwards, swaps and options, as defined above, as well as futures contracts.

Notional Amounts and Terms

The notional amounts and terms of these financial instruments at September 30, 1999 and 2000 include fixed price payor for 1,032 and 1,526 barrels, respectively and fixed price receiver for 1,185 and 1,479 barrels, respectively. The notional amounts and terms of these financial instruments at March 31, 2001 include fixed price payor for 97 barrels and fixed price receiver for 269 barrels.

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

Fair Value

The fair value of the financial instruments related to price risk management activities as of September 30, 1999 and 2000 was assets of $582 and $3,580, respectively and liabilities of $1,788 and $2,294, respectively related to propane. The fair value of the financial instruments related to price risk management activities as of March 31, 2001 was assets of $433 and liabilities of $93 related to propane. All intercompany transactions have been appropriately eliminated.

The income before interest, taxes and certain unallocated expenses arising from trading and price risk management activities for the years ended September 30, 1999 and 2000 was immaterial.

Market and Credit Risk

Inherent in the resulting contractual portfolio are certain business risks, including market risk and credit risk. Market risk is the risk that the value of the portfolio will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers or financial counterparties to a contract. The Company takes an active role in managing and controlling market and credit risk and has established control procedures, which are reviewed on an ongoing basis. The Company monitors market risk through a variety of techniques, including daily reporting of the portfolio's value to senior management. The Company attempts to minimize credit risk exposure through credit policies and periodic monitoring procedures. The counterparties associated with assets from price risk management activities as of September 30, 1999 and 2000 are energy marketers.

4. Long-Term Debt

Long-term debt consisted of the following:

| | September 30, | | March 31, |
|---|---|---|---|
| | 1999 | 2000 | 2001 |
| | | | (Unaudited) |
| Credit agreement | $20,099 | $33,250 | $78,250 |
| Obligations under noncompetition agreements | 2,238 | 1,625 | 1,148 |
| Subordinated debt issued to sellers of acquired business | -- | -- | 5,000 |
| Other | -- | 52 | -- |
| | 22,337 | 34,927 | 84,398 |
| Less current portion | 732 | 605 | 5,631 |
| | $21,605 | $34,322 | $78,767 |

During fiscal 1999, the Company entered into and later amended a credit agreement with a financial institution providing the Company with the capacity to borrow up to $27,000 ($5,000 under long-term working capital lines of credit and $22,000 under a long-term acquisition line of credit). At September 30, 1999, borrowings under the long-term working capital lines of credit and the long-term acquisition line of credit, due June 22, 2001, were $2,160 and $17,939, respectively. Interest only payments during the term of the agreement were based on "prime rate" and/or LIBOR plus the applicable spread. The applicable spread for each rate is based on the Company's ratio of total liabilities to tangible net worth. The prime rate and LIBOR plus the applicable spreads were 8.75% and 6.75% to 7.75%, respectively, at September 30, 1999.

During fiscal 2000, the Company amended the credit agreement with the financial institution providing the Company with the capacity to borrow up to $41,000 ($9,000 under working capital lines of credit and $32,000 under a long-term acquisition line of credit). At September 30, 2000, borrowings under the working capital lines of credit and the acquisition line of credit were $4,900 and $28,350, respectively. The prime rate and LIBOR plus the applicable spreads were 9.5% and 9.37% to 9.93%, respectively, at September 30, 2000.

The agreement contains several covenants which, among other things, require the maintenance of various financial performance ratios, restrict the payment of dividends and require financial reports to be submitted periodically to the financial institution. Unused borrowings under the credit agreement amounted to $7,750 at September 30, 2000.

Noninterest-bearing obligations due under noncompetition agreements consist of agreements between the Company and the sellers of retail propane companies acquired during fiscal 1999 and 2000 with payments due through 2009 with imputed interest at 8.5% to 9.0%. Noninterest-bearing obligations consist of $2,808 and $2,130 in total payments due under noncompetition agreements, less unamortized discount based on imputed interest of $570 and $505 at September 30, 1999 and 2000, respectively.

On January 12, 2001, the Company and its lenders again amended the credit agreement under which $33,250 was outstanding as of September 30, 2000. The amended credit agreement extended the maturity date of borrowings under the facilities from June 22, 2001 to January 10, 2004. In addition, the credit agreement provides for total available borrowings of $96,000 under three separate credit facilities. Borrowings under the revolving credit facility are ultimately due on January 10, 2004 with interest payments thereon due quarterly beginning March 31, 2001. The other two credit facilities, which were principally used to finance the Hoosier Propane Group acquisition discussed in Note 12 require quarterly principal and interest payments beginning March 31, 2001. As the terms of the facility in place at September 30, 2000 have been modified subsequent to year end, the balance sheet presentation and footnote disclosure herein reflect the revised terms. The Company also issued a $5,000 subordinated note payable to the former owners of the Hoosier Propane Group in connection with this acquisition. See Note 12.

The aggregate amounts of principal to be paid on the outstanding long-term debt during the next five years ending September 30 and thereafter, considering the terms of the amended credit facilities discussed above, are as follows:

| Year Ending September 30, | |
|---|---|
| 2001 | $ 605 |
| 2002 | 409 |
| 2003 | 75 |
| 2004 | 33,330 |
| 2005 | 87 |
| Thereafter | 421 |
| | $34,927 |

5. Leases

The Company has several noncancelable operating leases mainly for office space which expire at various times over the next nine years. The Company leases certain office space from the former owners of Country Gas Company, Inc. Total payments under these leases amounted to $64 during 2000.

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

| Year Ending September 30, | |
|---|---|
| 2001 | $ 513 |
| 2002 | 501 |
| 2003 | 407 |
| 2004 | 369 |
| 2005 | 277 |
| Thereafter | 110 |
| Total minimum lease payments | $2,177 |

Rent expense for all operating leases during 1998, 1999 and 2000 amounted to $117, $196 and $424, respectively, and $158 and $265 for the six months ended March 31, 2000 and 2001, respectively.

6. Income Taxes

Deferred income taxes related to Wilson and Rolesville reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Components of the deferred taxes at September 30, 1999 and 2000 and March 31, 2001 are a noncurrent deferred tax liability of $942 related to book/tax basis differences.

The provision for income taxes for the years ended September 30, 1998, 1999 and 2000 consists of the following:

| | September 30, | | |
|---|---|---|---|
| | 1998 | 1999 | 2000 |
| Current: | | | |
| Federal | $ -- | $41 | $ -- |
| State | -- | 7 | 7 |
| Total current | -- | 48 | 7 |
| Deferred: | | | |
| Federal | -- | 7 | -- |
| State | -- | 1 | -- |
| Total deferred | -- | 8 | -- |
| | $ -- | $56 | $ 7 |

For the years ended September 30, 1999 and 2000, the Wilson and Rolesville effective tax rate differed from the statutory rate primarily due to the effect of graduated rates and state taxes.

Wilson and Rolesville have federal net operating loss carryforwards of approximately $50 at September 30, 2000. Wilson has net operating loss carryforwards in the state of North Carolina of $220 at September 30, 2000.

7. Redeemable Preferred Interests and Members' Equity

On September 30, 1998, the Company's members approved an amendment to its limited liability company agreement authorizing a Class A preferred interest. In connection with this amendment, certain investors contributed their interest in McCracken to the Company in exchange for Class A preferred interest.

During December 1999, the Company issued redeemable Class A preferred interests to a new member for total proceeds of $2,000 less offering costs of $104. During June 2000, the Company issued redeemable Class A preferred interests to certain former owners of Country Gas Company, Inc. totaling $9,000 in connection with the acquisition of Country Gas Company, Inc. These preferred interests are convertible into senior subordinated units of a master limited partnership (MLP) in the event of an initial public offering of the MLP (MLP Offering). The conversion rates were determined through negotiations between the Company and the unrelated third parties and are derived by dividing the ultimate unit price of the MLP Offering by a multiple of 2.25 for the December 1999 transaction and 1.0 for the June 2000 transaction.

The Class A preferred interest earns cumulative dividends of 8% to 10% per annum, depending on the date and amount of the preferred interest issued. Class A preferred members are not entitled to any voting rights. In the event of a public offering, the Company will use its best efforts to permit the holders of Class A preferred interest units to exchange their Class A preferred interest units for common units, notwithstanding the conversion terms discussed above. Upon liquidation, Class A preferred members are entitled to an aggregate preference distribution of the unpaid dividends prior to any liabilities. Additionally, Class A preferred members are also entitled to preference over common interests subsequent to the payment of the Company's liabilities. Distributions totaling $180 and $547 were paid to Class A preferred members in 1999 and 2000, respectively. See Note 13.

The redeemable preferred interests issued in December 1999 and June 2000 provide the holders the option to require the Company to redeem the preferred interests, as provided in the agreement, but generally no earlier than the fifth anniversary of the issuance. The preferred interest issued in December 1999 is redeemable in an amount between one and two times face value at issuance, depending on the Company's operating performance, as defined in the agreement. The preferred interest issued in June 2000 is redeemable in amount equal to face value at issuance plus any unpaid dividends. No amounts are required to be redeemed during the next five years. In certain situations, as provided for in the agreement, 25% of the June 2000 issuance may be redeemed by the holder on or after the third anniversary of the issuance and another 25% may be redeemed on or after the fourth anniversary of the issuance. In accordance with the terms of the agreements, the Company also has the right to repurchase the redeemable preferred interests at any time prior to an MLP Offering.

During fiscal 1999, the Company granted to four employees options to purchase an aggregate of 1.7025% of the common interest of the Company for an aggregate exercise price of $150,000. The exercise price of the options approximated the fair market value of the common interests at the date of grant. The options become exercisable five years from the date of grant except upon a change of control, as defined in the option agreement, and expire on the earlier of the employee's termination of service or ten years from the date of grant. Pro forma net income (loss), assuming the Company had applied the fair-value method of SFAS No. 123, "Accounting for Stock Based Compensation" in measuring the compensation costs associated with these options would not be materially different from reported net income (loss).

8. Employee Benefit Plans

The Company's subsidiaries have a 401(k) profit-sharing plan for those employees who have completed one year of service and have attained the age of 21. The plan permits employees to make contributions up to

15% of their salary and provides for matching contributions by the Company. Matching company contributions were $21, $21 and $52 in 1998, 1999 and 2000, respectively.

9. Commitments

The Company periodically enters into agreements to purchase fixed quantities of liquid propane at fixed prices with suppliers. At September 30, 2000, the total of these firm purchase commitments was approximately $26,149.

10. Joint Venture

On October 29, 1999, the Company entered into a joint venture with Volunteer First Services, Inc. to form Volunteer Energy, LLC to provide propane and related services to private residences, businesses and governmental entities in certain geographic areas of Tennessee. The Company accounts for its 50% investment in Volunteer Energy, LLC under the equity method as it does not have the ability to control the joint venture operations. As of September 30, 2000, the investment in Volunteer Energy, LLC was $109 and is included in other assets in the accompanying consolidated balance sheet. As part of the transaction, the Company contributed certain fixed assets to Volunteer Energy, LLC. Bradley earns a management fee of $2 per month and is reimbursed for other operating services based on rates stated in the agreement. The impact of this joint venture on the Company's operations is immaterial.

11. Segments

The Company's financial statements reflect two reportable segments: retail sales operations and wholesale sales operations. The Company's retail sales operations include propane sales to end users, the sale of propane-related appliances and service work for propane-related equipment. The wholesale sales operations, which originated in April 1999, provide marketing and distribution services to other resellers of propane, including the Company's retail operations. The Company's President and Chief Executive Officer has been identified as the Chief Operating Decision Maker (CODM). The CODM evaluates performance and allocates resources based on revenues and gross profit of each segment. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. All intersegment revenues and profits associated with propane sales from the wholesale segment to the retail segment have been eliminated.

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

Revenues, gross profit and identifiable assets for each of the Company's reportable segments are presented below.

| | Six Months Ended March 31, 2001 | | | |
|---|---|---|---|---|
| | Retail Sales Operations | Wholesale Sales Operations | Intersegment Eliminations | Total |
| Revenues | $53,488 | $143,623 | $(26,672) | $170,439 |
| Gross profit | 24,251 | 6,802 | (2,039) | 29,014 |
| Identifiable assets | 12,919 | 14,835 | (1,477) | 26,277 |

| | Six Months Ended March 31, 2000 | | | |
|---|---|---|---|---|
| | Retail Sales Operations | Wholesale Sales Operations | Intersegment Eliminations | Total |
| Revenues | $14,986 | $40,841 | $(5,370) | $50,457 |
| Gross profit | 7,663 | 1,309 | (569) | 8,403 |
| Identifiable assets | 4,926 | 11,642 | (6,043) | 10,525 |

| | Year Ended September 30, 2000 | | | |
|---|---|---|---|---|
| | Retail Sales Operations | Wholesale Sales Operations | Intersegment Eliminations | Total |
| Revenues | $23,461 | $78,517 | $(8,383) | $93,595 |
| Gross profit | 10,693 | 2,179 | (913) | 11,959 |
| Identifiable assets | 5,006 | 11,623 | (397) | 16,232 |

| | Year Ended September 30, 1999 | | | |
|---|---|---|---|---|
| | Retail Sales Operations | Wholesale Sales Operations | Intersegment Eliminations | Total |
| Revenues | $9,784 | $10,276 | $(925) | $19,135 |
| Gross profit | 4,870 | 511 | -- | 5,381 |
| Identifiable assets | 2,993 | 8,032 | (925) | 10,100 |

12. Subsequent Events

During January 2001, the Company issued redeemable Class A preferred interests to new and existing members for total proceeds of $15,000, less offering costs of $485. The preferred interests were issued to facilitate the refinancing of the Company's credit facilities described in Note 4 on a long-term basis and complete the acquisition discussed below. Further, as discussed in Note 4, the Company negotiated an amended credit facility in January 2001.

In connection with this issuance of redeemable Class A preferred interests, the Company issued a warrant to one of the investors (a current member) to acquire an additional $2,000 of Class A preferred interests at the same valuation used in the related January 2001 issuance of Class A preferred interests discussed above. The warrant is exercisable immediately and expires on March 31, 2001 if unexercised. The Company must approve the exercise of greater than $1,500 of the warrant and has the ability to require the exercise of the warrant. In March 2001, the investor exercised the warrant for $1,500 (unaudited).

On January 12, 2001, the Company acquired substantially all of the assets and assumed certain liabilities of Investors 300, Inc., Domex, Inc. and L&L Leasing, Inc., three companies owned by a common group of shareholders (referred to as the Hoosier Propane Group). The acquisition was effective January 1, 2001 and the Company's results of operations for the six month period ended March 31, 2001 include the Hoosier Propane Group operating results from the effective date. The Hoosier Propane Group is involved in the sale and transportation of propane to local customer bases throughout the United States. The purchase price of approximately $74.0 million consisted of cash payments of approximately $55.4 million funded by the issuance of long-term debt and the redeemable Class A preferred interests discussed above, acquisition costs of $0.6 million, a redeemable Class A preferred interest issued to certain former owners of the Hoosier Propane Group totaling $7.4 million, subordinated debentures issued to the Hoosier Propane Group shareholders totaling $5.0 million, and $5.6 million of liabilities assumed. This acquisition will be accounted for using the purchase method of accounting.

The redeemable preferred interests discussed above provide the holders the option to require the Company to redeem the preferred interests, as provided in the agreements, but no earlier than the fifth anniversary of the issuance. The preferred interest issued to members for cash is redeemable in an amount between one and two times face value at issuance, depending on the Company's operating performance, as defined in the agreement. The preferred interest issued to certain former owners of the Hoosier Propane Group is redeemable in amount equal to face value at issuance plus any unpaid dividends. No amounts are required to be redeemed during the next five years. As provided for in the agreement, 25% of the issuance to certain former owners of the Hoosier Propane Group may be redeemed by the holders on or after the fifth anniversary of the issuance and another 25% may be redeemed on or after the sixth anniversary of the issuance, with the balance being redeemable on or after the seventh anniversary of the issuance. The Company also has the right to repurchase the redeemable preferred interests at any time prior to an MCP Offering.

13. Initial Public Offering of Common Units

Inergy, L.P. (the "Partnership") was formed March 7, 2001, as a Delaware limited partnership. The Partnership was formed to acquire, own and operate the propane business and substantially all of the assets of the Company. In order to simplify the Partnership's obligations under the laws of several jurisdictions in which the Partnership will conduct business, the Partnership's activities will be conducted through a subsidiary operating company, Inergy Propane, LLC (the "Operating Company").

The Partnership intends to offer 1,500,000 common units, representing limited partner interests in the Partnership, to the public and to concurrently issue subordinated units representing additional limited partner interests in the Partnership to an affiliate of Holdings and to Class A preferred interest holders of the Company, and a 2% general partner interest in the Partnership and the Operating Company, on a combined basis, to an affiliate of Holdings.

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Domex, Inc., Investors 300, Inc., L & L Leasing, Inc.

We have audited the accompanying combined balance sheets as of September 30, 1999 and 2000 and December 31, 2000, of Domex, Inc., Investors 300, Inc. and L & L Leasing, Inc. (the "Hoosier Propane Group"), and the related combined statements of income, stockholders' equity and cash flows for each of the three years in the period ended September 30, 2000 and the three months ended December 31, 2000. These financial statements are the responsibility of the Hoosier Propane Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position at September 30, 1999 and 2000 and December 31, 2000, of the Hoosier Propane Group, and the combined results of their operations and their cash flows for each of the three years in the period ended September 30, 2000 and the three months ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Kansas City, Missouri

May 2, 2001

HOOSIER PROPANE GROUP

COMBINED BALANCE SHEETS
(In thousands, except share data)

| | September 30, 1999 | September 30, 2000 | December 31, 2000 |
|---|---|---|---|
| ASSETS (Note 3) | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 777 | $ 702 | $ 1,711 |
| Marketable securities | 424 | 460 | 453 |
| Accounts receivable | 2,482 | 4,423 | 13,134 |
| Inventories | 7,537 | 2,301 | 3,172 |
| Prepaid expenses and other current assets | 211 | 491 | 207 |
| Total current assets | 11,431 | 8,377 | 18,677 |
| Property, plant and equipment: | | | |
| Land and buildings | 2,283 | 2,310 | 2,310 |
| Office furniture and equipment | 698 | 704 | 704 |
| Vehicles | 11,894 | 12,296 | 12,363 |
| Tanks and plant equipment | 17,523 | 18,215 | 18,401 |
| | 32,398 | 33,525 | 33,778 |
| Less accumulated depreciation | (10,291) | (11,299) | (11,643) |
| | 22,107 | 22,226 | 22,135 |
| Intangible assets (Note 2) | 1,566 | 1,566 | 1,566 |
| Less accumulated amortization | (119) | (223) | (249) |
| | 1,447 | 1,343 | 1,317 |
| Notes receivable from stockholders (Note 6) | 352 | 292 | 285 |
| Other assets | 742 | 879 | 884 |
| Total assets | $ 36,079 | $ 33,117 | $ 43,298 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Notes payable to bank (Note 3) | $ 3,000 | $ 1,575 | $ 5,575 |
| Accounts payable | 2,204 | 1,552 | 7,576 |
| Customer deposits | 3,678 | 3,927 | 2,626 |
| Accrued expenses | 689 | 933 | 1,460 |
| Notes payable to stockholders (Note 6) | -- | -- | 995 |
| Current portion of long-term debt (Note 3) | 803 | 4,950 | 4,668 |
| Total current liabilities | 10,374 | 12,937 | 22,900 |
| Long-term debt, less current portion (Note 3) | 8,740 | 2,609 | 1,600 |
| Notes payable to stockholders (Note 6) | 1,265 | 1,065 | -- |
| Stockholders' equity: | | | |
| Common stock, no par value (Note 4) | 1,218 | 1,218 | 1,218 |
| Retained earnings | 15,735 | 16,506 | 18,805 |
| Accumulated other comprehensive income | 359 | 394 | 387 |
| Less 520 shares of treasury stock, at cost | (1,612) | (1,612) | (1,612) |
| Total stockholders' equity | 15,700 | 16,506 | 18,798 |
| Total liabilities and stockholders' equity | $ 36,079 | $ 33,117 | $ 43,298 |

See accompanying notes.

HOOSIER PROPANE GROUP

COMBINED STATEMENTS OF INCOME
(In thousands)

| | Year Ended September 30, | | | Three Months Ended December 31, | |
|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 1999 | 2000 |
| | | | | (Unaudited) | |
| Revenue: | | | | | |
| Propane | $50,646 | $38,792 | $58,712 | $19,050 | $29,174 |
| Freight | 4,806 | 4,530 | 5,669 | 1,367 | 2,037 |
| Other | 288 | 356 | 1,214 | 363 | 330 |
| | 55,740 | 43,678 | 65,595 | 20,780 | 31,541 |
| Cost of product sold | 42,823 | 28,889 | 49,049 | 15,604 | 25,172 |
| Gross profit | 12,917 | 14,789 | 16,546 | 5,176 | 6,369 |
| Operating and administrative expenses | 7,617 | 8,274 | 9,375 | 2,493 | 2,538 |
| Depreciation and amortization | 1,529 | 1,690 | 1,623 | 389 | 373 |
| Operating income | 3,771 | 4,825 | 5,548 | 2,294 | 3,458 |
| Other income (expense): | | | | | |
| Interest expense | (594) | (941) | (1,029) | (287) | (246) |
| Interest and dividend income | 239 | 205 | 230 | 32 | 57 |
| Gain (loss) on sale of property, plant and equipment | (43) | (63) | 51 | 17 | 10 |
| Other income, net | 158 | 130 | 184 | 81 | 90 |
| | (240) | (669) | (564) | (157) | (89) |
| Net income | $ 3,531 | $ 4,156 | $ 4,984 | $ 2,137 | $ 3,369 |

See accompanying notes.

HOOSIER PROPANE GROUP

COMBINED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

| | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|
| Balance at September 30, 1997 | $1,218 | $13,477 | $510 | $(1,612) | $13,593 |
| Net income | -- | 3,531 | -- | -- | 3,531 |
| Net unrealized loss on available-for-sale securities | -- | -- | (77) | -- | (77) |
| Comprehensive income | | | | | 3,454 |
| Distributions to stockholders | -- | (3,137) | -- | -- | (3,137) |
| Balance at September 30, 1998 | 1,218 | 13,871 | 433 | (1,612) | 13,910 |
| Net income | -- | 4,156 | -- | -- | 4,156 |
| Net unrealized loss on available-for-sale securities | -- | -- | (74) | -- | (74) |
| Comprehensive income | | | | | 4,082 |
| Distributions to stockholders | -- | (2,292) | -- | -- | (2,292) |
| Balance at September 30, 1999 | 1,218 | 15,735 | 359 | (1,612) | 15,700 |
| Net income | -- | 4,984 | -- | -- | 4,984 |
| Net unrealized gain on available-for-sale securities | -- | -- | 35 | -- | 35 |
| Comprehensive income | | | | | 5,019 |
| Distributions to stockholders | -- | (4,213) | -- | -- | (4,213) |
| Balance at September 30, 2000 | 1,218 | 16,506 | 394 | (1,612) | 16,506 |
| Net income | -- | 3,369 | -- | -- | 3,369 |
| Net unrealized loss on available-for-sale securities | -- | -- | (7) | -- | (7) |
| Comprehensive income | | | | | 3,362 |
| Distributions to stockholders | -- | (1,070) | -- | -- | (1,070) |
| Balance at December 31, 2000 | $1,218 | $18,805 | $387 | $(1,612) | $18,798 |

See accompanying notes.

HOOSIER PROPANE GROUP

COMBINED STATEMENTS OF CASH FLOWS
(In thousands)

| | Year Ended September 30, | | | Three Months Ended December 31, | |
|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 1999 | 2000 |
| | | | | (Unaudited) | |
| Operating activities | | | | | |
| Net income | $ 3,531 | $ 4,156 | $ 4,984 | $ 2,137 | $ 3,369 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | | |
| Depreciation | 1,515 | 1,586 | 1,519 | 363 | 347 |
| Amortization | 14 | 104 | 104 | 26 | 26 |
| (Gain) loss on sale of property, plant and equipment | 43 | 63 | (51) | (17) | (10) |
| Changes in operating assets and liabilities: | | | | | |
| Accounts receivable | (244) | 397 | (1,941) | (3,698) | (8,711) |
| Inventories | 3,909 | (2,557) | 5,236 | 4,214 | (871) |
| Prepaid expenses and other current assets | (277) | 232 | (280) | 197 | 284 |
| Other assets | 545 | (50) | (137) | (12) | (5) |
| Accounts payable | 1,240 | (1,157) | (652) | 1,069 | 6,024 |
| Customer deposits | (1,617) | (1,605) | 249 | (986) | (1,301) |
| Accrued expenses | 186 | (17) | 243 | 441 | 527 |
| Net cash provided by (used in) operating activities | 8,845 | 1,152 | 9,274 | 3,734 | (321) |
| Investing activities | | | | | |
| Acquisitions | (1,266) | (3,850) | -- | -- | -- |
| Purchases of property, plant and equipment | (2,697) | (2,361) | (1,935) | (709) | (278) |
| Proceeds from sale of property, plant and equipment | 172 | 385 | 348 | 89 | 32 |
| Purchases of short-term investments | (901) | -- | -- | -- | -- |
| Proceeds from sale of short-term investments | -- | 901 | -- | -- | -- |
| Collections on note receivable from stockholder | 44 | 32 | 60 | 5 | 7 |
| Net cash used in investing activities | (4,648) | (4,893) | (1,527) | (615) | (239) |
| Financing activities | | | | | |
| Proceeds from issuance of notes payable | -- | 3,000 | 2,575 | 1,000 | 4,000 |
| Principal payments on notes payable | -- | -- | (4,000) | (2,000) | -- |
| Proceeds from issuance of long-term debt | 2,000 | 5,000 | 500 | 500 | -- |
| Principal payments on long-term debt | (1,503) | (3,168) | (2,484) | (176) | (1,291) |
| Principal payments on notes payable to stockholders | -- | -- | (200) | -- | (70) |
| Distributions to stockholders | (3,137) | (2,292) | (4,213) | (331) | (1,070) |
| Net cash provided by (used in) financing activities | (2,640) | 2,540 | (7,822) | (1,007) | 1,569 |
| Net increase (decrease) in cash and cash equivalents | 1,557 | (1,201) | (75) | 2,112 | 1,009 |
| Cash and cash equivalent at beginning of period | 421 | 1,978 | 777 | 777 | 702 |
| Cash and cash equivalents at end of period | $ 1,978 | $ 777 | $ 702 | $ 2,889 | $ 1,711 |
| Supplemental disclosure of cash flow information | | | | | |
| Cash paid for interest during the period | $ 596 | $ 937 | $ 1,042 | $ 224 | $ 245 |
| Supplemental schedule of noncash financing activity | | | | | |
| Acquisition of covenants not to compete through the issuance of noncompete obligations | $ 949 | $ -- | $ -- | $ -- | $ -- |
| Note payable issued to seller of acquired company | $ 200 | $ -- | $ -- | $ -- | $ -- |

See accompanying notes.

1. Significant Accounting Policies

Principles of Combination

The combined financial statements of the Hoosier Propane Group include the accounts of three companies under common ownership: Domex, Inc., Investors 300, Inc. and L & L Leasing, Inc. (collectively referred to as the Hoosier Propane Group). All significant intercompany accounts and transactions have been eliminated in the combination. Although Domex, Inc.'s year end has historically been October 31, Investors 300, Inc.'s year end has historically been September 30, and L & L Leasing, Inc.'s year end has historically been December 31, all accounts have been presented in these combined financial statements as of September 30, 1999 and 2000 and December 31, 2000 and for each of the three years in the period ended September 30, 2000 and the three months ended December 31, 1999 and 2000.

Business Activities and Credit Concentrations

The Hoosier Propane Group is involved in the transportation and wholesale and retail distribution of propane gas. The Hoosier Propane Group also builds and services trucks used to transport propane gas. The Hoosier Propane Group generally extends unsecured credit to their wholesale customers in the midwestern United States. Credit is generally extended to retail customers through delivery into company and customer owned propane gas storage tanks.

Unaudited Financial Information

The financial information for the three-month period ended December 31, 1999 contained herein is unaudited. The Hoosier Propane Group 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 Hoosier Propane Group 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.

Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the combined financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

All highly liquid debt instruments purchased with a maturity of three months or less are deemed to be cash and cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair value.

Inventories

Propane inventories are stated at the lower of cost or market. Cost is determined using a weighted average method for propane and an actual cost basis for parts and materials. The major components of inventory consist of the following:

| | September 30, | | December 31, |
|---|---|---|---|
| | 1999 | 2000 | 2000 |
| Propane | $6,769 | $1,647 | $2,606 |
| Parts and materials | 653 | 623 | 561 |
| Other | 115 | 31 | 5 |
| | $7,537 | $2,301 | $3,172 |

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of the cost of the related asset, less estimated salvage value on certain vehicles, is determined using straight-line and accelerated depreciation methods over the estimated useful lives of the assets, as follows:

| | Years |
|---|---|
| Buildings | 30 to 40 |
| Office furniture and equipment | 5 to 7 |
| Vehicles | 5 to 7 |
| Tanks and plant equipment | 7 to 50 |

Marketable Securities

Investments in marketable equity securities are classified as available for sale and are carried at their fair market value. Unrealized gains and losses are recorded as a separate component of stockholders' equity. The aggregate cost of the marketable equity securities was $65 at September 30, 1999 and 2000 and at December 31, 2000.

Intangible Assets

Intangible assets consist of goodwill and covenants not to compete which were acquired primarily in the 1998 and 1999 acquisitions described in Note 2 and are amortized on a straight-line basis over their estimated useful lives, not to exceed 15 years.

The Hoosier Propane Group reviews its long-lived assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-lived Assets and Long-lived Assets to be Disposed of," for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such events or changes in circumstances are present, a loss is recognized if the carrying value of the asset is in excess of the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Customer Deposits

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

Income Taxes

The stockholders of each of Domex, Inc., Investors 300, Inc. and L & L Leasing, Inc. have elected under Subchapter S of the Internal Revenue Code to include the income of each of Domex, Inc., Investors 300, Inc. and L & L Leasing, Inc. in the stockholders' income for income tax reporting purposes. Accordingly, Domex, Inc., Investors 300, Inc. and L & L Leasing, Inc. are not subject to income taxes.

Revenue Recognition

The sales and related cost of products and services sold are recognized upon delivery.

Fair Value

The carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, investments and accounts payable approximate their fair value. Based on the estimated borrowing rates currently available to the Hoosier Propane Group for notes payable and long-term debt with similar terms and maturities, the aggregate fair value of the Hoosier Propane Group's long-term debt approximates the aggregate carrying amount as of September 30, 1999 and 2000 and December 31, 2000.

Segment Information

The Hoosier Propane Group adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," in fiscal 1999. SFAS No. 131 established standards for reporting information about operating segments as well as related disclosures about products and services, geographic areas and major customers. In determining the Hoosier Propane Group's reportable segments under the provisions of SFAS No. 131, the Hoosier Propane Group examined the way they organize their business internally for making operating decisions and assessing business performance. Based on this examination, the Hoosier Propane Group has determined that it has a single reportable segment which engages in the distribution of propane and related equipment and supplies. No single customer represents 10% or more of combined revenues. In addition, all of the Hoosier Propane Group's revenues are derived from sources within the United States, and all of its long-lived assets are located in the United States.

Pending Accounting Pronouncement

In June 1988, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires that an entity recognize all derivative instruments as either assets or liabilities and measure them at fair value. The accounting for changes in fair value depends on the purpose of the derivative instrument and whether it is designated and qualifies for hedge accounting. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133 (an amendment of FASB Statement No. 133)," which deferred the effective date of SFAS No. 133. The Hoosier Propane Group will be required to adopt SFAS No. 133 in fiscal 2001. As of September 30, 2000, the Hoosier Propane Group's only derivatives consist of contracts to purchase and sell fixed quantities of propane at fixed prices over specified periods, aggregating approximately $5,200 and $5,700, respectively. As of December 31, 2000, the Hoosier Propane Group had contracts to purchase and sell fixed quantities of propane aggregating approximately $2,000 and $2,400, respectively. As these commitments are generally settled by the physical delivery of propane in the normal course of the Hoosier Propane Group's business, they are excluded from scope of SFAS No. 133. As such, the fair value of the contracts will not be required to be reflected in the Hoosier Propane Group's financial position or results of operations, and the method of accounting for these contracts will be unaffected by SFAS No. 133.

2. Acquisitions

In October 1998, the Hoosier Propane Group acquired certain assets of Dekalb Agra, Inc. (Dekalb) for a cash purchase price of $3,850 which was financed through the issuance of long-term debt.

During August 1998, the Hoosier Propane Group acquired certain assets of Tri-State Propane, Inc. and Wolverine Propane, Inc. for an aggregate purchase price of $2,416. The acquisitions were financed through cash in the amount of $1,266, a note payable to the sellers of one of the companies in the amount of $200 and the issuance of noncompete obligations in the amount of $950.

Each of the acquired companies is involved in the retail sale of propane to local customer bases in northern Indiana. The acquisitions have been accounted for using the purchase method of accounting. Accordingly, the purchase price of each acquisition has been allocated to assets acquired based on the fair market values at the date of acquisition. The excess of the purchase price over the fair market values of the tangible and identifiable intangible assets acquired has been recorded as goodwill. The Hoosier Propane Group recorded goodwill of $400 in connection with the Dekalb acquisition and $209 in connection with the 1998 acquisitions. In addition, $950 of the aggregate purchase price in the 1998 acquisitions was allocated to covenants not to compete.

The operating results of all acquisitions are included in the Hoosier Propane Group's combined results of operations from the dates of acquisitions. The following unaudited pro forma data summarize the results of operations for the year indicated as if this acquisition had been completed October 1, 1997, the beginning of fiscal 1998. The pro forma data give effect to actual operating results prior to the acquisitions and adjustments to interest expense, depreciation expense and amortization of intangible assets. 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, 1997 or that the Hoosier Propane Group will obtain in the future. Reported operating results for 1999 and 2000 include the results of the acquired companies due to the dates of acquisition.

| | Pro Forma Fiscal 1998 (Unaudited) |
|---|---|
| Revenue | $60,235 |
| Net income | 3,475 |

3. Notes Payable and Long-Term Debt

In May 2000, L & L Leasing, Inc. entered into a revolving credit agreement with a bank which provides available borrowings up to $2,000 collateralized by L & L Leasing, Inc.'s accounts receivable, inventory and machinery and equipment balances, under which $1,575 was outstanding at September 30, 2000. Interest is payable monthly at the bank's prime rate less 0.5% or at the London Interbank Offered Rate (LIBOR) plus 2%, with principal payable on June 1, 2001. The effective interest rate was 9% at September 30, 2000 and December 31, 2000. At December 31, 2000, the outstanding balance under this revolving credit agreement was $1,575.

During 1999, Domex, Inc. entered into a revolving credit agreement with a bank which provided available borrowings up to $6,000, subject to specified percentages of Domex, Inc.'s accounts receivable, inventory and machinery and equipment balances, under which $2,500 and $0 was outstanding at September 30, 1999 and 2000, respectively. Interest was payable monthly at the bank's prime rate less 0.25% or a formula based on eurocurrency funding plus 2%, with principal payable on May 1, 2000. The effective interest rate was 7.44% at September 30, 1999. Effective May 1, 2000, Domex, Inc. entered into a new revolving credit agreement with the bank which provides available borrowings up to $5,000, collateralized by Domex, Inc.'s accounts receivable and inventory

balances, under which no borrowings were outstanding at September 30, 2000. Interest is payable monthly at the bank's prime rate less 0.5% or at LIBOR plus 2%, with principal payable on May 1, 2001. At December 31, 2000, the outstanding balance under this revolving credit agreement was $4,000. The effective interest rate was 7.51% at December 31, 2000.

Investors 300, Inc. entered into a revolving credit agreement with a bank which provides available borrowings up to $500, subject to a specified percentage of Investors 300, Inc.'s accounts receivable balance, under which $500 and $-0- was outstanding at September 30, 1999 and 2000, respectively. Interest on this credit agreement was payable monthly at 8.25%, with principal payable on May 1, 2000.

Long-term debt consists of the following:

| | September 30, | | December 31, |
|---|---|---|---|
| | 1999 | 2000 | 2000 |
| Revolving credit agreement with a bank with interest payable monthly at the bank's prime rate or a formula based on eurocurrency funding plus 2.25% (effective interest rate of 7.63% and 8.88% at September 30, 1999 and 2000, respectively and 9.5% at December 31, 2000) and principal payable on May 1, 2002..... | $2,281 | $ 1,000 | $ 1,000 |
| Term loan with a bank with monthly payments of $50 plus interest at the bank's prime rate or a formula based on eurocurrency funding plus 2.25% (effective interest rate of 7.75% and 9% at September 30, 1999 and 2000, respectively and 9% at December 31, 2000) with the remaining principal balance payable on June 1, 2003, as discussed further below..... | 6,000 | 5,400 | 5,250 |
| Term loan with a bank with monthly payments of $4, including interest at the bank's prime rate (effective interest rate of 8.25% and 9.5% at September 30, 1999 and 2000, respectively), with the remaining principal balance payable on December 15, 2000..... | 109 | 76 | -- |
| Term loan with a bank with monthly payments of $2 plus interest at the bank's prime rate (effective interest rate of 8.25% and 9.5% at September 30, 1999 and 2000, respectively and 8.25% at December 31, 2000) with the remaining principal balance payable on March 30, 2001.... | 47 | 24 | 18 |
| Noncompete obligations with monthly payments of $9, including interest at 7.5%, repaid in December 2000 | 913 | 875 | -- |
| Note payable to sellers of retail propane companies acquired in 1998 with monthly payments of $2, including interest at 7.5%, repaid in December 2000..... | 193 | 184 | -- |
| | 9,543 | 7,559 | 6,268 |
| Less current portion..... | (803) | (4,950) | (4,668) |
| | $8,740 | $ 2,609 | $ 1,600 |

In July 1999, Investors 300, Inc. entered into an amended and restated credit agreement with its bank to increase the level of financing and to refinance most of Investors 300, Inc.'s outstanding long-term debt. This credit agreement consisted of a $6,000 term loan and a revolving loan of up to $6,000, subject to specified percentages of the company's accounts receivable, inventory, and machinery and equipment balances. Investors 300, Inc. must pay sufficient principal to reduce the outstanding revolving loan balance to an amount not greater than $5,400 on May 1, 2000 and $600 on May 1, 2001, with the remaining principal due on June 1, 2003. All of the credit agreements with the Hoosier Propane Group's bank are collateralized by substantially all of the assets of

the Hoosier Propane Group and contain covenants which, among other things, require the maintenance of various financial performance ratios. Repayment of borrowings pursuant to the credit agreements of each of Domex, Inc., Investors 300, Inc. and L & L Leasing, Inc. is guaranteed by the other companies and, to a lesser extent, by the stockholders of each of Domex, Inc., Investors 300, Inc. and L & L Leasing, Inc.

Due to the sale of the Hoosier Propane Group, as discussed in Note 7, management elected not to renew or negotiate extensions of its revolving credit and term loan agreements. As such, much of the Hoosier Propane Group's outstanding long-term debt is classified as a current liability in the accompanying fiscal year 2000 combined balance sheet.

The noncompete obligations and notes payable to sellers of retail propane companies acquired in 1998 are collateralized by the assets purchased in the acquisition. These obligations and notes payable are subordinate to the obligations owed by the Hoosier Propane Group to its bank.

Principal payments of long-term debt for each of the next five years ended September 30 and thereafter are as follows:

| Year Ending September 30, | |
|---|---|
| 2001 | $4,950 |
| 2002 | 1,054 |
| 2003 | 658 |
| 2004 | 63 |
| 2005 | 67 |
| Thereafter | 767 |
| | $7,559 |

4. Common Stock

Shares of common stock of each of Domex, Inc., Investors 300, Inc. and L & L Leasing, Inc. are as follows:

| | Domex, Inc. | Investors 300, Inc. | L & L Leasing, Inc. |
|---|---|---|---|
| Authorized shares | 1,000 | 1,000 | 1,000 |
| Issued shares | 666 | 315 | 515 |
| Outstanding shares | 346 | 315 | 315 |

5. Employee Benefit Plan

The Hoosier Propane Group sponsors a multiemployer 401(k) profit-sharing plan for employees who have completed one year of service and have attained the age of 21. The Hoosier Propane Group's discretionary contributions charged to expense were $56, $54 and $55 in 1998, 1999 and 2000, respectively, and $14 for the three months ended December 31, 2000.

6. Related-Party Transactions

The Hoosier Propane Group has notes receivable from and notes payable to various stockholders of each of Domex, Inc., Investors 300, Inc. and L & L Leasing, Inc. The notes receivable bear interest of 7% and are due October 31, 2004. The Hoosier Propane Group received interest income from these notes of $31, $28 and

$25 in 1998, 1999 and 2000, respectively, and $5 for the three months ended December 31, 2000. The unsecured notes payable bear interest of 7% and mature on October 1, 2001. The Hoosier Propane Group recorded interest expense related to these notes of $89, $89 and $88 in 1998, 1999 and 2000, respectively, and $18 for the three months ended December 31, 2000.

7. Subsequent Event

On January 12, 2001, the Hoosier Propane Group sold substantially all of their assets to Inergy Partners, LLC for an aggregate purchase price of approximately $74,000 including assumed liabilities. A portion of these proceeds was used to repay in full the Hoosier Propane Group's notes payable to bank, notes payable to stockholders and long-term debt.

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Country Gas Company, Inc.

We have audited the accompanying balance sheets of Country Gas Company, Inc. ("Country Gas") as of May 31, 1999 and 2000, and the related statements of income, stockholders' equity and cash flows for each of the three years in the period ended May 31, 2000. These financial statements are the responsibility of Country Gas's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Country Gas Company, Inc. at May 31, 1999 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Kansas City, Missouri
January 26, 2001

COUNTRY GAS COMPANY, INC.

BALANCE SHEETS
(In thousands, except share data)

| | May 31, | |
|---|---|---|
| | 1999 | 2000 |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,029 | $ 1,797 |
| Accounts receivable, less allowance for uncollectible accounts of $0 in 1999 and $20 in 2000 | 637 | 972 |
| Inventories | 28 | 55 |
| Prepaid expenses and other current assets | 10 | 38 |
| Current portion of note receivable from related party (Note 2) | 80 | 80 |
| Total current assets | 2,784 | 2,942 |
| Property, plant and equipment, at cost: | | |
| Office furniture and equipment | 239 | 249 |
| Vehicles | 1,672 | 1,758 |
| Tanks and plant equipment | 3,373 | 3,486 |
| Leasehold improvements | 88 | 160 |
| | 5,372 | 5,653 |
| Less accumulated depreciation | (2,807) | (3,127) |
| Net property, plant and equipment | 2,565 | 2,526 |
| Note receivable, less current portion from related party (Note 2) | 300 | 220 |
| Federal tax deposit | 445 | 490 |
| Total assets | $ 6,094 | $ 6,178 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ -- | $ 108 |
| Accrued salaries and wages | 217 | 78 |
| State income taxes payable | 33 | 27 |
| Other accrued expenses | 8 | 1 |
| Customer deposits | 26 | 97 |
| Total current liabilities | 284 | 311 |
| Stockholders' equity: | | |
| Common stock, no par value: | | |
| Authorized shares--100,000 | | |
| Issued shares--2,000 | 262 | 262 |
| Retained earnings | 5,564 | 5,621 |
| Less 700 shares of treasury stock, at cost | (16) | (16) |
| Total stockholders' equity | 5,810 | 5,867 |
| Total liabilities and stockholders' equity | $ 6,094 | $ 6,178 |

See accompanying notes.

COUNTRY GAS COMPANY, INC.

STATEMENTS OF INCOME
(In thousands)

| | Year Ended May 31, | | |
|---|---|---|---|
| | 1998 | 1999 | 2000 |
| Revenues: | | | |
| Propane | $7,458 | $7,724 | $8,982 |
| Other | 709 | 763 | 659 |
| | 8,167 | 8,487 | 9,641 |
| Cost of product sold | 3,396 | 3,181 | 4,672 |
| Gross profit | 4,771 | 5,306 | 4,969 |
| Operating and administrative expenses | 2,755 | 3,003 | 3,176 |
| Depreciation | 312 | 354 | 342 |
| Operating income | 1,704 | 1,949 | 1,451 |
| Other income (expense): | | | |
| Interest income | 165 | 176 | 145 |
| Gain on sale of product line (Note 5) | -- | 260 | -- |
| Gain on sale of property, plant and equipment | 26 | 44 | 21 |
| Net income | $1,895 | $2,429 | $1,617 |

See accompanying notes.

COUNTRY GAS COMPANY, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except per share data)

| | Common Stock | Retained Earnings | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|
| Balance at May 31, 1997 | $262 | $ 5,790 | $(16) | $ 6,036 |
| Net income | -- | 1,895 | -- | 1,895 |
| Dividends ($1,300 per share) | -- | (1,690) | -- | (1,690) |
| Balance at May 31, 1998 | 262 | 5,995 | (16) | 6,241 |
| Net income | -- | 2,429 | -- | 2,429 |
| Dividends ($1,430 per share) | -- | (2,860) | -- | (2,860) |
| Balance at May 31, 1999 | 262 | 5,564 | (16) | 5,810 |
| Net income | -- | 1,617 | -- | 1,617 |
| Dividends ($780 per share) | -- | (1,560) | -- | (1,560) |
| Balance at May 31, 2000 | $262 | $ 5,621 | $(16) | $ 5,867 |

See accompanying notes.

COUNTRY GAS COMPANY, INC.

STATEMENTS OF CASH FLOWS
(In thousands)

| | Year Ended May 31, | | |
|---|---|---|---|
| | 1998 | 1999 | 2000 |
| Operating activities | | | |
| Net income | $ 1,895 | $ 2,429 | $ 1,617 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 312 | 354 | 342 |
| Provision for uncollectible accounts | 44 | 46 | 73 |
| Gain on sale of property, plant and equipment | (26) | (44) | (21) |
| Gain on sale of product line | -- | (260) | -- |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 194 | 13 | (409) |
| Inventories | 17 | (9) | (27) |
| Prepaid expenses and other current assets | 125 | (10) | (28) |
| Other noncurrent assets | -- | 6 | (45) |
| Accounts payable | (22) | (4) | 108 |
| Accrued expenses | 18 | 131 | (146) |
| State income taxes payable | (2) | 5 | (6) |
| Customer deposits | (2) | (62) | 71 |
| Net cash provided by operating activities | 2,553 | 2,595 | 1,529 |
| Investing activities | | | |
| Purchases of property, plant and equipment | (524) | (498) | (331) |
| Proceeds from sale of property, plant and equipment | 78 | 44 | 50 |
| Proceeds from the sale of product line | -- | 260 | -- |
| Loan to related party | -- | (400) | -- |
| Collections on note receivable from related party | -- | 20 | 80 |
| Net cash used in investing activities | (446) | (574) | (201) |
| Financing activities | | | |
| Dividends paid | (1,690) | (2,860) | (1,560) |
| Net decrease in cash | 417 | (839) | (232) |
| Cash and cash equivalents at beginning of year | 2,451 | 2,868 | 2,029 |
| Cash and cash equivalents at end of year | $ 2,868 | $ 2,029 | $ 1,797 |

See accompanying notes.

COUNTRY GAS COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS
May 31, 2000

(In thousands except share data)

1. Summary of Significant Accounting Policies

Nature of Operations

Country Gas Company, Inc. ("Country Gas") is an S corporation that sells and distributes propane gas to industrial and domestic users. Country Gas serves the northern part of Illinois, including the Chicago area, and has been in business since 1963. Country Gas sells to households that use propane for heating, industrial customers that use propane to power machinery and commercial customers that use propane as a temporary heating source during building construction.

Concentration of Credit Risk

Credit is generally extended to retail customers in connection with the delivery of propane into customer owned gas storage tanks. Provisions for uncollectible accounts are reflected in the financial statements and have consistently been within management's expectations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

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

Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments with a maturity of three months or less when purchased and are stated at cost, which approximates market.

Inventories

Inventories, which mainly consist of liquid propane, are stated at the lower of cost, determined using the first-in, first-out method, or market.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is computed using the straight-line methodover the assets' estimated useful lives, as follows:

| | Years |
|---|---|
| Office furniture and equipment | 4-8 |
| Vehicles | 5-7 |
| Tanks and plant equipment | 5-30 |
| Leasehold improvements | 10-15 |

Income Taxes

The stockholders have elected to have Country Gas treated as an S corporation for federal income tax purposes under the Internal Revenue Code, as well as for purposes of state income taxes. Accordingly, Country Gas does not pay corporate tax on its income for federal purposes, nor in states in which the Company operates as an S corporation. Country Gas's stockholders include their pro rata share of Country Gas's taxable income in their individual income tax returns for such jurisdictions, and Country Gas pays dividends to its stockholders in amounts sufficient to cover the taxes resulting from such taxable income being included in the stockholders' individual income tax returns. State income taxes are payable, based on a fixed percentage of taxable income, to the state of Illinois.

Because Country Gas has elected to maintain a fiscal year end of May 31, Country Gas must maintain a tax deposit with the IRS based on prior year earnings. The deposit is reported as a noncurrent asset on the accompanying balance sheets.

Customer Deposits

Customer deposits primarily represent cash received by Country Gas from advance payments from certain propane customers.

Advertising Costs

Country Gas expenses advertising costs as incurred. Advertising expenses amounted to $38, $32 and $45 for the years ended May 31, 1998, 1999 and 2000, respectively, and are included in selling, general and administrative expenses in the accompanying statements of income.

2. Related Party Transactions

During fiscal year 1999, Country Gas loaned $400 to a partnership owned by Country Gas's stockholders. The funds were used to purchase land adjacent to Country Gas's existing facilities. The unsecured note receivable matures on March 15, 2004 and provides for quarterly principal payments, totaling $80 per year, plus interest at 7%. For the years ended May 31, 1999 and 2000, Country Gas recorded interest income of $7 and $10, respectively, in connection with the unsecured note receivable. Leases with a related party are described in Note 3.

3. Leases

Country Gas has entered into noncancelable operating lease agreements with a stockholder for the lease of two facilities.

Future minimum lease payments under these operating leases for the next five years ending May 31 are as follows:

| Year Ending May 31, | |
|---|---|
| 2001 | $192 |
| 2002 | 192 |
| 2003 | 192 |
| 2004 | 176 |
| 2005 | -- |
| | $752 |

Total rent expense during the years ended May 31, 1998, 1999 and 2000 was $190, $197 and $192, respectively.

4. Employee Benefit Plan

Country Gas has a discretionary profit-sharing plan covering substantially all of its employees. During the fiscal years ended May 31, 1998, 1999 and 2000, Country Gas made contributions to the plan of $115, $140 and $105, respectively.

5. Sale of Product Line

In fiscal 1999, Country Gas's "Turftreet" product line, which provided the application of liquid fertilizers and chemicals to lawns, was sold for approximately $260, yielding a gain of the same amount. This product line generated annual sales of approximately $260 with a gross margin of approximately 82%.

6. Subsequent Event

During November 1999, Country Gas signed a letter of intent whereby it agreed to sell substantially all of its assets to Inergy Partners, LLC for approximately $17,400 plus the value of the accounts receivable and inventory at the closing date. The sale closed effective June 1, 2000.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Inergy Partners, LLC

We have audited the accompanying balance sheet of Inergy, L.P. as of March 7, 2001. This balance sheet is the responsibility of Inergy Partners, LLC's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

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

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of Inergy, L.P. at March 7, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Kansas City, Missouri
March 7, 2001

INERGY, L.P.

BALANCE SHEET

| ASSETS | March 7, 2001 |
|---|---|
| Current assets: | |
| Cash | $1,000 |
| Total assets | $1,000 |
| PARTNERS' EQUITY | |
| Limited partner's equity | $ 990 |
| Non-Managing general partner's equity | 10 |
| Total partners' equity | $ 1,000 |

See accompanying note.

INERGY, L.P.

NOTE TO BALANCE SHEET

1. Nature of Operations

Inergy, L.P. is a Delaware limited partnership formed on March 7, 2001 to ultimately acquire, own and operate the propane business and substantially all of the assets of Inergy Partners, LLC. In order to simplify Inergy, L.P.'s obligations under the laws of selected jurisdictions in which Inergy, L.P. will conduct business, Inergy, L.P.'s activities will be conducted through a 100%-owned operating company.

Inergy, L.P. intends to offer 1,500,000 common units, representing limited partner interests, pursuant to a public offering and to concurrently issue (i) incentive distribution rights to Inergy Holdings, LLC and (ii) a 2% non-managing general partner interest in Inergy, L.P. to Inergy Partners, LLC, (iii) 1,106,266 senior subordinated units and 572,542 junior subordinated units to New Inergy Propane, LLC and (iv) 2,207,101 senior subordinated units to an investor group and former owners of acquired businesses.

Inergy Partners, LLC contributed $10 as the non-managing general partner and $990 as the limited partner on March 7, 2001. There have been no other transactions involving Inergy, L.P. as of March 7, 2001.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Inergy Partners, LLC

We have audited the accompanying balance sheet of Inergy GP, LLC as of March 2, 2001. This balance sheet is the responsibility of Inergy Partners, LLC's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

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

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of Inergy GP, LLC at March 2, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Kansas City, Missouri
March 2, 2001

INERGY GP, LLC

BALANCE SHEET

| ASSETS | March 2, 2001 |
|---|---|
| Current assets: | |
| Cash | $ 1,000 |
| Total assets | $ 1,000 |
| **OWNER'S EQUITY** | |
| Owner's equity | $ 1,000 |
| Total owner's equity | $ 1,000 |

See accompanying note.

INERGY GP, LLC

NOTE TO BALANCE SHEET

1. Nature of Operations

Inergy GP, LLC is a Delaware limited liability company formed on March 2, 2001 to become the managing general partner of Inergy Partners, L.P. Inergy GP, LLC is a wholly-owned subsidiary of Inergy Holdings, LLC. Inergy GP, LLC owns a non-economic managing general partner interest in Inergy, L.P.

On March 2, 2001, Inergy Holdings, LLC contributed $1,000 to Inergy GP, LLC in exchange for a 100% ownership interest.

On March 7, 2001, Inergy GP, LLC received a managing general partner interest in Inergy, L.P. There have been no other transactions involving Inergy GP, LLC as of March 2, 2001.

APPENDIX A

# AMENDED AND RESTATED

# AGREEMENT OF LIMITED PARTNERSHIP

# OF

# INERGY, L.P.

TABLE OF CONTENTS

AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP
OF
INERGY, L.P.

THIS AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF INERGY, L.P. dated as of , 2001, is entered into by and among Inergy GP LLC, a Delaware limited liability company, as the Managing General Partner, Inergy Partners, LLC, a Delaware limited liability company, as the Non-Managing General Partner and as the Organizational Limited Partner, New Inergy Propane, LLC, a Delaware limited liability company, Inergy Holdings, LLC, a Delaware limited liability company, together with any other Persons who become Partners in the Partnership or parties hereto as provided herein. In consideration of the covenants, conditions and agreements contained herein, the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.1. Definitions.

The following definitions shall be for all purposes, unless otherwise clearly indicated to the contrary, applied to the terms used in this Agreement.

"Acquisition" means any transaction in which any Group Member acquires (through an asset acquisition, merger, stock acquisition or other form of investment) control over all or a portion of the assets, properties or business of another Person for the purpose of increasing the operating capacity or revenues of the Partnership Group from the operating capacity or revenues of the Partnership Group existing immediately prior to such transaction.

"Additional Book Basis" means the portion of any remaining Carrying Value of an Adjusted Property that is attributable to positive adjustments made to such Carrying Value as a result of Book-Up Events. For purposes of determining the extent that Carrying Value constitutes Additional Book Basis:

(i) Any negative adjustment made to the Carrying Value of an Adjusted Property as a result of either a Book-Down Event or a Book-Up Event shall first be deemed to offset or decrease that portion of the Carrying Value of such Adjusted Property that is attributable to any prior positive adjustments made thereto pursuant to a Book-Up Event or Book-Down Event.

(ii) If Carrying Value that constitutes Additional Book Basis is reduced as a result of a Book-Down Event and the Carrying Value of other property is increased as a result of such Book-Down Event, an allocable portion of any such increase in Carrying Value shall be treated as Additional Book Basis; provided that the amount treated as Additional Book Basis pursuant hereto as a result of such Book-Down Event shall not exceed the amount by which the Aggregate Remaining Net Positive Adjustments after such Book-Down Event exceeds the remaining Additional Book Basis attributable to all of the Partnership's Adjusted Property after such Book-Down Event (determined without regard to the application of this clause (ii) to such Book-Down Event).

"Additional Book Basis Derivative Items" means any Book Basis Derivative Items that are computed with reference to Additional Book Basis. To the extent that the Additional Book Basis attributable to all of the Partnership's Adjusted Property as of the beginning of any taxable period exceeds the Aggregate Remaining Net Positive Adjustments as of the beginning of such period (the "Excess Additional Book Basis"), the Additional Book Basis Derivative Items for such period shall be reduced by the amount that bears the same ratio to the amount of Additional Book Basis Derivative Items determined without regard to this sentence as the Excess Additional Book Basis bears to the Additional Book Basis as of the beginning of such period.

"Additional Limited Partner" means a Person admitted to the Partnership as a Limited Partner pursuant to Section 10.4 and who is shown as such on the books and records of the Partnership.

"Adjusted Capital Account" means the Capital Account maintained for each Partner as of the end of each fiscal year of the Partnership, (a) increased by any amounts that such Partner is obligated to restore under the standards set by Treasury Regulation Section 1.704-1(b)(2)(ii)(c) (or is deemed obligated to restore under Treasury Regulation Sections 1.704-2(g) and 1.704-2(i)(5)) and (b) decreased by (i) the amount of all losses and deductions that, as of the end of such fiscal year, are reasonably expected to be allocated to such Partner in subsequent years under Sections 704(e)(2) and 706(d) of the Code and Treasury Regulation Section 1.751-1(b)(2)(ii), and (ii) the amount of all distributions that, as of the end of such fiscal year, are reasonably expected to be made to such Partner in subsequent years in accordance with the terms of this Agreement or otherwise to the extent they exceed offsetting increases to such Partner's Capital Account that are reasonably expected to occur during (or prior to) the year in which such distributions are reasonably expected to be made (other than increases as a result of a minimum gain chargeback pursuant to Section 6.1(d)(i) or 6.1(d)(ii)). The foregoing definition of Adjusted Capital Account is intended to comply with the provisions of Treasury Regulation Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith. The "Adjusted Capital Account" of a Partner in respect of a General Partner Interest, a Common Unit, a Senior Subordinated Unit, a Junior Subordinated Unit or an Incentive Distribution Right or any other specified interest in the Partnership shall be the amount which such Adjusted Capital Account would be if such General Partner Interest, Common Unit, Senior Subordinated Unit, Junior Subordinated Unit, Incentive Distribution Right or other interest in the Partnership were the only interest in the Partnership held by a Partner from and after the date on which such General Partner Interest, Common Unit, Senior Subordinated Unit, Junior Subordinated Unit, Incentive Distribution Right or other interest was first issued.

"Adjusted Operating Surplus" means, with respect to any period, Operating Surplus generated during such period (a) less (i) any net increase in Working Capital Borrowings with respect to such period and (ii) any net reduction in cash reserves for Operating Expenditures with respect to such period not relating to an Operating Expenditure made with respect to such period, and (b) plus (i) any net decrease in Working Capital Borrowings with respect to such period and (ii) any net increase in cash reserves for Operating Expenditures with respect to such period required by any debt instrument for the repayment of principal, interest or premium. Adjusted Operating Surplus does not include that portion of Operating Surplus included in clause (a)(i) of the definition of Operating Surplus.

"Adjusted Property" means any property the Carrying Value of which has been adjusted pursuant to Section 5.5(d)(i) or 5.5(d)(ii).

"Affiliate" means, with respect to any Person, any other Person that directly or indirectly through one or more intermediaries controls, is controlled by or is under common control with, the Person in question. As used herein, the term "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.

"Aggregate Remaining Net Positive Adjustments" means, as of the end of any taxable period, the sum of the Remaining Net Positive Adjustments of all the Partners.

"Agreed Allocation" means any allocation, other than a Required Allocation, of an item of income, gain, loss or deduction pursuant to the provisions of Section 6.1, including, without limitation, a Curative Allocation (if appropriate to the context in which the term "Agreed Allocation" is used).

"Agreed Value" of any Contributed Property means the fair market value of such property or other consideration at the time of contribution as determined by the Managing General Partner using such reasonable method of valuation as it may adopt. The Managing General Partner shall, in its discretion, use such method as it deems reasonable and appropriate to allocate the aggregate Agreed Value of Contributed Properties contributed to the Partnership in a single or integrated transaction among each separate property on a basis proportional to the fair market value of each Contributed Property.

"Agreement" means this Amended and Restated Agreement of Limited Partnership of Inergy, L.P., as it may be amended, supplemented or restated from time to time.

"Assignee" means a Non-citizen Assignee or a Person to whom one or more Limited Partner Interests have been transferred in a manner permitted under this Agreement and who has executed and delivered a Transfer Application as required by this Agreement, but who has not been admitted as a Substituted Limited Partner.

"Associate" means, when used to indicate a relationship with any Person, (a) any corporation or organization of which such Person is a director, officer or partner or is, directly or indirectly, the owner of 20% or more of any class of voting stock or other voting interest; (b) any trust or other estate in which such Person has at least a 20% beneficial interest or as to which such Person serves as trustee or in a similar fiduciary capacity; and (c) any relative or spouse of such Person, or any relative of such spouse, who has the same principal residence as such Person.

"Available Cash" means, with respect to any Quarter ending prior to the Liquidation Date,

(a) the sum of (i) all cash and cash equivalents of the Partnership Group on hand at the end of such Quarter, and (ii) all additional cash and cash equivalents of the Partnership Group on hand on the date of determination of Available Cash with respect to such Quarter resulting from Working Capital Borrowings made subsequent to the end of such Quarter, less

(b) the amount of any cash reserves that is necessary or appropriate in the reasonable discretion of the Managing General Partner to (i) provide for the proper conduct of the business of the Partnership Group (including reserves for future capital expenditures and for anticipated future credit needs of the Partnership Group) subsequent to such Quarter, (ii) comply with applicable law or any loan agreement, security agreement, mortgage, debt instrument or other agreement or obligation to which any Group Member is a party or by which it is bound or its assets are subject or (iii) provide funds for distributions under Section 6.4 or 6.5 in respect of any one or more of the next four Quarters; provided, however, that the Managing General Partner may not establish cash reserves pursuant to (iii) above if the effect of such reserves would be that the Partnership is unable to distribute the Minimum Quarterly Distribution on all Common Units, plus any Cumulative Common Unit Arrearage on all Common Units, with respect to such Quarter; and, provided further, that disbursements made by a Group Member or cash reserves established, increased or reduced after the end of such Quarter but on or before the date of determination of Available Cash with respect to such Quarter shall be deemed to have been made, established, increased or reduced, for purposes of determining Available Cash, within such Quarter if the Managing General Partner so determines.

Notwithstanding the foregoing, "Available Cash" with respect to the Quarter in which the Liquidation Date occurs and any subsequent Quarter shall equal zero.

"Book Basis Derivative Items" means any item of income, deduction, gain or loss included in the determination of Net Income or Net Loss that is computed with reference to the Carrying Value of an Adjusted Property (e.g., depreciation, depletion, or gain or loss with respect to an Adjusted Property).

"Book-Down Event" means an event which triggers a negative adjustment to the Capital Accounts of the Partners pursuant to Section 5.5(d).

"Book-Tax Disparity" means with respect to any item of Contributed Property or Adjusted Property, as of the date of any determination, the difference between the Carrying Value of such Contributed Property or Adjusted Property and the adjusted basis thereof for federal income tax purposes as of such date. A Partner's share of the Partnership's Book-Tax Disparities in all of its Contributed Property and Adjusted Property will be reflected by the difference between such Partner's Capital Account balance as maintained pursuant to Section 5.5 and the hypothetical balance of such Partner's Capital Account computed as if it had been maintained strictly in accordance with federal income tax accounting principles.

"Book-Up Event" means an event which triggers a positive adjustment to the Capital Accounts of the Partners pursuant to Section 5.5(d).

"Business Day" means Monday through Friday of each week, except that a legal holiday recognized as such by the government of the United States of America or the states of New York or Oklahoma shall not be regarded as a Business Day.

"Capital Account" means the capital account maintained for a Partner pursuant to Section 5.5. The "Capital Account" of a Partner in respect of a General Partner Interest, a Common Unit, a Senior Subordinated Unit, a Junior Subordinated Unit, an Incentive Distribution Right or any other Partnership Interest shall be the amount which such Capital Account would be if such General Partner Interest, Common Unit, Senior Subordinated Unit, Junior Subordinated Unit, Incentive Distribution Right or other Partnership Interest were the only interest in the Partnership held by a Partner from and after the date on which such General Partner Interest, Common Unit, Senior Subordinated Unit, Junior Subordinated Unit, Incentive Distribution Right or other Partnership Interest was first issued.

"Capital Contribution" means any cash, cash equivalents or the Net Agreed Value of Contributed Property that a Partner contributes to the Partnership pursuant to this Agreement or the Contribution and Conveyance Agreement.

"Capital Improvement" means any (a) addition or improvement to the capital assets owned by any Group Member or (b) acquisition of existing, or the construction of new capital assets (including, without limitation, retail distribution centers, propane tanks, pipeline systems, storage facilities and related assets), in each case made to increase the operating capacity or revenues of the Partnership Group from the operating capacity or revenues of the Partnership Group existing immediately prior to such addition, improvement, acquisition or construction.

"Capital Surplus" has the meaning assigned to such term in Section 6.3(a).

"Carrying Value" means (a) with respect to a Contributed Property, the Agreed Value of such property reduced (but not below zero) by all depreciation, amortization and cost recovery deductions charged to the Partners' and Assignees' Capital Accounts in respect of such Contributed Property, and (b) with respect to any other Partnership property, the adjusted basis of such property for federal income tax purposes, all as of the time of determination. The Carrying Value of any property shall be adjusted from time to time in accordance with Sections 5.5(d)(i) and 5.5(d)(ii) and to reflect changes, additions or other adjustments to the Carrying Value for dispositions and acquisitions of Partnership properties, as deemed appropriate by the Managing General Partner.

"Cause" means a court of competent jurisdiction has entered a final, non-appealable judgment finding a General Partner liable for actual fraud, gross negligence or willful or wanton misconduct in its capacity as a general partner of the Partnership.

"Certificate" means a certificate (i) substantially in the form of Exhibit A to this Agreement, (ii) issued in global form in accordance with the rules and regulations of the Depositary or (iii) in such other form as may be adopted by the Managing General Partner in its discretion, issued by the Partnership evidencing ownership of one or more Common Units or a certificate, in such form as may be adopted by the Managing General Partner in its discretion, issued by the Partnership evidencing ownership of one or more other Partnership Securities.

"Certificate of Limited Partnership" means the Certificate of Limited Partnership of the Partnership filed with the Secretary of State of the State of Delaware as referenced in Section 2.1, as such Certificate of Limited Partnership may be amended, supplemented or restated from time to time.

"Citizenship Certification" means a properly completed certificate in such form as may be specified by the Managing General Partner by which an Assignee or a Limited Partner certifies that he (and if he is a nominee holding for the account of another Person, that to the best of his knowledge such other Person) is an Eligible Citizen.

"Claim" has the meaning assigned to such term in Section 7.12(c).

"Closing Date" means the first date on which Common Units are sold by the Partnership to the Underwriters pursuant to the provisions of the Underwriting Agreement.

"Closing Price" has the meaning assigned to such term in Section 15.1(a).

"Code" means the Internal Revenue Code of 1986, as amended and in effect from time to time. Any reference herein to a specific section or sections of the Code shall be deemed to include a reference to any corresponding provision of successor law.

"Combined Interest" has the meaning assigned to such term in Section 11.3(a).

"Commission" means the United States Securities and Exchange Commission.

"Common Unit" means a Partnership Security representing a fractional part of the Partnership Interests of all Limited Partners and Assignees and having the rights and obligations specified with respect to Common Units in this Agreement. The term "Common Unit" does not refer to a Senior Subordinated Unit or a Junior Subordinated Unit prior to its conversion into a Common Unit pursuant to the terms hereof.

"Common Unit Arrearage" means, with respect to any Common Unit, whenever issued, as to any Quarter within the Subordination Period, the excess, if any, of (a) the Minimum Quarterly Distribution with respect to a Common Unit in respect of such Quarter over (b) the sum of all Available Cash distributed with respect to a Common Unit in respect of such Quarter pursuant to Section 6.4(a)(i).

"Conflicts Committee" means a committee of the Board of Directors of the Managing General Partner composed entirely of two or more directors who are not (a) security holders, officers or employees of the Managing General Partner, (b) officers, directors or employees of any Affiliate of the Managing General Partner or (c) holders of any ownership interest in the Partnership Group other than Common Units and who also meet the independence standards required to serve on an audit committee of a board of directors by the National Securities Exchange on which the Common Units are listed for trading.

"Contributed Property" means each property or other asset, in such form as may be permitted by the Delaware Act, but excluding cash, contributed to the Partnership. Once the Carrying Value of a Contributed Property is adjusted pursuant to Section 5.5(d), such property shall no longer constitute a Contributed Property, but shall be deemed an Adjusted Property.

"Contribution and Conveyance Agreement" means that certain Contribution, Conveyance and Assignment Agreement, dated as of the Closing Date, among the Managing General Partner, the Non-Managing General Partner, the Partnership, the Operating Company and certain other parties, together with the additional conveyance documents and instruments contemplated or referenced thereunder.

"Cumulative Common Unit Arrearage" means, with respect to any Common Unit, whenever issued, and as of the end of any Quarter, the excess, if any, of (a) the sum resulting from adding together the Common Unit Arrearage as to an Initial Common Unit for each of the Quarters within the Subordination Period ending on or before the last day of such Quarter over (b) the sum of any distributions theretofore made pursuant to Section 6.4(a)(ii) and the second sentence of Section 6.5 with respect to an Initial Common Unit (including any distributions to be made in respect of the last of such Quarters).

"Curative Allocation" means any allocation of an item of income, gain, deduction, loss or credit pursuant to the provisions of Section 6.1(d)(xi).

"Current Market Price" has the meaning assigned to such term in Section 15.1(a).

"Delaware Act" means the Delaware Revised Uniform Limited Partnership Act, 6 Del C. (S) 17-101, et seq., as amended, supplemented or restated from time to time, and any successor to such statute.

"Departing Partner" means a former General Partner from and after the effective date of any withdrawal or removal of such former General Partner pursuant to Section 11.1, 11.2 or 11.4.

"Depositary" means, with respect to any Units issued in global form, The Depository Trust Company and its successors and permitted assigns.

"Economic Risk of Loss" has the meaning set forth in Treasury Regulation Section 1.752-2(a).

"Eligible Citizen" means a Person qualified to own interests in real property in jurisdictions in which any Group Member does business or proposes to do business from time to time, and whose status as a Limited Partner or Assignee does not or would not subject such Group Member to a significant risk of cancellation or forfeiture of any of its properties or any interest therein.

"Event of Withdrawal" has the meaning assigned to such term in Section 11.1(a).

"Final Subordinated Units" has the meaning assigned to such term in Section 6.1(d)(x).

"First Liquidation Target Amount" has the meaning assigned to such term in Section 6.1(c)(i)(E).

"First Target Distribution" means $0.66 per Unit per Quarter (or, with respect to the period commencing on the Closing Date and ending on June 30, 2001, it means the product of $0.66 multiplied by a fraction of which the numerator is the number of days in such period, and of which the denominator is 91), subject to adjustment in accordance with Sections 6.6 and 6.9.

"General Partners" means the Managing General Partner and the Non-Managing General Partner and their successors and permitted assigns as managing general partner and non-managing general partner, respectively, of the Partnership.

"General Partner Interest" means the ownership interest of a General Partner in the Partnership (in its capacity as a general partner without reference to any Limited Partner Interest held by it) which may be evidenced by Partnership Securities or a combination thereof or interest therein, and includes any and all benefits to which a General Partner is entitled as provided in this Agreement, together with all obligations of a General Partner to comply with the terms and provisions of this Agreement.

"Group" means a Person that with or through any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting (except voting pursuant to a revocable proxy or consent given to such Person in response to a proxy or consent solicitation made to 10 or more Persons) or disposing of any Partnership Securities with any other Person that beneficially owns, or whose Affiliates or Associates beneficially own, directly or indirectly, Partnership Securities.

"Group Member" means a member of the Partnership Group.

"Holder" as used in Section 7.12, has the meaning assigned to such term in Section 7.12(a).

"Incentive Distribution Right" means a non-voting Limited Partner Interest issued to Inergy Holdings, LLC pursuant to Section 5.2, which Partnership Interest will confer upon the holder thereof only the rights and obligations specifically provided in this Agreement with respect to Incentive Distribution Rights (and no other rights otherwise available to or other obligations of a holder of a Partnership Interest). Notwithstanding anything in this Agreement to the contrary, the holder of an Incentive Distribution Right shall not be entitled to vote such Incentive Distribution Right on any Partnership matter except as may otherwise be required by law.

"Incentive Distributions" means any amount of cash distributed to the holders of the Incentive Distribution Rights pursuant to Sections 6.4(a)(vi), (vii) and (viii) and 6.4(b)(iii), (iv) and (v).

"Indemnified Persons" has the meaning assigned to such term in Section 7.12(c).

"Indemnitee" means (a) each General Partner, (b) any Departing Partner, (c) any Person who is or was an Affiliate of a General Partner or any Departing Partner, (d) any Person who is or was a member, partner, officer, director, employee, agent or trustee of any Group Member, a General Partner or any Departing Partner or any Affiliate of any Group Member, a General Partner or any Departing Partner, and (e) any Person who is or was serving at the request of a General Partner or any Departing Partner or any Affiliate of a General Partner or any Departing Partner as an officer, director, employee, member, partner, agent, fiduciary or trustee of another Person; provided, that a Person shall not be an Indemnitee by reason of providing, on a fee-for-services basis, trustee, fiduciary or custodial services.

"Initial Common Units" means the Common Units sold in the Initial Offering.

"Initial Limited Partners" means Inergy Holdings, LLC (with respect to the Incentive Distribution Rights received by it pursuant to Section 5.2), Inergy Partners, LLC, New Inergy Propane, LLC, and the Underwriters, in each case upon being admitted to the Partnership in accordance with Section 10.1.

"Initial Offering" means the initial offering and sale of Common Units to the public, as described in the Registration Statement.

"Initial Unit Price" means (a) with respect to the Common Units, the Senior Subordinated Units and the Junior Subordinated Units, the initial public offering price per Common Unit at which the Underwriters offered the Common Units to the public for sale as set forth on the cover page of the prospectus included as part of the Registration Statement and first issued at or after the time the Registration Statement first became effective or (b) with respect to any other class or series of Units, the price per Unit at which such class or series of Units is initially sold by the Partnership, as determined by the Managing General Partner, in each case adjusted as the Managing General Partner determines to be appropriate to give effect to any distribution, subdivision or combination of Units.

"Interim Capital Transactions" means the following transactions if they occur prior to the Liquidation Date: (a) borrowings, refinancings or refundings of indebtedness and sales of debt securities (other than Working Capital Borrowings and other than for items purchased on open account in the ordinary course of business) by any Group Member; (b) sales of equity interests by any Group Member (including the Common Units sold to the Underwriters pursuant to the exercise of their over-allotment option); and (c) sales or other voluntary or involuntary dispositions of any assets of any Group Member other than (i) sales or other dispositions of inventory, accounts receivable and other assets in the ordinary course of business, and (ii) sales or other dispositions of assets as part of normal retirements or replacements.

"Issue Price" means the price at which a Unit is purchased from the Partnership, after taking into account any sales commission or underwriting discount charged to the Partnership.

"Junior Subordinated Units" means a Unit representing a fractional part of the Partnership Interests of all Limited Partners and Assignees (other than of holders of the Incentive Distribution Rights), and having the rights and obligations specified with respect to Junior Subordinated Units in this Agreement.

"Limited Partner" means, unless the context otherwise requires, (a) the Organizational Limited Partner prior to its withdrawal from the Partnership, each Initial Limited Partner, each Substituted Limited Partner, each Additional Limited Partner and any Departing Partner upon the change of its status from General Partner to Limited Partner pursuant to Section 11.3 or (b) solely for purposes of Articles V, VI, VII and IX, each Assignee; provided, however, that when the term "Limited Partner" is used herein in the context of any vote or other approval, including without limitation Articles XIII and XIV, such term shall not, solely for such purpose, include any holder of an Incentive Distribution Right except as may otherwise be required by law.

"Limited Partner Interest" means the ownership interest of a Limited Partner or Assignee in the Partnership, which may be evidenced by Common Units, Senior Subordinated Units, Junior Subordinated Units, Incentive Distribution Rights or other Partnership Securities or a combination thereof or interest therein, and includes any and all benefits to which such Limited Partner or Assignee is entitled as provided in this Agreement, together with all obligations of such Limited Partner or Assignee to comply with the terms and provisions of this Agreement; provided, however, that when the term "Limited Partner Interest" is used herein in the context of any vote or other approval, including without limitation Articles XIII and XIV, such term shall not, solely for such purpose, include any holder of an Incentive Distribution Right except as may otherwise be required by law.

"Liquidation Date" means (a) in the case of an event giving rise to the dissolution of the Partnership of the type described in clauses (a) and (b) of the first sentence of Section 12.2, the date on which the applicable time period during which the holders of Outstanding Units have the right to elect to reconstitute the Partnership and continue its business has expired without such an election being made, and (b) in the case of any other event giving rise to the dissolution of the Partnership, the date on which such event occurs.

"Liquidator" means one or more Persons selected by the Managing General Partner to perform the functions described in Section 12.3 as liquidating trustee of the Partnership within the meaning of the Delaware Act.

"Managing General Partner" means Inergy GP, LLC and its successors and permitted assigns as managing general partner of the Partnership.

"Merger Agreement" has the meaning assigned to such term in Section 14.1.

"Minimum Quarterly Distribution" means $0.60 per Unit per Quarter (or with respect to the period commencing on the Closing Date and ending on June 30, 2001, it means the product of $0.60 multiplied by a fraction of which the numerator is the number of days in such period and of which the denominator is 91), subject to adjustment in accordance with Sections 6.6 and 6.9.

"National Securities Exchange" means an exchange registered with the Commission under Section 6(a) of the Securities Exchange Act of 1934, as amended, supplemented or restated from time to time, and any successor to such statute, or the Nasdaq National Market or any successor thereto.

"Net Agreed Value" means, (a) in the case of any Contributed Property, the Agreed Value of such property reduced by any liabilities either assumed by the Partnership upon such contribution or to which such property is subject when contributed, and (b) in the case of any property distributed to a Partner or Assignee by the Partnership, the Partnership's Carrying Value of such property (as adjusted pursuant to Section 5.5(d)(ii)) at the time such property is distributed, reduced by any indebtedness either assumed by such Partner or Assignee upon such distribution or to which such property is subject at the time of distribution, in either case, as determined under Section 752 of the Code.

"Net Income" means, for any taxable year, the excess, if any, of the Partnership's items of income and gain (other than those items taken into account in the computation of Net Termination Gain or Net Termination Loss) for such taxable year over the Partnership's items of loss and deduction (other than those items taken into account in the computation of Net Termination Gain or Net Termination Loss) for such taxable year. The items included in the calculation of Net Income shall be determined in accordance with Section 5.5(b) and shall not include any items specially allocated under Section 6.1(d); provided that the determination of the items that have been specially allocated under Section 6.1(d) shall be made as if Section 6.1(d)(xii) were not in this Agreement.

"Net Loss" means, for any taxable year, the excess, if any, of the Partnership's items of loss and deduction (other than those items taken into account in the computation of Net Termination Gain or Net Termination Loss) for such taxable year over the Partnership's items of income and gain (other than those

items taken into account in the computation of Net Termination Gain or Net Termination Loss) for such taxable year. The items included in the calculation of Net Loss shall be determined in accordance with Section 5.5(b) and shall not include any items specially allocated under Section 6.1(d); provided that the determination of the items that have been specially allocated under Section 6.1(d) shall be made as if Section 6.1(d)(xii) were not in this Agreement.

"Net Positive Adjustments" means, with respect to any Partner, the excess, if any, of the total positive adjustments over the total negative adjustments made to the Capital Account of such Partner pursuant to Book-Up Events and Book-Down Events.

"Net Termination Gain" means, for any taxable year, the sum, if positive, of all items of income, gain, loss or deduction recognized by the Partnership after the Liquidation Date. The items included in the determination of Net Termination Gain shall be determined in accordance with Section 5.5(b) and shall not include any items of income, gain or loss specially allocated under Section 6.1(d).

"Net Termination Loss" means, for any taxable year, the sum, if negative, of all items of income, gain, loss or deduction recognized by the Partnership after the Liquidation Date. The items included in the determination of Net Termination Loss shall be determined in accordance with Section 5.5(b) and shall not include any items of income, gain or loss specially allocated under Section 6.1(d).

"Non-citizen Assignee" means a Person whom the Managing General Partner has determined in its discretion does not constitute an Eligible Citizen and as to whose Partnership Interest the Managing General Partner has become the Substituted Limited Partner, pursuant to Section 4.9.

"Non-Managing General Partner" means Inergy Partners, LLC and its successors and permitted assigns as non-managing general partner of the Partnership.

"Nonrecourse Built-in Gain" means with respect to any Contributed Properties or Adjusted Properties that are subject to a mortgage or pledge securing a Nonrecourse Liability, the amount of any taxable gain that would be allocated to the Partners pursuant to Sections 6.2(b)(i)(A), 6.2(b)(ii)(A) and 6.2(b)(iii) if such properties were disposed of in a taxable transaction in full satisfaction of such liabilities and for no other consideration.

"Nonrecourse Deductions" means any and all items of loss, deduction or expenditures (including, without limitation, any expenditures described in Section 705(a)(2)(B) of the Code) that, in accordance with the principles of Treasury Regulation Section 1.704-2(b), are attributable to a Nonrecourse Liability.

"Nonrecourse Liability" has the meaning set forth in Treasury Regulation Section 1.752-1(a)(2).

"Notice of Election to Purchase" has the meaning assigned to such term in Section 15.1(b).

"Operating Company" means Inergy Propane, LLC, a Delaware limited liability company, and any successors thereto.

"Operating Company Agreement" means the Limited Liability Company Agreement of the Operating Company, as it may be amended, supplemented or restated from time to time.

"Operating Expenditures" means all Partnership Group expenditures, including, but not limited to, taxes, reimbursements of the Managing General Partner, repayment of Working Capital Borrowings, debt service payments, and capital expenditures, subject to the following:

(a) Payments (including prepayments) of principal of and premium on indebtedness other than Working Capital Borrowings shall not constitute Operating Expenditures.

(b) Operating Expenditures shall not include (i) capital expenditures made for Acquisitions or for Capital Improvements, (ii) payment of transaction expenses relating to Interim Capital Transactions or (iii) distributions to Partners. Where capital expenditures are made in part for Acquisitions or for Capital Improvements and in part for other purposes, the Managing General Partner's good faith allocation between the amounts paid for each shall be conclusive.

"Operating Surplus" means, with respect to any period ending prior to the Liquidation Date, on a cumulative basis and without duplication,

(a) the sum of (i) $8.5 million plus all cash and cash equivalents of the Partnership Group on hand as of the close of business on the Closing Date, (ii) all cash receipts of the Partnership Group for the period beginning on the Closing Date and ending with the last day of such period, other than cash receipts from Interim Capital Transactions (except to the extent specified in Section 6.5) and (iii) all cash receipts of the Partnership Group after the end of such period but on or before the date of determination of Operating Surplus with respect to such period resulting from Working Capital Borrowings, less

(b) the sum of (i) Operating Expenditures for the period beginning on the Closing Date and ending with the last day of such period and (ii) the amount of cash reserves that is necessary or advisable in the reasonable discretion of the Managing General Partner to provide funds for future Operating Expenditures; provided, however, that disbursements made (including contributions to a Group Member or disbursements on behalf of a Group Member) or cash reserves established, increased or reduced after the end of such period but on or before the date of determination of Available Cash with respect to such period shall be deemed to have been made, established, increased or reduced, for purposes of determining Operating Surplus, within such period if the Managing General Partner so determines.

Notwithstanding the foregoing, "Operating Surplus" with respect to the Quarter in which the Liquidation Date occurs and any subsequent Quarter shall equal zero.

"Opinion of Counsel" means a written opinion of counsel (who may be regular counsel to the Partnership or either of the General Partners or any of their Affiliates) acceptable to the Managing General Partner in its reasonable discretion.

"Option Closing Date" means the date or dates on which any Common Units are sold by the Partnership to the Underwriters upon exercise of the Over-Allotment Option.

"Organizational Limited Partner" means Inergy Partners, LLC in its capacity as the organizational limited partner of the Partnership pursuant to this Agreement.

"Outstanding" means, with respect to Partnership Securities, all Partnership Securities that are issued by the Partnership and reflected as outstanding on the Partnership's books and records as of the date of determination; provided, however, that if at any time any Person or Group (other than the General Partners or their Affiliates) beneficially owns 20% or more of any Outstanding Partnership Securities of any class then Outstanding, all Partnership Securities owned by such Person or Group shall not be voted on any matter and shall not be considered to be Outstanding when sending notices of a meeting, of Limited Partners to vote on any matter (unless otherwise required by law), calculating required votes, determining the presence of a quorum or for other similar purposes under this Agreement, except that Common Units so owned shall be considered to be Outstanding for purposes of Section 11.1(b)(iv) (such Common Units shall not, however, be treated as a separate class of Partnership Securities for purposes of this Agreement); provided, further, that the foregoing limitation shall not apply (i) to any Person or Group who acquired 20% or more of any Outstanding Partnership Securities of any class then Outstanding directly from the General Partners or their Affiliates or (ii) to any Person or Group who acquired 20% or more of any Outstanding Partnership Securities of any class then Outstanding directly or indirectly from a Person or Group described in clause (i) provided that the General Partners shall have notified such Person or Group in writing that such limitation shall not apply.

"Over-Allotment Option" means the over-allotment option granted to the Underwriters by the Partnership pursuant to the Underwriting Agreement.

"Parity Units" means Common Units and all other Units of any other class or series that have the right to participate (i) in distributions of Available Cash from Operating Surplus pursuant to each of subclauses (a)(i) and (a)(ii) of Section 6.4 in the same order of priority with respect to the participation of Common Units in

such distributions or (ii) to participate in allocations of Net Termination Gain pursuant to Section 6.1(c)(i)(B) in the same order of priority with the Common Units. Units whose participation in such (i) distributions of Available Cash from Operating Surplus and (ii) allocations of Net Termination Gain are subordinate in order of priority to such distributions and allocations on Common Units shall not constitute Parity Units even if such Units are convertible under certain circumstances into Common Units or Parity Units.

"Partner Nonrecourse Debt" has the meaning set forth in Treasury Regulation Section 1.704-2(b)(4).

"Partner Nonrecourse Debt Minimum Gain" has the meaning set forth in Treasury Regulation Section 1.704-2(i)(2).

"Partner Nonrecourse Deductions" means any and all items of loss, deduction or expenditure (including, without limitation, any expenditure described in Section 705(a)(2)(B) of the Code) that, in accordance with the principles of Treasury Regulation Section 1.704-2(i), are attributable to a Partner Nonrecourse Debt.

"Partners" means the General Partners and the Limited Partners.

"Partnership" means Inergy, L.P., a Delaware limited partnership, and any successors thereto.

"Partnership Group" means the Partnership, the Operating Company and any Subsidiary of any such entity, treated as a single consolidated entity.

"Partnership Interest" means an interest in the Partnership, which shall include the General Partner Interests and Limited Partner Interests.

"Partnership Minimum Gain" means that amount determined in accordance with the principles of Treasury Regulation Section 1.704-2(d).

"Partnership Security" means any class or series of equity interest in the Partnership (but excluding any options, rights, warrants and appreciation rights relating to an equity interest in the Partnership), including without limitation, Common Units, Senior Subordinated Units, Junior Subordinated Units and Incentive Distribution Rights.

"Percentage Interest" means as of any date of determination (a) as to the Non-Managing General Partner (with respect to its General Partner Interest), 2.0%, (b) as to any Unitholder or Assignee holding Units, the product obtained by multiplying (i) 98% less the percentage applicable to paragraph (c) by (ii) the quotient obtained by dividing (A) the number of Units held by such Unitholder or Assignee by (B) the total number of all Outstanding Units, and (c) as to the holders of additional Partnership Securities issued by the Partnership in accordance with Section 5.6, the percentage established as a part of such issuance. The Percentage Interest with respect to the Managing General Partner's General Partner Interest shall be zero. The Percentage Interest with respect to an Incentive Distribution Right shall at all times be zero.

"Person" means an individual or a corporation, limited liability company, partnership, joint venture, trust, unincorporated organization, association, government agency or political subdivision thereof or other entity.

"Per Unit Capital Amount" means, as of any date of determination, the Capital Account, stated on a per Unit basis, underlying any Unit held by a Person other than the General Partners or any Affiliate of either of the General Partners who holds Units.

"Pro Rata" means (a) when modifying Units or any class thereof, apportioned equally among all designated Units in accordance with their relative Percentage Interests, (b) when modifying Partners and Assignees, apportioned among all Partners and Assignees in accordance with their relative Percentage Interests and (c) when modifying holders of Incentive Distribution Rights, apportioned equally among all holders of Incentive Distribution Rights in accordance with the relative number of Incentive Distribution Rights held by each such holder.

"Purchase Date" means the date determined by the Managing General Partner as the date for purchase of all Outstanding Units of a certain class (other than Units owned by the General Partners and their Affiliates) pursuant to Article XV.

"Quarter" means, unless the context requires otherwise, a fiscal quarter, or with respect to the first fiscal quarter after the Closing Date the portion of such fiscal quarter after the Closing Date, of the Partnership.

"Recapture Income" means any gain recognized by the Partnership (computed without regard to any adjustment required by Section 734 or Section 743 of the Code) upon the disposition of any property or asset of the Partnership, which gain is characterized as ordinary income because it represents the recapture of deductions previously taken with respect to such property or asset.

"Record Date" means the date established by the Managing General Partner for determining (a) the identity of the Record Holders entitled to notice of, or to vote at, any meeting of Limited Partners or entitled to vote by ballot or give approval of Partnership action in writing without a meeting or entitled to exercise rights in respect of any lawful action of Limited Partners or (b) the identity of Record Holders entitled to receive any report or distribution or to participate in any offer.

"Record Holder" means the Person in whose name a Common Unit is registered on the books of the Transfer Agent as of the opening of business on a particular Business Day, or with respect to other Partnership Securities, the Person in whose name any such other Partnership Security is registered on the books which the Managing General Partner has caused to be kept as of the opening of business on such Business Day.

"Redeemable Interests" means any Partnership Interests for which a redemption notice has been given, and has not been withdrawn, pursuant to Section 4.10.

"Registration Statement" means the Registration Statement on Form S-1 (Registration No. 333-56976) as it has been or as it may be amended or supplemented from time to time, filed by the Partnership with the Commission under the Securities Act to register the offering and sale of the Common Units in the Initial Offering.

"Remaining Net Positive Adjustments" means as of the end of any taxable period, (i) with respect to the Unitholders holding Common Units, Senior Subordinated Units or Junior Subordinated Units, the excess of (a) the Net Positive Adjustments of the Unitholders holding Common Units, Senior Subordinated Units or Junior Subordinated Units as of the end of such period over (b) the sum of those Partners' Share of Additional Book Basis Derivative Items for each prior taxable period, (ii) with respect to the Non-Managing General Partner (as holder of the Non-Managing Partner's General Partner Interest), the excess of (a) the Net Positive Adjustments of the Non-Managing General Partner as of the end of such period over (b) the sum of the Non-Managing General Partner's Share of Additional Book Basis Derivative Items with respect to its General Partner Interest for each prior taxable period, and (iii) with respect to the holders of Incentive Distribution Rights, the excess of (a) the Net Positive Adjustments of the holders of Incentive Distribution Rights as of the end of such period over (b) the sum of the Share of Additional Book Basis Derivative Items of the holders of the Incentive Distribution Rights for each prior taxable period.

"Required Allocations" means (a) any limitation imposed on any allocation of Net Losses or Net Termination Losses under Section 6.1(b) or 6.1(c)(ii) and (b) any allocation of an item of income, gain, loss or deduction pursuant to Section 6.1(d)(i), 6.1(d)(ii), 6.1(d)(iv), 6.1(d)(vii) or 6.1(d)(ix).

"Residual Gain" or "Residual Loss" means any item of gain or loss; as the case may be, of the Partnership recognized for federal income tax purposes resulting from a sale, exchange or other disposition of a Contributed Property or Adjusted Property, to the extent such item of gain or loss is not allocated pursuant to Section 6.2(b)(i)(A) or 6.2(b)(ii)(A), respectively, to eliminate Book-Tax Disparities.

"Second Liquidation Target Amount" has the meaning assigned to such term in Section 6.1(c)(i)(F).

"Second Target Distribution" means $0.75 per Unit per Quarter (or, with respect to the period commencing on the Closing Date and ending on June 30, 2001, it means the product of $0.75 multiplied by a fraction of which the numerator is equal to the number of days in such period and of which the denominator is 91), subject to adjustment in accordance with Sections 6.6 and 6.9.

"Securities Act" means the Securities Act of 1933, as amended, supplemented or restated from time to time and any successor to such statute.

"Senior Subordinated Units" means a Unit representing a fractional part of the Partnership Interests of all Limited Partners and Assignees (other than of holders of the Incentive Distribution Rights), and having the rights and obligations specified with respect to Senior Subordinated Units in this Agreement.

"Share of Additional Book Basis Derivative Items" means in connection with any allocation of Additional Book Basis Derivative Items for any taxable period, (i) with respect to the Unitholders holding Common Units, Senior Subordinated Units or Subordinated Units, the amount that bears the same ratio to such Additional Book Basis Derivative Items as the Unitholders' Remaining Net Positive Adjustments as of the end of such period bears to the Aggregate Remaining Net Positive Adjustments as of that time, (ii) with respect to the Non-Managing General Partner (as holder of the Non-Managing Partner's General Partner Interest), the amount that bears the same ratio to such additional Book Basis Derivative Items as the Non-Managing General Partner's Remaining Net Positive Adjustments as of the end of such period bears to the Aggregate Remaining Net Positive Adjustment as of that time, and (iii) with respect to the Partners holding Incentive Distribution Rights, the amount that bears the same ratio to such Additional Book Basis Derivative Items as the Remaining Net Positive Adjustments of the Partners holding the Incentive Distribution Rights as of the end of such period bears to the Aggregate Remaining Net Positive Adjustments as of that time.

"Special Approval" means approval by a majority of the members of the Conflicts Committee.

"Subordinated Unit" means a Senior Subordinated Unit or a Junior Subordinated Unit. The term "Subordinated Unit" as used herein does not include a Common Unit or Parity Unit. A Subordinated Unit that is convertible into a Common Unit or a Parity Unit shall not constitute a Common Unit or Parity Unit until such conversion occurs.

"Subordination Period" means the period commencing on the Closing Date and ending on the first to occur of the following dates:

(a) the first day of any Quarter beginning after June 30, 2006, in the case of the Senior Subordinated Units, or June 30, 2008, in the case of the Junior Subordinated Units, in respect of which (i) (A) distributions of Available Cash from Operating Surplus on each of the Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units with respect to each of the three consecutive, non-overlapping four-Quarter periods immediately preceding such date equaled or exceeded the sum of the Minimum Quarterly Distribution (or portion thereof for the first fiscal quarter after the Closing Date) on all Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units during such periods and (B) the Adjusted Operating Surplus generated during each of the three consecutive, non-overlapping four-Quarter periods immediately preceding such date equaled or exceeded the sum of the Minimum Quarterly Distribution on all of the Common Units, Senior Subordinated Units and Junior Subordinated Units that were Outstanding during such periods on a fully diluted basis (i.e., taking into account for purposes of such determination all Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units, all Common Units, Subordinated Units and Junior Subordinated Units issuable upon exercise of employee options that have, as of the date of determination, already vested or are scheduled to vest prior to the end of the Quarter immediately following the Quarter with respect to which such determination is made, and all Common Units, Senior Subordinated Units and Junior Subordinated Units that have as of the date of determination, been earned by but not yet issued to management of the Partnership in respect of incentive compensation), plus the related distribution on the General Partner Interest, during such periods and (ii) there are no Cumulative Common Unit Arrearages; and

(b) the date on which the Managing General Partner is removed as general partner of the Partnership upon the requisite vote by holders of Outstanding Units under circumstances where Cause does not exist and Units held by the General Partners and their Affiliates are not voted in favor of such removal.

"Subsidiary" means, with respect to any Person, (a) a corporation of which more than 50% of the voting power of shares entitled (without regard to the occurrence of any contingency) to vote in the election of directors or other governing body of such corporation is owned, directly or indirectly, at the date of determination, by such Person, by one or more Subsidiaries of such Person or a combination thereof, (b) a partnership (whether general or limited) in which such Person or a Subsidiary of such Person is, at the date of determination, a general or limited partner of such partnership, but only if more than 50% of the partnership interests of such partnership (considering all of the partnership interests of the partnership as a single class) is owned, directly or indirectly, at the date of determination, by such Person, by one or more Subsidiaries of such Person, or a combination thereof, or (c) any other Person (other than a corporation or a partnership) in which such Person, one or more Subsidiaries of such Person, or a combination thereof, directly or indirectly, at the date of determination, has (i) at least a majority ownership interest or (ii) the power to elect or direct the election of a majority of the directors or other governing body of such-Person.

"Substituted Limited Partner" means a Person who is admitted as a Limited Partner to the Partnership pursuant to Section 10.2 in place of and with all the rights of a Limited Partner and who is shown as a Limited Partner on the books and records of the Partnership.

"Surviving Business Entity" has the meaning assigned to such term in Section 14.2(b).

"Third Target Distribution" means $0.90 per Unit per Quarter (or, with respect to the period commencing on the Closing Date and ending on June 30, 2001, it means the product of $0.90 multiplied by a fraction of which the numerator is equal to the number of days in such period and of which the denominator is 91), subject to adjustment in accordance with Sections 6.6 and 6.9.

"Third Target Liquidation Amount" has the meaning assigned to such term in Section 6.1(c)(i)(G).

"Trading Day" has the meaning assigned to such term in Section 15.1(a).

"Transfer" has the meaning assigned to such term in Section 4.4(a).

"Transfer Agent" means such bank, trust company or other Person (including the Managing General Partner or one of its Affiliates) as shall be appointed from time to time by the Partnership to act as registrar and transfer agent for the Common Units; provided that if no Transfer Agent is specifically designated for any other Partnership Securities, the Managing General Partner shall act in such capacity.

"Transfer Application" means an application and agreement for transfer of Units in the form set forth on the back of a Certificate or in a form substantially to the same effect in a separate instrument.

"Underwriter" means each Person named as an underwriter in Schedule I to the Underwriting Agreement who purchases Common Units pursuant thereto.

"Underwriting Agreement" means the Underwriting Agreement dated , 2001 among the Underwriters, the Partnership and certain other parties, providing for the purchase of Common Units by such Underwriters.

"Unit" means a Partnership Security that is designated as a "Unit" and shall include Common Units and Subordinated Units but shall not include (i) a General Partner Interest or (ii) Incentive Distribution Rights.

"Unitholders" means the holders of Common Units and Subordinated Units.

"Unit Majority" means, during the Subordination Period, at least a majority of the Outstanding Common Units (excluding Common Units owned by the General Partners and their Affiliates), voting as a class, and at least a majority of the Outstanding Senior Subordinated Units and Junior Subordinated Units, voting together as a single class, and thereafter, at least a majority of the Outstanding Common Units.

"Unpaid MQD" has the meaning assigned to such term in Section 6.1(c)(i)(B).

"Unrealized Gain" attributable to any item of Partnership property means, as of any date of determination, the excess, if any, of (a) the fair market value of such property as of such date (as determined under Section 5.5(d)) over (b) the Carrying Value of such property as of such date (prior to any adjustment to be made pursuant to Section 5.5(d) as of such date).

"Unrealized Loss" attributable to any item of Partnership property means, as of any date of determination, the excess, if any, of (a) the Carrying Value of such property as of such date (prior to any adjustment to be made pursuant to Section 5.5(d) as of such date) over (b) the fair market value of such property as of such date (as determined under Section 5.5(d)).

"Unrecovered Capital" means at any time, with respect to a Unit, the Initial Unit Price less the sum of all distributions constituting Capital Surplus theretofore made in respect of an Initial Common Unit and any distributions of cash (or the Net Agreed Value of any distributions in kind) in connection with the dissolution and liquidation of the Partnership theretofore made in respect of an Initial Common Unit, adjusted as the Managing General Partner determines to be appropriate to give effect to any distribution, subdivision or combination of such Units.

"US GAAP" means United States Generally Accepted Accounting Principles consistently applied.

"Withdrawal Opinion of Counsel" has the meaning assigned to such term in Section 11.1(b).

"Working Capital Borrowings" means borrowings exclusively for working capital purposes made pursuant to a credit facility or other arrangement requiring all such borrowings thereunder to be reduced to a relatively small amount each year (or for the year in which the Initial Offering is consummated, the 12-month period beginning on the Closing Date) for an economically meaningful period of time.

Section 1.2. Construction.

Unless the context requires otherwise: (a) any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa; (b) references to Articles and Sections refer to Articles and Sections of this Agreement; and (c) the term "include" or "includes" means includes, without limitation, and "including" means including, without limitation.

## ARTICLE II

## Organization

Section 2.1. Formation.

The Managing General Partner, the Non-Managing General Partner and the Organizational Limited Partner have previously formed the Partnership as a limited partnership pursuant to the provisions of the Delaware Act and hereby amend and restate the original Agreement of Limited Partnership of Inergy, L.P. in its entirety. This amendment and restatement shall become effective on the date of this Agreement. Except as expressly provided to the contrary in this Agreement, the rights, duties (including fiduciary duties), liabilities and obligations of the Partners and the administration, dissolution and termination of the Partnership shall be governed by the Delaware Act, All Partnership Interests shall constitute personal property of the owner thereof for all purposes and a Partner has no interest in specific Partnership property.

Section 2.2. Name.

The name of the Partnership shall be "Inergy, L.P." The Partnership's business may be conducted under any other name or names deemed necessary or appropriate by the Managing General Partner in its sole discretion, including the name of the Managing General Partner. The words "Limited Partnership," "Ltd." or

similar words or letters shall be included in the Partnership's name where necessary for the purpose of complying with the laws of any jurisdiction that so requires. The Managing General Partner in its discretion may change the name of the Partnership at any time and from time to time and shall notify the Limited Partners of such change in the next regular communication to the Limited Partners.

Section 2.3. Registered Office; Registered Agent; Principal Office; Other Offices.

Unless and until changed by the Managing General Partner, the registered office of the Partnership in the State of Delaware shall be located at 1209 Orange Street, Wilmington, Delaware 19801, and the registered agent for service of process on the Partnership in the State of Delaware at such registered office shall be The Corporation Trust Company. The principal office of the Partnership shall be located at 1101 Walnut, Suite 1500, Kansas City, Missouri 64106 or such other place as the Managing General Partner may from time to time designate by notice to the Limited Partners. The Partnership may maintain offices at such other place or places within or outside the State of Delaware as the Managing General Partner deems necessary or appropriate. The address of the Managing General Partner shall be 1101 Walnut, Suite 1500, Kansas City, Missouri 64106 or such other place as the Managing General Partner may from time to time designate by notice to the Limited Partners.

Section 2.4. Purpose and Business.

The purpose and nature of the business to be conducted by the Partnership shall be to (a) serve as a member of the Operating Company and, in connection therewith, to exercise all the rights and powers conferred upon, the Partnership as a member of the Operating Company pursuant to the Operating Company Agreement or otherwise, (b) engage directly in, or enter into or form any corporation, partnership, joint venture, limited liability company or other arrangement to engage indirectly in, any business activity that the Operating Company is permitted to engage in by the Operating Company Agreement and, in connection therewith, to exercise all of the rights and powers conferred upon the Partnership pursuant to the agreements relating to such business activity, (c) engage directly in, or enter into or form any corporation, partnership, joint venture, limited liability company or other entity or arrangement to engage indirectly in, any business activity that the Managing General Partner approves and which lawfully may be conducted by a limited partnership organized pursuant to the Delaware Act and, in connection therewith, to exercise all of the rights and powers conferred upon the Partnership pursuant to the agreements relating to such business activity; provided, however, that the Managing General Partner reasonably determines, as of the date of the acquisition or commencement of such activity, that such activity (i) generates "qualifying income" (as such term is defined pursuant to Section 7704 of the Code) or a Subsidiary, or a Partnership activity that generates qualifying income, or (ii) enhances the operations of an activity of the Operating Company and (d) do anything necessary or appropriate to the foregoing, including the making of capital contributions or loans to a Group Member. The Managing General Partner has no obligation or duty to the Partnership, the Limited Partners, the Non-Managing General Partner or the Assignees to propose or approve, and in its discretion may decline to propose or approve, the conduct by the Partnership of any business.

Section 2.5. Powers.

The Partnership shall be empowered to do any and all acts and things necessary, appropriate, proper, advisable, incidental to or convenient for the furtherance and accomplishment of the purposes and business described in Section 2.4 and for the protection and benefit of the Partnership.

Section 2.6. Power of Attorney.

(a) Each Limited Partner and each Assignee hereby constitutes and appoints the Managing General Partner and, if a Liquidator shall have been selected pursuant to Section 12.3, the Liquidator, (and any successor to the Liquidator by merger, transfer, assignment, election or otherwise) and each of their authorized officers and attorneys-in-fact, as the case may be, with full power of substitution, as his true and lawful agent and attorney-in-fact, with full power and authority in his name, place and stead, to:

(i) execute, swear to, acknowledge, deliver, file and record in the appropriate public offices (A) all certificates, documents and other instruments (including this Agreement and the Certificate of Limited Partnership and all amendments or restatements hereof or thereof) that the Managing General Partner or the Liquidator deems necessary or appropriate to form, qualify or continue the existence or qualification of the Partnership as a limited partnership (or a partnership in which the limited partners have limited liability) in the State of Delaware and in all other jurisdictions in which the Partnership may conduct business or own property; (B) all certificates, documents and other instruments that the Managing General Partner or the Liquidator deems necessary or appropriate to reflect, in accordance with its terms, any amendment, change, modification or restatement of this Agreement; (C) all certificates, documents and other instruments (including conveyances and a certificate of cancellation) that the Managing General Partner or the Liquidator deems necessary or appropriate to reflect the dissolution and liquidation of the Partnership pursuant to the terms of this Agreement; (D) all certificates, documents and other instruments relating to the admission, withdrawal, removal or substitution of any Partner pursuant to, or other events described in, Article IV, X, XI or XII; (E) all certificates, documents and other instruments relating to the determination of the rights, preferences and privileges of any class or series of Partnership Securities issued pursuant to Section 5.6; and (F) all certificates, documents and other instruments (including agreements and a certificate of merger) relating to a merger or consolidation of the Partnership pursuant to Article XIV; and

(ii) execute, swear to, acknowledge, deliver, file and record all ballots, consents, approvals, waivers, certificates, documents and other instruments necessary or appropriate, in the discretion of the Managing General Partner or the Liquidator, to make, evidence, give, confirm or ratify any vote, consent, approval, agreement or other action that is made or given by the Partners hereunder or is consistent with the terms of this Agreement or is necessary or appropriate, in the discretion of the Managing General Partner or the Liquidator, to effectuate the terms or intent of this Agreement; provided, that when required by Section 13.3 or any other provision of this Agreement that establishes a percentage of the Limited Partners or of the Limited Partners of any class or series required to take any action, the Managing General Partner and the Liquidator may exercise the power of attorney made in this Section 2.6(a)(ii) only after the necessary vote, consent or approval of the Limited Partners or of the Limited Partners of such class or series, as applicable.

Nothing contained in this Section 2.6(a) shall be construed as authorizing the Managing General Partner to amend this Agreement except in accordance with Article XIII or as may be otherwise expressly provided for in this Agreement.

(b) The foregoing power of attorney is hereby declared to be irrevocable and a power coupled with an interest, and it shall survive and, to the maximum extent permitted by law, not be affected by the subsequent death, incompetency, disability, incapacity, dissolution, bankruptcy or termination of any Limited Partner or Assignee and the transfer of all or any portion of such Limited Partner's or Assignee's Partnership Interest and shall extend to such Limited Partner's or Assignee's heirs, successors, assigns and personal representatives. Each such Limited Partner or Assignee hereby agrees to be bound by any representation made by the Managing General Partner or the Liquidator acting in good faith pursuant to such power of attorney; and each such Limited Partner or Assignee, to the maximum extent permitted by law, hereby waives any and all defenses that may be available to contest, negate or disaffirm the action of the Managing General Partner or the Liquidator taken in good faith under such power of attorney. Each Limited Partner or Assignee shall execute and deliver to the Managing General Partner or the Liquidator, within 15 days after receipt of the request therefor, such further designation, powers of attorney and other instruments as the Managing General Partner or the Liquidator deems necessary to effectuate this Agreement and the purposes of the Partnership.

Section 2.7. Term.

The term of the Partnership commenced upon the filing of the Certificate of Limited Partnership in accordance with the Delaware Act and shall continue in existence until the dissolution of the Partnership in accordance with the provisions of Article XII. The existence of the Partnership as a separate legal entity shall continue until the cancellation of the Certificate of Limited Partnership as provided in the Delaware Act.

Section 2.8. Title to Partnership Assets.

Title to Partnership assets, whether real, personal or mixed and whether tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and no Partner or Assignee, individually or collectively, shall have any ownership interest in such Partnership assets or any portion thereof. Title to any or all of the Partnership assets may be held in the name of the Partnership, the Managing General Partner, one or more of its Affiliates or one or more nominees, as the Managing General Partner may determine. The Managing General Partner hereby declares and warrants that any Partnership assets for which record title is held in the name of the Managing General Partner or one or more of its Affiliates or one or more nominees shall be held by the Managing General Partner or such Affiliate or nominee for the use and benefit of the Partnership in accordance with the provisions of this Agreement; provided, however, that the Managing General Partner shall use reasonable efforts to cause record title to such assets (other than those assets in respect of which the Managing General Partner determines that the expense and difficulty of conveyancing makes transfer of record title to the Partnership impracticable) to be vested in the Partnership as soon as reasonably practicable; provided, further, that, prior to the withdrawal or removal of the Managing General Partner or as soon thereafter as practicable, the Managing General Partner shall use reasonable efforts to effect the transfer of record title to the Partnership and, prior to any such transfer, will provide for the use of such assets in a manner satisfactory to the Managing General Partner. All Partnership assets shall be recorded as the property of the Partnership in its books and records, irrespective of the name in which record title to such Partnership assets is held.

## ARTICLE III

## Rights Of Limited Partners

Section 3.1. Limitation of Liability.

The Limited Partners and the Assignees shall have no liability under this Agreement except as expressly provided in this Agreement or the Delaware Act.

Section 3.2. Management of Business.

No Limited Partner or Assignee, in its capacity as such, shall participate in the operation, management or control (within the meaning of the Delaware Act) of the Partnership's business, transact any business in the Partnership's name or have the power to sign documents for or otherwise bind the Partnership. Any action taken by any Affiliate of a General Partner or any officer, director, employee, manager, member, general partner, agent or trustee of a General Partner or any of its Affiliates, or any officer, director, employee, manager, member, general partner, agent or trustee of a Group Member, in its capacity as such, shall not be deemed to be participation in the control of the business of the Partnership by a limited partner of the Partnership (within the meaning of Section 17-303(a) of the Delaware Act) and shall not affect, impair or eliminate the limitations on the liability of the Limited Partners or Assignees under this Agreement.

Section 3.3. Outside Activities of the Limited Partners.

Subject to the provisions of Section 7.5, any Limited Partner or Assignee shall be entitled to and may have business interests and engage in business activities in addition to those relating to the Partnership, including business interests and activities in direct competition with the Partnership Group. Neither the Partnership nor any of the other Partners or Assignees shall have any rights by virtue of this Agreement in any business ventures of any Limited Partner or Assignee.

Section 3.4. Rights of Limited Partners.

(a) In addition to other rights provided by this Agreement or by applicable law, and except as limited by Section 3.4(b), each Limited Partner shall have the right, for a purpose reasonably related to such Limited Partner's interest as a limited partner in the Partnership, upon reasonable written demand and at such Limited Partner's own expense:

(i) to obtain true and full information regarding the status of the business and financial condition of the Partnership;

(ii) promptly after becoming available, to obtain a copy of the Partnership's federal, state and local income tax returns for each year;

(iii) to have furnished to him a current list of the name and last known business, residence or mailing address of each Partner;

(iv) to have furnished to him a copy of this Agreement and the Certificate of Limited Partnership and all amendments thereto, together with a copy of the executed copies of all powers of attorney pursuant to which this Agreement, the Certificate of Limited Partnership and all amendments thereto have been executed;

(v) to obtain true and full information regarding the amount of cash and a description and statement of the Net Agreed Value of any other Capital Contribution by each Partner and which each Partner has agreed to contribute in the future, and the date on which each became a Partner; and

(vi) to obtain such other information regarding the affairs of the Partnership as is just and reasonable.

(b) The Managing General Partner may keep confidential from the Limited Partners and Assignees, for such period of time as the Managing General Partner deems reasonable, (i) any information that the Managing General Partner reasonably believes to be in the nature of trade secrets or (ii) other information the disclosure of which the Managing General Partner in good faith believes (A) is not in the best interests of the Partnership Group, (B) could damage the Partnership Group or (C) that any Group Member is required by law or by agreement with any third party to keep confidential (other than agreements with Affiliates of the Partnership the primary purpose of which is to circumvent the obligations set forth in this Section 3.4).

## ARTICLE IV

## Certificates; Record Holders; Transfer Of Partnership Interests; Redemption Of Partnership Interests

Section 4.1. Certificates.

Upon the Partnership's issuance of Common Units, Senior Subordinated Units or Junior Subordinated Units to any Person, the Partnership shall issue one or more Certificates in the name of such Person evidencing the number of such Units being so issued. In addition, (a) upon the Managing General Partner's request, the Partnership shall issue to it one or more Certificates in the name of the Managing General Partner evidencing its interests in the Partnership and (b) upon the request of any Person owning Incentive Distribution Rights or any other Partnership Securities other than Common Units, Senior Subordinated Units or Junior Subordinated Units, the Partnership shall issue to such Person one or more certificates evidencing such Incentive Distribution Rights or other Partnership Securities other than Common Units, Senior Subordinated Units or Junior Subordinated Units. Certificates shall be executed on behalf of the Partnership by the Chairman of the Board, President or any Vice President and the Secretary or any Assistant Secretary of the Managing General Partner. No Common Unit Certificate shall be valid for any purpose until it has been countersigned by the Transfer Agent; provided, however, that if the Managing General Partner elects to issue Common Units in global form, the Common Unit Certificates shall be valid upon receipt of a certificate from the Transfer Agent certifying that the Common Units have been duly registered in accordance with the directions of the Partnership and the Underwriters. Subject to the requirements of Section 6.7(b), the Partners holding Certificates evidencing Senior

Subordinated Units or Junior Subordinated Units may exchange such Certificates for Certificates evidencing Common Units on or after the date on which such Senior Subordinated Units or Junior Subordinated Units are converted into Common Units pursuant to the terms of Section 5.8.

Section 4.2. Mutilated, Destroyed, Lost or Stolen Certificates.

(a) If any mutilated Certificate is surrendered to the Transfer Agent, the appropriate officers of the Managing General Partner on behalf of the Partnership shall execute, and the Transfer Agent shall countersign and deliver in exchange therefor, a new Certificate evidencing the same number and type of Partnership Securities as the Certificate so surrendered.

(b) The appropriate officers of the Managing General Partner on behalf of the Partnership shall execute and deliver, and the Transfer Agent shall countersign a new Certificate in place of any Certificate previously issued if the Record Holder of the Certificate:

(i) makes proof by affidavit, in form and substance satisfactory to the Partnership, that a previously issued Certificate has been lost, destroyed or stolen;

(ii) requests the issuance of a new Certificate before the Partnership has notice that the Certificate has been acquired by a purchaser for value in good faith and without notice of an adverse claim;

(iii) if requested by the Partnership, delivers to the Partnership a bond, in form and substance satisfactory to the Partnership, with surety or sureties and with fixed or open penalty as the Partnership may reasonably direct, in its sole discretion, to indemnify the Partnership, the Partners, the Managing General Partner and the Transfer Agent against any claim that may be made on account of the alleged loss, destruction or theft of the Certificate; and

(iv) satisfies any other reasonable requirements imposed by the Partnership.

If a Limited Partner or Assignee fails to notify the Partnership within a reasonable time after he has notice of the loss, destruction or theft of a Certificate, and a transfer of the Limited Partner Interests represented by the Certificate is registered before the Partnership, the Managing General Partner or the Transfer Agent receives such notification, the Limited Partner or Assignee shall be precluded from making any claim against the Partnership, the Managing General Partner or the Transfer Agent for such transfer or for a new Certificate.

(c) As a condition to the issuance of any new Certificate under this Section 4.2, the Partnership may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Transfer Agent) reasonably connected therewith.

Section 4.3. Record Holders.

The Partnership shall be entitled to recognize the Record Holder as the Partner or Assignee with respect to any Partnership Interest and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such Partnership Interest on the part of any other Person, regardless of whether the Partnership shall have actual or other notice thereof, except as otherwise provided by law or any applicable rule, regulation, guideline or requirement of any National Securities Exchange on which such Partnership Interests are listed for trading. Without limiting the foregoing, when a Person (such as a broker, dealer, bank, trust company or clearing corporation or an agent of any of the foregoing) is acting as nominee, agent or in some other representative capacity for another Person in acquiring and/or holding Partnership Interests, as between the Partnership on the one hand, and such other Persons on the other, such representative Person (a) shall be the Partner or Assignee (as the case may be) of record and beneficially, (b) must execute and deliver a Transfer Application and (c) shall be bound by this Agreement and shall have the rights and obligations of a Partner or Assignee (as the case may be) hereunder and as, and to the extent, provided for herein.

Section 4.4. Transfer Generally.

(a) The term "transfer," when used in this Agreement with respect to a Partnership Interest, shall be deemed to refer to a transaction by which a General Partner assigns its General Partner Interest to another Person who becomes a General Partner, by which the holder of a Limited Partner Interest assigns such Limited Partner Interest to another Person who is or becomes a Limited Partner or an Assignee, and includes a sale, assignment, gift, pledge, encumbrance, hypothecation, mortgage, exchange or any other disposition by law or otherwise.

(b) No Partnership Interest shall be transferred, in whole or in part, except in accordance with the terms and conditions set forth in this Article IV. Any transfer or purported transfer of a Partnership Interest not made in accordance with this Article IV shall be null and void.

(c) Nothing contained in this Agreement shall be construed to prevent a disposition by any member of a General Partner of any or all of the issued and outstanding membership interests of such General Partner.

Section 4.5. Registration and Transfer of Limited Partner Interests.

(a) The Partnership shall keep or cause to be kept on behalf of the Partnership a register in which, subject to such reasonable regulations as it may prescribe and subject to the provisions of Section 4.5(b), the Partnership will provide for the registration and transfer of Limited Partner Interests. The Transfer Agent is hereby appointed registrar and transfer agent for the purpose of registering Common Units and transfers of such Common Units as herein provided. The Partnership shall not recognize transfers of Certificates evidencing Limited Partner Interests unless such transfers are effected in the manner described in this Section 4.5. Upon surrender of a Certificate for registration of transfer of any Limited Partner Interests evidenced by a Certificate, and subject to the provisions of Section 4.5(b), the appropriate officers of the Managing General Partner on behalf of the Partnership shall execute and deliver, and in the case of Common Units, the Transfer Agent shall countersign and deliver, in the name of the holder or the designated transferee or transferees, as required pursuant to the holder's instructions, one or more new Certificates evidencing the same aggregate number and type of Limited Partner Interests as was evidenced by the Certificate so surrendered.

(b) Except as otherwise provided in Section 4.9, the Partnership shall not recognize any transfer of Limited Partner Interests until the Certificates evidencing such Limited Partner Interests are surrendered for registration of transfer and such Certificates are accompanied by a Transfer Application duly executed by the transferee (or the transferee's attorney-in-fact duly authorized in writing). No charge shall be imposed by the Partnership for such transfer; provided, that as a condition to the issuance of any new Certificate under this Section 4.5, the Partnership may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed with respect thereto.

(c) Limited Partner Interests may be transferred only in the manner described in this Section 4.5. The transfer of any Limited Partner Interests and the admission of any new Limited Partner shall not constitute an amendment to this Agreement.

(d) Until admitted as a Substituted Limited Partner pursuant to Section 10.2, the Record Holder of a Limited Partner Interest shall be an Assignee in respect of such Limited Partner Interest. Limited Partners may include custodians, nominees or any other individual or entity in its own or any representative capacity.

(e) A transferee of a Limited Partner Interest who has completed and delivered a Transfer Application shall be deemed to have (i) requested admission as a Substituted Limited Partner, (ii) agreed to comply with and be bound by and to have executed this Agreement, (iii) represented and warranted that such transferee has the right, power and authority and, if an individual, the capacity to enter into this Agreement, (iv) granted the powers of attorney set forth in this Agreement and (v) given the consents and approvals and made the waivers contained in this Agreement.

(f) Each General Partner and its Affiliates shall have the right at any time to transfer their Senior Subordinated Units, Junior Subordinated Units and Common Units (whether issued upon conversion of the Subordinated Units or otherwise) to one or more Persons.

Section 4.6. Transfer of the General Partners' General Partner Interests.

(a) Subject to Section 4.6(c) below, prior to June 30, 2011, a General Partner shall not transfer all or any part of its General Partner Interest to a Person unless such transfer (i) has been approved by the prior written consent or vote of the holders of at least a majority of the Outstanding Common Units (excluding Common Units held by the General Partners and their Affiliates) or (ii) is of all, but not less than all, of its General Partner Interest to (A) an Affiliate of one of the General Partners (other than an individual) or (B) another Person (other than an individual) in connection with the merger or consolidation of such General Partner with or into another Person (other than an individual) or the transfer by such General Partner of all or substantially all of its assets to another Person (other than an individual) .

(b) Subject to Section 4.6(c) below, on or after June 30, 2011, the General Partner may transfer all or any of its General Partner Interest without Unitholder approval.

(c) Notwithstanding anything herein to the contrary, no transfer by a General Partner of all or any part of its General Partner Interest to another Person shall be permitted unless (i) the transferee agrees to assume the rights and duties of such General Partner under this Agreement and to be bound by the provisions of this Agreement, (ii) the Partnership receives an Opinion of Counsel that such transfer would not result in the loss of limited liability of any Limited Partner or of any member of the Operating Company or cause the Partnership or the Operating Company to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes (to the extent not already so treated or taxed), (iii) in the case of the Managing General Partner's General Partner Interest, such transferee also agrees to purchase all (or the appropriate portion thereof, if applicable) of the partnership or membership interest of the Managing General Partner as the general partner or managing member of each other Group Member and (iv) in the case of the Non-Managing Partner's General Partner Interest, (x) such transferee also agrees to purchase all (or the appropriate portion thereof, if applicable) of the partnership or membership interest of the Non-Managing General Partner as the general partner or member of each other Group Member and (y) the Managing General Partner consents to such transfer. In the case of a transfer pursuant to and in compliance with this Section 4.6, the transferee or successor (as the case may be) shall, subject to compliance with the terms of Section 10.3, be admitted to the Partnership as a General Partner immediately prior to the transfer of the Partnership Interest, and the business of the Partnership shall continue without dissolution.

Section 4.7. Transfer of Incentive Distribution Rights.

Prior to June 30, 2011, a holder of Incentive Distribution Rights may transfer any or all of the Incentive Distribution Rights held by such holder without any consent of the Unitholders (a) to an Affiliate (other than an individual) or (b) to another Person (other than an individual) in connection with (i) the merger or consolidation of such holder of Incentive Distribution Rights with or into such other Person or (ii) the transfer by such holder of all or substantially all of its assets to such other Person provided that the transferee also owns, controls or is controlled by the Managing General Partner. Any other transfer of the Incentive Distribution Rights prior to June 30, 2011, shall require the prior approval of holders at least a majority of the Outstanding Common Units (excluding Common Units held by the General Partners and their Affiliates). On or after June 30, 2011, Inergy Holdings, LLC, or any other holder of Incentive Distribution Rights may transfer any or all of its Incentive Distribution Rights without Unitholder approval. Notwithstanding anything herein to the contrary, no transfer of Incentive Distribution Rights to another Person shall be permitted unless the transferee agrees to be bound by the provisions of this Agreement. The Managing General Partner shall have the authority (but shall not be required) to adopt such reasonable restrictions on the transfer of Incentive Distribution Rights and requirements for registering the transfer of Incentive Distribution Rights as the Managing General Partner, in its sole discretion, shall determine are necessary or appropriate.

Section 4.8. Restrictions on Transfers.

(a) Except as provided in Section 4.8(d) below, but notwithstanding the other provisions of this Article IV, no transfer of any Partnership Interests shall be made if such transfer would (i) violate the then applicable federal or state securities laws or rules and regulations of the Commission, any state securities commission or any other governmental authority with jurisdiction over such transfer, (ii) terminate the existence or qualification of the Partnership or Operating Company under the laws of the jurisdiction of its formation, or (iii) cause the Partnership or Operating Company to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes (to the extent not already so treated or taxed).

(b) The Managing General Partner may impose restrictions on the transfer of Partnership Interests if a subsequent Opinion of Counsel determines that such restrictions are necessary to avoid a significant risk of the Partnership or Operating Company becoming taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes. The restrictions may be imposed by making such amendments to this Agreement as the Managing General Partner may determine to be necessary or appropriate to impose such restrictions; provided, however, that any amendment that the Managing General Partner believes, in the exercise of its reasonable discretion, could result in the delisting or suspension of trading of any class of Limited Partner Interests on the principal National Securities Exchange on which such class of Limited Partner Interests is then traded must be approved, prior to such amendment being effected, by the holders of at least a majority of the Outstanding Limited Partner Interests of such class.

(c) The transfer of a Subordinated Unit that has converted into a Common Unit shall be subject to the restrictions imposed by Section 6.7(b).

(d) Nothing contained in this Article IV, or elsewhere in this Agreement, shall preclude the settlement of any transactions involving Partnership Interests entered into through the facilities of any National Securities Exchange on which such Partnership Interests are listed for trading.

Section 4.9. Citizenship Certificates; Non-citizen Assignees.

(a) If any Group Member is or becomes subject to any federal, state or local law or regulation that, in the reasonable determination of the Managing General Partner, creates a substantial risk of cancellation or forfeiture of any property in which the Group Member has an interest based on the nationality, citizenship or other related status of a Limited Partner or Assignee, the Managing General Partner may request any Limited Partner or Assignee to furnish to the Managing General Partner, within 30 days after receipt of such request, an executed Citizenship Certification or such other information concerning his nationality, citizenship or other related status (or, if the Limited Partner or Assignee is a nominee holding for the account of another Person, the nationality, citizenship or other related status of such Person) as the Managing General Partner may request. If a Limited Partner or Assignee fails to furnish to the Managing General Partner within the aforementioned 30-day period such Citizenship Certification or other requested information or if upon receipt of such Citizenship Certification or other requested information the Managing General Partner determines, with the advice of counsel, that a Limited Partner or Assignee is not an Eligible Citizen, the Partnership Interests owned by such Limited Partner or Assignee shall be subject to redemption in accordance with the provisions of Section 4.10. In addition, the Managing General Partner may require that the status of any such Partner or Assignee be changed to that of a Non-citizen Assignee and, thereupon, the Managing General Partner shall be substituted for such Non-citizen Assignee as the Limited Partner in respect of his Limited Partner Interests.

(b) The Managing General Partner shall, in exercising voting rights in respect of Limited Partner Interests held by it on behalf of Non-citizen Assignees, distribute the votes in the same ratios as the votes of Partners (including without limitation the General Partners) in respect of Limited Partner Interests other than those of Non-citizen Assignees are cast, either for, against or abstaining as to the matter.

(c) Upon dissolution of the Partnership, a Non-citizen Assignee shall have no right to receive a distribution in kind pursuant to Section 12.4 but shall be entitled to the cash equivalent thereof, and the Partnership shall provide cash in exchange for an assignment of the Non-citizen Assignee's share of the distribution in kind. Such payment and assignment shall be treated for Partnership purposes as a purchase by the Partnership from the Non-citizen Assignee of his Limited Partner Interest (representing his right to receive his share of such distribution in kind).

(d) At any time after he can and does certify that he has become an Eligible Citizen, a Non-citizen Assignee may, upon application to the General Partner, request admission as a Substituted Limited Partner with respect to any Limited Partner Interests of such Non-citizen Assignee not redeemed pursuant to Section 4.10, and upon his admission pursuant to Section 10.2, the Managing General Partner shall cease to be deemed to be the Limited Partner in respect of the Non-citizen Assignee's Limited Partner Interests.

Section 4.10. Redemption of Partnership Interests of Non-citizen Assignees.

(a) If at any time a Limited Partner or Assignee fails to furnish a Citizenship Certification or other information requested within the 30-day period specified in Section 4.9(a), or if upon receipt of such Citizenship Certification or other information the General Partner determines, with the advice of counsel, that a Limited Partner or Assignee is not an Eligible Citizen, the Partnership may, unless the Limited Partner or Assignee establishes to the satisfaction of the Managing General Partner that such Limited Partner or Assignee is an Eligible Citizen or has transferred his Partnership Interests to a Person who is an Eligible Citizen and who furnishes a Citizenship Certification to the Managing General Partner prior to the date fixed for redemption as provided below, redeem the Partnership Interest of such Limited Partner or Assignee as follows:

(i) The Managing General Partner shall, not later than the 30th day before the date fixed for redemption, give notice of redemption to the Limited Partner or Assignee, at his last address designated on the records of the Partnership or the Transfer Agent, by registered or certified mail, postage prepaid. The notice shall be deemed to have been given when so mailed. The notice shall specify the Redeemable Interests, the date fixed for redemption, the place of payment, that payment of the redemption price will be made upon surrender of the Certificate evidencing the Redeemable Interests and that on and after the date fixed for redemption no further allocations or distributions to which the Limited Partner or Assignee would otherwise be entitled in respect of the Redeemable Interests will accrue or be made.

(ii) The aggregate redemption price for Redeemable Interests shall be an amount equal to the Current Market Price (the date of determination of which shall be the date fixed for redemption) of Limited Partner Interests of the class to be so redeemed multiplied by the number of Limited Partner Interests of each such class included among the Redeemable Interests. The redemption price shall be paid, in the discretion of the Managing General Partner, in cash or by delivery of a promissory note of the Partnership in the principal amount of the redemption price, bearing interest at the rate of 10% annually and payable in three equal annual installments of principal together with accrued interest, commencing one year after the redemption date.

(iii) Upon surrender by or on behalf of the Limited Partner or Assignee, at the place specified in the notice of redemption, of the Certificate evidencing the Redeemable Interests, duly endorsed in blank or accompanied by an assignment duly executed in blank, the Limited Partner or Assignee or his duly authorized representative shall be entitled to receive the payment therefor.

(iv) After the redemption date, Redeemable Interests shall no longer constitute issued and Outstanding Limited Partner Interests.

(b) The provisions of this Section 4.10 shall also be applicable to Limited Partner Interests held by a Limited Partner or Assignee as nominee of a Person determined to be other than an Eligible Citizen.

(c) Nothing in this Section 4.10 shall prevent the recipient of a notice of redemption from transferring his Limited Partner Interest before the redemption date if such transfer is otherwise permitted under this Agreement. Upon receipt of notice of such a transfer, the Managing General Partner shall withdraw the notice of redemption, provided the transferee of such Limited Partner Interest certifies to the satisfaction of the Managing General Partner in a Citizenship Certification delivered in connection with the Transfer Application that he is an Eligible Citizen. If the transferee fails to make such certification, such redemption shall be effected from the transferee on the original redemption date.

## ARTICLE V

## Capital Contributions And Issuance Of Partnership Interests

Section 5.1. Organizational Contributions.

In connection with the formation of the Partnership under the Delaware Act, the Managing General Partner has been admitted as the Managing General Partner of the Partnership without any economic interest in the Partnership, the Non-Managing General Partner made an initial Capital Contribution to the Partnership in the amount of $10.00 for an interest in the Partnership and has been admitted as the Non-Managing General Partner of the Partnership and the Organizational Limited Partner made an initial Capital Contribution to the Partnership in the amount of $990.00 for an interest in the Partnership and has been admitted as a Limited Partner of the Partnership. As of the Closing Date, the interest of the Organizational Limited Partner shall be redeemed as provided in the Contribution and Conveyance Agreement; the initial Capital Contribution of each Partner shall thereupon be refunded; and the Organizational Limited Partner shall cease to be a Limited Partner of the Partnership. Ninety-nine percent of any interest or other profit that may have resulted from the investment or other use of such initial Capital Contribution shall be allocated and distributed to the Organizational Limited Partner, and the balance thereof shall be allocated and distributed to the Non-Managing General Partner.

Section 5.2. Contributions by the Non-Managing General Partner and its Affiliates.

(a) On the Closing Date and pursuant to the Contribution and Conveyance Agreement, (i) the Non-Managing General Partner shall contribute to the Partnership, as a Capital Contribution, all of its interest in the Operating Company], in exchange for (A) the continuation of its 2% Non-Managing General Partner Interest, subject to all of the rights, privileges and duties of the Non-Managing General Partner under this Agreement, (B) 3,135,831 Senior Subordinated Units, (C) 480,659 Junior Subordinated Units, (D) the Incentive Distribution Rights and (E) the assumption by the Partnership of all liability for funded debt of the Non-Managing General Partner and (ii) New Inergy Propane, LLC shall contribute to the Partnership, as a Capital Contribution, preferred interests in the Operating Company in exchange for 177,536 Senior Subordinated Units and 91,883 Junior Subordinated Units.

(b) Upon the issuance of any additional Limited Partner Interests by the Partnership (other than the issuance of the Common Units issued in the Initial Offering or pursuant to the Over-Allotment Option), the Non-Managing General Partner shall be required to make additional Capital Contributions equal to 1/98th of any amount contributed to the Partnership by the Limited Partners in exchange for such additional Limited Partner Interests. Except as set forth in the immediately preceding sentence and Article XII, the General Partners shall not be obligated to make any additional Capital Contributions to the Partnership.

Section 5.3. Contributions by Initial Limited Partners.

(a) On the Closing Date and pursuant to the Underwriting Agreement, each Underwriter shall contribute to the Partnership cash in an amount equal to the Issue Price per Initial Common Unit multiplied by the number of Common Units specified in the Underwriting Agreement to be purchased by

such Underwriter at the Closing Date. In exchange for such Capital Contributions by the Underwriters, the Partnership shall issue Common Units to each Underwriter on whose behalf such Capital Contribution is made in an amount equal to the quotient obtained by dividing (i) the cash contribution to the Partnership by or on behalf of such Underwriter by (ii) the Issue Price per Initial Common Unit.

(b) Upon the exercise of the Over-Allotment Option, each Underwriter shall contribute to the Partnership cash in an amount equal to the Issue Price per Initial Common Unit, multiplied by the number of Common Units specified in the Underwriting Agreement to be purchased by such Underwriter at the Option Closing Date. In exchange for such Capital Contributions by the Underwriters, the Partnership shall issue Common Units to each Underwriter on whose behalf such Capital Contribution is made in an amount equal to the quotient obtained by dividing (i) the cash contributions to the Partnership by or on behalf of such Underwriter by (ii) the Issue Price per Initial Common Unit.

(c) No Limited Partner Interests will be issued or issuable as of or at the Closing Date other than (i) the Common Units issuable pursuant to subparagraph (a) hereof in aggregate number equal to 1,500,000 Units, (ii) the "Option Units" as such term is used in the Underwriting Agreement issuable upon exercise of the Over-Allotment Option pursuant to subparagraph (b) hereof in an aggregate number of up to 225,000 Units, (iii) the 3,313,367 Senior Subordinated Units and the 572,542 Junior Subordinated Units issuable to Inergy Partners, LLC and New Inergy Propane, LLC, pursuant to Section 5.2 hereof and (iv) the Incentive Distribution Rights.

Section 5.4. Interest and Withdrawal.

No interest on Capital Contributions shall be paid by the Partnership. No Partner or Assignee shall be entitled to the withdrawal or return of its Capital Contribution, except to the extent, if any, that distributions made pursuant to this Agreement or upon termination of the Partnership may be considered as such by law and then only to the extent provided for in this Agreement. Except to the extent expressly provided in this Agreement, no Partner or Assignee shall have priority over any other Partner or Assignee either as to the return of Capital Contributions or as to profits, losses or distributions. Any such return shall be a compromise to which all Partners and Assignees agree within the meaning of 17-502(b) of the Delaware Act.

Section 5.5. Capital Accounts.

(a) The Partnership shall maintain for each Partner (or a beneficial owner of Partnership Interests held by a nominee in any case in which the nominee has furnished the identity of such owner to the Partnership in accordance with Section 6031(c) of the Code or any other method acceptable to the Managing General Partner in its sole discretion) owning a Partnership Interest a separate Capital Account with respect to such Partnership Interest in accordance with the rules of Treasury Regulation Section 1.704-1(b)(2)(iv). Such Capital Account shall be increased by (i) the amount of all Capital Contributions made to the Partnership with respect to such Partnership Interest pursuant to this Agreement and (ii) all items of Partnership income and gain (including, without limitation, income and gain exempt from tax) computed in accordance with Section 5.5(b) and allocated with respect to such Partnership Interest pursuant to Section 6.1, and decreased by (x) the amount of cash or Net Agreed Value of all actual and deemed distributions of cash or property made with respect to such Partnership Interest pursuant to this Agreement and (y) all items of Partnership deduction and loss computed in accordance with Section 5.5(b) and allocated with respect to such Partnership Interest pursuant to Section 6.1.

(b) For purposes of computing the amount of any item of income, gain, loss or deduction which is to be allocated pursuant to Article VI and is to be reflected in the Partners' Capital Accounts, the determination, recognition and classification of any such item shall be the same as its determination, recognition and classification for federal income tax purposes (including, without limitation, any method of depreciation, cost recovery or amortization used for that purpose), provided, that:

(i) Solely for purposes of this Section 5.5, the Partnership shall be treated as owning directly its proportionate share (as determined by the Managing General Partner based upon the provisions of the Operating Company Agreement) of all property owned by the Operating Company or any other Subsidiary that is classified as a partnership for federal income tax purposes.

(ii) All fees and other expenses incurred by the Partnership to promote the sale of (or to sell) a Partnership Interest that can neither be deducted nor amortized under Section 709 of the Code, if any, shall, for purposes of Capital Account maintenance, be treated as an item of deduction at the time such fees and other expenses are incurred and shall be allocated among the Partners pursuant to Section 6.1.

(iii) Except as otherwise provided in Treasury Regulation Section 1.704-1(b)(2)(iv)(m), the computation of all items of income, gain, loss and deduction shall be made without regard to any election under Section 754 of the Code which may be made by the Partnership and, as to those items described in Section 705(a)(1)(B) or 705(a)(2)(B) of the Code, without regard to the fact that such items are not includable in gross income or are neither currently deductible nor capitalized for federal income tax purposes. To the extent an adjustment to the adjusted tax basis of any Partnership asset pursuant to Section 734(b) or 743(b) of the Code is required, pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment in the Capital Accounts shall be treated as an item of gain or loss.

(iv) Any income, gain or loss attributable to the taxable disposition of any Partnership property shall be determined as if the adjusted basis of such property as of such date of disposition were equal in amount to the Partnership's Carrying Value with respect to such property as of such date.

(v) In accordance with the requirements of Section 704(b) of the Code, any deductions for depreciation, cost recovery or amortization attributable to any Contributed Property shall be determined as if the adjusted basis of such property on the date it was acquired by the Partnership were equal to the Agreed Value of such property. Upon an adjustment pursuant to Section 5.5(d) to the Carrying Value of any Partnership property subject to depreciation, cost recovery or amortization, any further deductions for such depreciation, cost recovery or amortization attributable to such property shall be determined (A) as if the adjusted basis of such property were equal to the Carrying Value of such property immediately following such adjustment and (B) using a rate of depreciation, cost recovery or amortization derived from the same method and useful life (or, if applicable, the remaining useful life) as is applied for federal income tax purposes; provided, however, that, if the asset has a zero adjusted basis for federal income tax purposes, depreciation, cost recovery or amortization deductions shall be determined using any reasonable method that the Managing General Partner may adopt.

(vi) If the Partnership's adjusted basis in a depreciable or cost recovery property is reduced for federal income tax purposes pursuant to Section 48(q)(1) or 48(q)(3) of the Code, the amount of such reduction shall, solely for purposes hereof, be deemed to be an additional depreciation or cost recovery deduction in the year such property is placed in service and shall be allocated among the Partners pursuant to Section 6.1. Any restoration of such basis pursuant to Section 48(q)(2) of the Code shall, to the extent possible, be allocated in the same manner to the Partners to whom such deemed deduction was allocated.

(c) (i) A transferee of a Partnership Interest shall succeed to a pro rata portion of the Capital Account of the transferor relating to the Partnership Interest so transferred.

(ii) Immediately prior to the transfer of a Subordinated Unit or of a Subordinated Unit that has converted into a Common Unit pursuant to Section 5.8 by a holder thereof (other than a transfer to an Affiliate unless the Managing General Partner elects to have this subparagraph 5.5(c)(ii) apply), the Capital Account maintained for such Person with respect to its Subordinated Units or converted Subordinated Units will (A) first, be allocated to the Subordinated Units or converted Subordinated Units to be transferred in an amount equal to the product of (x) the number of such Subordinated

Units or converted Subordinated Units to be transferred and (y) the Per Unit Capital Amount for a Common Unit, and (B) second, any remaining balance in such Capital Account will be retained by the transferor, regardless of whether it has retained any Subordinated Units or converted Subordinated Units. Following any such allocation, the transferor's Capital Account, if any, maintained with respect to the retained Subordinated Units or converted Subordinated Units, if any, will have a balance equal to the amount allocated under clause (B) above, and the transferee's Capital Account established with respect to the transferred Subordinated Units or converted Subordinated Units will have a balance equal to the amount allocated under clause (A) above.

(d) (i) In accordance with Treasury Regulation Section 1.704-1(b)(2)(iv)(f), on an issuance of additional Partnership Interests for cash or Contributed Property or the conversion of a General Partner's Combined Interest to Common Units pursuant to Section 11.3(b), the Capital Account of all Partners and the Carrying Value of each Partnership property immediately prior to such issuance shall be adjusted upward or downward to reflect any Unrealized Gain or Unrealized Loss attributable to such Partnership property, as if such Unrealized Gain or Unrealized Loss had been recognized on an actual sale of each such property immediately prior to such issuance and had been allocated to the Partners at such time pursuant to Section 6.1(c) in the same manner as any item of gain or loss actually recognized during such period would have been allocated. In determining such Unrealized Gain or Unrealized Loss, the aggregate cash amount and fair market value of all Partnership assets (including, without limitation, cash or cash equivalents) immediately prior to the issuance of additional Partnership Interests shall be determined by the Managing General Partner using such reasonable method of valuation as it may adopt; provided, however, that the Managing General Partner, in arriving at such valuation, must take fully into account the fair market value of the Partnership Interests of all Partners at such time. The Managing General Partner shall allocate such aggregate value among the assets of the Partnership (in such manner as it determines in its discretion to be reasonable) to arrive at a fair market value for individual properties.

(ii) In accordance with Treasury Regulation Section 1.704-1(b)(2)(iv)(f), immediately prior to any actual or deemed distribution to a Partner of any Partnership property (other than a distribution of cash that is not in redemption or retirement of a Partnership Interest), the Capital Accounts of all Partners and the Carrying Value of all Partnership property shall be adjusted upward or downward to reflect any Unrealized Gain or Unrealized Loss attributable to such Partnership property, as if such Unrealized Gain or Unrealized Loss had been recognized in a sale of such property immediately prior to such distribution for an amount equal to its fair market value, and had been allocated to the Partners, at such time, pursuant to Section 6.1(c) in the same manner as any item of gain or loss actually recognized during such period would have been allocated. In determining such Unrealized Gain or Unrealized Loss the aggregate cash amount and fair market value of all Partnership assets (including, without limitation, cash or cash equivalents) immediately prior to a distribution shall (A) in the case of an actual distribution which is not made pursuant to Section 12.4 or in the case of a deemed contribution and/or distribution, be determined and allocated in the same manner as that provided in Section 5.5(d)(i) or (B) in the case of a liquidating distribution pursuant to Section 12.4, be determined and allocated by the Liquidator using such reasonable method of valuation as it may adopt.

Section 5.6. Issuances of Additional Partnership Securities.

(a) Subject to Section 5.7, the Partnership may issue additional Partnership Securities and options, rights, warrants and appreciation rights relating to the Partnership Securities for any Partnership purpose at any time and from time to time to such Persons for such consideration and on such terms and conditions as shall be established by the Managing General Partner in its sole discretion, all without the approval of any Limited Partners.

(b) Each additional Partnership Security authorized to be issued by the Partnership pursuant to Section 5.6(a) may be issued in one or more classes, or one or more series of any such classes, with such

designations, preferences, rights, powers and duties (which may be senior to existing classes and series of Partnership Securities), as shall be fixed by the Managing General Partner in the exercise of its sole discretion, including (i) the right to share Partnership profits and losses or items thereof; (ii) the right to share in Partnership distributions; (iii) the rights upon dissolution and liquidation of the Partnership; (iv) whether, and the terms and conditions upon which, the Partnership may redeem the Partnership Security; (v) whether such Partnership Security is issued with the privilege of conversion or exchange and, if so, the terms and conditions of such conversion or exchange; (vi) the terms and conditions upon which each Partnership Security will be issued, evidenced by certificates and assigned or transferred; and (vii) the right, if any, of each such Partnership Security to vote on Partnership matters, including matters relating to the relative designations, preferences, rights, powers and duties of such Partnership Security.

(c) The Managing General Partner is hereby authorized and directed to take all actions that it deems necessary or appropriate in connection with (i) each issuance of Partnership Securities and options, rights, warrants and appreciation rights relating to Partnership Securities pursuant to this Section 5.6, (ii) the conversion of the Non-Managing General Partner Interest and Incentive Distribution Rights into Units pursuant to the terms of this Agreement, (iii) the admission of Additional Limited Partners and (iv) all additional issuances of Partnership Securities. The Managing General Partner is further authorized and directed to specify the relative rights, powers and duties of the holders of the Units or other Partnership Securities being so issued. The Managing General Partner shall do all things necessary to comply with the Delaware Act and is authorized and directed to do all things it deems to be necessary or advisable in connection with any future issuance of Partnership Securities or in connection with the conversion of the Non-Managing General Partner Interest and Incentive Distribution Rights into Units pursuant to the terms of this Agreement, including compliance with any statute, rule, regulation or guideline of any federal, state or other governmental agency or any, National Securities Exchange on which the Units or other Partnership Securities are listed for trading.

Section 5.7. Limitations on Issuance of Additional Partnership Securities.

The issuance of Partnership Securities pursuant to Section 5.6 shall be subject to the following restrictions and limitations:

(a) Until all Outstanding Senior Subordinated Units have been converted into Common Units, the Partnership shall not issue (and shall not issue any options, rights, warrants or appreciation rights relating to) an aggregate of more than 750,000 additional Parity Units without the prior approval of the holders of a Unit Majority. In applying this limitation, there shall be excluded Common Units and other Parity Units issued (A) in connection with the exercise of the Over-Allotment Option pursuant to Section 5.3(b), (B) in accordance with Section 5.7(b), (C) upon conversion of Subordinated Units pursuant to Section 5.8, (D) upon conversion of the Non-Managing General Partner Interest and Incentive Distribution Rights pursuant to Section 11.3(b), (E) pursuant to the employee benefit plans of the Managing General Partner, the Partnership or any other Group Member and (F) in the event of a combination or subdivision of Common Units.

(b) The Partnership may also issue an unlimited number of Parity Units, prior to the end of the Subordination Period and without the prior approval of the Unitholders, if such issuance occurs (i) in connection with an Acquisition or a Capital Improvement or (ii) within 365 days of, and the net proceeds from such issuance are used to repay debt incurred in connection with, an Acquisition or a Capital Improvement, in each case where such Acquisition or Capital Improvement involves assets that, if acquired by the Partnership as of the date that is one year prior to the first day of the Quarter in which such Acquisition is to be consummated or such Capital Improvement is to be completed, would have resulted, on a pro forma basis, in an increase in:

(A) the amount of Adjusted Operating Surplus generated by the Partnership on a per-Unit basis (for all Outstanding Units) with respect to the four most recently completed Quarters taken as a whole (on a pro forma basis as described below) as compared to

(B) the actual amount of Adjusted Operating Surplus generated by the Partnership on a per-Unit basis (for all Outstanding Units) (excluding Adjusted Operating Surplus attributable to the Acquisition or Capital Improvement) with respect to such four most recently completed Quarters taken as a whole.

If the issuance of Parity Units with respect to an Acquisition or Capital Improvement occurs within the first four full Quarters after the Closing Date, then Adjusted Operating Surplus as used in clauses (A) (subject to the succeeding sentence) and (B) above shall be calculated (i) for each Quarter, if any, that commenced after the Closing Date for which actual results of operations are available, based on the actual Adjusted Operating Surplus of the Partnership generated with respect to such Quarter, and (ii) for each other Quarter, on a pro forma basis consistent with the procedures, as applicable, set forth in Appendix D to the Registration Statement. Furthermore, the amount in clause (A) shall be determined on a pro forma basis assuming that (1) all of the Parity Units to be issued in connection with or within 365 days of such Acquisition or Capital Improvement had been issued and outstanding, (2) all indebtedness for borrowed money to be incurred or assumed in connection with such Acquisition or Capital Improvement (other than any such indebtedness that is to be repaid with the proceeds of such issuance of Parity Units) had been incurred or assumed, in each case as of the commencement of such four-Quarter period, (3) the personnel expenses that would have been incurred by the Partnership in the operation of the acquired assets are the personnel expenses for employees to be retained by the Partnership in the operation of the acquired assets, and (4) the non-personnel costs and expenses are computed on the same basis as those incurred by the Partnership in the operation of the Partnership's business at similarly situated Partnership facilities.

(c) Until all Outstanding Senior Subordinated Units have been converted into Common Units, the Partnership shall not issue (and shall not issue any options, rights, warrants or appreciation rights relating to) additional Partnership Securities having rights to distributions or in liquidation ranking prior or senior to the Common Units, without the prior approval of the holders of a Unit Majority.

(d) No fractional Units shall be issued by the Partnership.

Section 5.8. Conversion of Subordinated Units.

(a) A total of 828,342 of the outstanding Senior Subordinated Units will convert into Common Units on a one-for-one basis on the first day after the Record Date for distribution in respect of any Quarter ending on or after June 30, 2004, in respect of which:

(i) distributions under Section 6.4 in respect of all Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units with respect to each of the three consecutive, non-overlapping four-Quarter periods immediately preceding such date equaled or exceeded the sum of the Minimum Quarterly Distribution on all of the Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units during such periods;

(ii) the Adjusted Operating Surplus generated during each of the three consecutive, non-overlapping four-Quarter periods immediately preceding such date equaled or exceeded the sum of the Minimum Quarterly Distribution on all of the Common Units, Senior Subordinated Units and Junior Subordinated Units that were Outstanding during such periods on a fully-diluted basis (i.e. taking into account for purposes of such determination all Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units; all Common Units, Senior Subordinated Units and Junior Subordinated Units issuable upon exercise of employee options that have, as of the date of determination, already vested or are scheduled to vest prior to the end of the Quarter immediately following the Quarter with respect to which such determination is made; and all Common Units, Senior Subordinated Units and Junior Subordinated Units that have, as of the date of determination, been earned by but not yet issued to management of the Partnership in respect of incentive compensation), plus the related distribution on the General Partner Interests during such periods; and

(iii) the Cumulative Common Unit Arrearage on all of the Common Units is zero.

(b) An additional 828,342 of the Outstanding Senior Subordinated Units will convert into Common Units on a one-for-one basis on the first day after the Record Date for distribution in respect of any Quarter ending on or after June 30, 2005, in respect of which:

(i) distributions under Section 6.4 in respect of all Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units with respect to each of the three consecutive, non-overlapping four-Quarter periods immediately preceding such date equaled or exceeded the sum of the Minimum Quarterly Distribution on all of the Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units during such periods;

(ii) the Adjusted Operating Surplus generated during each of the three consecutive, non-overlapping four-Quarter periods immediately preceding such date equaled or exceeded the sum of the Minimum Quarterly Distribution on all of the Common Units, Senior Subordinated Units and Junior Subordinated Units that were Outstanding during such periods on a fully-diluted basis (i.e. taking into account for purposes of such determination all Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units; all Common Units, Senior Subordinated Units and Junior Subordinated Units issuable upon exercise of employee options that have, as of the date of determination, already vested or are scheduled to vest prior to the end of the Quarter immediately following the Quarter with respect to which such determination is made; and all Common Units, Senior Subordinated Units and Junior Subordinated Units that have, as of the date of determination, been earned by but not yet issued to management of the Partnership in respect of incentive compensation), plus the related distribution on the General Partner Interests during such periods; and

(iii) the Cumulative Common Unit Arrearage on all of the Common Units is zero;

provided, however, that the conversion of Senior Subordinated Units pursuant to this Section 5.8(b) may not occur until at least one year following the conversion of Senior Subordinated Units pursuant to Section 5.8(a).

(c) A total of 143,136 of the outstanding Junior Subordinated Units will convert into Common Units on a one-for-one basis on the first day after the Record Date for distribution in respect of any Quarter ending on or after June 30, 2006, in respect of which:

(i) distributions under Section 6.4 in respect of all Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units with respect to each of the three consecutive, non-overlapping four-Quarter periods immediately preceding such date equaled or exceeded the sum of the Minimum Quarterly Distribution on all of the Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units during such periods;

(ii) the Adjusted Operating Surplus generated during each of the three consecutive, non-overlapping four-Quarter periods immediately preceding such date equaled or exceeded the sum of the Minimum Quarterly Distribution on all of the Common Units, Senior Subordinated Units and Junior Subordinated Units that were Outstanding during such periods on a fully-diluted basis (i.e. taking into account for purposes of such determination all Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units; all Common Units, Senior Subordinated Units and Junior Subordinated Units issuable upon exercise of employee options that have, as of the date of determination, already vested or are scheduled to vest prior to the end of the Quarter immediately following the Quarter with respect to which such determination is made; and all Common Units, Senior Subordinated Units and Junior Subordinated Units that have, as of the date of determination, been earned by but not yet issued to management of the Partnership in respect of incentive compensation), plus the related distribution on the General Partner Interests during such periods; and

(iii) the Cumulative Common Unit Arrearage on all of the Common Units is zero.

(d) An additional 143,136 of the Outstanding Junior Subordinated Units will convert into Common Units on a one-for-one basis on the first day after the Record Date for distribution in respect of any Quarter ending on or after June 30, 2007, in respect of which:

(i) distributions under Section 6.4 in respect of all Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units with respect to each of the three consecutive, non-overlapping four-Quarter periods immediately preceding such date equaled or exceeded the sum of the Minimum Quarterly Distribution on all of the Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units during such periods;

(ii) the Adjusted Operating Surplus generated during each of the three consecutive, non-overlapping four-Quarter periods immediately preceding such date equaled or exceeded the sum of the Minimum Quarterly Distribution on all of the Common Units, Senior Subordinated Units and Junior Subordinated Units that were Outstanding during such periods on a fully-diluted basis (i.e. taking into account for purposes of such determination all Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units; all Common Units, Senior Subordinated Units and Junior Subordinated Units issuable upon exercise of employee options that have, as of the date of determination, already vested or are scheduled to vest prior to the end of the Quarter immediately following the Quarter with respect to which such determination is made; and all Common Units, Senior Subordinated Units and Junior Subordinated Units that have, as of the date of determination, been earned by but not yet issued to management of the Partnership in respect of incentive compensation), plus the related distribution on the General Partner Interests during such periods;

(iii) the Cumulative Common Unit Arrearage on all of the Common Units is zero;

provided, however, that the conversion of Junior Subordinated Units pursuant to this Section 5.8(d) may not occur until at least one year following the conversion of Junior Subordinated Units pursuant to Section 5.8(c).

(e) In the event that less than all of the Outstanding Senior Subordinated Units shall convert into Common Units pursuant to Section 5.8(a) or 5.8(b) at a time when there shall be more than one holder of Senior Subordinated Units, then, unless all of the holders of Senior Subordinated Units shall agree to a different allocation, the Senior Subordinated Units that are to be converted into Common Units shall be allocated among the holders of Senior Subordinated Units pro rata based on the number of Senior Subordinated Units held by each such holder.

(f) In the event that less than all of the Outstanding Junior Subordinated Units shall convert into Common Units pursuant to Section 5.8(c) or 5.8(d) at a time when there shall be more than one holder of Senior Subordinated Units, then, unless all of the holders of Junior Subordinated Units shall agree to a different allocation, the Junior Subordinated Units that are to be converted into Common Units shall be allocated among the holders of Junior Subordinated Units pro rata based on the number of Junior Subordinated Units held by each such holder.

(g) Any Subordinated Units that are not converted into Common Units pursuant to Sections 5.8(a), 5.8(b), 5.8(c) and 5.8(d) shall convert into Common Units on a one-for-one basis on the first day following the Record Date for distributions in respect of the final Quarter of the Subordination Period.

(h) Notwithstanding any other provision of this Agreement, all Outstanding Junior Subordinated Units will convert into Common Units on a one-for-one basis on the first day after the Record Date for distribution in respect of any Quarter ending on or after June 30, 2006, in respect of which

(i) distributions under Section 6.4 in respect of all Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units with respect to each of the three consecutive, non-overlapping four-Quarter periods immediately prior to such date have equaled or exceeded $2.80,

(ii) the Adjusted Operating Surplus generated during each of the three consecutive, non-overlapping four-Quarter periods immediately preceding such date equaled or exceeded the sum of $2.80 on all of the Common Units, Senior Subordinated Units and Junior Subordinated Units that were Outstanding during such periods on a fully-diluted basis (i.e. taking into account for purposes of such determination all Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units; all Common Units, Senior Subordinated Units and Junior Subordinated Units issuable upon exercise of employee options that have, as of the date of determination, already vested or are scheduled to vest prior to the end of the Quarter immediately following the Quarter with respect to which such determination is made; and all Common Units, Senior Subordinated Units and Junior Subordinated Units that have, as of the date of determination, been earned by but not yet issued to management of the Partnership in respect of incentive compensation), plus the related distribution on the General Partner Interests during such periods;

(iii) All outstanding Senior Subordinated Units have converted into Common Units, and

(iv) The Cumulative Common Unit Arrearage on all of the Common Units is zero.

(i) Notwithstanding any other provision of this Agreement, all the then Outstanding Subordinated Units will automatically convert into Common Units on a one-for-one basis as set forth in, and pursuant to the terms of, Section 11.4.

(j) A Subordinated Unit that has converted into a Common Unit shall be subject to the provisions of Section 6.7(b).

Section 5.9. Limited Preemptive Right.

Except as provided in this Section 5.9 and in Section 5.2, no Person shall have any preemptive, preferential or other similar right with respect to the issuance of any Partnership Security, whether unissued, held in the treasury or hereafter created. The Non-Managing General Partner shall have the right, which it may from time to time assign in whole or in part to any of its Affiliates, to purchase Partnership Securities from the Partnership whenever, and on the same terms that, the Partnership issues Partnership Securities to Persons other than the Non-Managing General Partner and its Affiliates, to the extent necessary to maintain the Percentage Interests of the Non-Managing General Partner and its Affiliates equal to that which existed immediately prior to the issuance of such Partnership Securities.

Section 5.10. Splits and Combination.

(a) Subject to Sections 5.10(d), 6.6 and 6.9 (dealing with adjustments of distribution levels), the Partnership may make a Pro Rata distribution of Partnership Securities to all Record Holders or may effect a subdivision or combination of Partnership Securities so long as, after any such event, each Partner shall have the same Percentage Interest in the Partnership as before such event, and any amounts calculated on a per Unit basis (including any Common Unit Arrearage or Cumulative Common Unit Arrearage) or stated as a number of Units (including the number of Senior Subordinated Units and Junior Subordinated Units that may convert prior to the end of the Subordination Period and the number of additional Parity Units that may be issued pursuant to Section 5.7 without a Unitholder vote) are proportionately adjusted retroactive to the beginning of the Partnership.

(b) Whenever such a distribution, subdivision or combination of Partnership Securities is declared, the Managing General Partner shall select a Record Date as of which the distribution, subdivision or combination shall be effective and shall send notice thereof at least 20 days prior to such Record Date to each Record Holder as of a date not less than 10 days prior to the date of such notice. The Managing General Partner also may cause a firm of independent public accountants selected by it to calculate the number of Partnership Securities to be held by each Record Holder after giving effect to such distribution, subdivision or combination. The Managing General Partner shall be entitled to rely on any certificate provided by such firm as conclusive evidence of the accuracy of such calculation.

(c) Promptly following any such distribution, subdivision or combination, the Partnership may issue Certificates to the Record Holders of Partnership Securities as of the applicable Record Date representing the new number of Partnership Securities held by such Record Holders, or the Managing General Partner may adopt such other procedures as it may deem appropriate to reflect such changes. If any such combination results in a smaller total number of Partnership Securities Outstanding, the Partnership shall require, as a condition to the delivery to a Record Holder of such new Certificate, the surrender of any Certificate held by such Record Holder immediately prior to such Record Date.

(d) The Partnership shall not issue fractional Units upon any distribution, subdivision or combination of Units. If a distribution, subdivision or combination of Units would result in the issuance of fractional Units but for the provisions of Section 5.7(d) and this Section 5.10(d), each fractional Unit shall be rounded to the nearest whole Unit (and a 0.5 Unit shall be rounded to the next higher Unit).

Section 5.11. Fully Paid and Non-Assessable Nature of Limited Partner Interests.

All Limited Partner Interests issued pursuant to, and in accordance with the requirements of, this Article V shall be fully paid and non-assessable Limited Partner Interests in the Partnership, except as such non assessability may be affected by Section 17-607 of the Delaware Act.

## ARTICLE VI

## Allocations and Distributions

Section 6.1. Allocations for Capital Account Purposes.

For purposes of maintaining the Capital Accounts and in determining the rights of the Partners among themselves, the Partnership's items of income, gain, loss and deduction (computed in accordance with Section 5.5(b)) shall be allocated among the Partners in each taxable year (or portion thereof) as provided herein below.

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

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

(ii) Second, 2% to the Non-Managing General Partner in an amount equal to the aggregate Net Losses allocated to the Non-Managing General Partner pursuant to Section 6.1(b)(ii) for all previous taxable years and 98% to the Unitholders, in accordance with their respective Percentage Interests, until the aggregate Net Income allocated to such Partners pursuant to this Section 6.1(a)(ii) for the current taxable year and all previous taxable years is equal to the aggregate Net Losses allocated to such Partners pursuant to Section 6.1(b)(ii) for all previous taxable years; and

(iii) Third, the balance, if any, 2% to the Non-Managing General Partner and 98% to the Unitholders, in accordance with their respective Percentage Interests.

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

(i) First, 2% to the Non-Managing General Partner and 98% to the Unitholders, in accordance with their respective Percentage Interests, until the aggregate Net Losses allocated pursuant to this

Section 6.1(b)(i) for the current taxable year and all previous taxable years is equal to the aggregate Net Income allocated to such Partners pursuant to Section 6.1(a)(iii) for all previous taxable years, provided that the Net Losses shall not be allocated pursuant to this Section 6. 1 (b)(i) to the extent that such allocation would cause any Unitholder to have a deficit balance in its Adjusted Capital Account at the end of such taxable year (or increase any existing deficit balance in its Adjusted Capital Account);

(ii) Second, 2% to the Non-Managing General Partner and 98% to the Unitholders in accordance with their respective Percentage Interests; provided, that Net Losses shall not be allocated pursuant to this Section 6.1(b)(ii) to the extent that such allocation would cause any Unitholder to have a deficit balance in its Adjusted Capital Account at the end of such taxable year (or increase any existing deficit balance in its Adjusted Capital Account);

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

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

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

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

(B) Second, 98% to all Unitholders holding Common Units, Pro Rata, and 2% to the Non-Managing General Partner until the Capital Account in respect of each Common Unit then Outstanding is equal to the sum of (1) its Unrecovered Capital plus (2) the Minimum Quarterly Distribution for the Quarter during which the Liquidation Date occurs, reduced by any distribution pursuant to Section 6.4(a)(i) or (b)(i) with respect to such Common Unit for such Quarter (the amount determined pursuant to this clause (2) is hereinafter defined as the "Unpaid MQD") plus (3) any then existing Cumulative Common Unit Arrearage;

(C) Third, if such Net Termination Gain is recognized (or is deemed to be recognized) prior to the expiration of the Subordination Period, 98% to all Unitholders holding Senior Subordinated Units, Pro Rata, and 2% to the Non-Managing General Partner until the Capital Account in respect of each Senior Subordinated Unit then Outstanding equals the sum of (1) its Unrecovered Capital, determined for the taxable year (or portion thereof) to which this allocation of gain relates, plus (2) the Minimum Quarterly Distribution for the Quarter during which the Liquidation Date occurs, reduced by any distribution pursuant to Section 6.4(a)(iii) with respect to such Senior Subordinated Unit for such Quarter;

(D) Fourth, if such Net Termination Gain is recognized (or is deemed to be recognized) prior to the expiration of the Subordination Period, 98% to all Unitholders holding

Junior Subordinated Units, Pro Rata, and 2% to the Non-Managing General Partner until the Capital Account in respect of each Junior Subordinated Unit then Outstanding equals the sum of (1) its Unrecovered Capital, determined for the taxable year (or portion thereof) to which this allocation of gain relates, plus (2) the Minimum Quarterly Distribution for the Quarter during which the Liquidation Date occurs, reduced by any distribution pursuant to Section 6.4(a)(iv) with respect to such Junior Subordinated Unit for such Quarter;

(E) Fifth, 98% to all Unitholders, Pro Rata, and 2% to the Non-Managing General Partner until the Capital Account in respect of each Common Unit then Outstanding is equal to the sum of (1) its Unrecovered Capital, plus (2) the Unpaid MQD, plus (3) any then existing Cumulative Common Unit Arrearage, plus (4) the excess of (aa) the First Target Distribution less the Minimum Quarterly Distribution for each Quarter of the Partnership's existence over (bb) the cumulative per Unit amount of any distributions of Operating Surplus that was distributed pursuant to Sections 6.4(a)(v) and 6.4(b)(ii) (the sum of (1) plus (2) plus (3) plus (4) is hereinafter defined as the "First Liquidation Target Amount");

(F) Sixth, 85% to all Unitholders, Pro Rata, 13% to the holders of the Incentive Distribution Rights, Pro Rata, and 1% to the Non-Managing General Partner until the Capital Account in respect of each Common Unit then Outstanding is equal to the sum of (1) the First Liquidation Target Amount, plus (2) the excess of (aa) the Second Target Distribution less the First Target Distribution for each Quarter of the Partnership's existence over (bb) the cumulative per Unit amount of any distributions of Operating Surplus that was distributed pursuant to Sections 6.4(a)(vi) and 6.4(b)(iii) (the sum of (1) plus (2) is hereinafter defined as the "Second Liquidation Target Amount");

(G) Seventh, 75% to all Unitholders, Pro Rata, 23% to the holders of the Incentive Distribution Rights, Pro Rata, and 2% to the Non-Managing General Partner until the Capital Account in respect of each Common Unit then Outstanding is equal to the sum of (1) the Second Liquidation Target Amount, plus (2) the excess of (aa) the Third Target Distribution less the Second Target Distribution for each Quarter of the Partnership's existence over (bb) the cumulative per Unit amount of any distributions of Operating Surplus that was distributed pursuant to Sections 6.4(a)(vii) and 6.4(b)(iv) (the sum of (1) plus (2) is hereinafter defined as the "Third Liquidation Target Amount");

(H) Finally, any remaining amount 50% to all Unitholders, Pro Rata, 48% to the holders of the Incentive Distribution Rights, Pro Rata, and 2% to the Non-Managing General Partner.

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

(A) First, if such Net Termination Loss is recognized (or is deemed to be recognized) prior to the conversion of the last Outstanding Junior Subordinated Unit, 98% to the Unitholders holding Junior Subordinated Units, Pro Rata, and 2% to the Non-Managing General Partner until the Capital Account in respect of each Junior Subordinated Unit then Outstanding has been reduced to zero;

(B) Second, if such Net Termination Loss is recognized (or is deemed to be recognized) prior to the conversion of the last Outstanding Senior Subordinated Unit, 98% to the Unitholders holding Senior Subordinated Units, Pro Rata, and 2% to the Non-

Managing General Partner until the Capital Account in respect of each Senior Subordinated Unit then Outstanding has been reduced to zero;

(C) Third, 98% to all Unitholders holding Common Units, Pro Rata, and 2% to the Non-Managing General Partner until the Capital Account in respect of each Common Unit then Outstanding has been reduced to zero; and

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

(d) Special Allocations. Notwithstanding any other provision of this Section 6.1, the following special allocations shall be made for such taxable period:

(i) Partnership Minimum Gain Chargeback. Notwithstanding any other provision of this Section 6.1, if there is a net decrease in Partnership Minimum Gain during any Partnership taxable period, each Partner shall be allocated items of Partnership income and gain for such period (and, if necessary, subsequent periods) in the manner and amounts provided in Treasury Regulation Sections 1.704-2(f)(6), 1.704-2(g)(2) and 1.704-20)(2)(i), or any successor provision. For purposes of this Section 6.1(d), each Partner's Adjusted Capital Account balance shall be determined, and the allocation of income or gain required hereunder shall be effected, prior to the application of any other allocations pursuant to this Section 6.1(d) with respect to such taxable period (other than an allocation pursuant to Sections 6.1(d)(vi) and 6.1(d)(vii)). This Section 6.1(d)(i) is intended to comply with the Partnership Minimum Gain chargeback requirement in Treasury Regulation Section 1.704-2(f) and shall be interpreted consistently therewith.

(ii) Chargeback of Partner Nonrecourse Debt Minimum Gain. Notwithstanding the other provisions of this Section 6.1 (other than Section 6.1(d)(i)), except as provided in Treasury Regulation Section 1.704-2(i)(4), if there is a net decrease in Partner Nonrecourse Debt Minimum Gain during any Partnership taxable period, any Partner with a share of Partner Nonrecourse Debt Minimum Gain at the beginning of such taxable period shall be allocated items of Partnership income and gain for such period (and, if necessary, subsequent periods) in the manner and amounts provided in Treasury Regulation Sections 1.704-2(i)(4) and 1.704-20)(2)(ii), or any successor provisions. For purposes of this Section 6.1(d), each Partner's Adjusted Capital Account balance shall be determined, and the allocation of income or gain required hereunder shall be effected, prior to the application of any other allocations pursuant to this Section 6.1(d), other than Section 6.1(d)(i) and other than an allocation pursuant to Sections 6.1(d)(vi) and 6.1(d)(vii), with respect to such taxable period. This Section 6.1(d)(ii) is intended to comply with the chargeback of items of income and gain requirement in Treasury Regulation Section 1.704-2(i)(4) and shall be interpreted consistently therewith.

(iii) Priority Allocations.

(A) If the amount of cash or the Net Agreed Value of any property distributed (except cash or property distributed pursuant to Section 12.4) to any Unitholder with respect to its Units for a taxable year is greater (on a per Unit basis) than the amount of cash or the Net Agreed Value of property distributed to the other Unitholders with respect to their Units (on a per Unit basis), then (1) each Unitholder receiving such greater cash or property distribution shall be allocated gross income in an amount equal to the product of (aa) the amount by which the distribution (on a per Unit basis) to such Unitholder exceeds the distribution (on a per Unit basis) to the Unitholders receiving the smallest distribution and (bb) the number of Units owned by the Unitholder receiving the greater distribution; and (2) the Non-Managing General Partner shall be allocated gross income in an aggregate amount equal to 1/98th of the sum of the amounts allocated in clause (1) above.

(B) After the application of Section 6.1(d)(iii)(A), all or any portion of the remaining items of Partnership gross income or gain for the taxable period, if any, shall be allocated 100% to the holders of Incentive Distribution Rights, Pro Rata, until the

aggregate amount of such items allocated to the holders of Incentive Distribution Rights pursuant to this paragraph 6.1(d)(iii)(B) for the current taxable year and all previous taxable years is equal to the cumulative amount of all Incentive Distributions made to the holders of Incentive Distribution Rights from the Closing Date to a date 45 days after the end of the current taxable year.

(iv) Qualified Income Offset. In the event any Partner unexpectedly receives any adjustments, allocations or distributions described in Treasury Regulation Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), or 1.704-1(b)(2)(ii)(d)(6), items of Partnership income and gain shall be specially allocated to such Partner in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulations promulgated under Section 704(b) of the Code, the deficit balance, if any, in its Adjusted Capital Account created by such adjustments, allocations or distributions as quickly as possible unless such deficit balance is otherwise eliminated pursuant to Section 6.1(d)(i) or (ii).

(v) Gross Income Allocations. In the event any Partner has a deficit balance in its Capital Account at the end of any Partnership taxable period in excess of the sum of (A) the amount such Partner is required to restore pursuant to the provisions of this Agreement and (B) the amount such Partner is deemed obligated to restore pursuant to Treasury Regulation Sections 1.704-2(g) and 1.704-2(i)(5), such Partner shall be specially allocated items of Partnership gross income and gain in the amount of such excess as quickly as possible; provided, that an allocation pursuant to this Section 6.1(d)(v) shall be made only if and to the extent that such Partner would have a deficit balance in its Capital Account as adjusted after all other allocations provided for in this Section 6.1 have been tentatively made as if this Section 6.1(d)(v) were not in this Agreement.

(vi) Nonrecourse Deductions. Nonrecourse Deductions for any taxable period shall be allocated to the Partners in accordance with their respective Percentage Interests. If the Managing General Partner determines in its good faith discretion that the Partnership's Nonrecourse Deductions must be allocated in a different ratio to satisfy the safe harbor requirements of the Treasury Regulations promulgated under Section 704(b) of the Code, the General Partner is authorized, upon notice to the other Partners, to revise the prescribed ratio to the numerically closest ratio that does satisfy such requirements.

(vii) Partner Nonrecourse Deductions. Partner Nonrecourse Deductions for any taxable period shall be allocated 100% to the Partner that bears the Economic Risk of Loss with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable in accordance with Treasury Regulation Section 1.704-2(i). If more than one Partner bears the Economic Risk of Loss with respect to a Partner Nonrecourse Debt, such Partner Nonrecourse Deductions attributable thereto shall be allocated between or among such Partners in accordance with the ratios in which they share such Economic Risk of Loss.

(viii) Nonrecourse Liabilities. For purposes of Treasury Regulation Section 1.752-3(a)(3), the Partners agree that Nonrecourse Liabilities of the Partnership in excess of the sum of (A) the amount of Partnership Minimum Gain and (B) the total amount of Nonrecourse Built-in Gain shall be allocated among the Partners in accordance with their respective Percentage Interests.

(ix) Code Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any Partnership asset pursuant to Section 734(b) or 743(c) of the Code is required, pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such item of gain or loss shall be specially allocated to the Partners in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such Section of the Treasury Regulations.

(x) Economic Uniformity. At the election of the Managing General Partner with respect to any taxable period ending upon, or after, the termination of the Subordination Period, all or a portion of the remaining items of Partnership gross income or gain for such taxable period, after taking into account allocations pursuant to Section 6.1(d)(iii), shall be allocated 100% to each Partner holding Subordinated Units that are Outstanding as of the termination of the Subordination Period ("Final Subordinated Units") in the proportion of the number of Final Subordinated Units held by such Partner to the total number of Final Subordinated Units then Outstanding, until each such Partner has been allocated an amount of gross income or gain which increases the Capital Account maintained with respect to such Final Subordinated Units to an amount equal to the product of (A) the number of Final Subordinated Units held by such Partner and (B) the Per Unit Capital Amount for a Common Unit. The purpose of this allocation is to establish uniformity between the Capital Accounts underlying Final Subordinated Units and the Capital Accounts underlying Common Units held by Persons other than the General Partners and their Affiliates immediately prior to the conversion of such Final Subordinated Units into Common Units. This allocation method for establishing such economic uniformity will only be available to the Managing General Partner if the method for allocating the Capital Account maintained with respect to the Subordinated Units between the transferred and retained Subordinated Units pursuant to Section 5.5(c)(ii) does not otherwise provide such economic uniformity to the Final Subordinated Units.

(xi) Curative Allocation.

(A) Notwithstanding any other provision of this Section 6.1, other than the Required Allocations, the Required Allocations shall be taken into account in making the Agreed Allocations so that, to the extent possible, the net amount of items of income, gain, loss and deduction allocated to each Partner pursuant to the Required Allocations and the Agreed Allocations, together, shall be equal to the net amount of such items that would have been allocated to each such Partner under the Agreed Allocations had the Required Allocations and the related Curative Allocation not otherwise been provided in this Section 6.1. Notwithstanding the preceding sentence, Required Allocations relating to (1) Nonrecourse Deductions shall not be taken into account except to the extent that there has been a decrease in Partnership Minimum Gain and (2) Partner Nonrecourse Deductions shall not be taken into account except to the extent that there has been a decrease in Partner Nonrecourse Debt Minimum Gain. Allocations pursuant to this Section 6.1(d)(xi)(A) shall only be made with respect to Required Allocations to the extent the General Partner reasonably determines that such allocations will otherwise be inconsistent with the economic agreement among the Partners. Further, allocations pursuant to this Section 6.1(d)(xi)(A) shall be deferred with respect to allocations pursuant to clauses (1) and (2) hereof to the extent the Managing General Partner reasonably determines that such allocations are likely to be offset by subsequent Required Allocations.

(B) The Managing General Partner shall have reasonable discretion, with respect to each taxable period, to (1) apply the provisions of Section 6.1(d)(xi)(A) in whatever order is most likely to minimize the economic distortions that might otherwise result from the Required Allocations, and (2) divide all allocations pursuant to Section 6.1(d)(xi)(A) among the Partners in a manner that is likely to minimize such economic distortions.

(xii) Corrective Allocations. In the event of any allocation of Additional Book Basis Derivative Items or any Book-Down Event or any recognition of a Net Termination Loss, the following rules shall apply:

(A) In the case of any allocation of Additional Book Basis Derivative Items (other than an allocation of Unrealized Gain or Unrealized Loss under Section 5.5(d) hereof), the

Managing General Partner shall allocate additional items of gross income and gain away from the holders of Incentive Distribution Rights to the Unitholders and the Non-Managing General Partner, or additional items of deduction and loss away from the Unitholders and the Non-Managing General Partner to the holders of Incentive Distribution Rights, to the extent that the Additional Book Basis Derivative Items allocated to the Unitholders or the Non-Managing General Partner exceed their Share of Additional Book Basis Derivative Items. For this purpose, the Unitholders and the Non-Managing General Partner shall be treated as being allocated Additional Book Basis Derivative Items to the extent that such Additional Book Basis Derivative Items have reduced the amount of income that would otherwise have been allocated to the Unitholders or the Non-Managing General Partner under the Partnership Agreement (e.g., Additional Book Basis Derivative Items taken into account in computing cost of goods sold would reduce the amount of book income otherwise available for allocation among the Partners). Any allocation made pursuant to this Section 6.1(d)(xii)(A) shall be made after all of the other Agreed Allocations have been made as if this Section 6.1(d)(xii) were not in this Agreement and, to the extent necessary, shall require the reallocation of items that have been allocated pursuant to such other Agreed Allocations.

(B) In the case of any negative adjustments to the Capital Accounts of the Partners resulting from a Book-Down Event or from the recognition of a Net Termination Loss, such negative adjustment (1) shall first be allocated, to the extent of the Aggregate Remaining Net Positive Adjustments, in such a manner, as reasonably determined by the Managing General Partner, that to the extent possible the aggregate Capital Accounts of the Partners will equal the amount which would have been the Capital Account balance of the Partners if no prior Book-Up Events had occurred, and (2) any negative adjustment in excess of the Aggregate Remaining Net Positive Adjustments shall be allocated pursuant to Section 6.1(c) hereof.

(C) In making the allocations required under this Section 6.1(d)(xii), the Managing General Partner, in its sole discretion, may apply whatever conventions or other methodology it deems reasonable to satisfy the purpose of this Section 6.1(d)(xii).

Section 6.2. Allocations for Tax Purposes.

(a) Except as otherwise provided herein, for federal income tax purposes, each item of income, gain, loss and deduction shall be allocated among the Partners in the same manner as its correlative item of "book" income, gain, loss or deduction is allocated pursuant to Section 6. 1.

(b) In an attempt to eliminate Book-Tax Disparities attributable to a Contributed Property or Adjusted Property, items of income, gain, loss, depreciation, amortization and cost recovery deductions shall be allocated for federal income tax purposes among the Partners as follows:

(i) (A) In the case of a Contributed Property, such items attributable thereto shall be allocated among the Partners in the manner provided under Section 704(c) of the Code that takes into account the variation between the Agreed Value of such property and its adjusted basis at the time of contribution; and (B) any item of Residual Gain or Residual Loss attributable to a Contributed Property shall be allocated among the Partners in the same manner as its correlative item of "book" gain or loss is allocated pursuant to Section 6.1.

(ii) (A) In the case of an Adjusted Property, such items shall (1) first, be allocated among the Partners in a manner consistent with the principles of Section 704(c) of the Code to take into account the Unrealized Gain or Unrealized Loss attributable to such property and the allocations thereof pursuant to Section 5.5(d)(i) or 5.5(d)(ii), and (2) second, in the event such property was originally a Contributed

Property, be allocated among the Partners in a manner consistent with Section 6.2(b)(i)(A); and (B) any item of Residual Gain or Residual Loss attributable to an Adjusted Property shall be allocated among the Partners in the same manner as its correlative item of "book" gain or loss is allocated pursuant to Section 6.1.

(iii) The Managing General Partner shall apply the principles of Treasury Regulation Section 1.704-3(d) to eliminate Book-Tax Disparities.

(c) For the proper administration of the Partnership and for the preservation of uniformity of the Limited Partner Interests (or any class or classes thereof), the Managing General Partner shall have sole discretion to (i) adopt such conventions as it deems appropriate in determining the amount of depreciation, amortization and cost recovery deductions; (ii) make special allocations for federal income tax purposes of income (including, without limitation, gross income) or deductions; and (iii) amend the provisions of this Agreement as appropriate (x) to reflect the proposal or promulgation of Treasury Regulations under Section 704(b) or Section 704(c) of the Code or (y) otherwise to preserve or achieve uniformity of the Limited Partner Interests (or any class or classes thereof). The Managing General Partner may adopt such conventions, make such allocations and make such amendments to this Agreement as provided in this Section 6.2(c) only if such conventions, allocations or amendments would not have a material adverse effect on the Partners, the holders of any class or classes of Limited Partner Interests issued and Outstanding or the Partnership, and if such allocations are consistent with the principles of Section 704 of the Code.

(d) The Managing General Partner in its discretion may determine to depreciate or amortize the portion of an adjustment under Section 743(b) of the Code attributable to unrealized appreciation in any Adjusted Property (to the extent of the unamortized Book-Tax Disparity) using a predetermined rate derived from the depreciation or amortization method and useful life applied to the Partnership's common basis of such property, despite any inconsistency of such approach with Treasury Regulation Section 1.167(c)-1(a)(6) or any successor regulations thereto. If the Managing General Partner determines that such reporting position cannot reasonably be taken, the Managing General Partner may adopt depreciation and amortization conventions under which all purchasers acquiring Limited Partner Interests in the same month would receive depreciation and amortization deductions, based upon the same applicable rate as if they had purchased a direct interest in the Partnership's property. If the Managing General Partner chooses not to utilize such aggregate method, the Managing General Partner may use any other reasonable depreciation and amortization conventions to preserve the uniformity of the intrinsic tax characteristics of any Limited Partner Interests that would not have a material adverse effect on the Limited Partners or the Record Holders of any class or classes of Limited Partner Interests.

(e) Any gain allocated to the Partners upon the sale or other taxable disposition of any Partnership asset shall, to the extent possible, after taking into account other required allocations of gain pursuant to this Section 6.2, be characterized as Recapture Income in the same proportions and to the same extent as such Partners (or their predecessors in interest) have been allocated any deductions directly or indirectly giving rise to the treatment of such gains as Recapture Income.

(f) All items of income, gain, loss, deduction and credit recognized by the Partnership for federal income tax purposes and allocated to the Partners in accordance with the provisions hereof shall be determined without regard to any election under Section 754 of the Code which may be made by the Partnership; provided, however, that such allocations, once made, shall be adjusted as necessary or appropriate to take into account those adjustments permitted or required by Sections 734 and 743 of the Code.

(g) Each item of Partnership income, gain, loss and deduction, shall for federal income tax purposes, be determined on an annual basis and prorated on a monthly basis and shall be allocated to the Partners as of the opening of the New York Stock Exchange on the first Business Day of each month; provided, however, that (i) such items for the period beginning on the Closing Date and ending on the last day of the month in which the Option Closing Date or the expiration of the Over-allotment Option occurs shall be allocated to the Partners as of the opening of the New York Stock Exchange on the first Business Day of the next succeeding month; and

provided, further, that gain or loss on a sale or other disposition of any assets of the Partnership or any other extraordinary item of income or loss realized and recognized other than in the ordinary course of business, as determined by the Managing General Partner in its sole discretion, shall be allocated to the Partners as of the opening of the New York Stock Exchange on the first Business Day of the month in which such gain or loss is recognized for federal income tax purposes. The Managing General Partner may revise, alter or otherwise modify such methods of allocation as it determines necessary or appropriate in its sole discretion, to the extent permitted or required by Section 706 of the Code and the regulations or rulings promulgated thereunder.

(h) Allocations that would otherwise be made to a Limited Partner under the provisions of this Article VI shall instead be made to the beneficial owner of Limited Partner Interests held by a nominee in any case in which the nominee has furnished the identity of such owner to the Partnership in accordance with Section 6031(c) of the Code or any other method acceptable to the Managing General Partner in its sole discretion.

Section 6.3. Requirement and Characterization of Distributions; Distributions to Record Holders.

(a) Within 45 days following the end of each Quarter commencing with the Quarter ending on June 30, 2001, an amount equal to 100% of Available Cash with respect to such Quarter shall, subject to Section 17-607 of the Delaware Act, be distributed in accordance with this Article VI by the Partnership to the Partners as of the Record Date selected by the Managing General Partner in its reasonable discretion. All amounts of Available Cash distributed by the Partnership on any date from any source shall be deemed to be Operating Surplus until the sum of all amounts of Available Cash theretofore distributed by the Partnership to the Partners pursuant to Section 6.4 equals the Operating Surplus from the Closing Date through the close of the immediately preceding Quarter. Any remaining amounts of Available Cash distributed by the Partnership on such date shall, except as otherwise provided in Section 6.5, be deemed to be "Capital Surplus." All distributions required to be made under this Agreement shall be made subject to Section 17-607 of the Delaware Act.

(b) Notwithstanding Section 6.3(a), in the event of the dissolution and liquidation of the Partnership, all receipts received during or after the Quarter in which the Liquidation Date occurs, other than from borrowings described in (a)(ii) of the definition of Available Cash, shall be applied and distributed solely in accordance with, and subject to the terms and conditions of, Section 12.4.

(c) The Managing General Partner shall have the discretion to treat taxes paid by the Partnership on behalf of, or amounts withheld with respect to, all or less than all of the Partners, as a distribution of Available Cash to such Partners.

(d) Each distribution in respect of a Partnership Interest shall be paid by the Partnership, directly or through the Transfer Agent or through any other Person or agent, only to the Record Holder of such Partnership Interest as of the Record Date set for such distribution. Such payment shall constitute full payment and satisfaction of the Partnership's liability in respect of such payment, regardless of any claim of any Person who may have an interest in such payment by reason of an assignment or otherwise.

Section 6.4. Distributions of Available Cash from Operating Surplus.

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

(i) First, 98% to the Unitholders holding Common Units, Pro Rata, and 2% to the Non-Managing General Partner until there has been distributed in respect of each Common Unit then Outstanding an amount equal to the Minimum Quarterly Distribution for such Quarter;

(ii) Second, 98% to the Unitholders holding Common Units, Pro Rata, and 2% to the Non-Managing General Partner until there has been distributed in respect of each Common Unit then Outstanding an amount equal to the Cumulative Common Unit Arrearage existing with respect to such Quarter;

(iii) Third, 98% to the Unitholders holding Senior Subordinated Units, Pro Rata, and 2% to the Non-Managing General Partner until there has been distributed in respect of each Senior Subordinated Unit then Outstanding an amount equal to the Minimum Quarterly Distribution for such Quarter;

(iv) Fourth, 98% to the Unitholders holding Junior Subordinated Units, Pro Rata, and 2% to the Non-Managing General Partner until there has been distributed in respect of each Junior Subordinated Unit then Outstanding an amount equal to the Minimum Quarterly Distribution for such Quarter;

(v) Fifth, 98% to all Unitholders, Pro Rata, and 2% to the Non-Managing General Partner until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the First Target Distribution over the Minimum Quarterly Distribution for such Quarter;

(vi) Sixth, 85% to all Unitholders, Pro Rata, 13% to the holders of the Incentive Distribution Rights, Pro Rata, and 2% to the Non-Managing General Partner until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the Second Target Distribution over the First Target Distribution for such Quarter;

(vii) Seventh, 75% to all Unitholders, Pro Rata, 23% to the holders of the Incentive Distribution Rights, Pro Rata, and 2% to the Non-Managing General Partner until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the Third Target Distribution over the Second Target Distribution for such Quarter; and

(viii) Thereafter, 50% to all Unitholders, Pro Rata, 48% to the holders of the Incentive Distribution Rights, Pro Rata, and 2% to the Non-Managing General Partner;

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

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

(i) First, 98% to all Unitholders, Pro Rata, and 2% to the Non-Managing General Partner until there has been distributed in respect of each Unit then Outstanding an amount equal to the Minimum Quarterly Distribution for such Quarter;

(ii) Second, 98% to all Unitholders, Pro Rata, and 2% to the Non-Managing General Partner until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the First Target Distribution over the Minimum Quarterly Distribution for such Quarter;

(iii) Third, 85% to all Unitholders, Pro Rata, and 13% to the holders of the Incentive Distribution Rights, Pro Rata, and 2% to the Non-Managing General Partner until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the Second Target Distribution over the First Target Distribution for such Quarter;

(iv) Fourth, 75% to all Unitholders, Pro Rata, and 23% to the holders of the Incentive Distribution Rights, Pro Rata, and 2% to the Non-Managing General Partner until there has been

distributed in respect of each Unit then Outstanding an amount equal to the excess of the Third Target Distribution over the Second Target Distribution for such Quarter; and

(v) Thereafter, 50% to all Unitholders, Pro Rata, and 48% to the holders of the Incentive Distribution Rights, Pro Rata, and 2% to the Non-Managing General Partner;

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

Section 6.5. Distributions of Available Cash from Capital Surplus.

Available Cash that is deemed to be Capital Surplus pursuant to the provisions of Section 6.3(a) shall, subject to Section 17-607 of the Delaware Act, be distributed, unless the provisions of Section 6.3 require otherwise, 98% to all Unitholders, Pro Rata, and 2% to the Non-Managing General Partner until a hypothetical holder of a Common Unit acquired on the Closing Date has received with respect to such Common Unit, during the period since the Closing Date through such date, distributions of Available Cash that are deemed to be Capital Surplus in an aggregate amount equal to the Initial Unit Price. Available Cash that is deemed to be Capital Surplus shall then be distributed 98% to all Unitholders holding Common Units, Pro Rata, and 2% to the Non-Managing General Partner until there has been distributed in respect of each Common Unit then Outstanding an amount equal to the Cumulative Common Unit Arrearage. Thereafter, all Available Cash shall be distributed as if it were Operating Surplus and shall be distributed in accordance with Section 6.4.

Section 6.6. Adjustment of Minimum Quarterly Distribution and Target Distribution Levels.

(a) The Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution, Third Target Distribution Common Unit Arrearages and Cumulative Common Unit Arrearages shall be proportionately adjusted in the event of any distribution, combination or subdivision (whether effected by a distribution payable in Units or otherwise) of Units or other Partnership Securities in accordance with Section 5.10. In the event of a distribution of Available Cash that is deemed to be from Capital Surplus, the then applicable Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution and Third Target Distribution shall be adjusted proportionately downward to equal the product obtained by multiplying the otherwise applicable Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution and Third Target Distribution, as the case may be, by a fraction of which the numerator is the Unrecovered Capital of the Common Units immediately after giving effect to such distribution and of which the denominator is the Unrecovered Capital of the Common Units immediately prior to giving effect to such distribution.

(b) The Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution and Third Target Distribution shall also be subject to adjustment pursuant to Section 6.9.

Section 6.7. Special Provisions Relating to the Holders of Senior Subordinated Units and Junior Subordinated Units.

(a) Except with respect to the right to vote on or approve matters requiring the vote or approval of a percentage of the holders of Outstanding Common Units and the right to participate in allocations of income, gain, loss and deduction and distributions made with respect to Common Units, the holder of a Senior Subordinated Unit or a Junior Subordinated Unit shall have all of the rights and obligations of a Unitholder holding Common Units hereunder; provided, however, that immediately upon the conversion of Subordinated Units into Common Units pursuant to Section 5.8, the Unitholder holding a Subordinated Unit shall possess all of the rights and obligations of a Unitholder holding Common Units hereunder, including the right to vote as a Common Unitholder and the right to participate in allocations of income, gain, loss and deduction and

distributions made with respect to Common Units; provided, however, that such converted Subordinated Units shall remain subject to the provisions of Sections 5.5(c)(ii), 6.1(d)(x) and 6.7(b).

(b) The Unitholder holding a Senior Subordinated Unit or a Junior Subordinated Unit which has converted into a Common Unit pursuant to Section 5.8 shall not be issued a Common Unit Certificate pursuant to Section 4.1, and shall not be permitted to transfer its converted Subordinated Units to a Person which is not an Affiliate of the holder until such time as the Managing General Partner determines, based on advice of counsel, that a converted Subordinated Unit should have, as a substantive matter, like intrinsic economic and federal income tax characteristics, in all material respects, to the intrinsic economic and federal income tax characteristics of an Initial Common Unit. In connection with the condition imposed by this Section 6.7(b), the Managing General Partner may take whatever reasonable steps are required to provide economic uniformity to the converted Subordinated Units in preparation for a transfer of such converted Subordinated Units, including the application of Sections 5.5 (c)(ii) and 6.1(d)(x); provided, however, that no such steps may be taken that would have a material adverse effect on the Unitholders holding Common Units represented by Common Unit Certificates.

Section 6.8. Special Provisions Relating to the Holders of Incentive Distribution Rights.

Notwithstanding anything to the contrary set forth in this Agreement, the holders of the Incentive Distribution Rights (a) shall (i) possess the rights, and obligations provided in this Agreement with respect to a Limited Partner pursuant to Articles III and VII and (ii) have a Capital Account as a Partner pursuant to Section 5.5 and all other provisions related thereto and (b) shall not (i) be entitled to vote on any matters requiring the approval or vote of the holders of Outstanding Units, (ii) be entitled to any distributions other than as provided in Sections 6.4(a)(vi), (vii) and (viii), 6.4(b)(iii), (iv) and (v), and 12.4 or (iii) be allocated items of income, gain, loss or deduction other than as specified in this Article VI.

Section 6.9. Entity-Level Taxation.

If legislation is enacted or the interpretation of existing language is modified by the relevant governmental authority which causes the Partnership or the Operating Company to be treated as an association taxable as a corporation or otherwise subjects the Partnership or the Operating Company to entity-level taxation for federal income tax purposes, the then applicable Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution and Third Target Distribution shall be adjusted to equal the product obtained by multiplying (a) the amount thereof by (b) one minus the sum of (i) the highest marginal federal corporate (or other entity, as applicable) income tax rate of the Partnership or the Operating Company for the taxable year of the Partnership or the Operating Company in which such Quarter occurs (expressed as a percentage) plus (ii) the effective overall state and local income tax rate (expressed as a percentage) applicable to the Partnership or the Operating Company for the calendar year next preceding the calendar year in which such Quarter occurs (after taking into account the benefit of any deduction allowable for federal income tax purposes with respect to the payment of state and local income taxes), but only to the extent of the increase in such rates resulting from such legislation or interpretation. Such effective overall state and local income tax rate shall be determined for the taxable year next preceding the first taxable year during which the Partnership or the Operating Company is taxable for federal income tax purposes as an association taxable as a corporation or is otherwise subject to entity-level taxation by determining such rate as if the Partnership or the Operating Company had been subject to such state and local taxes during such preceding taxable year.

## ARTICLE VII

## Management and Operation of Business

Section 7.1. Management.

(a) The Managing General Partner shall conduct, direct and manage all activities of the Partnership. Except as otherwise expressly provided in this Agreement, all management powers over the business and affairs of the Partnership shall be exclusively vested in the Managing General Partner, and neither the Non-

Managing General Partner nor any Limited Partner or Assignee shall have any management power over the business and affairs of the Partnership. In addition to the powers now or hereafter granted a general partner of a limited partnership under applicable law or which are granted to the Managing General Partner under any other provision of this Agreement, the Managing General Partner, subject to Section 7.3, shall have full power and authority to do all things and on such terms as it, in its sole discretion, may deem necessary or appropriate to conduct the business of the Partnership, to exercise all powers set forth in Section 2.5 and to effectuate the purposes set forth in Section 2.4, including the following:

(i) the making of any expenditures, the lending or borrowing of money, the assumption or guarantee of, or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness, including indebtedness that is convertible into Partnership Securities, and the incurring of any other obligations;

(ii) the making of tax, regulatory and other filings, or rendering of periodic or other reports to governmental or other agencies having jurisdiction over the business or assets of the Partnership;

(iii) the acquisition, disposition, mortgage, pledge, encumbrance, hypothecation or exchange of any or all of the assets of the Partnership or the merger or other combination of the Partnership with or into another Person (the matters described in this clause (iii) being subject, however, to any prior approval that may be required by Section 7.3);

(iv) the use of the assets of the Partnership (including cash on hand) for any purpose consistent with the terms of this Agreement, including the financing of the conduct of the operations of the Partnership Group; subject to Section 7.6(a), the lending of funds to other Persons (including the Operating Company); the repayment of obligations of the Partnership Group and the making of capital contributions to any member of the Partnership Group;

(v) the negotiation, execution and performance of any contracts, conveyances or other instruments (including instruments that limit the liability of the Partnership under contractual arrangements to all or particular assets of the Partnership, with the other party to the contract to have no recourse against the General Partners or their assets other than their interest in the Partnership, even if same results in the terms of the transaction being less favorable to the Partnership than would otherwise be the case);

(vi) the distribution of Partnership cash;

(vii) the selection and dismissal of employees (including employees having titles such as "president," "vice president," "secretary" and "treasurer") and agents, outside attorneys, accountants, consultants and contractors and the determination of their compensation and other terms of employment or hiring;

(viii) the maintenance of such insurance for the benefit of the Partnership Group and the Partners as it deems necessary or appropriate;

(ix) the formation of, or acquisition of an interest in, and the contribution of property and the making of loans to, any further limited or general partnerships, joint ventures, limited liability companies, corporations or other relationships (including the acquisition of interests in, and the contributions of property to, the Operating Company from time to time) subject to the restrictions set forth in Section 2.4;

(x) the control of any matters affecting the rights and obligations of the Partnership, including the bringing and defending of actions at law or in equity and otherwise engaging in the conduct of litigation and the incurring of legal expense and the settlement of claims and litigation;

(xi) the indemnification of any Person against liabilities and contingencies to the extent permitted by law;

(xii) the entering into of listing agreements with any National Securities Exchange and the delisting of some or all of the Limited Partner Interests from, or requesting that trading be suspended on, any such exchange (subject to any prior approval that may be required under Section 4.8);

(xiii) unless restricted or prohibited by Section 5.7, the purchase, sale or other acquisition or disposition of Partnership Securities, or the issuance of additional options, rights, warrants and appreciation rights relating to Partnership Securities; and

(xiv) the undertaking of any action in connection with the Partnership's participation in the Operating Company as a partner.

(b) Notwithstanding any other provision of this Agreement, the Operating Company Agreement, the Delaware Act or any applicable law, rule or regulation, each of the Partners and the Assignees and each other Person who may acquire an interest in Partnership Securities hereby (i) approves, ratifies and confirms the execution, delivery and performance by the parties thereto of the Operating Company Agreement, the Underwriting Agreement, the Contribution and Conveyance Agreement, and the other agreements and other described in or filed as exhibits to the Registration Statement that are related to the transactions contemplated by the Registration Statement; (ii) agrees that the Managing General Partner (on its own or through any officer of the Partnership) is authorized to execute, deliver and perform the agreements referred to in clause (i) of this sentence and the other agreements, acts, transactions and matters described in or contemplated by the Registration Statement on behalf of the Partnership without any further act, approval or vote of the Partners or the Assignees or the other Persons who may acquire an interest in Partnership Securities; and (iii) agrees that the execution, delivery or performance by the General Partners, any Group Member or any Affiliate of any of them, of this Agreement or any agreement authorized or permitted under this Agreement (including the exercise by the Managing General Partner or any Affiliate of the Managing General Partner of the rights accorded pursuant to Article XV), shall not constitute a breach by the General Partners of any duty that the General Partners may owe the Partnership or the Limited Partners or any other Persons under this Agreement (or any other agreements) or of any duty stated or implied by law or equity.

Section 7.2. Certificate of Limited Partnership.

The Managing General Partner has caused the Certificate of Limited Partnership to be filed with the Secretary of State of the State of Delaware as required by the Delaware Act and shall use all reasonable efforts to cause to be filed such other certificates or documents as may be determined by the Managing General Partner in its sole discretion to be reasonable and necessary or appropriate for the formation, continuation, qualification and operation of a limited partnership (or a partnership in which the limited partners have limited liability) in the State of Delaware or any other state in which the Partnership may elect to do business or own property. To the extent that such action is determined by the Managing General Partner in its sole discretion to be reasonable and necessary or appropriate, the Managing General Partner shall file amendments to and restatements of the Certificate of Limited Partnership and do all things to maintain the Partnership as a limited partnership (or a partnership or other entity in which the limited partners have limited liability) under the laws of the State of Delaware or of any other state in which the Partnership may elect to do business or own property. Subject to the terms of Section 3.4(a), the Managing General Partner shall not be required, before or after filing, to deliver or mail a copy of the Certificate of Limited Partnership, any qualification document or any amendment thereto to any Limited Partner.

Section 7.3. Restrictions on General Partners' Authority.

(a) The General Partners may not, without written approval of the specific act by holders of all of the Outstanding Limited Partner Interests or by other written instrument executed and delivered by holders of all of the Outstanding Limited Partner Interests subsequent to the date of this Agreement, take any action in contravention of this Agreement, including, except as otherwise provided in this Agreement, (i) committing any

act that would make it impossible to carry on the ordinary business of the Partnership; (ii) possessing Partnership property, or assigning any rights in specific Partnership property, for other than a Partnership purpose; (iii) admitting a Person as a Partner; (iv) amending this Agreement in any manner; or (v) transferring its interest as general partner of the Partnership.

(b) Except as provided in Articles XII and XIV, no General Partner may sell, exchange or otherwise dispose of all or substantially all of the Partnership's assets in a single transaction or a series of related transactions (including by way of merger, consolidation or other combination) or approve on behalf of the Partnership the sale, exchange or other disposition of all or substantially all of the assets of the Operating Company, without the approval of holders of a Unit Majority; provided however that this provision shall not preclude or limit the General Partners' ability to mortgage, pledge, hypothecate or grant a security interest in all or substantially all of the assets of the Partnership or Operating Company and shall not apply to any forced sale of any or all of the assets of the Partnership or Operating Company pursuant to the foreclosure of, or other realization upon, any such encumbrance. Without the approval of holders of a Unit Majority, the General Partners shall not, on behalf of the Partnership, (i) consent to any amendment to the Operating Company Agreement or, except as expressly permitted by Section 7.9(d), take any action permitted to be taken by a member of the Operating Company, in either case, that would have a material adverse effect on the Partnership as a member of the Operating Company or (ii) except as permitted under Sections 4.6, 11.1 and 11.2, elect or cause the Partnership to elect a successor general partner of the Partnership or a successor general partner or managing member of any Group Member.

Section 7.4. Reimbursement of the General Partners.

(a) Except as provided in this Section 7.4 and elsewhere in this Agreement, the General Partners shall not be compensated for their services as general partners or managing members of any Group Member.

(b) Each of the General Partners shall be reimbursed on a monthly basis, or such other reasonable basis as the Managing General Partner may determine in its sole discretion, for (i) all direct and indirect expenses it incurs or payments it makes on behalf of the Partnership (including salary, bonus, incentive compensation and other amounts paid to any Person including Affiliates of such General Partner to perform services for the Partnership or for such General Partner in the discharge of its duties to the Partnership), and (ii) all other necessary or appropriate expenses allocable to the Partnership or otherwise reasonably incurred by such General Partner in connection with operating the Partnership's business (including expenses allocated to such General Partner by its Affiliates). The Managing General Partner shall determine the expenses that are allocable to the Partnership in any reasonable manner determined by the Managing General Partner in its sole discretion. Reimbursements pursuant to this Section 7.4 shall be in addition to any reimbursement to the General Partners as a result of indemnification pursuant to Section 7.7.

(c) Subject to Section 5.7, the Managing General Partner, in its sole discretion and without the approval of the Limited Partners (who shall have no right to vote in respect thereof), may propose and adopt on behalf of the Partnership employee benefit plans, employee programs and employee practices (including plans, programs and practices involving the issuance of Partnership Securities or options to purchase Partnership Securities), or cause the Partnership to issue Partnership Securities in connection with, or pursuant to, any employee benefit plan, employee program or employee practice maintained or sponsored by either of the General Partners or any one of its Affiliates, in each case for the benefit of employees of either of the General Partners, any Group Member or any Affiliate, or any of them, in respect of services performed, directly or indirectly, for the benefit of the Partnership Group. The Partnership agrees to issue and sell to the General Partners or any of their Affiliates any Partnership Securities that the General Partners or such Affiliates are obligated to provide to any employees pursuant to any such employee benefit plans, employee programs or employee practices. Expenses incurred by the General Partners in connection with any such plans, programs and practices (including the net cost to the General Partners or such Affiliates of Partnership Securities purchased by the General Partners or such Affiliates from the Partnership to fulfill options or awards under such plans, programs and practices) shall be reimbursed in accordance with Section 7.4(b). Any and all

obligations of the General Partners under any employee benefit plans, employee programs or employee practices adopted by the Managing General Partner as permitted by this Section 7.4(c) shall constitute obligations of the General Partners hereunder and shall be assumed by any successor General Partner approved pursuant to Section 11.1, 11.2 or 11.4 or the transferee of or successor to all of the Managing General Partner's General Partner Interest or the Non-Managing General Partner's General Partner Interest pursuant to Section 4.6.

Section 7.5. Outside Activities.

(a) After the Closing Date, the Managing General Partner, for so long as it is a General Partner of the Partnership (i) agrees that its sole business will be to act as a general partner or managing member of the Partnership, the Operating Company, and any other partnership or limited liability company of which the Partnership or the Operating Company is, directly or indirectly, a partner or member and to undertake activities that are ancillary or related thereto (including being a limited partner in the Partnership), and (ii) shall not engage in any business or activity or incur any debts or liabilities except in connection with or incidental to (A) its performance as general partner or managing member of one or more Group Members or as described in or contemplated by the Registration Statement or (B) the acquiring, owning or disposing of debt or equity securities in any Group Member.

(b) Except as specifically restricted by Section 7.5(a), each Indemnitee (other than the Managing General Partner) shall have the right to engage in businesses of every type and description and other activities for profit and to engage in and possess an interest in other business ventures of any and every type or description, whether in businesses engaged in or anticipated to be engaged in by any Group Member, independently or with others, including business interests and activities in direct competition with the business and activities of any Group Member, and none of the same shall constitute a breach of this Agreement or any duty express or implied by law to any Group Member or any Partner or Assignee. Neither any Group Member, any Limited Partner nor any other Person shall have any rights by virtue of this Agreement, the Operating Company Agreement or the partnership relationship established hereby or thereby in any business ventures of any Indemnitee.

(c) Subject to the terms of Section 7.5(a) and Section 7.5(b), but otherwise notwithstanding anything to the contrary in this Agreement, (i) the engaging in competitive activities by any Indemnitees (other than the Managing General Partner) in accordance with the provisions of this Section 7.5 is hereby approved by the Partnership and all Partners, (ii) it shall be deemed not to be a breach of the General Partners' fiduciary duties or any other obligation of any type whatsoever of the General Partners for the Indemnitees (other than the Managing General Partner) to engage in such business interests and activities in preference to or to the exclusion of the Partnership and (iii) the General Partners and the Indemnities shall have no obligation to present business opportunities to the Partnership.

(d) The General Partners and any of their Affiliates may acquire Units or other Partnership Securities in addition to those acquired on the Closing Date and, except as otherwise provided in this Agreement, shall be entitled to exercise all rights of a General Partner or Limited Partner, as applicable, relating to such Units or Partnership Securities.

(e) The term "Affiliates" when used in Section 7.5(a) and Section 7.5(d) with respect to the General Partner shall not include any Group Member or any Subsidiary of the Group Member.

(f) Anything in this Agreement to the contrary notwithstanding, to the extent that provisions of Sections 7.7, 7.8, 7.9, 7.10 or other Sections of this Agreement purport or are interpreted to have the effect of restricting the fiduciary duties that might otherwise, as a result of Delaware or other applicable law, be owed by the General Partners to the Partnership and its Limited Partners, or to constitute a waiver or consent by the Limited Partners to any such restriction, such provisions shall be inapplicable and have no effect in determining whether the General Partners have complied with their fiduciary duties in connection with determinations made by it under this Section 7.5.

Section 7.6. Loans from the General Partners; Loans or Contributions from the Partnership; Contracts with Affiliates; Certain Restrictions on the General Partners.

(a) Each of the General Partners or any of their Affiliates may lend to any Group Member, and any Group Member may borrow from a General Partner or any of its Affiliates, funds needed or desired by the Group Member for such periods of time and in such amounts as the Managing General Partner may determine; provided, however, that in any such case the lending party may not charge the borrowing party interest at a rate greater than the rate that would be charged the borrowing party or impose terms less favorable to the borrowing party than would be charged or imposed on the borrowing party by unrelated lenders on comparable loans made on an arm's-length basis (without reference to the lending party's financial abilities or guarantees). The borrowing party shall reimburse the lending party for any costs (other than any additional interest costs) incurred by the lending party in connection with the borrowing of such funds. For purposes of this Section 7.6(a) and Section 7.6(b), the term "Group Member" shall include any Affiliate of a Group Member that is controlled by the Group Member. No Group Member may lend funds to a General Partner or any of its Affiliates (other than another Group Member).

(b) The Partnership may lend or contribute to any Group Member, and any Group Member may borrow from the Partnership, funds on terms and conditions established in the sole discretion of the Managing General Partner; provided, however, that the Partnership may not charge the Group Member interest at a rate less than the rate that would be charged to the Group Member (without reference to the General Partners' financial abilities or guarantees) by unrelated lenders on comparable loans. The foregoing authority shall be exercised by the Managing General Partner in its sole discretion and shall not create any right or benefit. in favor of any Group Member or any other Person.

(c) The General Partners may, or may enter into an agreement with any of their Affiliates to, render services to a Group Member or to the General Partners in the discharge of their duties as general partners of the Partnership. Any services rendered to a Group Member by a General Partner or any of its Affiliates shall be on terms that are fair and reasonable to the Partnership; provided, however, that the requirements of this Section 7.6(c) shall be deemed satisfied as to (i) any transaction approved by Special Approval, (ii) any transaction, the terms of which are no less favorable to the Partnership Group than those generally being provided to or available from unrelated third parties or (iii) any transaction that, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership Group), is equitable to the Partnership Group. The provisions of Section 7.4 shall apply to the rendering of services described in this Section 7.6(c).

(d) The Partnership Group may transfer assets to joint ventures, other partnerships, corporations, limited liability companies or other business entities in which it is or thereby becomes a participant upon such terms and subject to such conditions as are consistent with this Agreement and applicable law.

(e) Neither General Partner nor any of their Affiliates shall sell, transfer or convey any property to, or purchase any property from, the Partnership, directly or indirectly, except pursuant to transactions that are fair and reasonable to the Partnership; provided, however, that the requirements of this Section 7.6(e) shall be deemed to be satisfied as to (i) the transactions effected pursuant to Sections 5.2 and 5.3, the Contribution and Conveyance Agreement and any other transactions described in or contemplated by the Registration Statement, (ii) any transaction approved by Special Approval, (iii) any transaction, the terms of which are no less favorable to the Partnership than those generally being provided to or available from unrelated third parties, or (iv) any transaction that, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership), is equitable to the Partnership. With respect to any contribution of assets to the Partnership in exchange for Partnership Securities, the Conflicts Committee, in determining whether the appropriate number of Partnership Securities are being issued, may take into account, among other things, the fair market value of the assets, the liquidated and contingent liabilities assumed, the tax basis in the assets, the extent to which tax-only allocations to the transferor will protect the existing partners of the Partnership against a low tax basis, and such other factors as the Conflicts Committee deems relevant under the circumstances.

(f) The General Partners and their Affiliates will have no obligation to permit any Group Member to use any facilities or assets of the General Partners and their Affiliates, except as may be provided in contracts entered into from time to time specifically dealing with such use, nor shall there be any obligation on the part of the General Partners or their Affiliates to enter into such contracts.

(g) Without limitation of Sections 7.6(a) through 7.6(f), and notwithstanding anything to the contrary in this Agreement, the existence of the conflicts of interest described in the Registration Statement are hereby approved by all Partners.

Section 7.7. Indemnification.

(a) To the fullest extent permitted by law but subject to the limitations expressly provided in this Agreement, all Indemnitees shall be indemnified and held harmless by the Partnership from and against any and all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts arising from any and all claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative, in which any Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, by reason of its status as an Indemnitee; provided, that in each case the Indemnitee acted in good faith and in a manner that such Indemnitee reasonably believed to be in, or (in the case of a Person other than the General Partners) not opposed to, the best interests of the Partnership and, with respect to any criminal proceeding, had no reasonable cause to believe its conduct was unlawful; provided, further, no indemnification pursuant to this Section 7.7 shall be available to the General Partners with respect to their obligations incurred pursuant to the Underwriting Agreement or the Contribution and Conveyance Agreement (other than obligations incurred by the General Partners on behalf of the Partnership or the Operating Company). The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that the Indemnitee acted in a manner contrary to that specified above. Any indemnification pursuant to this Section 7.7 shall be made only out of the assets of the Partnership, it being agreed that the General Partners shall not be personally liable for such indemnification and shall have no obligation to contribute or loan any monies or property to the Partnership to enable it to effectuate such indemnification.

(b) To the fullest extent permitted by law, expenses (including legal fees and expenses) incurred by an Indemnitee who is indemnified pursuant to Section 7.7(a) in defending any claim, demand, action; suit or proceeding shall, from time to time, be advanced by the Partnership prior to the final disposition of such claim, demand, action, suit or proceeding upon receipt by the Partnership of any undertaking by or on behalf of the Indemnitee to repay such amount if it shall be determined that the Indemnitee is not entitled to be indemnified as authorized in this Section 7.7.

(c) The indemnification provided by this Section 7.7 shall be in addition to any other rights to which an Indemnitee may be entitled under any agreement, pursuant to any vote of the holders of Outstanding Limited Partner Interests, as a matter of law or otherwise, both as to actions in the Indemnitee's capacity as an Indemnitee and as to actions in any other capacity (including any capacity under the Underwriting Agreement), and shall continue as to an Indemnitee who has ceased to serve in such capacity and shall inure to the benefit of the heirs, successors, assigns and administrators of the Indemnitee.

(d) The Partnership may purchase and maintain (or reimburse the General Partners or their Affiliates for the cost of) insurance, on behalf of the General Partners, their Affiliates and such other Persons as the Managing General Partner shall determine, against any liability that may be asserted against or expense that may be incurred by such Person in connection with the Partnership's activities or such Person's activities on behalf of the Partnership, regardless of whether the Partnership would have the power to indemnify such Person against such liability under the provisions of this Agreement.

(e) For purposes of this Section 7.7, the Partnership shall be deemed to have requested an Indemnitee to serve as fiduciary of an employee benefit plan whenever the performance by it of its duties to the Partnership also imposes duties on, or otherwise involves services by, it to the plan or participants or beneficiaries of the plan; excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law shall constitute "fines" within the meaning of Section 7.7(a); and action taken or omitted by the Indemnitee with respect to any employee benefit plan in the performance of its duties for a purpose reasonably believed by it to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is in, or not opposed to, the best interests of the Partnership.

(f) In no event may an Indemnitee subject the Limited Partners to personal liability by reason of the indemnification provisions set forth in this Agreement.

(g) An Indemnitee shall not be denied indemnification in whole or in part under this Section 7.7 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.

(h) The provisions of this Section 7.7 are for the benefit of the Indemnitees, their heirs, successors, assigns and administrators and shall not be deemed to create any rights for the benefit of any other Persons.

(i) No amendment, modification or repeal of this Section 7.7 or any provision hereof shall in any manner terminate, reduce or impair the right of any past, present or future Indemnitee to be indemnified by the Partnership, nor the obligations of the Partnership to indemnify any such Indemnitee under and in accordance with the provisions of this Section 7.7 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or-in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

Section 7.8. Liability of Indemnitees.

(a) Notwithstanding anything to the contrary set forth in this Agreement, no Indemnitee shall be liable for monetary damages to the Partnership, the Limited Partners, the Assignees or any other Persons who have acquired interests in the Partnership Securities, for losses sustained or liabilities incurred as a result of any act or omission if such Indemnitee acted in good faith.

(b) Subject to its obligations and duties as Managing General Partner set forth in Section 7.1(a), the Managing General Partner may exercise any of the powers granted to it by this Agreement and perform any of the duties imposed upon it hereunder either directly or by or through its agents, and the Managing General Partner shall not be responsible for any misconduct or negligence on the part of any such agent appointed by the Managing General Partner in good faith.

(c) To the extent that, at law or in equity, an Indemnitee has duties (including fiduciary duties) and liabilities relating thereto to the Partnership or to the Partners, the General Partners and any other Indemnitee acting in connection with the Partnership's business or affairs shall not be liable to the Partnership or to any Partner for its good faith reliance on the provisions of this Agreement. The provisions of this Agreement, to the extent that they restrict or otherwise modify the duties and liabilities of an Indemnitee otherwise existing at law or in equity, are agreed by the Partners to replace such other duties and liabilities of such Indemnitee.

(d) Any amendment, modification or repeal of this Section 7.8 or any provision hereof shall be prospective only and shall not in any way affect the limitations on the liability to the Partnership, the Limited Partners, the General Partners, and the Partnership's and General Partners' directors, officers and employees under this Section 7.8 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

Section 7.9. Resolution of Conflicts of Interest.

(a) Unless otherwise expressly provided in this Agreement or the Operating Company Agreement, whenever a potential conflict of interest exists or arises between a General Partner or any of its Affiliates, on the one hand, and the Partnership, the Operating Company, any Partner or any Assignee, on the other, any resolution or course of action by a General Partner or its Affiliates in respect of such conflict of interest shall be permitted and deemed approved by all Partners, and shall not constitute a breach of this Agreement, of the Operating Company Agreement, of any agreement contemplated herein or therein, or of any duty stated or implied by law or equity, if the resolution or course of action is, or by operation of this Agreement is deemed to be, fair and reasonable to the Partnership. The Managing General Partner shall be authorized but not required in connection with its resolution of such conflict of interest to seek Special Approval of such resolution. Any conflict of interest and any resolution of such conflict of interest shall be conclusively deemed fair and reasonable to the Partnership if such conflict of interest or resolution is (i) approved by Special Approval (as long as the material facts known to the Managing General Partner or any of its Affiliates regarding any proposed transaction were disclosed to the Conflicts Committee at the time it gave its approval), (ii) on terms no less favorable to the Partnership than those generally being provided to or available from unrelated third parties or (iii) fair to the Partnership, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership). The Managing General Partner may also adopt a resolution or course of action that has not received Special Approval. The Managing General Partner (including the Conflicts Committee in connection with any Special Approval) shall be authorized in connection with its determination of what is "fair and reasonable" to the Partnership and in connection with its resolution of any conflict of interest to consider (A) the relative interests of any party to such conflict, agreement, transaction or situation and the benefits and burdens relating to such interest; (B) any customary or accepted industry practices and any customary or historical dealings with a particular Person; (C) any applicable generally accepted accounting practices or principles; and (D) such additional factors as the Managing General Partner (including the Conflicts Committee) determines in its sole discretion to be relevant, reasonable or appropriate under the circumstances. Nothing contained in this Agreement, however, is intended to nor shall it be construed to require the Managing General Partner (including the Conflicts Committee) to consider the interests of any Person other than the Partnership. In the absence of bad faith by the Managing General Partner, the resolution, action or terms so made, taken or provided by the Managing General Partner with respect to such matter shall not constitute a breach of this Agreement or any other agreement contemplated herein or a breach of any standard of care or duty imposed herein or therein or, to the extent permitted by law, under the Delaware Act or any other law, rule or regulation.

(b) Whenever this Agreement or any other agreement contemplated hereby provides that the Managing General Partner or any of its Affiliates is permitted or required to make a decision (i) in its "sole discretion" or "discretion," that it deems "necessary or appropriate" or "necessary or advisable" or under a grant of similar authority or latitude, except as otherwise provided herein, the Managing General Partner or such Affiliate shall be entitled to consider only such interests and factors as it desires and shall have no duty or obligation to give any consideration to any interest of, or factors affecting, the Partnership, the Operating Company, any Limited Partner or any Assignee, (ii) it may make such decision in its sole discretion (regardless of whether there is a reference to "sole discretion" or "discretion") unless another express standard is provided for, or (iii) in "good faith" or under another express standard, the Managing General Partner or such Affiliate shall act under such express standard and shall not be subject to any other or different standards imposed by this Agreement, the Operating Company Agreement, any other agreement contemplated hereby or under the Delaware Act or any other law, rule or regulation. In addition, any actions taken by the Managing General Partner or such Affiliate consistent with the standards of "reasonable discretion" set forth in the definitions of Available Cash or Operating Surplus shall not constitute a breach of any duty of the General Partner to the Partnership or the Limited Partners. The Managing General Partner shall have no duty, express or implied, to sell or otherwise dispose of any asset of the Partnership Group other than in the ordinary course of business. No borrowing by any Group Member or the approval thereof by the Managing General Partner shall be deemed to constitute a

breach of any duty of the Managing General Partner to the Partnership or the Limited Partners by reason of the fact that the purpose or effect of such borrowing is directly or indirectly to (A) enable distributions to the Non-Managing General Partner or its Affiliates (including in their capacities as Limited Partners) to exceed 2% of the total amount distributed to all partners or (B) hasten the expiration of the Subordination Period or the conversion of any Senior Subordinated Units or Junior Subordinated Units into Common Units.

(c) Whenever a particular transaction, arrangement or resolution of a conflict of interest is required under this Agreement to be "fair and reasonable" to any Person, the fair and reasonable nature of such transaction, arrangement or resolution shall be considered in the context of all similar or related transactions.

(d) The Unitholders hereby authorize the Managing General Partner, on behalf of the Partnership as a partner or member of a Group Member, to approve of actions by the general partner or managing member of such Group Member similar to those actions permitted to be taken by the Managing General Partner pursuant to this Section 7.9.

Section 7.10. Other Matters Concerning the General Partners.

(a) A General Partner may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) A General Partner may consult with legal counsel, accountants, appraisers, management consultants, investment bankers and other consultants and advisers selected by it, and any act taken or omitted to be taken in reliance upon the opinion (including an Opinion of Counsel) of such Persons as to matters that such General Partner reasonably believes to be within such Person's professional or expert competence shall be conclusively presumed to have been done or omitted in good faith and in accordance with such opinion.

(c) A General Partner shall have the right, in respect of any of its powers or obligations hereunder, to act through any of its duly authorized officers, a duly appointed attorney or attorneys-in-fact or the duly authorized officers of the Partnership.

(d) Any standard of care and duty imposed by this Agreement or under the Delaware Act or any applicable law, rule or regulation shall be modified, waived or limited to the extent permitted by law, as required to permit the General Partners to act under this Agreement or any other agreement contemplated by this Agreement and to make any decision pursuant to the authority prescribed in this Agreement, so long as such action is reasonably believed by the Managing General Partner to be in, or not inconsistent with, the best interests of the Partnership.

Section 7.11. Purchase or Sale of Partnership Securities.

The Managing General Partner may cause the Partnership to purchase or otherwise acquire Partnership Securities; provided that, except as permitted pursuant to Section 4.10, the Managing General Partner may not cause any Group Member to purchase Subordinated Units during the Subordination Period. As long as Partnership Securities are held by any Group Member, such Partnership Securities shall not be considered Outstanding for any purpose, except as otherwise provided herein. The General Partners or any of their Affiliates may also purchase or otherwise acquire and sell or otherwise dispose of Partnership Securities for their own account, subject to the provisions of Articles IV and X.

Section 7.12. Registration Rights of the General Partners and their Affiliates.

(a) If (i) either of the General Partners or any Affiliate of either of the General Partners (including for purposes of this Section 7.12, any Person that is an Affiliate of either of the General Partners at the date of this Agreement notwithstanding that it may later cease to be an Affiliate of the General Partner) holds Partnership Securities that it desires to sell and (ii) Rule 144 of the Securities Act (or any successor rule or regulation to Rule 144) or another exemption from registration is not available to enable such holder of Partnership Securities (the "Holder") to dispose of the number of Partnership Securities it desires to sell at the time it desires to do so without registration under the Securities Act, then upon the request of such General Partner or any of its Affiliates, the Partnership shall file with the Commission as promptly as practicable after receiving such request, and use all reasonable efforts to cause to become effective and remain effective for a period of not less than six months following its effective date or such shorter period as shall terminate when all Partnership Securities covered by such registration statement have been sold, a registration statement under the Securities Act registering the offering and sale of the number of Partnership Securities specified by the Holder; provided, however, that the Partnership shall not be required to effect more than three registrations pursuant to this Section 7.12(a); and provided further, that if the Conflicts Committee determines in its good faith judgment that a postponement of the requested registration for up to six months would be in the best interests of the Partnership and its Partners due to a pending transaction, investigation or other event, the filing of such registration statement or the effectiveness thereof may be deferred for up to six months, but not thereafter. In connection with any registration pursuant to the immediately preceding sentence, the Partnership shall promptly prepare and file (x) such documents as may be necessary to register or qualify the securities subject to such registration under the securities laws of such states as the Holder shall reasonably request; provided, however, that no such qualification shall be required in any jurisdiction where, as a result thereof, the Partnership would become subject to general service of process or to taxation or qualification to do business as a foreign corporation or partnership doing business in such jurisdiction solely as a result of such registration, and (y) such documents as may be necessary to apply for listing or to list the Partnership Securities subject to such registration on such National Securities Exchange as the Holder shall reasonably request, and do any and all other acts and things that may reasonably be necessary or advisable to enable the Holder to consummate a public sale of such Partnership Securities in such states. Except as set forth in Section 7.12(c), all costs and expenses of any such registration and offering (other than the underwriting discounts and commissions) shall be paid by the Partnership, without reimbursement by the Holder.

(b) If the Partnership shall at any time propose to file a registration statement under the Securities Act for an offering of equity securities of the Partnership for cash (other than an offering relating solely to an employee benefit plan), the Partnership shall use all reasonable efforts to include such number or amount of securities held by the Holder in such registration statement as the Holder shall request. If the proposed offering pursuant to this Section 7.12(b) shall be an underwritten offering, then, in the event that the managing underwriter or managing underwriters of such offering advise the Partnership and the Holder in writing that in their opinion the inclusion of all or some of the Holder's Partnership Securities would adversely and materially affect the success of the offering, the Partnership shall include in such offering only that number or amount, if any, of securities held by the Holder which, in the opinion of the managing underwriter or managing underwriters, will not so adversely and materially affect the offering. Except as set forth in Section 7.12(c), all costs and expenses of any such registration and offering (other than the underwriting discounts and commissions) shall be paid by the Partnership, without reimbursement by the Holder.

(c) If underwriters are engaged in connection with any registration referred to in this Section 7.12, the Partnership shall provide indemnification, representations, covenants, opinions and other assurance to the underwriters in form and substance reasonably satisfactory to such underwriters. Further, in addition to and not in limitation of the Partnership's obligation under Section 7.7, the Partnership shall, to the fullest extent, permitted by law, indemnify and hold harmless the Holder, its officers, directors and each Person who controls the Holder (within the meaning of the Securities Act) and any agent thereof (collectively, "Indemnified Persons") against any losses, claims, demands, actions, causes of action, assessments, damages, liabilities

(joint or several), costs and expenses (including interest, penalties and reasonable attorneys' fees and disbursements), resulting to, imposed upon, or incurred by the Indemnified Persons, directly or indirectly, under the Securities Act or otherwise (hereinafter referred to in this Section 7.12(c) as a "claim" and in the plural as "claims") based upon, arising out of or resulting from any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which any Partnership Securities were registered under the Securities Act or any state securities or Blue Sky laws, in any preliminary prospectus (if used prior to the effective date of such registration statement), or in any summary or final prospectus or in any amendment or supplement thereto (if used during the period the Partnership is required to keep the registration statement current), or arising out of, based upon or resulting from the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements made therein not misleading; provided, however, that the Partnership shall not be liable to any Indemnified Person to the extent that any such claim arises out of, is based upon or results from an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, such preliminary, summary or final prospectus or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Partnership by or on behalf of such Indemnified Person specifically for use in the preparation thereof.

(d) The provisions of Section 7.12(a) and 7.12(b) shall continue to be applicable with respect to the General Partners (and any of the General Partners' Affiliates) after they cease to be Partners of the Partnership, during a period of two years subsequent to the effective date of such cessation and for so long thereafter as is required for the Holder to sell all of the Partnership Securities with respect to which it has requested during such two-year period inclusion in a registration statement otherwise filed or that a registration statement be filed; provided, however, that the Partnership shall not be required to file successive registration statements covering the same Partnership Securities for which registration was demanded during such two-year period. The provisions of Section 7.12(c) shall continue in effect thereafter.

(e) Any request to register Partnership Securities pursuant to this Section 7.12 shall (i) specify the Partnership Securities intended to be offered and sold by the Person making the request, (ii) express such Person's present intent to offer such shares for distribution, (iii) describe the nature or method of the proposed offer and sale of Partnership Securities, and (iv) contain the undertaking of such Person to provide all such information and materials and take all action as may be required in order to permit the Partnership to comply with all applicable requirements in connection with the registration of such Partnership Securities.

Section 7.13. Reliance by Third Parties.

Notwithstanding anything to the contrary in this Agreement, any Person dealing with the Partnership shall be entitled to assume that the Managing General Partner and any officer of the Managing General Partner authorized by the Managing General Partner to act on behalf of and in the name of the Partnership has full power and authority to encumber, sell or otherwise use in any manner any and all assets of the Partnership and to enter into any authorized contracts on behalf of the Partnership, and such Person shall be entitled to deal with the Managing General Partner or any such officer as if it were the Partnership's sole party in interest, both legally and beneficially. Each Limited Partner hereby waives any and all defenses or other remedies that may be available against such Person to contest, negate or disaffirm any action of the Managing General Partner or any such officer in connection with any such dealing. In no event shall any Person dealing with the Managing General Partner or any such officer or its representatives be obligated to ascertain that the terms of the Agreement have been complied with or to inquire into the necessity or expedience of any act or action of the Managing General Partner or any such officer or its representatives. Each and every certificate, document or other instrument executed on behalf of the Partnership by the Managing General Partner or its representatives shall be conclusive evidence in favor of any and every Person relying thereon or claiming thereunder that (a) at the time of the execution and delivery of such certificate, document or instrument, this Agreement was in full force and effect, (b) the Person executing and delivering such certificate, document or instrument was duly

authorized and empowered to do so for and on behalf of the Partnership and (c) such certificate, document or instrument was duly executed and delivered in accordance with the terms and provisions of this Agreement and is binding upon the Partnership.

## ARTICLE VIII

## Books, Records, Accounting and Reports

Section 8.1. Records and Accounting.

The Managing General Partner shall keep or cause to be kept at the principal office of the Partnership appropriate books and records with respect to the Partnership's business, including all books and records necessary to provide to the Limited Partners any information required to be provided pursuant to Section 3.4(a). Any books and records maintained by or on behalf of the Partnership in the regular course of its business, including the record of the Record Holders and Assignees of Units or other Partnership Securities, books of account and records of Partnership proceedings, may be kept on, or be in the form of, computer disks, hard drives, punch cards, magnetic tape, photographs, micrographics or any other information storage device; provided, that the books and records so maintained are convertible into clearly legible written form within a reasonable period of time. The books of the Partnership shall be maintained, for financial reporting purposes, on an accrual basis in accordance with U.S. GAAP.

Section 8.2. Fiscal Year.

The fiscal year of the Partnership shall be a fiscal year ending December 31.

Section 8.3. Reports.

(a) As soon as practicable, but in no event later than 120 days after the close of each fiscal year of the Partnership, the Managing General Partner shall cause to be mailed or furnished to each Record Holder of a Unit as of a date selected by the Managing General Partner in its discretion, an annual report containing financial statements of the Partnership for such fiscal year of the Partnership, presented in accordance with U.S. GAAP, including a balance sheet and statements of operations, Partnership equity and cash flows, such statements to be audited by a firm of independent public accountants selected by the Managing General Partner.

(b) As soon as practicable, but in no event later than 90 days after the close of each Quarter except the last Quarter of each fiscal year, the Managing General Partner shall cause to be mailed or furnished to each Record Holder of a Unit, as of a date selected by the Managing General Partner in its discretion, a report containing unaudited financial statements of the Partnership and such other information as may be required by applicable law, regulation or rule of any National Securities Exchange on which the Units are listed for trading, or as the Managing General Partner determines to be necessary or appropriate.

## ARTICLE IX

## Tax Matters

Section 9.1. Tax Returns and Information.

The Partnership shall timely file all returns of the Partnership that are required for federal, state and local income tax purposes on the basis of the accrual method and a taxable year ending on December 31. The tax information reasonably required by Record Holders for federal and state income tax reporting purposes with respect to a taxable year shall be furnished to them within 90 days of the close of the calendar year in which the Partnership's taxable year ends. The classification, realization and recognition of income, gain, losses and deductions and other items shall be on the accrual method of accounting for federal income tax purposes.

Section 9.2. Tax Elections.

(a) The Partnership shall make the election under Section 754 of the Code in accordance with applicable regulations thereunder, subject to the reservation of the right to seek to revoke any such election upon the Managing General Partner's determination that such revocation is in the best interests of the Limited Partners. Notwithstanding any other provision herein contained, for the purposes of computing the adjustments under Section 743(b) of the Code, the Managing General Partner shall be authorized (but not required) to adopt a convention whereby the price paid by a transferee of a Limited Partner Interest will be deemed to be the lowest quoted closing price of the Limited Partner Interests on any National Securities Exchange on which such Limited Partner Interests are traded during the calendar month in which such transfer is deemed to occur pursuant to Section 6.2(g) without regard to the actual price paid by such transferee.

(b) The Partnership shall elect to deduct expenses incurred in organizing the Partnership ratably over a sixty-month period as provided in Section 709 of the Code.

(c) Except as otherwise provided herein, the Managing General Partner shall determine whether the Partnership should make any other elections permitted by the Code.

Section 9.3. Tax Controversies.

Subject to the provisions hereof, the Managing General Partner is designated as the Tax Matters Partner (as defined in the Code) and is authorized and required to represent the Partnership (at the Partnership's expense) in connection with all examinations of the Partnership's affairs by tax authorities, including resulting administrative and judicial proceedings, and to expend Partnership funds for professional services and costs associated therewith. Each Partner agrees to cooperate with the Managing General Partner and to do or refrain from doing any or all things reasonably required by the Managing General Partner to conduct such proceedings.

Section 9.4. Withholding.

Notwithstanding any other provision of this Agreement, the Managing General Partner is authorized to take any action that it determines in its discretion to be necessary or appropriate to cause the Partnership and the Operating Company to comply with any withholding requirements established under the Code or any other federal, state or local law including, without limitation, pursuant to Sections 1441, 1442, 1445 and 1446 of the Code. To the extent that the Partnership is required or elects to withhold and pay over to any taxing authority any amount resulting from the allocation or distribution of income to any Partner or Assignee (including, without limitation, by reason of Section 1446 of the Code), the amount withheld may at the discretion of the Managing General Partner be treated by the Partnership as a distribution of cash pursuant to Section 6.3 in the amount of such withholding from such Partner.

## ARTICLE X

## Admission of Partners

Section 10.1. Admission of Initial Limited Partners.

Upon the issuance by the Partnership of Common Units, Senior Subordinated Units, Junior Subordinated Units and Incentive Distribution Rights to Inergy Partners, LLC, New Inergy Propane, LLC, Inergy Holdings, LLC, and the Underwriters as described in Section 5.3 in connection with the Initial Offering and the execution by each party of a Transfer Application, the Managing General Partner shall admit such parties to the

Partnership as Initial Limited Partners in respect of the Common Units, Senior Subordinated Units, Junior Subordinated Units or Incentive Distribution Rights issued to them.

Section 10.2. Admission of Substituted Limited Partner.

By transfer of a Limited Partner Interest in accordance with Article IV, the transferor shall be deemed to have given the transferee the right to seek admission as a Substituted Limited Partner subject to the conditions of, and in the manner permitted under, this Agreement. A transferor of a Certificate representing a Limited Partner Interest shall, however, only have the authority to convey to a purchaser or other transferee who does not execute and deliver a Transfer Application (a) the right to negotiate such Certificate to a purchaser or other transferee and (b) the right to transfer the right to request admission as a Substituted Limited Partner to such purchaser or other transferee in respect of the transferred Limited Partner Interests. Each transferee of a Limited Partner Interest (including any nominee holder or an agent acquiring such Limited Partner Interest for the account of another Person) who executes and delivers a Transfer Application shall, by virtue of such execution and delivery, be an Assignee and be deemed to have applied to become a Substituted Limited Partner with respect to the Limited Partner Interests so transferred to such Person. Such Assignee shall become a Substituted Limited Partner (x) at such time as the Managing General Partner consents thereto, which consent may be given or withheld in the Managing General Partner's discretion, and (y) when any such admission is shown on the books and records of the Partnership. If such consent is withheld, such transferee shall be an Assignee. An Assignee shall have an interest in the Partnership equivalent to that of a Limited Partner with respect to allocations and distributions, including liquidating distributions, of the Partnership. With respect to voting rights attributable to Limited Partner Interests that are held by Assignees, the Managing General Partner shall be deemed to be the Limited Partner with respect thereto and shall, in exercising the voting rights in respect of such Limited Partner Interests on any matter, vote such Limited Partner Interests at the written direction of the Assignee who is the Record Holder of such Limited Partner Interests. If no such written direction is received, such Limited Partner Interests will not be voted. An Assignee shall have no other rights of a Limited Partner.

Section 10.3. Admission of Successor General Partners.

A successor General Partner approved pursuant to Section 11.1, 11.2 or 11.4 or the transferee of or successor to such General Partner Interest pursuant to Section 4.6 who is proposed to be admitted as a successor General Partner shall be admitted to the Partnership as the Non-Managing General Partner or the Managing General Partner, as the case may be, effective immediately prior to the withdrawal or removal of the predecessor or transferring General Partner pursuant to Section 11.1, 11.2 or 11.4 or the transfer of such General Partner's General Partner Interest pursuant to Section 4.6; provided, however, that no such successor shall be admitted to the Partnership until compliance with the terms of Section 4.6 has occurred and such successor has executed and delivered such other documents or instruments as may be required to effect such admission. Any such successor shall, subject to the terms hereof, carry on the business of the members of the Partnership Group without dissolution.

Section 10.4. Admission of Additional Limited Partners.

(a) A Person (other than the General Partners, an Initial Limited Partner or a Substituted Limited Partner) who makes a Capital Contribution to the Partnership in accordance with this Agreement shall be admitted to the Partnership as an Additional Limited Partner only upon furnishing to the Managing General Partner (i) evidence of acceptance in form satisfactory to the Managing General Partner of all of the terms and conditions of this Agreement, including the power of attorney granted in Section 2.6, and (ii) such other documents or instruments as may be required in the discretion of the Managing General Partner to effect such Person's admission as an Additional Limited Partner.

(b) Notwithstanding anything to the contrary in this Section 10.4, no Person shall be admitted as an Additional Limited Partner without the consent of the Managing General Partner, which consent may be given or withheld in the Managing General Partner's discretion. The admission of any Person as an Additional

Limited Partner shall become effective on the date upon which the name of such Person is recorded as such in the books and records of the Partnership, following the consent of the Managing General Partner to such admission.

Section 10.5. Amendment of Agreement and Certificate of Limited Partnership.

To effect the admission to the Partnership of any Partner, the Managing General Partner shall take all steps necessary and appropriate under the Delaware Act to amend the records of the Partnership to reflect such admission and, if necessary, to prepare as soon as practicable an amendment to this Agreement and, if required by law, the Managing General Partner shall prepare and file an amendment to the Certificate of Limited Partnership, and the Managing General Partner may for this purpose, among others, exercise the power of attorney granted pursuant to Section 2.6.

## ARTICLE XI

## Withdrawal or Removal of Partners

Section 11.1. Withdrawal of the Managing General Partner.

(a) The Managing General Partner shall be deemed to have withdrawn from the Partnership upon the occurrence of any one of the following events (each such event herein referred to as an "Event of Withdrawal");

(i) The Managing General Partner voluntarily withdraws from the Partnership by giving written notice to the other Partners (and it shall be deemed that the Managing General Partner has withdrawn pursuant to this Section 11.1(a)(i) if the Managing General Partner voluntarily withdraws as managing member of the Operating Company);

(ii) The Managing General Partner transfers all of its rights as Managing General Partner pursuant to Section 4.6;

(iii) The Managing General Partner is removed pursuant to Section 11.2;

(iv) The Managing General Partner (A) makes a general assignment for the benefit of creditors; (B) files a voluntary bankruptcy petition for relief under Chapter 7 of the United States Bankruptcy Code; (C) files a petition or answer seeking for itself a liquidation, dissolution or similar relief (but not a reorganization) under any law; (D) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against the Managing General Partner in a proceeding of the type described in clauses (A)-(C) of this Section 11.1(a)(iv); or (E) seeks, consents to or acquiesces in the appointment of a trustee (but not a debtor-in-possession), receiver or liquidator of the Managing General Partner or of all or any substantial part of its properties;

(v) A final and non-appealable order of relief under Chapter 7 of the United States Bankruptcy Code is entered by a court with appropriate jurisdiction pursuant to a voluntary or involuntary petition by or against the Managing General Partner; or

(vi) (A) in the event the Managing General Partner is a corporation, a certificate of dissolution or its equivalent is filed for the Managing General Partner, or 90 days expire after the date of notice to the Managing General Partner of revocation of its charter without a reinstatement of its charter, under the laws of its state of incorporation; (B) in the event the Managing General Partner is a partnership or a limited liability company, the dissolution and commencement of winding up of the Managing General Partner; (C) in the event the Managing General Partner is acting in such capacity by virtue of being a trustee of a trust, the termination of the trust; (D) in the event the Managing General Partner is a natural person, his death or adjudication of incompetency; and (E) otherwise in the event of the termination of the Managing General Partner.

If an Event of Withdrawal specified in Section 11.1(a)(iv), (v) or (vi)(A), (B), (C) or (E) occurs, the withdrawing Managing General Partner shall give notice to the Limited Partners within 30 days after such occurrence. The Partners hereby agree that only the Events of Withdrawal described in this Section 11.1 shall result in the withdrawal of the Managing General Partner from the Partnership.

(b) Withdrawal of the Managing General Partner from the Partnership upon the occurrence of an Event of Withdrawal shall not constitute a breach of this Agreement under the following circumstances: (i) at any time during the period beginning on the Closing Date and ending at 12:00 midnight, Eastern Standard Time, on June 30, 2011, the General Partner voluntarily withdraws by giving at least 90 days' advance notice of its intention to withdraw to the Limited Partners; provided that prior to the effective date of such withdrawal, the withdrawal is approved by Unitholders holding at least a majority of the Outstanding Common Units (excluding Common Units held by the General Partners and their Affiliates) and the Managing General Partner delivers to the Partnership an Opinion of Counsel ("Withdrawal Opinion of Counsel") that such withdrawal (following the selection of the successor Managing General Partner) would not result in the loss of the limited liability of any Limited Partner or of a member of the Operating Company or cause the Partnership or the Operating Company to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes (to the extent not previously treated as such); (ii) at any time after 12:00 midnight, Eastern Standard Time, on June 30, 2011, the Managing General Partner voluntarily withdraws by giving at least 90 days' advance notice to the Unitholders, such withdrawal to take effect on the date specified in such notice; (iii) at any time that the Managing General Partner ceases to be the Managing General Partner pursuant to Section 11.1(a)(ii) or is removed pursuant to Section 11.2; or (iv) notwithstanding clause (i) of this sentence, at any time that the Managing General Partner voluntarily withdraws by giving at least 90 days' advance notice of its intention to withdraw to the Limited Partners, such withdrawal to take effect on the date specified in the notice, if at the time such notice is given one Person and its Affiliates (other than the Managing General Partner and their Affiliates) own beneficially or of record or control at least 50% of the Outstanding Units. The withdrawal of the Managing General Partner from the Partnership upon the occurrence of an Event of Withdrawal shall also constitute the withdrawal of the Managing General Partner as general partner or managing member, as the case may be, of the other Group Members. If the Managing General Partner gives a notice of withdrawal pursuant to Section 11.1(a)(i), the holders of a Unit Majority, may, prior to the effective date of such withdrawal, elect a successor Managing General Partner. The Person so elected as successor Managing General Partner shall automatically become the successor general partner or managing member, as the case may be, of the other Group Members of which the Managing General Partner is a general partner or a managing member. If, prior to the effective date of the Managing General Partner's withdrawal, a successor is not selected by the Unitholders as provided herein or the Partnership does not receive a Withdrawal Opinion of Counsel, the Partnership shall be dissolved in accordance with Section 12.1. Any successor Managing General Partner elected in accordance with the terms of this Section 11.1 shall be subject to the provisions of Section 10.3.

Section 11.2. Removal of the Managing General Partner.

The Managing General Partner may be removed if such removal is approved by the Unitholders holding at least 66 2/3% of the Outstanding Units (including Units held by the General Partners and their Affiliates). Any such action by such holders for removal of the Managing General Partner must also provide for the election of a successor Managing General Partner by the Unitholders holding a Unit Majority (including Units held by the General Partners and their Affiliates). Such removal shall be effective immediately following the admission of a successor Managing General Partner pursuant to Section 10.3. The removal of the Managing General Partner shall also automatically constitute the removal of the Managing General Partner as general partner or managing member, as the case may be, of the other Group Members of which the Managing General Partner is a general partner or a managing member. If a Person is elected as a successor Managing General Partner in accordance with the terms of this Section 11.2, such Person shall, upon admission pursuant to Section 10.3, automatically become a successor general partner or managing member, as the case may be, of the other Group Members of

which the Managing General Partner is a general partner or a managing member. The right of the holders of Outstanding Units to remove the Managing General Partner shall not exist or be exercised unless the Partnership has received an opinion opining as to the matters covered by a Withdrawal Opinion of Counsel. Any successor Managing General Partner elected in accordance with the terms of this Section 11.2 shall be subject to the provisions of Section 10.3.

Section 11.3. Interest of Departing Partner and Successor General Partners.

(a) In the event of (i) withdrawal of a General Partner under circumstances where such withdrawal does not violate this Agreement or (ii) removal of a General Partner by the holders of Outstanding Units under circumstances where Cause does not exist, if a successor General Partner is elected in accordance with the terms of Section 11.1, 11.2 or 11.4, the Departing Partner shall have the option exercisable prior to the effective date of the departure of such Departing Partner to require its successor to purchase (x) its General Partner Interest (y) its general partner interest (or equivalent interest) in the other Group Members and (z) in the case of the withdrawal or removal of the Managing General Partner, Inergy Holdings, LLC shall have the right to require the successor Managing General Partner to purchase the Incentive Distribution Rights ((x), (y) and (z) are collectively, the "Combined Interest") in exchange for an amount in cash equal to the fair market value of such Combined Interest, such amount to be determined and payable as of the effective date of its departure. If a General Partner is removed by the Unitholders under circumstances where Cause exists or if a General Partner withdraws under circumstances where such withdrawal violates this Agreement or the Operating Company Agreement, and if a successor General Partner is elected in accordance with the terms of Section 11.1, 11.2 or 11.4, such successor shall have the option, exercisable prior to the effective date of the departure of such Departing Partner, to purchase the Combined Interest for such fair market value of such Combined Interest of the Departing Partner. In either event, the Departing Partner shall be entitled to receive all reimbursements due such Departing Partner pursuant to Section 7.4, including any employee-related liabilities (including severance liabilities), incurred in connection with the termination of any employees employed by the General Partner for the benefit of the Partnership or the other Group Members.

For purposes of this Section 11.3(a), the fair market value of a Departing Partner's Combined Interest shall be determined by agreement between the Departing Partner and its successor or, failing agreement within 30 days after the effective date of such Departing Partner's departure, by an independent investment banking firm or other independent expert selected by the Departing Partner and its successor, which, in turn, may rely on other experts, and the determination of which shall be conclusive as to such matter. If such parties cannot agree upon one independent investment banking firm or other independent expert within 45 days after the effective date of such departure, then the Departing Partner shall designate an independent investment banking firm or other independent expert, the Departing Partner's successor shall designate an independent investment banking firm or other independent expert, and such firms or experts shall mutually select a third independent investment banking firm or independent expert, which third independent investment banking firm or other independent expert shall determine the fair market value of the Combined Interest of the Departing Partner. In making its determination, such third independent investment banking firm or other independent expert may consider the then current trading price of Units on any National Securities Exchange on which Units are then listed, the value of the Partnership's assets, the rights and obligations of the Departing Partner and other factors it may deem relevant.

(b) If the Combined Interest is not purchased in the manner set forth in Section 11.3(a), the Departing Partner (or its transferee) shall become a Limited Partner and its Combined Interest shall be converted into Common Units pursuant to a valuation made by an investment banking firm or other independent expert selected pursuant to Section 11.3(a), without reduction in such Partnership Interest (but subject to proportionate dilution by reason of the admission of its successor). Any successor General Partner shall indemnify the Departing Partner (or its transferee) as to all debts and liabilities of the Partnership arising on or after the date on which the Departing Partner (or its transferee) becomes a Limited Partner. For purposes of this Agreement,

conversion of the Combined Interest of the Departing Partner to Common Units will be characterized as if such General Partner (or its transferee) contributed its Combined Interest to the Partnership in exchange for the newly issued Common Units.

(c) If a successor General Partner is elected in accordance with the terms of Section 11.1, 11.2 or 11.4 and the option described in Section 11.3(a) is not exercised by the party entitled to do so, the successor General Partner shall, at the effective date of its admission to the Partnership, contribute to the Partnership cash in the amount equal to its Percentage Interest of 1/98th of the Net Agreed Value of the Partnership's assets on such date. In such event, such successor General Partner shall, subject to the following sentence, be entitled to 2% of all Partnership allocations and distributions. The successor General Partner shall cause this Agreement to be amended to reflect that, from and after the date of such successor General Partner's admission, the successor General Partner's interest in all Partnership distributions and allocations shall be 2%.

Section 11.4. Withdrawal or Removal of Non-Managing General Partner.

(a) The Non-Managing General Partner may withdraw from the Partnership in the capacity of Non-Managing General Partner (i) upon 90 days' advance written notice to the Managing General Partner or (ii) by transferring its General Partner Interest in the Partnership pursuant to Section 4.6 hereof. Such withdrawal shall take effect on the date specified in such notice. Upon receiving such notice, the Managing General Partner shall select a successor Non-Managing General Partner within such 90-day period. Any withdrawal of the Non-Managing General Partner shall not become effective unless the Partnership has received by the end of such 90-day period a Withdrawal Opinion of Counsel that such withdrawal will not result in the loss of limited liability of any Limited Partner or of a member of the Operating Company or cause the Partnership or the Operating Company to be treated as a corporation or as an association taxable as a corporation for federal income tax purposes. Following any withdrawal of the Non-Managing General Partner, the business and operations of the Partnership shall be continued by the Managing General Partner.

(b) In addition to the voluntary withdrawal described above, the Non-Managing General Partner shall be deemed to have withdrawn (i) when and if, the Non-Managing General Partner (A) makes a general assignment for the benefit of creditors, (B) files a voluntary bankruptcy petition, (C) files a petition or answer seeking for itself a reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any law, (D) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against the Non-Managing General Partner in a proceeding of the type described in clauses (A)-(C) of this subsection, or (E) seeks, consents to or acquiesces in the appointment of a trustee, receiver or liquidator of the Non-Managing General Partner or of all or any substantial part of its properties; or (ii), when a final and non-appealable judgment is entered by a court with appropriate jurisdiction ruling that the Non-Managing General Partner is bankrupt or insolvent, or a final and non-appealable order for relief is entered by a court with appropriate jurisdiction against the Non-Managing General Partner, in each case under any federal or state bankruptcy or insolvency laws as now or hereinafter in effect; or (iii) (A) in the event the Non-Managing General Partner is a corporation, when a certificate of dissolution or its equivalent is filed for the Non-Managing General Partner, or 90 days expire after the date of notice to the Non-Managing General Partner of revocation of its charter without a reinstatement of its charter, under the laws of its state of incorporation, (B) in the event the Non-Managing General Partner is a partnership or a limited liability company, the dissolution and commencement of winding up of the Non-Managing General Partner, (C) in the event the Non-Managing General Partner is acting in such capacity by virtue of being a trustee of a trust, the termination of the trust, (D) in the event the Non-Managing General Partner is a natural person, his death or adjudication of incompetency, and (E) otherwise in the event of the termination of the Non-Managing General Partner.

(c) The Non-Managing General Partner may be removed only if such removal is approved by the written consent or affirmative vote of Limited Partners holding at least 66 2/3% of the Outstanding Units (including Units owned by the General Partners and their Affiliates). Any such action by the Limited Partners for removal of the Non-Managing General Partner must also provide for the approval of a successor Non-Managing

General Partner. Such removal shall be effective immediately following the admission of the successor Non-Managing General Partner pursuant to Section 10.3. The right of the Limited Partners to remove the Non-Managing General Partner shall not exist or be exercised unless the Partnership has received an Opinion of Counsel that the removal of the Non-Managing General Partner and the selection of a successor Non-Managing General Partner will not result in (i) the loss of limited liability of any Limited Partner or of a member of the Operating Company or (ii) the taxation of the Partnership or the Operating Company as an association taxable as a corporation for federal income tax purposes unless already so taxed.

(d) Notwithstanding the other provisions of this Section 11.4, a successor Non-Managing General Partner need not be selected if the Partnership has received an Opinion of Counsel that the failure to select a successor would not cause the Partnership or the Operating Company to be treated as a corporation or as an association taxable as a corporation for federal income tax purposes.

Section 11.5. Termination of Subordination Period, Conversion of Senior Subordinated Units and Junior Subordinated Units and Extinguishment of Cumulative Common Unit Arrearages.

Notwithstanding any provision of this Agreement, if the Managing General Partner is removed as general partner of the Partnership under circumstances where Cause does not exist and Units held by the General Partners and their Affiliates are not voted in favor of such removal, (i) the Subordination Period will end and all Outstanding Senior Subordinated Units and Junior Subordinated Units will immediately and automatically convert into Common Units on a one-for-one basis and (ii) all Cumulative Common Unit Arrearages on the Common Units will be extinguished.

Section 11.6. Withdrawal of Limited Partners.

No Limited Partner shall have any right to withdraw from the Partnership; provided, however, that when a transferee of a Limited Partner's Limited Partner Interest becomes a Record Holder of the Limited Partner Interest so transferred, such transferring Limited Partner shall cease to be a Limited Partner with respect to the Limited Partner Interest so transferred.

## ARTICLE XII

## Dissolution and Liquidation

Section 12.1. Dissolution.

The Partnership shall not be dissolved by the admission of Substituted Limited Partners or Additional Limited Partners or by the admission of a successor Managing General Partner or a successor Non-Managing General Partner in accordance with the terms of this Agreement or by the withdrawal of the Non-Managing General Partner pursuant to Section 11.4. Upon the removal or withdrawal of the Managing General Partner, if a successor Managing General Partner is elected pursuant to Section 11.1 or 11.2, the Partnership shall not be dissolved and such successor Managing General Partner shall continue the business of the Partnership. The Partnership shall dissolve, and (subject to Section 12.2) its affairs shall be wound up, upon:

(a) an Event of Withdrawal of the Managing General Partner as provided in Section 11.1(a) (other than Section 11.1(a)(ii)), unless a successor is elected and an Opinion of Counsel is received as provided in Section 11.1(b) or 11.2 and such successor is admitted to the Partnership pursuant to Section 10.3;

(b) an election to dissolve the Partnership by the Managing General Partner that is approved by the holders of a Unit Majority;

(c) the entry of a decree of judicial dissolution of the Partnership pursuant to the provisions of the Delaware Act; or

(d) the sale of all or substantially all of the assets and properties of the Partnership Group.

Section 12.2. Continuation of the Business of the Partnership After Dissolution.

Upon (a) dissolution of the Partnership following an Event of Withdrawal caused by the withdrawal or removal of the Managing General Partner as provided in Section 11.1(a)(i) or (iii) and the failure of the Partners to select a successor to such Departing Partner pursuant to Section 11.1 or 11.2, then within 90 days thereafter, or (b) dissolution of the Partnership upon an event constituting an Event of Withdrawal as defined in Section 11.1(a)(iv), (v) or (vi), then, to the maximum extent permitted by law, within 180 days thereafter, the holders of a Unit Majority may elect to reconstitute the Partnership and continue its business on the same terms and conditions set forth in this Agreement by forming a new limited partnership on terms identical to those set forth in this Agreement and having as the successor managing general partner a Person approved by the holders of a Unit Majority. Unless such an election is made within the applicable time period as set forth above, the Partnership shall conduct only activities necessary to wind up its affairs. If such an election is so made, then:

(i) the reconstituted Partnership shall continue unless earlier dissolved in accordance with this Article XII;

(ii) if the successor Managing General Partner is not the former Managing General Partner, then the interest of the former Managing General Partner shall be treated in the manner provided in Section 11.3; and

(iii) all necessary steps shall be taken to cancel this Agreement and the Certificate of Limited Partnership and to enter into and, as necessary, to file a new partnership agreement and certificate of limited partnership, and the successor managing general partner may for this purpose exercise the powers of attorney granted the Managing General Partner pursuant to Section 2.6; provided, that the right of the holders of a Unit Majority to approve a successor Managing General Partner and to reconstitute and to continue the business of the Partnership shall not exist and may not be exercised unless the Partnership has received an Opinion of Counsel that (x) the exercise of the right would not result in the loss of limited liability of any Limited Partner and (y) neither the Partnership, the reconstituted limited partnership nor the Operating Company would be treated as an association taxable as a corporation or otherwise be taxable as an entity for federal income tax purposes upon the exercise of such right to continue.

Section 12.3. Liquidator.

Upon dissolution of the Partnership, unless the Partnership is continued under an election to reconstitute and continue the Partnership pursuant to Section 12.2, the Managing General Partner shall select one or more Persons to act as Liquidator. The Liquidator (if other than the Managing General Partner) shall be entitled to receive such compensation for its services as may be approved by holders of at least a majority of the Outstanding Common Units and Subordinated Units voting as a single class. The Liquidator (if other than the Managing General Partner) shall agree not to resign at any time without 15 days' prior notice and may be removed at any time, with or without cause, by notice of removal approved by holders of at least a majority of the Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units voting as a single class. Upon dissolution, removal or resignation of the Liquidator, a successor and substitute Liquidator (who shall have and succeed to all rights, powers and duties of the original Liquidator) shall within 30 days thereafter be approved by holders of at least a majority of the Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units voting as a single class. The right to approve a successor or substitute Liquidator in the manner provided herein shall be deemed to refer also to any such successor or substitute Liquidator approved in the manner herein provided. Except as expressly provided in this Article XII, the Liquidator approved in the manner provided herein shall have and may exercise, without further authorization or consent of any of the parties hereto, all of the powers conferred upon the Managing General Partner under

the terms of this Agreement (but subject to all of the applicable limitations, contractual and otherwise, upon the exercise of such powers, other than the limitation on sale set forth in Section 7.3(b)) to the extent necessary or desirable in the good faith judgment of the Liquidator to carry out the duties and functions of the Liquidator hereunder for and during such period of time as shall be reasonably required in the good faith judgment of the Liquidator to complete the winding up and liquidation of the Partnership as provided for herein.

Section 12.4. Liquidation.

The Liquidator shall proceed to dispose of the assets of the Partnership, discharge its liabilities, and otherwise wind up its affairs in such manner and over such period as the Liquidator determines to be in the best interest of the Partners, subject to Section 17-804 of the Delaware Act and the following:

(a) Disposition of Assets. The assets may be disposed of by public or private sale or by distribution in kind to one or more Partners on such terms as the Liquidator and such Partner or Partners may agree. If any property is distributed in kind, the Partner receiving the property shall be deemed for purposes of Section 12.4(c) to have received cash equal to its fair market value; and contemporaneously therewith, appropriate cash distributions must be made to the other Partners. The Liquidator may, in its absolute discretion, defer liquidation or distribution of the Partnership's assets for a reasonable time if it determines that an immediate sale or distribution of all or some of the Partnership's assets would be impractical or would cause undue loss to the Partners. The Liquidator may, in its absolute discretion, distribute the Partnership's assets, in whole or in part, in kind if it determines that a sale would be impractical or would cause undue loss to the Partners.

(b) Discharge of Liabilities. Liabilities of the Partnership include amounts owed to the Liquidator as compensation for serving in such capacity (subject to the terms of Section 12.3) and amounts to Partners otherwise than in respect of their distribution rights under Article VI. With respect to any liability that is contingent, conditional or unmatured or is otherwise not yet due and payable, the Liquidator shall either settle such claim for such amount as it thinks appropriate or establish a reserve of cash or other assets to provide for its payment. When paid, any unused portion of the reserve shall be distributed as additional liquidation proceeds.

(c) Liquidation Distributions. All property and all cash in excess of that required to discharge liabilities as provided in Section 12.4(b) shall be distributed to the Partners in accordance with, and to the extent of, the positive balances in their respective Capital Accounts, as determined after taking into account all Capital Account adjustments (other than those made by reason of distributions pursuant to this Section 12.4(c)) for the taxable year of the Partnership during which the liquidation of the Partnership occurs (with such date of occurrence being determined pursuant to Treasury Regulation Section 1.704-1(b)(2)(ii)(g)), and such distribution shall be made by the end of such taxable year (or, if later, within 90 days after said date of such occurrence).

Section 12.5. Cancellation of Certificate of Limited Partnership.

Upon the completion of the distribution of Partnership cash and property as provided in Section 12.4 in connection with the liquidation of the Partnership, the Partnership shall be terminated and the Certificate of Limited Partnership and all qualifications of the Partnership as a foreign limited partnership in jurisdictions other than the State of Delaware shall be canceled and such other actions as may be necessary to terminate the Partnership shall be taken.

Section 12.6. Return of Contributions.

No General Partner shall be personally liable for, and shall have no obligation to contribute or loan any monies or property to the Partnership to enable it to effectuate, the return of the Capital Contributions of the Limited Partners or Unitholders, or any portion thereof, it being expressly understood that any such return shall be made solely from Partnership assets.

Section 12.7. Waiver of Partition.

To the maximum extent permitted by law, each Partner hereby waives any right to partition of the Partnership property.

Section 12.8. Capital Account Restoration.

No Limited Partner shall have any obligation to restore any negative balance in its Capital Account upon liquidation of the Partnership. Each General Partner shall be obligated to restore any negative balance in its Capital Account upon liquidation of its interest in the Partnership by the end of the taxable year of the Partnership during which such liquidation occurs, or, if later, within 90 days after the date of such liquidation.

## ARTICLE XIII

## Amendment of Partnership Agreement; Meetings; Record Date

Section 13.1. Amendment to be Adopted Solely by the Managing General Partner.

Each Partner agrees that the Managing General Partner, without the approval of any Partner or Assignee, may amend any provision of this Agreement and execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith, to reflect:

(a) a change in the name of the Partnership, the location of the principal place of business of the Partnership, the registered agent of the Partnership or the registered office of the Partnership;

(b) admission, substitution, withdrawal or removal of Partners in accordance with this Agreement;

(c) a change that, in the sole discretion of the Managing General Partner, is necessary or advisable to qualify or continue the qualification of the Partnership as a limited partnership or a partnership in which the Limited Partners have limited liability under the laws of any state or to ensure that the Partnership and the Operating Company will not be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes;

(d) a change that, in the discretion of the Managing General Partner, (i) does not adversely affect the Limited Partners (including any particular class of Partnership Interests as compared to other classes of Partnership Interests) in any material respect, (ii) is necessary or advisable to (A) satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute (including the Delaware Act) or (B) facilitate the trading of the Limited Partner Interests (including the division of any class or classes of Outstanding Limited Partner Interests into different classes to facilitate uniformity of tax consequences within such classes of Limited Partner Interests) or comply with any rule, regulation, guideline or requirement of any National Securities Exchange on which the Limited Partner Interests are or will be listed for trading, compliance with any of which the Managing General Partner determines in its discretion to be in the best interests of the Partnership and the Limited Partners, (iii) is necessary or advisable in connection with action taken by the Managing General Partner pursuant to Section 5.10 or (iv) is required to effect the intent expressed in the Registration Statement or the intent of the provisions of this Agreement or is otherwise contemplated by this Agreement;

(e) a change in the fiscal year or taxable year of the Partnership and any changes that, in the discretion of the Managing General Partner, are necessary or advisable as a result of a change in the fiscal year or taxable year of the Partnership including, if the Managing General Partner shall so determine, a change in the definition of "Quarter" and the dates on which distributions are to be made by the Partnership;

(f) an amendment that is necessary, in the Opinion of Counsel, to prevent the Partnership, or either of the General Partners or their directors, officers, trustees or agents from in any manner being subjected

to the provisions of the Investment Company Act of 1940, as amended, the Investment Advisers Act of 1940, as amended, or "plan asset" regulations adopted under the Employee Retirement Income Security Act of 1974, as amended, regardless of whether such are substantially similar to plan asset regulations currently applied or proposed by the United States Department of Labor;

(g) subject to the terms of Section 5.7, an amendment that, in the discretion of the Managing General Partner, is necessary or advisable in connection with the authorization of issuance of any class or series of Partnership Securities pursuant to Section 5.6;

(h) any amendment expressly permitted in this Agreement to be made by the Managing General Partner acting alone;

(i) an amendment effected, necessitated or contemplated by a Merger Agreement approved in accordance with Section 14.3;

(j) an amendment that, in the discretion of the Managing General Partner, is necessary or advisable to reflect, account for and deal with appropriately the formation by the Partnership of, or investment by the Partnership in, any corporation, partnership, joint venture, limited liability company or other entity, in connection with the conduct by the Partnership of activities permitted by the terms of Section 2.4;

(k) a merger or conveyance pursuant to Section 14.3(d); or

(l) any other amendments substantially similar to the foregoing.

Section 13.2. Amendment Procedures.

Except as provided in Sections 13.1 and 13.3, all amendments to this Agreement shall be made in accordance with the following requirements. Amendments to this Agreement may be proposed only by or with the consent of the Managing General Partner which consent may be given or withheld in its sole discretion. A proposed amendment shall be effective upon its approval by the holders of a Unit Majority, unless a greater or different percentage is required under this Agreement or by Delaware law. Each proposed amendment that requires the approval of the holders of a specified percentage of Outstanding Units shall be set forth in a writing that contains the text of the proposed amendment. If such an amendment is proposed, the Managing General Partner shall seek the written approval of the requisite percentage of Outstanding Units or call a meeting of the Unitholders to consider and vote on such proposed amendment. The Managing General Partner shall notify all Record Holders upon final adoption of any such proposed amendments.

Section 13.3. Amendment Requirements.

(a) Notwithstanding the provisions of Sections 13.1 and 13.2, no provision of this Agreement that establishes a percentage of Outstanding Units (including Units deemed owned by the General Partners) required to take any action shall be amended, altered, changed, repealed or rescinded in any respect that would have the effect of reducing such voting percentage unless such amendment is approved by the written consent or the affirmative vote of holders of Outstanding Units whose aggregate Outstanding Units constitute not less than the voting requirement sought to be reduced.

(b) Notwithstanding the provisions of Sections 13.1 and 13.2, no amendment to this Agreement may (i) enlarge the obligations of any Limited Partner without its consent, unless such shall be deemed to have occurred as a result of an amendment approved pursuant to Section 13.3(c), (ii) enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable to, either of the General Partners or any of their Affiliates without the consent of the Managing General Partner, which consent may be given or withheld in its sole discretion, (iii) change Section 12.1(b), or (iv) change the term of the Partnership or, except as set forth in Section 12.1(b), give any Person the right to dissolve the Partnership.

(c) Except as provided in Section 14.3, and except as otherwise provided, and without limitation of the Managing General Partner's authority to adopt amendments to this Agreement without the approval of

any Partners or Assignees as contemplated in Section 13.1, any amendment that would have a material adverse effect on the rights or preferences of any class of Partnership Interests in relation to other classes of Partnership Interests must be approved by the holders of not less than a majority of the Outstanding Partnership Interests of the class affected.

(d) Notwithstanding any other provision of this Agreement, except for amendments pursuant to Section 13.1 and except as otherwise provided by Section 14.3(b), no amendments shall become effective without the approval of the holders of at least 90% of the Outstanding Common Units, Senior Subordinated Units and Junior Subordinated Units voting as a single class unless the Partnership obtains an Opinion of Counsel to the effect that such amendment will not affect the limited liability of any Limited Partner under applicable law.

(e) Except as provided in Section 13.1, this Section 13.3 shall only be amended with the approval of the holders of at least 90% of the Outstanding Units.

Section 13.4. Special Meetings.

All acts of Limited Partners to be taken pursuant to this Agreement shall be taken in the manner provided in this Article XIII. Special meetings of the Limited Partners may be called by the Managing General Partner or by Limited Partners owning 20% or more of the Outstanding Limited Partner Interests of the class or classes for which a meeting is proposed. Limited Partners shall call a special meeting by delivering to the Managing General Partner one or more requests in writing stating that the signing Limited Partners wish to call a special meeting and indicating the general or specific purposes for which the special meeting is to be called. Within 60 days after receipt of such a call from Limited Partners or within such greater time as may be reasonably necessary for the Partnership to comply with any statutes, rules, regulations, listing, agreements or similar requirements governing the holding of a meeting or the solicitation of proxies for use at such a meeting, the Managing General Partner shall send a notice of the meeting to the Limited Partners either directly or indirectly through the Transfer Agent. A meeting shall be held at a time and place determined by the Managing General Partner on a date not less than 10 days nor more than 60 days after the mailing of notice of the meeting. Limited Partners shall not vote on matters that would cause the Limited Partners to be deemed to be taking part in the management and control of the business and affairs of the Partnership so as to jeopardize the Limited Partners' limited liability under the Delaware Act or the law of any other state in which the Partnership is qualified to do business.

Section 13.5. Notice of a Meeting.

Notice of a meeting called pursuant to Section 13.4 shall be given to the Record Holders of the class or classes of Limited Partner Interests for which a meeting is proposed in writing by mail or other means of written communication in accordance with Section 16.1. The notice shall be deemed to have been given at the time when deposited in the mail or sent by other means of written communication.

Section 13.6. Record Date.

For purposes of determining the Limited Partners entitled to notice of or to vote at a meeting of the Limited Partners or to give approvals without a meeting as provided in Section 13.11 the Managing General Partner may set a Record Date, which shall not be less than 10 nor more than 60 days before (a) the date of the meeting (unless such requirement conflicts with any rule, regulation, guideline or requirement of any National Securities Exchange on which the Limited Partner Interests are listed for trading, in which case the rule, regulation, guideline or requirement of such exchange shall govern) or (b) in the event that approvals are sought without a meeting, the date by which Limited Partners are requested in writing by the Managing General Partner to give such approvals.

Section 13.7. Adjournment.

When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting and a new Record Date need not be fixed, if the time and place thereof are announced at the meeting at which the adjournment is taken, unless such adjournment shall be for more than 45 days. At the adjourned meeting, the Partnership may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 45 days or if a new Record Date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given in accordance with this Article XIII.

Section 13.8. Waiver of Notice; Approval of Meeting; Approval of Minutes.

The transactions of any meeting of Limited Partners, however called and noticed, and whenever held, shall be as valid as if it had occurred at a meeting duly held after regular call and notice, if a quorum is present, either in person or by proxy, and if, either before or after the meeting, Limited Partners representing such quorum who were present in person or by proxy and entitled to vote, sign a written waiver of notice or an approval of the holding of the meeting or an approval of the minutes thereof. All waivers and approvals shall be filed with the Partnership records or made a part of the minutes of the meeting. Attendance of a Limited Partner at a meeting shall constitute a waiver of notice of the meeting, except when the Limited Partner does not approve, at the beginning of the meeting, of the transaction of any business because the meeting is not lawfully called or convened; and except that attendance at a meeting is not a waiver of any right to disapprove the consideration of matters required to be included in the notice of the meeting, but not so included, if the disapproval is expressly made at the meeting.

Section 13.9. Quorum.

The holders of a majority of the Outstanding Limited Partner Interests of the class or classes for which a meeting has been called (including Limited Partner Interests deemed owned by the General Partners) represented in person or by proxy shall constitute a quorum at a meeting of Limited Partners of such class or classes unless any such action by the Limited Partners requires approval by holders of a greater percentage of such Limited Partner Interests, in which case the quorum shall be such greater percentage. At any meeting of the Limited Partners duly called and held in accordance with this Agreement at which a quorum is present, the act of Limited Partners holding Outstanding Limited Partner Interests that in the aggregate represent a majority of the Outstanding Limited Partner Interests entitled to vote and be present in person or by proxy at such meeting shall be deemed to constitute the act of all Limited Partners, unless a greater or different percentage is required with respect to such action under the provisions of this Agreement, in which case the act of the Limited Partners holding Outstanding Limited Partner Interests that in the aggregate represent at least such greater or different percentage shall be required. The Limited Partners present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough Limited Partners to leave less than a quorum, if any action taken (other than adjournment) is approved by the required percentage of Outstanding Limited Partner Interests specified in this Agreement (including Limited Partner Interests deemed owned by the General Partners). In the absence of a quorum any meeting of Limited Partners may be adjourned from time to time by the affirmative vote of holders of at least a majority of the Outstanding Limited Partner Interests entitled to vote at such meeting (including Limited Partner Interests deemed owned by the General Partners) represented either in person or by proxy, but no other business may be transacted, except as provided in Section 13.7.

Section 13.10. Conduct of a Meeting.

The Managing General Partner shall have full power and authority concerning the manner of conducting any meeting of the Limited Partners or solicitation of approvals in writing, including the determination of Persons entitled to vote, the existence of a quorum, the satisfaction of the requirements of Section 13.4, the conduct of voting, the validity and effect of any proxies and the determination of any controversies, votes or challenges arising in connection with or during the meeting or voting. The Managing General Partner shall

designate a Person to serve as chairman of any meeting and shall further designate a Person to take the minutes of any meeting. All minutes shall be kept with the records of the Partnership maintained by the Managing General Partner. The Managing General Partner may make such other regulations consistent with applicable law and this Agreement as it may deem advisable concerning the conduct of any meeting of the Limited Partners or solicitation of approvals in writing, including regulations in regard to the appointment of proxies, the appointment and duties of inspectors of votes and approvals, the submission and examination of proxies and other evidence of the right to vote, and the revocation of approvals in writing.

Section 13.11. Action Without a Meeting.

If authorized by the Managing General Partner, any action that may be taken at a meeting of the Limited Partners may be taken without a meeting if an approval in writing setting forth the action so taken is signed by Limited Partners owning not less than the minimum percentage of the Outstanding Limited Partner Interests (including Limited Partner Interests deemed owned by the General Partner) that would be necessary to authorize or take such action at a meeting at which all the Limited Partners were present and voted (unless such provision conflicts with any rule, regulation, guideline or requirement of any National Securities Exchange on which the Limited Partner Interests are listed for trading, in which case the rule, regulation, guideline or requirement of such exchange shall govern). Prompt notice of the taking of action without a meeting shall be given to the Limited Partners who have not approved in writing. The Managing General Partner may specify that any written ballot submitted to Limited Partners for the purpose of taking any action without a meeting shall be returned to the Partnership within the time period, which shall be not less than 20 days, specified by the Managing General Partner. If a ballot returned to the Partnership does not vote all of the Limited Partner Interests held by the Limited Partners the Partnership shall be deemed to have failed to receive a ballot for the Limited Partner Interests that were not voted. If approval of the taking of any action by the Limited Partners is solicited by any Person other than by or on behalf of the Managing General Partner, the written approvals shall have no force and effect unless and until (a) they are deposited with the Partnership in care of the Managing General Partner, (b) approvals sufficient to take the action proposed are dated as of a date not more than 90 days prior to the date sufficient approvals are deposited with the Partnership and (c) an Opinion of Counsel is delivered to the Managing General Partner to the effect that the exercise of such right and the action proposed to be taken with respect to any particular matter (i) will not cause the Limited Partners to be deemed to be taking part in the management and control of the business and affairs of the Partnership so as to jeopardize the Limited Partners' limited liability, and (ii) are otherwise permissible under the state statutes then governing the rights, duties and liabilities of the Partnership and the Partners.

Section 13.12. Voting and Other Rights.

(a) Only those Record Holders of the Limited Partner Interests on the Record Date set pursuant to Section 13.6 (and also subject to the limitations contained in the definition of "Outstanding") shall be entitled to notice of, and to vote at, a meeting of Limited Partners or to act with respect to matters as to which the holders of the Outstanding Limited Partner Interests have the right to vote or to act. All references in this Agreement to votes of, or other acts that may be taken by, the Outstanding Limited Partner Interests shall be deemed to be references to the votes or acts of the Record Holders of such Outstanding Limited Partner Interests.

(b) With respect to Limited Partner Interests that are held for a Person's account by another Person (such as a broker, dealer, bank, trust company or clearing corporation, or an agent of any of the foregoing), in whose name such Limited Partner Interests are registered, such other Person shall, in exercising the voting rights in respect of such Limited Partner Interests on any matter, and unless the arrangement between such Persons provides otherwise, vote such Limited Partner Interests in favor of, and at the direction of, the Person who is the beneficial owner, and the Partnership shall be entitled to assume it is so acting without further inquiry. The provisions of this Section 13.12(b) (as well as all other provisions of this Agreement) are subject to the provisions of Section 4.3.

## ARTICLE XIV

## Merger

Section 14.1. Authority.

The Partnership may merge or consolidate with one or more corporations, limited liability companies, business trusts or associations, real estate investment trusts, common law trusts or unincorporated businesses, including a general partnership or limited partnership, formed under the laws of the State of Delaware or any other state of the United States of America, pursuant to a written agreement of merger or consolidation ("Merger Agreement") in accordance with this Article XIV.

Section 14.2. Procedure for Merger or Consolidation.

Merger or consolidation of the Partnership pursuant to this Article XIV requires the prior approval of the Managing General Partner. If the Managing General Partner shall determine, in the exercise of its discretion, to consent to the merger or consolidation, the Managing General Partner shall approve the Merger Agreement, which shall set forth:

(a) The names and jurisdictions of formation or organization of each of the business entities proposing to merge or consolidate;

(b) The name and jurisdiction of formation or organization of the business entity that is to survive the proposed merger or consolidation (the "Surviving Business Entity");

(c) The terms and conditions of the proposed merger or consolidation;

(d) The manner and basis of exchanging or converting the equity securities of each constituent business entity for, or into, cash, property or general or limited partner interests, rights, securities or obligations of the Surviving Business Entity; and (i) if any general or limited partner interests, securities or rights of any constituent business entity are not to be exchanged or converted solely for, or into, cash, property or general or limited partner interests, rights, securities or obligations of the Surviving Business Entity, the cash, property or general or limited partner interests, rights, securities or obligations of any limited partnership, corporation, trust or other entity (other than the Surviving Business Entity) which the holders of such general or limited partner interests, securities or rights are to receive in exchange for, or upon conversion of their general or limited partner interests, securities or rights, and (ii) in the case of securities represented by certificates, upon the surrender of such certificates, which cash, property or general or limited partner interests, rights, securities or obligations of the Surviving Business Entity or any general or limited partnership, corporation, trust or other entity (other than the Surviving Business Entity), or evidences thereof, are to be delivered;

(e) A statement of any changes in the constituent documents or the adoption of new constituent documents (the articles or certificate of incorporation, articles of trust, declaration of trust, certificate or agreement of limited partnership, operating agreement or other similar charter or governing document) of the Surviving Business Entity to be effected by such merger or consolidation;

(f) The effective time of the merger, which may be the date of the filing of the certificate of merger pursuant to Section 14.4 or a later date specified in or determinable in accordance with the Merger Agreement (provided, that if the effective time of the merger is to be later than the date of the filing of the certificate of merger, the effective time shall be fixed no later than the time of the filing of the certificate of merger and stated therein); and

(g) Such other provisions with respect to the proposed merger or consolidation as are deemed necessary or appropriate by the Managing General Partner.

Section 14.3. Approval by Limited Partners of Merger or Consolidation.

(a) Except as provided in Section 14.3(d), the General Partner, upon its approval of the Merger Agreement, shall direct that the Merger Agreement be submitted to a vote of Limited Partners, whether at a special meeting or by written consent, in either case in accordance with the requirements of Article VII. A copy or a summary of the Merger Agreement shall be included in or enclosed with the notice of a special meeting or the written consent.

(b) Except as provided in Section 14.3(d), the Merger Agreement shall be approved upon receiving the affirmative vote or consent of the holders of a Unit Majority unless the Merger Agreement contains any provision that, if contained in an amendment to this Agreement, the provisions of this Agreement or the Delaware Act would require for its approval the vote or consent of a greater percentage of the Outstanding Limited Partner Interests or of any class of Limited Partners, in which case such greater percentage vote or consent shall be required for approval of the Merger Agreement.

(c) Except as provided in Section 14.3(d), after such approval by vote or consent of the Limited Partners, and at any time prior to the filing of the certificate of merger pursuant to Section 14.4, the merger or consolidation may be abandoned pursuant to provisions therefor, if any, set forth in the Merger Agreement.

(d) Notwithstanding anything else contained in this Article XIV or in this Agreement, the Managing General Partner is permitted, in its discretion, without Limited Partner approval, to merge the Partnership or any Group Member into, or convey all of the Partnership's assets to, another limited liability entity which shall be newly formed and shall have no assets, liabilities or operations at the time of such Merger other than those it receives from the Partnership or other Group Member if (i) the Managing General Partner has received an Opinion of Counsel that the merger or conveyance, as the case may be, would not result in the loss of the limited liability of any Limited Partner or any member in the Operating Company or cause the Partnership or the Operating Company to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes (to the extent not previously treated as such), (ii) the sole purpose of such merger or conveyance is to effect a mere change in the legal form of the Partnership into another limited liability entity and (iii) the governing instruments of the new entity provide the Limited Partners and the General Partners with the same rights and obligations as are herein contained.

Section 14.4. Certificate of Merger.

Upon the required approval by the Managing General Partner and the Unitholders of a Merger Agreement, a certificate of merger shall be executed and filed with the Secretary of State of the State of Delaware in conformity with the requirements of the Delaware Act.

Section 14.5. Effect of Merger.

(a) At the effective time of the certificate of merger:

(i) all of the rights, privileges and powers of each of the business entities that has merged or consolidated, and all property, real, personal and mixed, and all debts due to any of those business entities and all other things and causes of action belonging to each of those business entities, shall be vested in the Surviving Business Entity and after the merger or consolidation shall be the property of the Surviving Business Entity to the extent they were of each constituent business entity;

(ii) the title to any real property vested by deed or otherwise in any of those constituent business entities shall not revert and is not in any way impaired because of the merger or consolidation;

(iii) all rights of creditors and all liens on or security interests in property of any of those constituent business entities shall be preserved unimpaired; and

(iv) all debts, liabilities and duties of those constituent business entities shall attach to the Surviving Business Entity and may be enforced against it to the same extent as if the debts, liabilities and duties had been incurred or contracted by it.

(b) A merger or consolidation effected pursuant to this Article shall not be deemed to result in a transfer or assignment of assets or liabilities from one entity to another.

## ARTICLE XV

## Right to Acquire Limited Partner Interests

Section 15.1. Right to Acquire Limited Partner Interests.

(a) Notwithstanding any other provision of this Agreement, if at any time not more than 20% of the total Limited Partner Interests of any class then Outstanding is held by Persons other than the General Partners and their Affiliates, the Managing General Partner shall then have the right, which right it may assign and transfer in whole or in part to the Partnership or any Affiliate of the Managing General Partner, exercisable in its sole discretion, to purchase all, but not less than all, of such Limited Partner Interests of such class then Outstanding held by Persons other than the General Partners and their Affiliates, at the greater of (x) the Current Market Price as of the date three days prior to the date that the notice described in Section 15 is mailed and (y) the highest price paid by a General Partner or any of its Affiliates for any such Limited Partner Interest of such class purchased during the 90-day period preceding the date that the notice described in Section 15.1(b) is mailed. As used in this Agreement, (i) "Current Market Price" as of any date of any class of Limited Partner Interests listed or admitted to trading on any National Securities Exchange means the average of the daily Closing Prices (as hereinafter defined) per limited partner interest of such class for the 20 consecutive Trading Days (as hereinafter defined) immediately prior to such date; (ii) "Closing Price" for any day means the last sale price on such day, regular way, or in case no such sale takes place on such day, the average of the closing bid and asked prices on such day, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted for trading on the principal National Securities Exchange on which such Limited Partner Interests of such class are listed or admitted to trading or, if such Limited Partner Interests of such class are not listed or admitted to trading on any National Securities Exchange, the last quoted price on such day or, if not so quoted, the average of the high bid and low asked prices on such day in the over-the-counter market, as reported by the Nasdaq Stock Market or any other system then in use, or, if on any such day such Limited Partner Interests of such class are not quoted by any such organization, the average of the closing bid and asked prices on such day as furnished by a professional market maker making a market in such Limited Partner Interests of such class selected by the Managing General Partner, or if on any such day no market maker is making a market in such Limited Partner Interests of such class, the fair value of such Limited Partner Interests on such day as determined reasonably and in good faith by the Managing General Partner; and (iii) "Trading Day" means a day on which the principal National Securities Exchange on which such Limited Partner Interests of any class are listed or admitted to trading is open for the transaction of business or, if Limited Partner Interests of a class are not listed or admitted to trading on any National Securities Exchange, a day on which banking institutions in New York City generally are open.

(b) If the Managing General Partner, any Affiliate of the Managing General Partner or the Partnership elects to exercise the right to purchase Limited Partner Interests granted pursuant to Section 15.1(a), the Managing General Partner shall deliver to the Transfer Agent notice of such election to purchase (the "Notice of Election to Purchase") and shall cause the Transfer Agent to mail a copy of such Notice of Election to Purchase to the Record Holders of Limited Partner Interests of such class (as of a Record Date selected by the Managing General Partner) at least 10, but not more than 60, days prior to the Purchase Date. Such Notice of Election to Purchase shall also be published for a period of at least three consecutive days in at least two daily newspapers of general circulation printed in the English language and published in the Borough of Manhattan,

New York. The Notice of Election to Purchase shall specify the Purchase Date and the price (determined in accordance with Section 15.1(a)) at which Limited Partner Interests will be purchased and state that the Managing General Partner, its Affiliate or the Partnership, as the case may be, elects to purchase such Limited Partner Interests, upon surrender of Certificates representing such Limited Partner interests in exchange for payment, at such office or offices of the Transfer Agent as the Transfer Agent may specify, or as may be required by any National Securities Exchange on which such Limited Partner Interests are listed or admitted to trading. Any such Notice of Election to Purchase mailed to a Record Holder of Limited Partner Interests at his address as reflected in the records of the Transfer Agent shall be conclusively presumed to have been given regardless of whether the owner receives such notice. On or prior to the Purchase Date, the Managing General Partner, its Affiliate or the Partnership, as the case may be, shall deposit with the Transfer Agent cash in an amount sufficient to pay the aggregate purchase price of all of such Limited Partner Interests to be purchased in accordance with this Section 15.1. If the Notice of Election to Purchase shall have been duly given as aforesaid at least 10 days prior to the Purchase Date, and if on or prior to the Purchase Date the deposit described in the preceding sentence has been made for the benefit of the holders of Limited Partner Interests subject to purchase as provided herein, then from and after the Purchase Date, notwithstanding that any Certificate shall not have been surrendered for purchase, all rights of the holders of such Limited Partner Interests (including any rights pursuant to Articles IV, V, VI, and XII) shall thereupon cease, except the right to receive the purchase price (determined in accordance with Section 15.1(a)) for Limited Partner Interests therefor, without interest, upon surrender to the Transfer Agent of the Certificates representing such Limited Partner Interests, and such Limited Partner Interests shall thereupon be deemed to be transferred to the Managing General Partner, its Affiliate or the Partnership, as the case may be, on the record books of the Transfer Agent and the Partnership, and the General Partner or any Affiliate of the Managing General Partner, or the Partnership, as the case may be, shall be deemed to be the owner of all such Limited Partner Interests from and after the Purchase Date and shall have all rights as the owner of such Limited Partner Interests (including all rights as owner of such Limited Partner Interests pursuant to Articles IV, V, VI and XII).

(c) At any time from and after the Purchase Date, a holder of an Outstanding Limited Partner Interest subject to purchase as provided in this Section 15.1 may surrender his Certificate evidencing such Limited Partner Interest to the Transfer Agent in exchange for payment of the amount described in Section 15.1(a), therefor, without interest thereon.

## ARTICLE XVI

## General Provisions

Section 16.1. Addresses and Notices.

Any notice, demand, request, report or proxy materials required or permitted to be given or made to a Partner or Assignee under this Agreement shall be in writing and shall be deemed given or made when delivered in person or when sent by first class United States mail or by other means of written communication to the Partner or Assignee at the address described below. Any notice, payment or report to be given or made to a Partner or Assignee hereunder shall be deemed conclusively to have been given or made, and the obligation to give such notice or report or to make such payment shall be deemed conclusively to have been fully satisfied, upon sending of such notice, payment or report to the Record Holder of such Partnership Securities at his address as shown on the records of the Transfer Agent or as otherwise shown on the records of the Partnership, regardless of any claim of any Person who may have an interest in such Partnership Securities by reason of any assignment or otherwise. An affidavit or certificate of making of any notice, payment or report in accordance with the provisions of this Section 16.1 executed by the Managing General Partner, the Transfer Agent or the mailing organization shall be prima facie evidence of the giving or making of such notice, payment or report. If any notice, payment or report addressed to a Record Holder at the address of such Record Holder appearing on the books and records of the Transfer Agent or the Partnership is returned by the United

States Postal Service marked to indicate that the United States Postal Service is unable to deliver it, such notice, payment or report and any subsequent notices, payments and reports shall be deemed to have been duly given or made without further mailing (until such time as such Record Holder or another Person notifies the Transfer Agent or the Partnership of a change in his address) if they are available for the Partner or Assignee at the principal office of the Partnership for a period of one year from the date of the giving or making of such notice, payment or report to the other Partners and Assignees. Any notice to the Partnership shall be deemed given if received by the Managing General Partner at the principal office of the Partnership designated pursuant to Section 2.3. The Managing General Partner may rely and shall be protected in relying on any notice or other document from a Partner, Assignee or other Person if believed by it to be genuine.

Section 16.2. Further Action.

The parties shall execute and deliver all documents, provide all information and take or refrain from taking action as may be necessary or appropriate to achieve the purposes of this Agreement.

Section 16.3. Binding Effect.

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their heirs, executors, administrators, successors, legal representatives and permitted assigns.

Section 16.4. Integration.

This Agreement constitutes the entire agreement among the parties hereto pertaining to the subject matter hereof and supersedes all prior agreements and understandings pertaining thereto.

Section 16.5. Creditors.

None of the provisions of this Agreement shall be for the benefit of, or shall be enforceable by, any creditor of the Partnership.

Section 16.6. Waiver.

No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute waiver of any such breach of any other covenant, duty, agreement or condition.

Section 16.7. Counterparts.

This Agreement may be executed in counterparts, all of which together shall constitute an agreement binding on all the parties hereto, notwithstanding that all such parties are not signatories to the original or the same counterpart. Each party shall become bound by this Agreement immediately upon affixing its signature hereto or, in the case of a Person acquiring a Unit, upon accepting the certificate evidencing such Unit or executing and delivering a Transfer Application as herein described, independently of the signature of any other party.

Section 16.8. Applicable Law.

This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to the principles of conflicts of law.

Section 16.9. Invalidity of Provisions.

If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby.

Section 16.10. Consent of Partners.

Each Partner hereby expressly consents and agrees that, whenever in this Agreement it is specified that an action may be taken upon the affirmative vote or consent of less than all of the Partners, such action may be so taken upon the concurrence of less than all of the Partners and each Partner shall be bound by the results of such action.

[Rest of Page Intentionally Left Blank]

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

MANAGING GENERAL PARTNER:

INERGY GP, LLC

By: _____
Name: _____
Title: _____

NON-MANAGING GENERAL PARTNER:

INERGY PARTNERS, LLC

By: _____
Name: _____
Title: _____

ORGANIZATIONAL LIMITED PARTNER:

INERGY PARTNERS, LLC

By: _____
Name: _____
Title: _____

LIMITED PARTNERS:
All Limited Partners now and hereafter admitted as Limited Partners of the Partnership, pursuant to powers of attorney now and hereafter executed in favor of, and granted and delivered to the Managing General Partner.

NEW INERGY PROPANE, LLC

By: _____
Name: _____
Title: _____

INERGY HOLDINGS, LLC

By: _____
Name: _____
Title: _____

EXHIBIT A
to the Amended and
Restated Agreement of Limited Partnership of
Inergy, L.P.
Certificate Evidencing Common Units
Representing Limited Partner Interests in
Inergy, L.P.

No. Common Units

In accordance with Section 4.1 of the Amended and Restated Agreement of Limited Partnership of Inergy, L.P., as amended, supplemented or restated from time to time (the "Partnership Agreement"), Inergy, L.P., a Delaware limited partnership (the "Partnership"), hereby certifies that (the "Holder") is the registered owner of Common Units representing limited partner interests in the Partnership (the "Common Units") transferable on the books of the Partnership, in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed and accompanied by a properly executed application for transfer of the Common Units represented by this Certificate. The rights, preferences and limitations of the Common Units are set forth in, and this Certificate and the Common Units represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Partnership Agreement. Copies of the Partnership Agreement are on file at, and will be furnished without charge on delivery of written request to the Partnership at, the principal office of the Partnership located at 1101 Walnut, Suite 1500, Kansas City, Missouri 64106. Capitalized terms used herein but not defined shall have the meanings given them in the Partnership Agreement.

The Holder, by accepting this Certificate, is deemed to have (i) requested admission as, and agreed to become, a Limited Partner and to have agreed to comply with and be bound by and to have executed the Partnership Agreement, (ii) represented and warranted that the Holder has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (iii) granted the powers of attorney provided for in the Partnership Agreement and (iv) made the waivers and given the consents and approvals contained in the Partnership Agreement.

This Certificate shall not be valid far any purpose unless it has been countersigned and registered by the Transfer Agent and Registrar.

Dated:

Inergy, L.P.

Countersigned and Registered by:

By: Inergy GP LLC, Its Managing

as Transfer Agent and Registrar General Partner

By: By:

Authorized Signature

Name:

By:

Secretary

[Reverse of Certificate]

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of the Certificate, shall be construed as follows according to applicable laws or regulations:

| | |
|---|---|
| TEN COM - as tenants in common | UNIF GIFT/TRANSFERS MIN ACT |
| TEN ENT - as tenants by the entireties | |
| | Custodian |
| | (Cust)(Minor) |
| JT TEN - as joint tenants with right of survivorship and not as tenants in common | under Uniform Gifts/Transfers to CD Minors Act (State) |

Additional abbreviations, though not in the above list, may also be used.

ASSIGNMENT OF COMMON UNITS
in
INERGY, L.P.
IMPORTANT NOTICE REGARDING INVESTOR RESPONSIBILITIES
DUE TO TAX SHELTER STATUS OF INERGY, L.P.

You have acquired an interest in Inergy, L.P., 1101 Walnut, Suite 1500, Kansas City, Missouri 64106, whose taxpayer identification number is [ ]. The Internal Revenue Service has issued Inergy, L.P. the following tax shelter registration number:

YOU MUST REPORT THIS REGISTRATION NUMBER TO THE INTERNAL REVENUE SERVICE IF YOU CLAIM ANY DEDUCTION, LOSS, CREDIT OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OF YOUR INVESTMENT IN INERGY, L.P.

You must report the registration number as well as the name and taxpayer identification number of Inergy, L.P. on Form 8271. FORM 8271 MUST BE ATTACHED TO THE RETURN ON WHICH YOU CLAIM THE DEDUCTION, LOSS, CREDIT OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OF YOUR INVESTMENT IN INERGY, L.P.

If you transfer your interest in Inergy, L.P. to another person, you are required by the Internal Revenue Service to keep a list containing (a) that person's name, address and taxpayer identification number, (b) the date on which you transferred the interest and (c) the name, address and tax shelter registration number of Inergy, L.P. If you do not want to keep such a list, you must (1) send the information specified above to the Partnership, which will keep the list for this tax shelter, and (2) give a copy of this notice to the person to whom you transfer your interest. Your failure to comply with any of the above-described responsibilities could result in the imposition of a penalty under Section 6707(b) or 6708(a) of the Internal Revenue Code of 1986, as amended, unless such failure is shown to be due to reasonable cause.

ISSUANCE OF A REGISTRATION NUMBER DOES NOT INDICATE THAT THIS INVESTMENT OR THE CLAIMED TAX BENEFITS HAVE BEEN REVIEWED, EXAMINED OR APPROVED BY THE INTERNAL REVENUE SERVICE.

APPLICATION FOR TRANSFER OF COMMON UNITS

The undersigned ("Assignee") hereby applies for transfer to the name of the Assignee of the Common Units evidenced hereby.

The Assignee (a) requests admission as a Substituted Limited Partner and agrees to comply with and be bound by, and hereby executes, the Amended and Restated Agreement of Limited Partnership of Inergy, L.P. (the "Partnership"), as amended, supplemented or restated to the date hereof (the "Partnership Agreement"), (b) represents and warrants that the Assignee has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (c) appoints the General Partner of the Partnership and, if a Liquidator shall be appointed, the Liquidator of the Partnership as the Assignee's attorney-in-fact to execute, swear to, acknowledge and file any document, including, without limitation, the Partnership Agreement and any amendment thereto and the Certificate of Limited Partnership of the Partnership and any amendment thereto, necessary or appropriate for the Assignee's admission as a Substituted Limited Partner and as a party to the Partnership Agreement, (d) gives the powers of attorney provided for in the Partnership Agreement, and (e) makes the waivers and gives the consents and approvals contained in the Partnership Agreement. Capitalized terms not defined herein have the meanings assigned to such terms in the Partnership Agreement.

Date:

Social Security or other identifying number of Assignee

Signature of Assignee

Purchase Price including commissions, if any

Name and Address of Assignee

Type of Entity (check one):

[_]Individual

[_]Partnership

[_]Corporation

[_]Trust

[_]Other (specify)

Nationality (check one):

[_]U.S. Citizen, Resident or Domestic Entity

[_]Foreign Corporation

[_]Non-resident Alien

If the U.S. Citizen, Resident or Domestic Entity box is checked, the following certification must be completed.

Under Section 1445(e) of the Internal Revenue Code of 1986, as amended (the "Code"), the Partnership must withhold tax with respect to certain transfers of property if a holder of an interest in the Partnership is a foreign person. To inform the Partnership that no withholding is required with respect to the undersigned interestholder's interest in it, the undersigned hereby certifies the following (or, if applicable, certifies the following on behalf of the interestholder).

Complete Either A or B:

A.Individual Interestholder

1. I am not a non-resident alien for purposes of U.S. income taxation.

2. My U.S. taxpayer identification number (Social Security Number) is .

3. My home address is .

B.Partnership, Corporation or Other Interestholder

1. is not a foreign corporation, foreign partnership, foreign trust (Name of Interestholder) or foreign estate (as those terms are defined in the Code and Treasury Regulations).

2. The interestholder's U.S. employer identification number is .

3. The interestholder's office address and place of incorporation (if applicable) is .

The interestholder agrees to notify the Partnership within sixty (60) days of the date the interestholder becomes a foreign person.

The interestholder understands that this certificate may be disclosed to the Internal Revenue Service by the Partnership and that any false statement contained herein could be punishable by fine, imprisonment or both.

Under penalties of perjury, I declare that I have examined this certification and to the best of my knowledge and belief it is true, correct and complete and, if applicable, I further declare that I have authority to sign this document on behalf of:

Name of Interestholder

Signature and Date

Title (if applicable)

Note: If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee holder or an agent of any of the foregoing, and is holding for the account of any other person, this application should be completed by an officer thereof or, in the case of a broker or dealer, by a registered representative who is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or, in the case of any other nominee holder, a person performing a similar function. If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee owner or an agent of any of the foregoing, the above certification as to any person for whom the Assignee will hold the Common Units shall be made to the best of the Assignee's knowledge.

FOR VALUE RECEIVED, hereby assigns, conveys, sells and transfers unto

(Please print or typewrite name and address of Assignee)

(Please insert Social Security or other identifying number of Assignee)

Common Units representing limited partner interests evidenced by this Certificate, subject to the Partnership Agreement, and does hereby irrevocably constitute and appoint as its attorney-in-fact with full power of substitution to transfer the same on the books of Inergy, L.P.

Date:

NOTE: The signature to any endorsement hereon must correspond with the name as written upon the face of this Certificate in every particular, without alteration, enlargement or change.

SIGNATURE(S) MUST BE GUARANTEED BY A MEMBER FIRM OF THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. OR BY A COMMERCIAL BANK OR TRUST COMPANY SIGNATURE(S) GUARANTEED

(Signature)

(Signature)

No transfer of the Common Units evidenced hereby will be registered on the books of the Partnership, unless the Certificate evidencing the Common Units to be transferred is surrendered for registration or transfer and an Application for Transfer of Common Units has been executed by a transferee either (a) on the form set forth below or (b) on a separate application that the Partnership will furnish on request without charge. A transferor of the Common Units shall have no duty to the transferee with respect to execution of the transfer application in order for such transferee to obtain registration of the transfer of the Common Units.

# GLOSSARY OF TERMS

adjusted operating surplus: For any period, operating surplus generated during that period is adjusted to:

(a) decrease operating surplus by:

(1) any net increase in working capital borrowings during that period; and

(2) any net reduction in cash reserves for operating expenditures during that period not relating to an operating expenditure made during that period; and

(b) increase operating surplus by:

(1) any net decrease in working capital borrowings during that period; and

(2) any net increase in cash reserves for operating expenditures during that period required by any debt instrument for the repayment of principal, interest or premium.

Adjusted operating surplus does not include that portion of operating surplus included in clause (a)(1) or the definition of operating surplus.

available cash: For any quarter ending prior to liquidation:

(a) the sum of:

(1) all cash and cash equivalents of Inergy, L.P. and its subsidiaries on hand at the end of that quarter; and

(2) all additional cash and cash equivalents of Inergy, L.P. and its subsidiaries on hand on the date of determination of available cash for that quarter resulting from working capital borrowings made after the end of that quarter;

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

(1) provide for the proper conduct of the business of Inergy, L.P. and its subsidiaries (including reserves for future capital expenditures and for future credit needs of Inergy, L.P. and its subsidiaries) after that quarter;

(2) comply with applicable law or any debt instrument or other agreement or obligation to which Inergy, L.P. or any of its subsidiaries is a party or its assets are subject; and

(3) provide funds for minimum quarterly distributions and cumulative common unit arrearages for any one or more of the next four quarters;

provided, however, that the managing general partner may not establish cash reserves for distributions to the subordinated units unless the managing general partner has determined that in its judgment the establishment of reserves will not prevent Inergy, L.P. from distributing the minimum quarterly distribution on all common units and any cumulative common unit arrearages thereon for the next four quarters; and

provided, further, that disbursements made by Inergy, L.P. or any of its subsidiaries or cash reserves established, increased or reduced after the end of that quarter but on or before the date of determination of available cash for that quarter shall be deemed to have been made, established, increased or reduced, for purposes of determining available cash, within that quarter if the managing general partner so determines.

capital account: The capital account maintained for a partner under the partnership agreement. The capital account of a partner for a common unit, a senior subordinated unit, a junior subordinated unit, an incentive distribution right or any other partnership interest will be the amount which that capital account

would be if that common unit, senior subordinated unit, junior subordinated unit, incentive distribution right or other partnership interest were the only interest in Inergy, L.P. held by a partner.

capital surplus: All available cash distributed by us from any source will be treated as distributed from operating surplus until the sum of all available cash distributed since the closing of the initial public offering equals the operating surplus as of the end of the quarter before that distribution. Any excess available cash will be deemed to be capital surplus.

closing price: The last sale price on a day, regular way, or in case no sale takes place on that day, the average of the closing bid and asked prices on that day, regular way, in either case, as reported in the principal consolidated transaction reporting system for securities listed or admitted to trading on the principal national securities exchange on which the units of that class are listed or admitted to trading. If the units of that class are not listed or admitted to trading on any national securities exchange, the last quoted price on that day. If no quoted price exists, the average of the high bid and low asked prices on that day in the over-the-counter market, as reported by the Nasdaq Stock Market or any other system then in use. If on any day the units of that class are not quoted by any organization of that type, the average of the closing bid and asked prices on that day as furnished by a professional market maker making a market in the units of the class selected by the managing general partner. If on that day no market maker is making a market in the units of that class, the fair value of the units on that day as determined reasonably and in good faith by the managing general partner.

common unit arrearage: The amount by which the minimum quarterly distribution for a quarter during the subordination period exceeds the distribution of available cash from operating surplus actually made for that quarter on a common unit, cumulative for that quarter and all prior quarters during the subordination period.

current market price: For any class of units listed or admitted to trading on any national securities exchange as of any date, the average of the daily closing prices for the 20 consecutive trading days immediately prior to that date.

incentive distribution right: A non-voting limited partner partnership interest issued to Inergy Holdings, LLC in connection with the transfer of substantially all of its member interest in Inergy Propane, LLC to Inergy, L.P. under the partnership agreement. The partnership interest will confer upon its holder only the rights and obligations specifically provided in the partnership agreement for incentive distribution rights.

incentive distributions: The distributions of available cash from operating surplus initially made to Inergy Holdings, LLC that are in excess of the non-managing general partner's 2% general partner interest.

interim capital transactions: The following transactions if they occur prior to liquidation:

- borrowings, refinancings or refundings of indebtedness and sales of debt securities (other than for working capital borrowings and other than for items purchased on open account in the ordinary course of business) by Inergy, L.P. or any of its subsidiaries;

- sales of equity interests by Inergy, L.P. or any of its subsidiaries;

- sales or other voluntary or involuntary dispositions of any assets of Inergy, L.P. or any of its subsidiaries (other than sales or other dispositions of inventory, accounts receivable and other assets in the ordinary course of business, and sales or other dispositions of assets as a part of normal retirements or replacements).

operating expenditures: All expenditures of Inergy, L.P. and its subsidiaries, including, but not limited to, taxes, reimbursements of the general partners, repayment of working capital borrowings debt service payments and capital expenditures, subject to the following:

(a) Payments (including prepayments) of principal of and premium on indebtedness other than working capital borrowings will not constitute operating expenditures.

(b) Operating expenditures will not include:

(1) capital expenditures made for acquisitions or for capital improvements;

(2) payment of transaction expenses relating to interim capital transactions; or

(3) distributions to partners.

operating surplus: For any period prior to liquidation, on a cumulative basis and without duplication:

(a) the sum of

(1) $8.5 million plus all the cash of Inergy, L.P. and its subsidiaries on hand as of the closing date of our initial public offering;

(2) all cash receipts of Inergy, L.P. and its subsidiaries for the period beginning on the closing date of our initial public offering and ending with the last day of that period, other than cash receipts from interim capital transactions; and

(3) all cash receipts of Inergy, L.P. and its subsidiaries after the end of that period but on or before the date of determination of operating surplus for the period resulting from working capital borrowings; less

(b) the sum of:

(1) operating expenditures for the period beginning on the closing date of our initial public offering and ending with the last day of that period; and

(2) the amount of cash reserves that is necessary or advisable in the reasonable discretion of the managing general partner to provide funds for future operating expenditures; provided however, that disbursements made (including contributions to Inergy, L.P. or its subsidiaries or disbursements on behalf of Inergy, L.P. or its subsidiaries) or cash reserves established, increased or reduced after the end of that period but on or before the date of determination of available cash for that period shall be deemed to have been made, established, increased or reduced for purposes of determining operating surplus, within that period if the managing general partner so determines.

subordination period: The subordination period will generally extend from the closing of the initial public offering until the first to occur of:

(a) the first day of any quarter beginning after June 30, 2006, in the case of the senior subordinated units, or June 30, 2008, in the case of the junior subordinated units, for which:

(1) distributions of available cash from operating surplus on each of the outstanding common units, senior subordinated units and junior subordinated units equaled or exceeded the sum of the minimum quarterly distribution on all of the outstanding common units, senior subordinated units and junior subordinated units for each of the three consecutive non-overlapping four-quarter periods immediately preceding that date;

(2) the adjusted operating surplus generated during each of the three immediately preceding, non-overlapping four-quarter periods equaled or exceeded the sum of the minimum quarterly distribution on all of the common units, senior subordinated units and junior subordinated units that were outstanding during those periods on a fully-diluted basis, and the related distribution on the general partner interests in Inergy, L.P. and the operating company; and

(3) there are no outstanding cumulative common units arrearages.

(b) the date on which the managing general partner is removed as general partner of Inergy, L.P. upon the requisite vote by the limited partners under circumstances where cause does not exist and units held by the general partners and their affiliates are not voted in favor of the removal.

working capital borrowings: Borrowings exclusively for working capital purposes made pursuant to a credit facility or other arrangement requiring all borrowings thereunder to be reduced to a relatively small amount each year for an economically meaningful period of time.

## PRO FORMA AVAILABLE CASH FROM OPERATING SURPLUS

The following table shows the calculation of pro forma available cash from operating surplus for the year ended September 30, 2000 and the twelve months ended March 31, 2001, and represents the combined results of operations Inergy Partners, the Hoosier Propane Group and Country Gas, as adjusted for the offering. These results should be read in conjunction with "Cash Available for Distribution," the Inergy, L.P. Unaudited Pro Forma Consolidated Statement of Operations, the Inergy Partners Financial Statements, the Country Gas Company, Inc. Financial Statements, and the Hoosier Propane Group Financial Statements.

| | Year Ended September 30, 2000 | Twelve Months Ended March 31, 2001 |
|---|---|---|
| | (unaudited) (in thousands) | |
| Pro forma operating income | $4,732 | $13,094 |
| Add: | | |
| Pro forma depreciation and amortization | 7,689 | 7,825 |
| Pro forma other income | 419 | 514 |
| Pro forma Adjusted EBITDA(a) | 12,840 | 21,433 |
| Less: | | |
| Pro forma interest expense | (5,251) | (5,251) |
| Pro forma maintenance capital expenditures(b) | (1,234) | (1,445) |
| Pro forma available cash from operating surplus(c)(d)(e) | $6,355 | $14,737 |

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(a) "Adjusted EBITDA" shown in the table above is defined as operating income plus depreciation and amortization, other income and non-cash charges. Adjusted 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 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 Adjusted EBITDA provides additional information for evaluating our ability to make the minimum quarterly distribution and is presented solely as a supplemental measure. Adjusted EBITDA as we define it, may not be comparable to EBITDA or similarly titled measures used by other corporations or partnerships.

(b) We determined these amounts by combining actual amounts of maintenance capital expenditures for Inergy Partners, Country Gas and the Hoosier Propane Group.

(c) The pro forma adjustments in the pro forma financial statements are based upon currently available information and certain estimates and assumptions. The pro forma financial statements do not purport to present the financial position or results of operations of Inergy, L.P. had the acquisition of Country Gas and the Hoosier Propane Group and the transactions to be effected at the closing of this offering actually been completed as of the date indicated. Furthermore, the pro forma financial statements are based on accrual accounting concepts whereas available cash from operating surplus is defined in the partnership agreement on a cash accounting basis. As a consequence, the amount of pro forma cash available from operating surplus shown above should be viewed as a general indication of the amounts of available cash from operating surplus that may in fact have been generated by Inergy, L.P. had it been formed in earlier periods.

(d) Upon completion of the offering, we anticipate that we will incur incremental general and administrative expenses (e.g. costs associated with reports to unitholders, preparation of tax information for unitholders and investor relations) at an annual rate of approximately $500,000, which have not been included in the pro forma amounts above.

(e) The amount of available cash from operating surplus needed to pay the minimum quarterly distribution for four quarters on the common units and subordinated units to be outstanding immediately after this offering and on the 2% general partner interest is approximately:

| | Four Quarters (in thousands) |
|---|---|
| Common units | $ 3,600 |
| 2% general partner interest | 74 |
| Senior subordinated units | 7,952 |
| 2% general partner interest | 162 |
| Junior subordinated units | 1,374 |
| 2% general partner interest | 28 |
| Total | $13,190 |

Our pro forma available cash from operating surplus for the twelve months ended March 31, 2001 would have been sufficient to allow us to pay the minimum quarterly distribution on all of the common units, all of the senior subordinated units and all of the junior subordinated units. Our pro forma available cash from operating surplus for the fiscal year ended September 30, 2000 would have been sufficient to allow us to pay the minimum quarterly distribution on all of our common units and approximately 33% of the minimum quarterly distribution on the senior subordinated units and no distribution on the junior subordinated units.

You may rely on the information contained in this prospectus. We have not authorized anyone to provide information different from that contained in this prospectus. Neither the delivery of this prospectus nor sale of common stock means that information contained in this prospectus is correct after the date of this prospectus. This prospectus is not an offer to sell or solicitation of an offer to buy these shares of common stock in any circumstances under which the offer or solicitation is unlawful.

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Until , 2001, all dealers that buy, sell or trade our common units, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

1,500,000 Common Units

[Inergy, L.P. Logo]

Representing
Limited Partner Interests

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PROSPECTUS

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A.G. Edwards & Sons, Inc.

First Union Securities, Inc.

Raymond James

, 2001

PART II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

Item 13. Other Expenses Of Issuance And Distribution

Set forth below are the expenses (other than underwriting discounts and commissions) expected to be incurred in connection with the issuance and distribution of the securities registered hereby. With the exception of the Securities and Exchange Commission registration fee and the NASD filing fee, the amounts set forth below are estimates.

| | |
|---|---|
| Registration fee | $ 9,057 |
| NASD filing fee | 4,123 |
| Nasdaq Stock Market Listing Fee | 38,750 |
| Printing and engraving expenses | * |
| Fees and expenses of legal counsel | * |
| Accounting fees and expenses | * |
| Transfer agent and registrar fees | * |
| Miscellaneous | * |
| Total | * |

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*To be provided by amendment.

Item 14. Indemnification Of Directors And Officers.

The section of the Prospectus entitled "The Partnership Agreement--Indemnification" is incorporated herein by this reference. Reference is made to Section of the Underwriting Agreement filed as Exhibit 1.1 to the Registration Statement. Subject to any terms, conditions or restrictions set forth in the Partnership Agreement, Section 17-108 of the Delaware Revised Uniform Limited Partnership Act empowers a Delaware limited partnership to indemnify and hold harmless any partner or other person from and against all claims and demands whatsoever.

Item 16. Exhibits.

(a) The following documents are filed as exhibits to this registration statement:

| Exhibit Number | Description |
|---|---|
| **1.1 | --Form of Underwriting Agreement |
| *3.1 | --Certificate of Limited Partnership of Inergy, L.P. |
| **3.2 | --Form of Amended and Restated Agreement of Limited Partnership of Inergy, L.P. (included as Appendix A to the Prospectus) |
| **3.3 | --Certificate of Formation as relating to Inergy Propane, LLC, as amended |
| **3.4 | --Second Amended and Restated Limited Liability Company Agreement of Inergy Propane, LLC |
| **3.5 | --Certificate of Formation of Inergy GP, LLC |
| **3.6 | --Limited Liability Company Agreement of Inergy GP, LLC |
| **3.7 | --Certificate of Formation as relating to Inergy Partners, LLC, as amended |
| **3.8 | --Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, as amended |
| **4.1 | --Specimen Unit Certificate for Senior Subordinated Units |
| **4.2 | --Specimen Unit Certificate for Junior Subordinated Units |
| **4.3 | --Specimen Unit Certificate for Common Units |
| **5.1 | --Opinion of Vinson & Elkins L.L.P. as to the legality of the securities being registered |
| ***8.1 | --Opinion of Vinson & Elkins L.L.P. relating to tax matters |

| Exhibit Number | Description |
|---|---|
| ***10.1 | --$100 million Senior Secured Credit Facility |
| **10.2 | --Asset Purchase Agreement by and between Inergy Partners, LLC and Country Gas Company, Inc., dated as of May 20, 2000 |
| **10.3 | --Securities Purchase Agreement by and among Inergy Partners, LLC and various investors, dated as of January 12, 2001 |
| **10.4 | --Investor Rights Agreement by and among Inergy Partners, LLC and various investors, dated as of January 12, 2001. |
| **10.5 | --Asset Purchase Agreement by and among Inergy Partners, LLC and the Hoosier Group, dated as of September 8, 2000. |
| ***10.6 | --Long-Term Incentive Plan |
| ***10.7 | --Unit Purchase Plan |
| ***10.8 | --Employment Agreement--John J. Sherman |
| **10.9 | --Employment Agreement--Phillip L. Elbert |
| **10.10 | --Employment Agreement--R. Brooks Sherman Jr. |
| ***10.11 | --Employment Agreement--Carl A. Hughes |
| ***10.12 | --Employment Agreement--Michael D. Fox |
| ***10.13 | --Employment Agreement--William C. Gautreaux |
| *21.1 | --List of subsidiaries |
| **23.1 | --Consent of Ernst & Young LLP. |
| **23.2 | --Consent of Batchelor, Tillery & Roberts, LLP |
| **23.3 | --Consent of Vinson & Elkins L.L.P. (contained in Exhibit 5.1) |
| ***23.4 | --Consent of Vinson & Elkins L.L.P. (contained in Exhibit 8.1) |
| *24.1 | --Powers of Attorney (included on the signature page to the initial filing) |

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*Previously filed.

**Filed herewith.

***To be provided by amendment.

Item 17. Undertakings.

The undersigned Registrant hereby undertakes to provide at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purposes of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Amendment No. 1 to Registration Statement (No. 333-56976) to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Kansas City, State of Missouri, on May 4, 2001.

Inergy, L.P.

By: Inergy GP, LLC
its Managing General Partner

/s/ John J. Sherman
By: _____
Name: John J. Sherman
Title: President and Chief Executive Officer and Chairman of the Board

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 1 to Registration Statement (No. 333-56976) has been signed below by the officers and directors of Inergy GP, LLC, as managing general partner of Inergy, L.P., the registrant, in the capacities indicated on May 4, 2001.

| Signature | Title |
|---|---|
| /s/ John J. Sherman<br>John J. Sherman | President and Chief Executive Officer and Chairman of the Board (principal executive officer) |
| *<br>Phillip L. Elbert | Senior Vice President--Operations and Director |
| *<br>R. Brooks Sherman Jr. | Chief Financial Officer (principal accounting officer) |
| *<br>Richard C. Green, Jr. | Director |
| *<br>Warren H. Gfeller | Director |
| *<br>David J. Schulte | Director |

*By: /s/ John J. Sherman
Attorney-in-fact

INERGY, L.P.

INDEX TO FINANCIAL STATEMENT SCHEDULE

Inergy, L.P. Financial Statement Schedule for the Years Ended September 30, 1998, 1999 and 2000



All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

## REPORT OF INDEPENDENT AUDITORS

We have audited the consolidated financial statements of Inergy Partners, LLC as of September 30, 1999 and 2000, and the years then ended, and have issued our report thereon dated December 6, 2000, except for Notes 4 and 12, as to which the date is January 12, 2001, and Note 13, as to which the date is March 7, 2001, included elsewhere in this Registration Statement. Our audits also included the financial statement schedule listed in Item 16(b) of this Registration Statement. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Kansas City, Missouri

December 6, 2000

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Members

Inergy Partners, LLC and subsidiary:

We have audited the consolidated financial statements of Inergy Partners, LLC and subsidiary (the "Company") for the year ended September 30, 1998 and have issued our report thereon dated November 20, 1998 included elsewhere in this Registration Statement. Our audit also included the financial statement schedule listed in Item 16(b) of this Registration Statement for the year ended September 30, 1998. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audit.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Batchelor, Tillery & Roberts, LLP

Raleigh, North Carolina

November 20, 1998

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

INERGY PARTNERS, LLC AND SUBSIDIARIES

| Column A<br>Description | Column B<br>Balance at Beginning of Period | Column C<br>Additions-Charged to Costs and Expenses | Column C<br>Additions-Charged to Other Accounts-Describe | Column D<br>Deductions-Describe | Column E<br>Balance at End of Period |
|---|---|---|---|---|---|
| Year ended September 30, 2000: | | | | | |
| Deducted from asset account: | | | | | |
| Allowance for doubtful accounts..... | $86 | $139 | $20(2) | $20(1) | $225 |
| Year ended September 30, 1999: | | | | | |
| Deducted from asset account: | | | | | |
| Allowance for doubtful accounts..... | 9 | 77 | 0 | 0(1) | 86 |
| Year ended September 30, 1998: | | | | | |
| Deducted from asset account: | | | | | |
| Allowance for doubtful accounts..... | 25 | 28 | 0 | 44(1) | 9 |

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(1) Uncollectible accounts written off.

(2) Reserves assumed upon acquisition of Country Gas Company, Inc.

EXHIBIT 1.1

Draft May 3, 2001

1,500,000 Common Units

UNDERWRITING AGREEMENT

_____, 2001

A.G. Edwards & Sons, Inc.
First Union Securities, Inc.
Raymond James & Associates, Inc.
c/o A.G. Edwards & Sons, Inc.
One North Jefferson Avenue
St. Louis, Missouri 63103

The undersigned, Inergy, L.P., a Delaware limited partnership (the "PARTNERSHIP"), Inergy Propane, LLC, a Delaware limited liability company (the "OPERATING COMPANY"), New Inergy Propane, LLC, a Delaware limited liability company ("NEW PROPANE"), Inergy Partners, LLC, a Delaware limited liability company (the "NON-MANAGING GENERAL PARTNER"), Inergy GP, LLC, a Delaware limited liability company (the "MANAGING GENERAL PARTNER") (the Managing General Partner and the Non-Managing General Partner are sometimes collectively referred to herein as the "GENERAL PARTNERS"), Inergy Holdings, LLC, a Delaware limited liability company ("HOLDINGS"), Inergy Sales & Service, Inc., a Delaware corporation ("SERVICE SUB"), L&L Transportation, LLC, a Delaware limited liability company ("L&L TRANSPORTATION"), and Inergy Transportation, LLC, a Delaware limited liability company ("INERGY TRANSPORTATION") hereby address you as the "Underwriters" and hereby confirm their agreement with the several Underwriters as set forth below. The Partnership, the Operating Company, Service Sub, L&L Transportation, and Inergy Transportation are referred to as the "PARTNERSHIP GROUP." L&L Transportation and Inergy Transportation are sometimes collectively referred to herein as the "OPERATING SUBS." The Partnership, the Operating Company, New Propane, the General Partners, Holdings, Service Sub and the Operating Subs are referred to as the "INERGY PARTIES." The Inergy Parties, Wilson Oil Company of Johnston County, Inc., a North Carolina corporation ("WILSON"), and Rolesville Gas and Oil Company, Inc., a North Carolina corporation ("ROLESVILLE"), are collectively referred to herein as the "INERGY ENTITIES."

It is understood and agreed by all parties that the Partnership was formed to acquire, own and operate the business and assets of Holdings. The partnership agreement of the Partnership was adopted by the Managing General Partner, the Non-Managing General Partner, and Inergy Partners, LLC, in its capacity as the organizational limited partner of the Partnership (the "ORGANIZATIONAL LIMITED PARTNER"), on _____, 2001 (as the same may be amended or restated at or prior to the Closing Date, the "PARTNERSHIP

AGREEMENT"). The Partnership will operate its business through the Operating Company. The Operating Company will operate its business through itself, the Operating Subs and Service Sub. The Managing General Partner serves as the managing general partner of the Partnership. The Non-Managing General Partner serves as the non-managing general partner of the Partnership.

Prior to the date hereof, the Operating Company entered into a bank credit agreement (the "BANK CREDIT AGREEMENT") providing for a $75 million acquisition credit facility.

On the Closing Date, certain members of the Non-Managing General Partner, as disclosed on Schedule III hereto, will exchange their preferred interests in the Non-Managing General Partner for common interests therein pursuant to letter agreements entered into with each of them dated March 26, 2001 (the "NON-MANAGING GENERAL PARTNER EXCHANGE OFFER").

On the Closing Date, the Partnership, the General Partners, the Operating Company, Holdings, New Propane, Service Sub, L&L Transportation, Wilson, and Rolesville will enter into a Contribution and Conveyance Agreement (the "CONTRIBUTION AGREEMENT") pursuant to which the following transactions will occur:

(a) The Non-Managing General Partner will contribute to the Operating Company the wholesale assets owned by it and all other assets related to the propane business other than (i) $1.5 million in cash or cash equivalents and (ii) the stock of Wilson.

(b) The Non-Managing General Partner will contribute its interest in the Operating Company (other than a 1.0101% interest) to the Partnership in exchange for (i) a continuation of its 1% general partner interest, (ii) 3,135,831 senior subordinated units ("SENIOR SUBORDINATED UNITS") representing senior subordinated limited partner interests in the Partnership, (iii) 480,659 junior subordinated units ("JUNIOR SUBORDINATED UNITS") representing junior subordinated limited partner interests in the Partnership and (iv) the assumption by the Partnership of all liability for funded debt of the Non-Managing General Partner (the "DEBT").

(c) The Non-Managing General Partner will contribute 928,730 of its Senior Subordinated Units and all of its 480,659 Junior Subordinated Units to New Propane in exchange for 100% of the common interests in New Propane.

(d) Wilson will contribute its preferred interest in the Operating Company to New Propane in exchange for a similar preferred interest in New Propane [expand].

(e) Rolesville will contribute its preferred interest in the Operating Company to New Propane in exchange for a similar preferred interest in New Propane [expand].

(f) New Propane will contribute the preferred interests in the Operating Company that it received from Wilson and Rolesville to the Partnership in exchange for 177,536 Senior Subordinated Units and 91,883 Junior Subordinated Units.

(g) The public offering of the common units representing limited partner interests in the Partnership (the "COMMON UNITS") contemplated hereby will be consummated.

(h) The Partnership will contribute the proceeds received from the sale of the Common Units offered hereby to the Operating Company as a capital contribution to continue its ownership of a 100% interest in the Operating Company.

(i) The Managing General Partner will be admitted as a managing member of the Operating Company without any contribution and with no economic interest in the Operating Company.

(j) The Operating Company will use the cash received by it to pay transaction costs (estimated to be $___ million) and will use the balance of $___ million to retire a portion of the Debt.

(k) The Non-Managing General Partner will distribute the incentive distribution rights, as defined in the Partnership Agreement (the "INCENTIVE DISTRIBUTION RIGHTS"), to Holdings in redemption of a ___% interest in the Non-Managing General Partner.

(l) The Non-Managing General Partner will distribute 2,207,101 Senior Subordinated Units to the persons and entities listed on Schedule II in redemption of their interest in the Non-Managing General Partner.

(m) The Operating Company [and L&L Transportation] will contribute nonqualifying assets to Service Sub in exchange for stock of Service Sub and the assumption by Service Sub of any liabilities related to those businesses.

The Non-Managing General Partner Exchange Offer and the transactions described above in clauses (a) through (m) are referred to herein collectively as the "TRANSACTIONS." The exchanges described in (d) and (e) above are referred to herein as the "WILSON AND ROLESVILLE EXCHANGE." In connection with the Transactions, the parties to the Transactions have entered or will enter into various bills of sale, assignments, conveyances, contribution agreements and related documents (the "CONVEYANCES"). The Conveyances and the Contribution Agreement are collectively referred to herein as the "CONTRIBUTION DOCUMENTS."

1. DESCRIPTION OF COMMON UNITS. The Partnership proposes to issue and sell to the Underwriters 1,500,000 Common Units (the "FIRM UNITS"). Solely for the purpose of covering over-allotments in the sale of the Firm Units, the Partnership further proposes to grant to the Underwriters the right to purchase up to an additional 225,000 Common Units (the "OPTION

UNITS"), as provided in Section 3 of this Agreement. The Firm Units and the Option Units are herein sometimes referred to as the "UNITS" and are more fully described in the Prospectus hereinafter defined.

2. PURCHASE, SALE AND DELIVERY OF FIRM UNITS. On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Partnership agrees to sell to the Underwriters, and each such Underwriter agrees, severally and not jointly, (a) to purchase from the Partnership, pro rata, at a purchase price of $___ per share, the number of Firm Units set forth opposite the name of such Underwriter in Schedule I hereto and (b) to purchase from the Partnership any additional number of Option Units which such Underwriter may become obligated to purchase pursuant to Section 3 hereof.

Delivery of the Firm Units will be in book-entry form through the facilities of The Depository Trust Company, New York, New York ("DTC"). Delivery of the documents required by Section 6 hereof with respect to the Units shall be made prior to 11:00 a.m. on _____, 2001 at Vinson & Elkins LLP, 2300 First City Tower, 1001 Fannin, Houston, Texas 77002-6760 or at such other place as may be agreed upon between you and the Partnership (the "PLACE OF CLOSING"), or at such other time and date not later than five full business days thereafter as you and the Partnership may agree, such time and date of payment and delivery being herein called the "CLOSING DATE."

The Partnership will cause its transfer agent to deposit as original issue the Firm Units pursuant to the Full Fast Delivery Program of the DTC.

It is understood that an Underwriter, individually, may (but shall not be obligated to) make payment on behalf of the other Underwriters whose funds shall not have been received prior to the Closing Date for Units to be purchased by such Underwriter. Any such payment by an Underwriter shall not relieve the other Underwriters of any of their obligations hereunder.

It is understood that the Underwriters propose to offer the Units to the public upon the terms and conditions set forth in the Registration Statement hereinafter defined.

3. PURCHASE, SALE AND DELIVERY OF THE OPTION UNITS. The Partnership hereby grants an option to the Underwriters to purchase from the Partnership up to 225,000 Option Units, on the same terms and conditions as the Firm Units; provided, however, that such option may be exercised only for the purpose of covering any over-allotments that may be made by them in the sale of the Firm Units. No Option Units shall be sold or delivered unless the Firm Units previously have been, or simultaneously are, sold and delivered.

The option is exercisable by you at any time, and from time to time, before the expiration of 30 days from the date of the Prospectus (or, if such 30th day shall be a Saturday or Sunday or a holiday, on the next day thereunder when The Nasdaq National Market is open for trading), for

the purchase of all or part of the Option Units covered thereby, by notice given by you to the Partnership in the manner provided in Section 13 hereof, setting forth the number of Option Units as to which the Underwriters are exercising the option, and the date of delivery of said Option Units, which date shall not be more than five business days after such notice unless otherwise agreed to by the parties. You may terminate the option at any time, as to any unexercised portion thereof, by giving written notice to the Partnership to such effect.

You shall make such allocation of the Option Units among the Underwriters as may be required to eliminate purchases of fractional Units.

Delivery of the Option Units will be in book-entry form through the facilities of DTC. Delivery of the documents required by Section 6 hereof with respect to the Units shall be made prior to 11:00 a.m. on _____, 2001 at the Place of Closing, or at such other time and date as you and the Partnership may agree (which may be the same as the Closing Date), such time and date of payment and delivery being herein called the "OPTION CLOSING DATE." On the Option Closing Date, the Partnership shall provide the Underwriters such representations, warranties, agreements, opinions, letters, certificates and covenants with respect to the Option Units as are required to be delivered on the Closing Date with respect to the Firm Units.

The Partnership will cause its transfer agent to deposit as original issue the Option Units pursuant to the Full Fast Delivery Program of the DTC.

4. REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF THE INERGY PARTIES. The Inergy Parties jointly and severally represent and warrant to and agree with each Underwriter that:

(a) Definitions. A registration statement (Registration No. 333-56976) on Form S-1 with respect to the Units, including a preliminary prospectus, and such amendments to such registration statement as may have been required to the date of this Agreement, has been carefully prepared by the Partnership pursuant to and in conformity with the requirements of the Securities Act of 1933, as amended (the "1933 ACT"), and the rules and regulations thereunder (the "1933 ACT RULES AND REGULATIONS") of the Securities and Exchange Commission (the "SEC") and has been filed and declared effective by the SEC under the 1933 Act. Copies of such registration statement, including any amendments thereto, each related preliminary prospectus (meeting the requirements of Rule 430 or 430A of the 1933 Act Rules and Regulations) contained therein, and the exhibits, financial statements and schedules thereto have heretofore been delivered by the Partnership to you. A final prospectus containing information permitted to be omitted at the time of effectiveness by Rule 430A of the 1933 Act Rules and Regulations will be filed promptly by the Partnership with the SEC in accordance with Rule 424(b) of the 1933 Act Rules and Regulations. The term "REGISTRATION STATEMENT" as used herein means the registration statement as amended at the time it becomes

effective under the 1933 Act (the "EFFECTIVE DATE"), including financial statements and all exhibits and, if applicable, the information deemed to be included by Rule 430A of the 1933 Act Rules and Regulations. If it is contemplated, at the time this Agreement is executed, that a post-effective amendment to such registration statement will be filed and must be declared effective before the offering of Units may commence, the term "REGISTRATION STATEMENT" as used herein means the registration statement as amended by said post-effective amendment. If an abbreviated registration statement is prepared and filed with the SEC in accordance with Rule 462(b) or Rule 462(d) under the 1933 Act (an "ABBREVIATED REGISTRATION STATEMENT"), the term "REGISTRATION STATEMENT" as used in this Agreement includes the Abbreviated Registration Statement. The term "PROSPECTUS" as used herein means the prospectus as first filed with the SEC pursuant to Rule 424(b) of the 1933 Act Rules and Regulations. The term "PRELIMINARY PROSPECTUS" as used herein shall mean a preliminary prospectus as contemplated by Rule 430 or 430A of the 1933 Act Rules and Regulations included at any time in the Registration Statement. For purposes of this Agreement, the words "amend," "amendment," "amended," "supplement" or "supplemented" with respect to the Registration Statement or the Prospectus shall mean amendments or supplements to the Registration Statement or the Prospectus, as the case may be.

(b) No Material Misstatements or Omissions. Neither the SEC nor any state or other jurisdiction or other regulatory body has issued, and neither is, to the knowledge of the Inergy Parties, threatening to issue, any stop order under the 1933 Act or other order suspending the effectiveness of the Registration Statement (as amended or supplemented) or preventing or suspending the use of any Preliminary Prospectus or the Prospectus or suspending the qualification or registration of the Units for offering or sale in any jurisdiction nor instituted or, to the knowledge of the Inergy Parties, threatened to institute proceedings for any such purpose. Each Preliminary Prospectus at its date of issue, the Registration Statement and the Prospectus and any amendments or supplements thereto contain or will contain, as the case may be, all statements which are required to be stated therein by, and in all material respects conform or will conform, as the case may be, to the requirements of, the 1933 Act and the 1933 Act Rules and Regulations. Neither the Registration Statement nor any amendment thereto, as of the applicable effective date, contains or will contain, as the case may be, any untrue statement of a material fact or omits or will omit to state any material fact necessary to make the statements therein, not misleading, and neither any Preliminary Prospectus, the Prospectus nor any supplement thereto contains or will contain, as the case may be, any untrue statement of a material fact or omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the Partnership makes no representation or warranty as to information contained in or omitted from the Registration Statement or the Prospectus, or any such amendment or supplement, in reliance upon, and in conformity with, written information furnished to the Partnership relating to the Underwriters by or on behalf of

the Underwriters expressly for use in the preparation thereof (as provided in Section 14 hereof). Each of the statements made by the Partnership in such documents within the coverage of Rule 175(b) of the 1933 Act Rules and Regulations, including (but not limited to) any statements with respect to future available cash or future cash distributions of the Partnership or the anticipated ratio of taxable income to distributions was made or will be made with a reasonable basis and in good faith. There is no contract or document required to be described in the Registration Statement or Prospectus or to be filed as an exhibit to the Registration Statement which is not described or filed as required.

(c) Formation and Due Qualification of the Partnership. The Partnership has been duly formed and is validly existing in good standing as a limited partnership under the Delaware Revised Uniform Limited Partnership Act ("DELAWARE LP ACT") with full power and authority to own or lease its properties to be owned or leased at the Closing Date, to assume the liabilities being assumed by it pursuant to the Contribution Documents and to conduct its business to be conducted at the Closing Date in all material respects as described in the Registration Statement and the Prospectus. The Partnership is, or at the Closing Date will be, duly registered or qualified as a foreign limited partnership for the transaction of business under the laws of each jurisdiction in which the character of the business conducted by it or the nature or location of the properties owned or leased by it makes such registration or qualification necessary, except where the failure so to register or qualify would not (i) have a material adverse effect on the business, financial condition or results of operation of the Partnership Group, taken as a whole ("MATERIAL ADVERSE EFFECT"), or (ii) subject the limited partners of the Partnership to any material liability or disability.

(d) Formation and Due Qualification of Holdings, New Propane, the Operating Company and the Operating Subs. Each of Holdings, New Propane, the Operating Company and the Operating Subs has been duly formed and is validly existing in good standing as a limited liability company under the Delaware Limited Liability Company Act (the "DELAWARE LLC ACT") with full power and authority to own or lease its properties to be owned or leased at the Closing Date, to assume the liabilities being assumed by it pursuant to the Contribution Documents and to conduct its business to be conducted at the Closing Date, in each case in all material respects as described in the Registration Statement and the Prospectus. Each of Holdings, New Propane, the Operating Company and the Operating Subs is duly registered or qualified as a foreign limited liability company for the transaction of business under the laws of each jurisdiction in which the character of the business conducted by it or the nature or location of the properties owned or leased by it makes such registration or qualification necessary, except where the failure so to register or qualify would not (i) have a Material Adverse Effect or (ii) subject the limited partners of the Partnership to any material liability or disability.

(e) Formation and Due Qualification of the General Partners. Each of the General Partners has been duly formed and is validly existing in good standing as a limited liability company under the Delaware LLC Act with full power and authority to own or lease its properties to be owned or leased at the Closing Date, to conduct its business to be conducted at the Closing Date and to act as a general partner of the Partnership and to own membership interests or have management rights, as the case may be, of the Operating Company, in each case in all material respects as described in the Registration Statement and the Prospectus. Each of the General Partners is duly registered or qualified as a foreign limited liability company for the transaction of business under the laws of each jurisdiction in which the character of the business conducted by it or the nature or location of the properties owned or leased by it makes such registration or qualification necessary, except where the failure so to register or qualify would not (i) have a Material Adverse Effect or (ii) subject the limited partners of the Partnership to any material liability or disability.

(f) Formation and Due Qualification of Service Sub. Service Sub has been duly incorporated and is validly existing in good standing under the Delaware General Corporation Law ("DGCL") with full power and authority to own or lease its properties to be owned or leased at the Closing Date and to conduct its business to be conducted at the Closing Date, in all material respects as described in the Registration Statement and the Prospectus. Service Sub is duly registered or qualified as a foreign corporation for the transaction of business under the laws of each jurisdiction in which the character of the business conducted by it or the nature or location of the properties owned or leased by it makes such registration or qualification necessary, except where the failure so to register or qualify would not (i) have a Material Adverse Effect or (ii) subject the limited partners of the Partnership to any material liability or disability.

(g) Ownership of the General Partner Interests in the Partnership. At the Closing Date and the Option Closing Date, after giving effect to the Transactions, the Managing General Partner and the Non-Managing General Partner will be the sole general partners of the Partnership. The Non-Managing General Partner will own a 2% general partner interest and the Managing General Partner will own a non-economic, managing general partner interest; such general partner interests will be duly authorized and validly issued in accordance with the Partnership Agreement; and each General Partner will own its general partner interest free and clear of all liens, encumbrances, security interests, equities, charges or claims.

(h) Ownership of the Sponsor Units and the Incentive Distribution Rights. At the Closing Date and the Option Closing Date, after giving effect to the Transactions, (i) New Propane will own 1,106,266 Senior Subordinated Units and 572,542 Junior Subordinated Units, (ii) the persons and entities listed on Schedule II will collectively own 2,207,101 Senior Subordinated Units in the amounts shown on such Schedule II and

(iii) Holdings will own all of the Incentive Distribution Rights; all of such Senior Subordinated Units, Junior Subordinated Units (the Senior Subordinated Units and the Junior Subordinated Units are sometimes collectively referred to herein as the "SPONSOR UNITS") and Incentive Distribution Rights and the limited partner interests represented thereby will be duly authorized and validly issued in accordance with the Partnership Agreement, and will be fully paid (to the extent required under the Partnership Agreement) and nonassessable (except as such nonassessability may be affected by matters described in the Prospectus under the caption "The Partnership Agreement--Limited Liability"); and New Propane will own its Sponsor Units and Holdings will own its Incentive Distribution Rights free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus), security interests, charges or claims.

(i) Valid Issuance of the Firm Units. At the Closing Date, there will be issued to the Underwriters the Firm Units (assuming no purchase by the Underwriters of Additional Units); at the Closing Date or the Option Closing Date, as the case may be, the Firm Units or the Additional Units, as the case may be, and the limited partner interests represented thereby, will be duly authorized by the Partnership Agreement and, when issued and delivered to the Underwriters against payment therefor in accordance with the terms hereof, will be validly issued, fully paid (to the extent required under the Partnership Agreement) and nonassessable (except as such nonassessability may be affected by matters described in the Prospectus under the caption "The Partnership Agreement--Limited Liability"); and other than the Sponsor Units and the Incentive Distribution Rights, the Units will be the only limited partner interests of the Partnership issued and outstanding at the Closing Date or the Option Closing Date.

(j) Ownership of the Membership Interests in the Operating Company. At the Closing Date and the Option Closing Date, after giving effect to the Transactions, the Partnership will own a 100% membership interest in the Operating Company; such membership interest will be duly authorized and validly issued in accordance with the limited liability company agreement of the Operating Company (the "OPERATING COMPANY LLC AGREEMENT") and will be fully paid (to the extent required under the Operating Company LLC Agreement) and nonassessable (except as such nonassessability may be affected by Section 18-607 of the Delaware LLC Act); and the Partnership will own its membership interest free and clear of all liens, encumbrances, security interests, equities, charges or claims.

(k) Ownership of Service Sub. At the Closing Date and the Option Closing Date, after giving effect to the Transactions, (i) the Operating Company will own ___%

of the issued and outstanding capital stock of Service Sub and (ii) L&L Transportation will own ___% of the issued and outstanding capital stock of Service Sub; such capital stock will be duly authorized and validly issued and will be fully paid and nonassessable; and the Operating Company and L&L Transportation will own such capital stock free and clear of all liens, encumbrances, security interests, equities, charges or claims.

(l) Ownership of the Operating Subs. At the Closing Date and the Option Closing Date, after giving effect to the Transactions, the Operating Company will own a 100% membership interest in each of the Operating Subs; such membership interests will be duly authorized and validly issued in accordance with the limited liability company agreements of the Operating Subs (as the same may be amended or restated at or prior to the Closing Date, the "OPERATING SUBS LLC AGREEMENTS") and will be fully paid (to the extent required under the Operating Subs LLC Agreements) and nonassessable (except as such nonassessability may be affected by Section 18-607 of the Delaware LLC Act); and the Operating Company will own such membership interests free and clear of all liens, encumbrances, security interest, equities, charges or claims.

(m) Ownership of New Propane. At the Closing Date and the Option Closing Date, after giving effect to the Transactions, the Non-Managing General Partner will own a 100% common membership interest in New Propane, Wilson will own ___% of the preferred membership interests in New Propane, and Rolesville will own ___% of the preferred membership interests in New Propane; such membership interests will be duly authorized and validly issued in accordance with New Propane's limited liability company agreement (as the same may be amended or restated at or prior to the Closing Date, the "NEW PROPANE LLC AGREEMENT") and will be fully paid (to the extent required under the New Propane LLC Agreement) and nonassessable (except as such nonassessability may be affected by Section 18-607 of the Delaware LLC Act); and the Non-Managing General Partner, Wilson and Rolesville will own such membership interests free and clear of all liens, encumbrances, security interests, equities, charges or claims.

(n) Ownership of the Managing General Partner. At the Closing Date and the Option Closing Date, after giving effect to the Transactions, Holdings will own 100% of the issued and outstanding membership interests of the Managing General Partner; such membership interests will be duly authorized and validly issued and will be fully paid and nonassessable; and Holdings will own such membership interests free and clear of all liens, encumbrances, security interests, equities, charges or claims.

(o) Ownership of the Non-Managing General Partner. Holdings will own ____% of the issued and outstanding common membership interests in the Non-Managing General Partner. The persons and entities listed on Schedule III will collectively own ____% of the issued and outstanding common membership interests and

100% of the issued and outstanding preferred membership interests of the Non-Managing General Partner; such membership interests will be duly authorized and validly issued and will be fully paid and nonassessable; and Holdings will own its membership interests free and clear of all liens, encumbrances, security interests, equities, charges or claims.

(p) No Other Subsidiaries. Other than the Partnership's ownership of its membership interest in the Operating Company and the Operating Company's ownership of its membership interest in the Operating Subs and its shares of capital stock of Service Sub, neither the Partnership nor the Operating Company own, and at the Closing Date and the Option Closing Date, neither will own, directly or indirectly, any equity or long-term debt securities of any corporation, partnership, limited liability company, joint venture, association or other entity. Other than its ownership of its partnership interests in the Partnership and its membership interests in the Operating Company and New Propane, the Non-Managing General Partner does not own, and at the Closing Date and the Option Closing Date will not own, directly or indirectly, any equity or long-term debt securities of any corporation, partnership, limited liability company, joint venture, association or other entity. Other than its ownership of its partnership interests in the Partnership and its membership interests in the Operating Company, the Managing General Partner does not own, and at the Closing Date and the Option Closing Date will not own, directly or indirectly, any equity or long-term debt securities of any corporation, partnership, limited liability company, joint venture, association or other entity.

(q) No Preemptive Rights, Registration Rights or Options. Except as described in the Prospectus, there are no preemptive rights or other rights to subscribe for or to purchase, nor any restriction upon the voting or transfer of, (i) any limited partner interests of the Partnership, (ii) any membership interests of the General Partners, the Operating Company, New Propane or the Operating Subs or (iii) any shares of Service Sub, in each case pursuant to the partnership agreement or limited liability company agreement of such entity (collectively, the "ORGANIZATIONAL AGREEMENTS") or the certificates of incorporation, bylaws and other organizational documents (together with the Organization Agreements, the "ORGANIZATIONAL DOCUMENTS") or any other agreement or instrument to which any of such entities is a party or by which any one of them may be bound. Neither the filing of the Registration Statement nor the offering or sale of the Units as contemplated by this Agreement gives rise to any rights for or relating to the registration of any Units or other securities of the Partnership or any of its subsidiaries, other than as have been waived. Except as described in the Prospectus, there are no outstanding options or warrants to purchase (A) any Common Units, Sponsor Units or Incentive Distribution Rights or other interests in the Partnership, (B) any membership interests in the General Partners, the Operating Company, New Propane or the Operating Subs or (C) any shares of Service Sub.

(r) Authority and Authorization. The Partnership has all requisite power and authority to issue, sell and deliver (i) the Units, in accordance with and upon the terms and conditions set forth in this Agreement, the Partnership Agreement and the Registration Statement and the Prospectus and (ii) the Sponsor Units and Incentive Distribution Rights, in accordance with and upon the terms and conditions set forth in the Partnership Agreement and the Contribution Documents. At the Closing Date and the Option Closing Date, all corporate, partnership and limited liability company action, as the case may be, required to be taken by the Inergy Parties, Wilson and Rolesville or any of their stockholders, members or partners for the authorization, issuance, sale and delivery of the Units, the Sponsor Units and Incentive Distribution Rights, the execution and delivery of the Operative Agreements (as defined in Section 4(t)) and the consummation of the transactions (including the Transactions) contemplated by this Agreement and the Operative Agreements (as defined in Section 4(t)), shall have been validly taken.

(s) Enforceability of the Underwriting Agreement. This Agreement has been duly executed and delivered by each of the Inergy Parties, and constitutes the valid and legally binding agreement of each of the Inergy Parties, enforceable against each of the Inergy Parties in accordance with its terms, provided that the enforceability thereof may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); provided, further, that the indemnity and contribution provisions hereunder may be limited by federal or state securities laws.

(t) Enforceability of Other Agreements. At or before the Closing Date:

i. The Partnership Agreement will have been duly authorized, executed and delivered by the General Partners and the Organizational Limited Partner and will be a valid and legally binding agreement of the General Partners and the Organizational Limited Partner, enforceable against the General Partners and the Organizational Limited Partner in accordance with its terms;

ii. The Non-Managing General Partner's LLC Agreement will have been duly authorized, executed and delivered by Holdings and the persons and entities listed on Schedule III and will be a valid and legally binding agreement of Holdings and

the persons and entities listed on Schedule III, enforceable against each of them in accordance with its terms;

iii. Each of the Contribution Documents will have been duly authorized, executed and delivered by the parties thereto and will be valid and legally binding agreements of the parties thereto enforceable against such parties in accordance with their respective terms;

iv. The Bank Credit Agreement will have been duly authorized, executed and delivered by the Operating Company and will be a valid and legally binding agreement of the Operating Company enforceable against the Operating Company in accordance with its terms;

provided that, with respect to each agreement described in this Section 4(t), the enforceability thereof may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and provided, further, that the indemnity, contribution and exoneration provisions contained in any of such agreements may be limited by applicable laws and public policy. The Partnership Agreement, the Non-Managing General Partner LLC Agreement, the Contribution Documents and the Bank Credit Agreement are herein collectively referred to as the "OPERATIVE AGREEMENTS."

(u) No Conflicts. None of the offering, issuance and sale by the Partnership of the Units, the execution, delivery and performance of this Agreement or the Operative Agreements by the Inergy Entities which are parties thereto, or the consummation of the transactions contemplated hereby and thereby (including the Transactions) (i) conflicted, conflicts or will conflict with or constituted, constitutes or will constitute a violation of the Organizational Documents, (ii) conflicted, conflicts or will conflict with or constituted, constitutes or will constitute a breach or violation of, or a default (or an event which, with notice or lapse of time or both, would constitute such a default) under any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which any of the Inergy Entities is a party or by which any of them or any of their respective properties may be bound, (iii) violated, violates or will violate any statute, law or regulation or any order, judgment, decree or injunction of any court or governmental agency or body directed to any of the Inergy Entities or any of their properties in a proceeding to which any of them or their property is a party or (iv) resulted, results or will result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of any of the Inergy Entities, which conflicts, breaches, violations or defaults, in the case of clauses (ii), (iii) or (iv), would, individually or in the aggregate, have a Material Adverse Effect.

(v) No Consents. No permit, consent, approval, authorization, order, registration, filing or qualification ("consent") of or with any court, governmental agency or body is required for the offering, issuance and sale by the Partnership of the Units, the execution, delivery and performance of this Agreement and the Operative Agreements by the Inergy Entities party thereto, or the consummation by the Inergy Entities of the transactions contemplated by this Agreement or the Operative Agreements (including the Transactions), except (i) for such consents required under the Securities Act, the Exchange Act and state securities or "Blue Sky" laws, (ii) for such consents which have been, or prior to the Closing Date will be, obtained, and (iii) for such consents which, if not obtained, would not, individually or in the aggregate, have a Material Adverse Effect.

(w) No Default. None of the Inergy Entities is in (i) violation of its Organizational Documents, or of any law, statute, ordinance, administrative or governmental rule or regulation applicable to it or of any decree of any court or governmental agency or body having jurisdiction over it or (ii) breach, default (or an event which, with notice or lapse of time or both, would constitute such a default) or violation in the performance of any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or in any agreement, indenture, lease or other instrument to which it is a party or by which it or any of its properties may be bound, which breach, default or violation, in the case of clause (ii), would, if continued, have a Material Adverse Effect or could materially impair the ability of any of the Inergy Entities to perform their obligations under this Agreement or the Operative Agreements. To the knowledge of the Inergy Parties, no third party to any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which any of the Inergy Entities is a party or by which any of them is bound or to which any of their properties is subject, is in default under any such agreement, which breach, default or violation would, if continued, have a Material Adverse Effect.

(x) Conformity of Securities to Descriptions in the Prospectus. The Units, when issued and delivered against payment therefor as provided herein, and the Sponsor Units and the Incentive Distribution Rights, when issued and delivered in accordance with the terms of the Partnership Agreement, will conform in all material respects to the descriptions thereof contained in the Prospectus.

(y) Independent Public Accountants. The accountants, Ernst & Young LLP, who have certified or shall certify the audited financial statements included in the Registration Statement and the Prospectus (or any amendment or supplement thereto), are independent public accountants with respect to the Partnership and the General Partners as required by the Act and the applicable published rules and regulations thereunder.

(y) Financial Statements. At March 31, 2001, the Partnership would have had, on the consolidated pro forma basis indicated in the Prospectus (and any amendment or supplement thereto), a capitalization as set forth therein. The historical financial statements (including the related notes and supporting schedules) included in the Registration Statement and the Prospectus (and any amendment or supplement thereto) present fairly in all material respects the financial position, results of operations and cash flows of the entities purported to be shown thereby on the basis stated therein at the respective dates or for the respective periods to which they apply and have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved, except to the extent disclosed therein. The selected historical and pro forma information set forth in the Registration Statement and the Prospectus (and any amendment or supplement thereto) under the captions "Selected Historical and Pro Forma Financial and Operating Data" and "Selected Historical Financial and Operating Data" is accurately presented in all material respects and prepared on a basis consistent with the audited and unaudited historical consolidated financial statements and pro forma financial statements from which it has been derived. The pro forma financial statements of the Partnership included in the Registration Statement and the Prospectus (and any amendment or supplement thereto) have been prepared in all material respects in accordance with the applicable accounting requirements of Article 11 of Regulation S-X of the Commission; the assumptions used in the preparation of such pro forma financial statements are, in the opinion of the management of the Managing General Partner, reasonable; and the pro forma adjustments reflected in such pro forma financial statements have been properly applied to the historical amounts in compilation of such pro forma financial statements.

(z) No Material Adverse Change. None of the Inergy Parties has sustained since the date of the latest audited financial statements included in the Registration Statement and the Prospectus any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, investigation, order or decree, otherwise than as set forth or contemplated in the Registration Statement and the Prospectus. Except as disclosed in the Registration Statement and the Prospectus (or any amendment or supplement thereto), subsequent to the respective dates as of which such information is given in the Registration Statement and the Prospectus (or any amendment or supplement thereto), (i) none of the Inergy Parties has incurred any liability or obligation, indirect, direct or contingent, or entered into any transactions, not in the ordinary course of business, that, singly or in the aggregate, is material to the Partnership Group, (ii) there has not been any material change in the capitalization, or material increase in the short-term debt or long-term debt, of the Inergy Parties and (iii) there has not been any material adverse change, or any development involving or which may reasonably be expected to involve, singly or in the aggregate, a prospective material adverse change in or affecting the general affairs, business, prospects, properties, management, condition (financial or

other), partners' capital, stockholders' equity, net worth or results of operations of the Partnership Group.

(aa) Legal Proceedings or Contracts to be Described or Filed. There are no legal or governmental proceedings pending or, to the knowledge of the Inergy Parties, threatened, against any of the Inergy Parties, or to which any of the Inergy Parties is a party, or to which any of their respective properties is subject, that are required to be described in the Registration Statement or the Prospectus but are not described as required, and there are no agreements, contracts, indentures, leases or other instruments that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required by the Act.

(bb) Title to Properties. Upon consummation of the Transactions on the Closing Date, the Operating Company, Service Sub and the Operating Subs will have good and indefeasible title to all real property and good title to all personal property described in the Prospectus to be owned by the Operating Company, Service Sub and the Operating Subs, free and clear of all liens, claims, security interests or other encumbrances except (i) as described in the Prospectus and (ii) such as do not materially interfere with the use of such properties taken as a whole as they have been used in the past and are proposed to be used in the future as described in the Registration Statement and the Prospectus. Upon consummation of the Transactions on the Closing Date, all real property and buildings held under lease or license by the Operating Company, Service Sub and the Operating Subs will be held by the Operating Company, Service Sub and the Operating Subs under valid and subsisting and enforceable leases or licenses with such exceptions as do not materially interfere with the use of such properties taken as a whole as they have been used in the past and are proposed to be used in the future as described in the Registration Statement and the Prospectus.

(cc) Sufficiency of Contribution Documents. The Contribution Documents were, or as of the Closing Date will be, legally sufficient to transfer or convey to the Operating Company, Service Sub and the Operating Subs all properties not already held by them that are, individually or in the aggregate, required to enable the Operating Company, Service Sub and the Operating Subs to conduct their operations (in all material respects as contemplated by the Registration Statement and the Prospectus), subject to the conditions, reservations and limitations contained in the Contribution Documents and those set forth in the Registration Statement and the Prospectus. The Operating Company, Service Sub and the Operating Subs, upon execution and delivery of the Contribution Documents, succeeded or will succeed in all material respects to the business, assets, properties, liabilities and operations reflected by the pro forma financial statements of the Partnership, except as disclosed in the Prospectus and the Contribution Documents.

(dd) Permits. Each of the Operating Company, Service Sub and the Operating Subs has, or at the Closing Date will have, such permits, consents, licenses, franchises, certificates and authorizations of governmental or regulatory authorities ("permits") as are necessary to own its properties and to conduct its business in the manner described in the Prospectus, subject to such qualifications as may be set forth in the Registration Statement and the Prospectus and except for such permits which, if not obtained, would not, individually or in the aggregate, have a Material Adverse Effect; each of the Operating Company, Service Sub and the Operating Subs has, or at the Closing Date will have, fulfilled and performed all its material obligations with respect to such permits which are due to have been fulfilled and performed by such date and no event has occurred which allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any impairment of the rights of the holder of any such permit, except for such revocations, terminations and impairments that would not, individually or in the aggregate, have a Material Adverse Effect, subject in each case to such qualification as may be set forth in the Registration Statement and the Prospectus; and, except as described in the Registration Statement and the Prospectus, none of such permits contains any restriction that is materially burdensome to the Partnership Group taken as a whole.

(ee) Books and Records. The Partnership (i) makes and keeps books, records and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets and (ii) maintains systems of internal accounting controls sufficient to provide reasonable assurances that (A) transactions are executed in accordance with management's general or specific authorization; (B) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (C) access to assets is permitted only in accordance with management's general or specific authorization; and (D) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(ff) Tax Returns. Each of the Inergy Parties has filed (or has obtained extensions with respect to) all material federal, state and foreign income and franchise tax returns required to be filed through the date hereof, which returns are complete and correct in all material respects, and has timely paid all taxes shown to be due pursuant to such returns, other than those which are being contested in good faith and for which adequate reserves have been established in accordance with generally accepted accounting principles. There are no tax returns of any of the Inergy Parties that are currently being audited by federal, state or local taxing authorities or with respect to which the Inergy Parties have received notice from such authorities that such an audit is being contemplated, which, if adversely determined, would reasonably be likely to result

in a Material Adverse Effect or would subject the Partnership or the limited partners of the Partnership to any material liability or disability.

(gg) ERISA. With respect to each employee benefit plan, program and arrangement, including, without limitation, any "employee benefit plan" as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), maintained or contributed to by the Inergy Parties, or with respect to which the Partnership could incur any liability under ERISA (collectively, the "Benefit Plans"), no event has occurred, in connection with which the Partnership could be subject to any liability under the terms of such Benefit Plan, applicable law (including, without limitation, ERISA and the Internal Revenue Code of 1986, as amended) or any applicable agreement that would reasonably be likely to result in a Material Adverse Effect or would subject the Partnership or the limited partners of the Partnership to any material liability or disability.

(hh) Investment Company/Public Utility Holding Company. None of the Inergy Entities is now, and after sale of the Units to be sold by the Partnership hereunder and application of the net proceeds from such sale as described in the Prospectus under the caption "Use of Proceeds," none of the Inergy Entities will be, (i) an "investment company" or a company "controlled by" an "investment company" within the meaning of the Investment Company Act of 1940, as amended, (ii) a "public utility company," "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" thereof, under the Public Utility Holding Company Act of 1935, as amended.

(ii) No Environmental Problems. The Inergy Entities (i) are in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety and the environment or imposing liability or standards of conduct concerning any Hazardous Material (as hereinafter defined) ("Environmental Laws"), (ii) have received all permits required of them under applicable Environmental Laws to conduct their respective businesses and (iii) are in compliance with all terms and conditions of any such permit, except where such noncompliance with Environmental Laws, failure to receive required permits, or failure to comply with the terms and conditions of such permits would not, individually or in the aggregate, have a Material Adverse Effect. The term "Hazardous Material" means (A) any "hazardous substance" as defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, (B) any "hazardous waste" as defined in the Resource Conservation and Recovery Act, as amended, (C) any petroleum or petroleum product, (D) any polychlorinated biphenyl and (E) any pollutant or contaminant or hazardous, dangerous or toxic chemical, material, waste or substance regulated under or within the meaning of any other Environmental Law.

(jj) Environmental Costs. In the ordinary course of business, the Inergy Entities conduct a periodic review of the effect of Environmental Laws on the business, operations and properties of the Inergy Entities, in the course of which they identify and evaluate associated costs and liabilities (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with Environmental Laws or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties). Except as set forth in the Registration Statement and the Prospectus, there are no costs and liabilities associated with or arising in connection with Environmental Laws as currently in effect (including, without limitation, costs of compliance therewith) which would, individually or in the aggregate, reasonably be likely to result in a Material Adverse Effect.

(kk) No Labor Dispute. The Inergy Entities are in compliance with all federal, state and local employment and labor laws, including, but not limited to, laws relating to non-discrimination in hiring, promotion and pay of employees; no labor dispute with the employees of the Inergy Entities exists or, to the knowledge of the Inergy Parties, is imminent or threatened; and none of the Inergy Parties is aware of any existing, imminent or threatened labor disturbance by the employees of any of its principal suppliers, manufacturers or contractors which would, individually or in the aggregate, reasonably likely to result in a Material Adverse Effect.

(ll) Insurance. The Inergy Entities maintain insurance covering their properties, operations, personnel and businesses against such losses and risks as are reasonably adequate to protect them and their businesses in a manner consistent with other businesses similarly situated. None of the Inergy Entities has received notice from any insurer or agent of such insurer that substantial capital improvements or other expenditures will have to be made in order to continue such insurance, and all such insurance is outstanding and duly in force on the date hereof and will be outstanding and duly in force on the Closing Date.

(mm) Litigation. Except as described in the Prospectus, there is (i) no action, suit or proceeding before or by any court, arbitrator or governmental agency, body or official, domestic or foreign, now pending or, to the knowledge of the Inergy Parties, threatened, to which any of the Inergy Entities is or may be a party or to which the business or property of any of the Inergy Entities is or may be subject, (ii) no statute, rule, regulation or order that has been enacted, adopted or issued by any governmental agency or proposed by any governmental agency and (iii) no injunction, restraining order or order of any nature issued by a federal or state court or foreign court of competent jurisdiction to which any of the Inergy Entities is or may be subject, that, in the case of clauses (i), (ii) and (iii) above, is reasonably likely to (A) individually or in the aggregate have a Material Adverse Effect, (B) prevent or result in the suspension of the offering and issuance of the

Units, or (C) in any manner draw into question the validity of this Agreement or any Operative Agreement.

(nn) Private Placement. The sale and issuance of the Sponsor Units to New Propane and the persons and entities listed on Schedule II and the Incentive Distribution Rights to Holdings pursuant to the Partnership Agreement are exempt from the registration requirements of the Act and the securities laws of any state having jurisdiction with respect thereto, and none of the Inergy Entities has taken or will take any action that would cause the loss of such exemption. The Non-Managing General Partner Exchange Offer is exempt from the registration requirements of the 1933 Act and the securities laws of any state having jurisdiction with respect thereto, and none of the Inergy Entities has taken or will take any action that would cause the loss of such exemption. The Wilson and Rolesville Exchange is exempt from the registration requirements of the Act and the securities laws of any state having jurisdiction with respect thereto, and none of the Inergy Entities has taken or will take any action that would cause the loss of such exemption.

(oo) No Distribution of Other Offering Materials. The Inergy Entities have not distributed and, prior to the later to occur of (i) the Closing Date and (ii) completion of the distribution of the Units, will not distribute, any prospectus (as defined under the Act) in connection with the offering and sale of the Units other than the Registration Statement, any Prepricing Prospectus, the Prospectus or other materials, if any, permitted by the Act, including Rule 134 of the general rules and regulations thereunder.

(pp) Listing. The Units have been approved for quotation on the Nasdaq National Market, subject only to official notice of issuance.

Any certificate signed by any officer of any Inergy Party and delivered to you or to counsel for the Underwriters shall be deemed a representation and warranty by such Inergy Party to each Underwriter as to the matters covered thereby.

5. ADDITIONAL COVENANTS. The Inergy Parties covenant and agree with the several Underwriters that:

(a) The Partnership will timely transmit copies of the Prospectus, and any amendments or supplements thereto, to the SEC for filing pursuant to Rule 424(b) of the 1933 Act Rules and Regulations.

(b) The Partnership will deliver to each of the Underwriters, and to counsel for the Underwriters (i) a signed copy of the Registration Statement as originally filed, including copies of exhibits thereto, of any amendments and supplements to the Registration Statement and (ii) a signed copy of each consent and certificate included in, or filed as an exhibit to, the Registration

Statement as so amended or supplemented; the Partnership will deliver to the Underwriters as soon as practicable after the date of this Agreement as many copies of the Prospectus as the Underwriters may reasonably request for the purposes contemplated by the 1933 Act; if the Registration Statement is not effective under the 1933 Act, the Partnership will use its best efforts to cause the Registration Statement to become effective as promptly as possible, and it will notify you, promptly after it shall receive notice thereof, of the time when the Registration Statement has become effective; the Partnership will promptly advise the Underwriters of any request of the SEC for amendment of the Registration Statement or for supplement to the Prospectus or for any additional information, and of the issuance by the SEC or any state or other jurisdiction or other regulatory body of any stop order under the 1933 Act or other order suspending the effectiveness of the Registration Statement (as amended or supplemented) or preventing or suspending the use of any Preliminary Prospectus or the Prospectus or suspending the qualification or registration of the Units for offering or sale in any jurisdiction, and of the institution or threat of any proceedings therefor, of which the Partnership shall have received notice or otherwise have knowledge prior to the completion of the distribution of the Units; and the Partnership will use its best efforts to prevent the issuance of any such stop order or other order and, if issued, to secure the prompt removal thereof.

(c) The Partnership will not file any amendment or supplement to the Registration Statement, the Prospectus (or any other prospectus relating to the Units filed pursuant to Rule 424(b) of the 1933 Act Rules and Regulations that differs from the Prospectus as filed pursuant to such Rule 424(b)), of which the Underwriters shall not previously have been advised and furnished with a copy or to which the Underwriters shall have reasonably objected or which is not in compliance with the 1933 Act Rules and Regulations; and the Partnership will promptly notify you after it shall have received notice thereof of the time when any amendment to the Registration Statement becomes effective or when any supplement to the Prospectus has been filed.

(d) During the period when a prospectus relating to any of the Units is required to be delivered under the 1933 Act by any Underwriter or dealer, the Partnership will comply, at its own expense, with all requirements imposed by the 1933 Act and the 1933 Act Rules and Regulations, as now and hereafter amended, and by the rules and regulations of the SEC thereunder, as from time to time in force, so far as necessary to permit the continuance of sales of or dealing in the Units during such period in accordance with the provisions hereof and as contemplated by the Prospectus.

(e) If, during the period when a prospectus relating to any of the Units is required to be delivered under the 1933 Act by any Underwriter or dealer, (i) any event relating to or affecting the Partnership or of which the Partnership shall be advised in writing by the Underwriters shall occur as a result of which, in the opinion of the Partnership or the Underwriters, the Prospectus as then amended or supplemented would include any untrue statement of a material fact or omit to state a material fact necessary in order to make the

statements therein, in the light of the circumstances under which they were made, not misleading or (ii) it shall be necessary to amend or supplement the Registration Statement or the Prospectus to comply with the 1933 Act, the 1933 Act Rules and Regulations, the 1934 Act or the 1934 Act Rules and Regulations, the Partnership will forthwith at its expense prepare and file with the SEC, and furnish to the Underwriters a reasonable number of copies of, such amendment or supplement or other filing that will correct such statement or omission or effect such compliance.

(f) During the period when a prospectus relating to any of the Units is required to be delivered under the 1933 Act by any Underwriter or dealer, the Partnership will furnish such proper information as may be lawfully required and otherwise cooperate in qualifying the Units for offer and sale under the securities or blue sky laws of such jurisdictions as the Underwriters may reasonably designate and will file and make in each year such statements or reports as are or may be reasonably required by the laws of such jurisdictions; provided, however, that the Partnership shall not be required to qualify as a foreign corporation or to qualify as a dealer in securities or to file a general consent to service of process under the laws of any jurisdiction.

(g) In accordance with Section 11(a) of the 1933 Act and Rule 158 of the 1933 Act Rules and Regulations, the Partnership will make generally available to its security holders and to holders of the Units, as soon as practicable, an earning statement (which need not be audited) in reasonable detail covering the 12 months beginning not later than the first day of the month next succeeding the month in which occurred the effective date (within the meaning of Rule 158) of the Registration Statement.

(h) The Partnership will furnish to its security holders annual reports containing financial statements audited by independent public accountants and quarterly reports containing financial statements and financial information which may be unaudited. The Partnership will, for a period of five years from the Closing Date, deliver to the Underwriters at their principal executive offices a reasonable number of copies of annual reports, quarterly reports, current reports and copies of all other documents, reports and information furnished by the Partnership to holders of Units or filed with any securities exchange or market pursuant to the requirements of such exchange or market or with the SEC pursuant to the 1933 Act or the 1934 Act. The Partnership will deliver to the Underwriters similar reports with respect to any significant subsidiaries, as that term is defined in the 1933 Act Rules and Regulations, which are not consolidated in the Partnership's financial statements. Any report, document or other information required to be furnished under this paragraph (h) shall be furnished as soon as practicable after such report, document or information becomes available.

(i) The Partnership, New Propane and the General Partners will not, during the 180 days after the date of this prospectus, without the prior written consent of A.G. Edwards & Sons, Inc., directly or indirectly, offer for sale, contract to sell, sell, distribute, grant any option, right or warrant to purchase, pledge, hypothecate or otherwise dispose of any Common Units, any securities convertible into, or exercisable or exchangeable for, Common Units or any other rights

to acquire such Common Units, other than pursuant to employee benefit plans as in existence as of the date of this prospectus.

(j) The Partnership will apply the proceeds from the sale of the Units as set forth in the description under "Use of Proceeds" in the Prospectus, which description complies in all respects with the requirements of Item 504 of Regulation S-K and will file such reports with the SEC with respect to the sale of the Units and the application of the proceeds therefrom as may be required by the 1933 Act or the 1934 Act or by the applicable rules and regulations thereunder.

(k) The Partnership will promptly provide you with copies of all correspondence to and from, and all documents issued to and by, the SEC in connection with the registration of the Units under the 1933 Act.

(l) Prior to the Closing Date (and, if applicable, the Option Closing Date), the Partnership will furnish to you, as soon as they have been prepared, copies of any unaudited interim consolidated financial statements of the Partnership Group for any periods subsequent to the periods covered by the financial statements appearing in the Registration Statement and the Prospectus.

(m) Prior to the Closing Date (and, if applicable, the Option Closing Date), the Partnership will not issue any press releases or other communications directly or indirectly and will hold no press conferences with respect to the Partnership or any of its subsidiaries, the financial condition, results of operations, business, properties, assets or liabilities of the Partnership or any of its subsidiaries, or the offering of the Units, without your prior written consent.

(n) The Partnership will use its best efforts to obtain approval for, and maintain the quotation of the Units on, The Nasdaq National Market.

(o) The Partnership will cause its directors and officers and the persons and entities listed on Schedule II to furnish to you, on or prior to the date of this Agreement, a letter or letters, in form and substance satisfactory to counsel for the Underwriters, pursuant to which each such person shall agree not to directly or indirectly, offer for sale, contract to sell, sell, distribute, grant any option, right or warrant to purchase, pledge, hypothecate or otherwise dispose of any Common Units, Senior Subordinated Units, Junior Subordinated Units, or any securities convertible into, or exercisable or exchangeable for, Common Units or any other rights to acquire such Common Units, during the 180 days after the date of this prospectus, without the prior written consent of A.G. Edwards & Sons, Inc.

(p) If the Partnership elects to rely on Rule 462(b) under the 1933 Act, the Partnership shall both file an Abbreviated Registration Statement with the SEC in compliance with Rule 462(b) and pay the applicable fees in accordance with Rule 111 of the 1933 Act by the earlier of

(i) 10:00 p.m., New York time, on the date of this Agreement, and (ii) the time that confirmations are given or sent, as specified by Rule 462(b)(2).

6. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The several obligations of the Underwriters to purchase and pay for the Units, as provided herein, shall be subject to the accuracy, as of the date hereof and as of the Closing Date (and, if applicable, the Option Closing Date), of the representations and warranties of the Inergy Parties contained herein, to the performance by the Inergy Parties of their covenants and obligations hereunder, and to the following additional conditions:

(a) The Registration Statement and all post-effective amendments thereto shall have become effective not later than 1:00 p.m., New York time, on the date hereof, or, with your consent, at a later date and time, not later than _____ p.m., New York time, on the first business day following the date hereof, or at such later date and time as may be approved by the Underwriters; if the Partnership has elected to rely on Rule 462(b) under the 1933 Act, the Abbreviated Registration Statement shall have become effective not later than the earlier of (x) 10:00 p.m. New York time, on the date hereof, or (y) at such later date and time as may be approved by the Underwriters. All filings required by Rule 424 and Rule 430A of the 1933 Act Rules and Regulations shall have been made. No stop order suspending the effectiveness of the Registration Statement, as amended from time to time, shall have been issued and no proceeding for that purpose shall have been initiated or, to the knowledge of the Partnership or any Underwriter, threatened or contemplated by the SEC, and any request of the SEC for additional information (to be included in the Registration Statement or the Prospectus or otherwise) shall have been complied with to the reasonable satisfaction of the Underwriters.

(b) No Underwriter shall have advised the Partnership on or prior to the Closing Date (and, if applicable, the Option Closing Date), that the Registration Statement or Prospectus or any amendment or supplement thereto contains an untrue statement of fact which, in the opinion of counsel to the Underwriters, is material, or omits to state a fact which, in the opinion of such counsel, is material and is required to be stated therein or is necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(c) On the Closing Date (and, if applicable, the Option Closing Date), you shall have received the opinion of Vinson & Elkins L.L.P. counsel for the Partnership, addressed to you and dated the Closing Date (and, if applicable, the Option Closing Date), to the effect that:

(i) The Partnership has been duly formed and is validly existing in good standing as a limited partnership under the Delaware LP Act with all necessary power and authority to own or lease its properties, to assume the liabilities being assumed by it pursuant to the Contribution Documents and to conduct its business, in all material respects as described in the Registration Statement and the Prospectus. The Partnership is

duly registered or qualified as a foreign limited partnership for the transaction of business under the laws of the jurisdictions set forth on Exhibit A to this Agreement.

(ii) Each of Holdings, New Propane, the Operating Company and the Operating Subs has been duly formed and is validly existing in good standing as a limited liability company under the Delaware LLC Act with all necessary power and authority to own or lease its properties, to assume the liabilities being assumed by it pursuant to the Contribution Documents and to conduct its business, in each case in all material respects as described in the Registration Statement and the Prospectus. Each of Holdings, New Propane, the Operating Company and the Operating Subs is duly registered or qualified as a foreign limited liability company for the transaction of business under the laws of the jurisdictions set forth on Exhibit A to this Agreement.

(iii) Each of the General Partners has been duly formed and is validly existing in good standing as a limited liability company under the Delaware LLC Act with all necessary limited liability company power and authority to own or lease its properties, to conduct its business and to act as general partner of the Partnership and the Operating Company and to own membership interests in the Partnership and the Operating Company, in each case in all material respects as described in the Registration Statement and the Prospectus. Each of the General Partners is duly registered or qualified as a limited liability company for the transaction of business under the laws of the jurisdictions set forth on Exhibit A to the Underwriting Agreement.

(iv) Service Sub has been duly incorporated and is validly existing in good standing as a corporation under the DGCL with all necessary corporate power and authority to own or lease its properties and to conduct its business, in each case in all material respects as described in the Registration Statement and the Prospectus. Service Sub is duly registered or qualified as a foreign corporation for the transaction of business under the laws of the jurisdictions set forth on Exhibit A to the Underwriting Agreement.

(v) The Managing General Partner and the Non-Managing General Partner are the sole general partners of the Partnership. The Non-Managing General Partner owns a 2% general partner interest and the Managing General Partner owns a non-economic, managing general partner interest; such general partner interests have been duly authorized and validly issued in accordance with the Partnership Agreement; and each General Partner owns its general partner interest free and clear of all liens, encumbrances, security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming either of such General Partners as debtors is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LP Act.

(vi) The Sponsor Units, the Incentive Distribution Rights and the limited partner interests represented thereby have been duly authorized and validly issued in accordance with the Partnership Agreement, and are fully paid (to the extent required under the Partnership Agreement) and nonassessable (except as such nonassessability may be affected by matters described in the Prospectus under the caption "The Partnership Agreement--Limited Liability"); and New Propane owns its Sponsor Units and Holdings owns the Incentive Distribution Rights, in each case, free and clear of all liens, encumbrances, security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming New Propane or Holdings as debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LP Act.

(vii) The Units to be issued and sold to the Underwriters by the Partnership pursuant to this Agreement and the limited partner interests represented thereby have been duly authorized by the Partnership Agreement and, when issued and delivered to the Underwriters against payment therefor in accordance with the terms hereof, will be validly issued, fully paid (to the extent required under the Partnership Agreement) and nonassessable (except as such nonassessability may be affected by matters described in the Prospectus under the caption "The Partnership Agreement--Limited Liability"); and other than the Sponsor Units and the Incentive Distribution Rights, the Units will be the only limited partner interests of the Partnership issued and outstanding at the Closing Date.

(viii) The Partnership owns a 100% membership interest in the Operating Company; such membership interest has been duly authorized and validly issued in accordance with the Operating Company LLC Agreement; and the Partnership will own its membership interest free and clear of all liens, encumbrances, security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming the Partnership as debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LP Act.

(ix) The Operating Company owns ___% of the issued and outstanding capital stock of Service Sub and L&L Transportation owns ___% of the issued and outstanding capital stock of Service Sub; such capital stock has been duly authorized and validly

issued and is fully paid and nonassessable; and the Operating Company and L&L Transportation own such capital stock free and clear of all liens, encumbrances, security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming the Operating Company or L&L Transportation as debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the DGCL.

(x) The Operating Company owns a 100% membership interest in each of the Operating Subs; such membership interests have been duly authorized and validly issued in accordance with the Operating Subs LLC Agreements and are fully paid (to the extent required under the Operating Subs LLC Agreements) and nonassessable (except as such nonassessability may be affected by Section 18-607 of the Delaware LLC Act); and the Operating Company owns such membership interests free and clear of all liens, encumbrances, security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming the Operating Company as debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LLC Act.

(xi) The Non-Managing General Partner owns a 100% common membership interest in New Propane, Wilson owns ___% of the preferred membership interests in New Propane, and Rolesville owns ___% of the preferred membership interests in New Propane; such member interests have been duly authorized and validly issued in accordance with the New Propane LLC Agreement and are fully paid (to the extent required under the New Propane LLC Agreement) and nonassessable (except as such nonassessability may be affected by Section 18-607 of the Delaware LLC Act); and the Non-Managing General Partner, Wilson and Rolesville own such membership interests free and clear of all liens, encumbrances, security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming the Non-Managing General Partner, Wilson or Rolesville as debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LLC Act.

(xii) Holdings owns 100% of the issued and outstanding membership interests of the Managing General Partner. Such membership interests have been duly authorized and validly issued and fully paid (to the extent required under Holdings limited liability company Agreement) and nonassessable (except as such nonassessability may be affected by Section 18-607 of the Delaware LLC Act); and Holdings owns such membership interests free and clear of all liens, encumbrances, security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the

State of Delaware naming Holdings as debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LLC Act.

(xiii) Holdings owns ___% of the issued and outstanding common membership interests in the Non-Managing General Partner; such membership interests have been duly authorized and validly issued and fully paid (to the extent required under Holdings limited liability company Agreement) and nonassessable (except as such nonassessability may be affected by Section 18-607 of the Delaware LLC Act); and Holdings owns such membership interests free and clear of all liens, encumbrances, security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming Holdings as debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LLC Act.

(xiv) Except as described in the Prospectus, there are no preemptive rights or other rights to subscribe for or to purchase, nor any restriction upon the voting or transfer of, (i) any limited partner interests of the Partnership, (ii) any membership interests of the General Partners, the Operating Company, New Propane or the Operating Subs or (iii) any shares of Service Sub, in each case pursuant to the Organizational Documents or, to the knowledge of such counsel after due inquiry, any other agreement or instrument to which such entities are a party or by which any of them may be bound. To the knowledge of such counsel, neither the filing of the Registration Statement nor the offering or sale of the Units as contemplated by this Agreement gives rise to any rights for or relating to the registration of any Units or other securities of the Partnership or any of its subsidiaries, other than as have been waived. To such counsel's knowledge after due inquiry, except as described in the Prospectus, there are no outstanding options or warrants to purchase (A) any Common Units, Sponsor Units or Incentive Distribution Rights or other partnership interests in the Partnership, (B) membership interests of the General Partners, the Operating Company, New Propane or the Operating Subs or (B) any shares of Service Sub.

(xv) The Partnership has all requisite power and authority to issue, sell and deliver (i) the Units, in accordance with and upon the terms and conditions set forth in this Agreement, the Partnership Agreement and the Registration Statement and the Prospectus and (ii) the Sponsor Units and Incentive Distribution Rights, in accordance with and upon the terms and conditions set forth in the Partnership Agreement and the Contribution Documents.

(xvi) The Underwriting Agreement has been duly executed and delivered by each of the Inergy Parties.

(xvii) Each of the Operative Agreements to which any of the Inergy Entities is a party has been duly authorized and validly executed and delivered by each of the Inergy Entities party thereto. Each of the Operative Agreements constitutes a valid and legally binding agreement of the Inergy Entities party thereto, enforceable against each such Inergy Entity in accordance with its respective terms, subject to (i) applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and (ii) public policy, applicable law relating to fiduciary duties and indemnification and an implied covenant of good faith and fair dealing.

(xviii) None of the offering, issuance and sale by the Partnership of the Units, the execution, delivery and performance of the Underwriting Agreement, the Contribution Documents or the Operative Agreements by the Inergy Entities which are parties thereto, or the consummation of the transactions contemplated hereby and thereby (including the Transactions, with the exception of the Non-Managing General Partner Exchange Offer) (i) constituted, constitutes or will constitute a violation of the Organizational Documents, (ii) constituted, constitutes or will constitute a breach or violation of, or a default (or an event which, with notice or lapse of time or both, would constitute such a default) under any Operative Agreement or any other agreement filed as an exhibit to the Registration Statement, (iii) violated, violates or will violate the Delaware LP Act, the Delaware LLC Act, the DGCL or federal law or (iv) resulted, results or will result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of any of the Inergy Entities, which breaches, violations, defaults or liens, in the case of clauses (ii), (iii) or (iv), would, individually or in the aggregate, have a material adverse effect on the condition (financial or other), business or results of operations of the Partnership Group.

(xix) No permit, consent, approval, authorization, order, registration, filing or qualification ("consent") of or with any federal or Delaware court, governmental agency or body is required for the offering, issuance and sale by the Partnership of the Units, the execution, delivery and performance of the Underwriting Agreement and the Operative Agreements by the Inergy Entities party thereto or the consummation by the Inergy Entities of the transactions contemplated by the Underwriting Agreement or the Operative Agreements (including the Transactions, with the exception of the Non-Managing General Partner Exchange Offer), except (i) for such consents required under the Act, the Exchange Act and state securities or "Blue Sky" laws, as to which such counsel need not express any opinion, (ii) for such consents which have been obtained or made, (iii) for such consents which (A) are of a routine or administrative nature, (B) are not customarily obtained or made prior to the consummation of transactions such as those contemplated

by the Underwriting Agreement and the Operative Agreements and (C) are expected in the reasonable judgment of the Managing General Partner to be obtained or made in the ordinary course of business subsequent to the consummation of the Transactions, (iv) for such consents which, if not obtained or made, would not, individually or in the aggregate, have a Material Adverse Effect or (v) as disclosed in the Prospectus.

(xx) The statements in the Registration Statement and Prospectus under the captions "The Transactions," "Cash Distribution Policy," "Management's Discussion and Analysis of Financial Condition and Results of Operations--The Partnership--Capital Resources, Liquidity and Financial Condition," "Business--Regulation," "Certain Relationships and Related Transactions," "Conflicts of Interest and Fiduciary Responsibilities," "Description of the Common Units," "Description of the Subordinated Units," "The Partnership Agreement" and "Investment in the Partnership by Employee Benefit Plans," insofar as they constitute descriptions of agreements or refer to statements of law or legal conclusions, are accurate and complete in all material respects, and the Common Units, the Sponsor Units and the Incentive Distribution Rights conform in all material respects to the descriptions thereof contained in the Registration Statement and the Prospectus under the captions "Prospectus Summary--The Offering," "Cash Distribution Policy," "Description of the Common Units," "Description of the Subordinated Units" and "The Partnership Agreement."

(xxi) The opinion of Vinson & Elkins L.L.P. that is filed as Exhibit 8.1 to the Registration Statement is confirmed and the Underwriters may rely upon such opinion as if it were addressed to them.

(xxii) The Registration Statement was declared effective under the 1933 Act on _____; to the knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or threatened by the Commission; and any required filing of the Prospectus pursuant to Rule 424(b) has been made in the manner and within the time period required by such Rule.

(xxiii) The Registration Statement and the Prospectus (except for the financial statements and the notes and the schedules thereto, and the other financial, statistical and accounting data included in the Registration Statement or the Prospectus, as to which such counsel need not express any opinion) comply as to form in all material respects with the requirements of the Act and the rules and regulations promulgated thereunder.

(xxiv) To the knowledge of such counsel, (i) there are no legal or governmental proceedings pending or threatened against any of the Inergy Entities or to which any of the Inergy Entities is a party or to which any of their respective properties is subject that are required to be described in the Prospectus but are not so described as required and (ii)

there are no agreements, contracts, indentures, leases or other instruments that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required by the Act.

(xxv) None of the Inergy Parties is an "investment company" as such term is defined in the Investment Company Act of 1940, as amended, or (ii) a "public utility company" or "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

(xxvi) Assuming that the Underwriters do not have notice of any adverse claim (as defined in Sections 8-102 and 8-105 of the New York Uniform Commercial Code) to the Units, upon the delivery to the Underwriters of certificates evidencing the Units registered in the name of the Underwriters (or their nominee) and payment by the Underwriters of the purchase price for the Units, the Underwriters (or such nominee) will be "protected purchasers" (as such term is used in Section 8-303 of the New York Uniform Commercial Code).

(xxvii) The offer, sale and issuance of the Sponsor Units to the Non-Managing General Partner and the persons and entities listed on Schedule II and the Incentive Distribution Rights to Holdings pursuant to the Partnership Agreement are exempt from the registration requirements of the Act and the securities laws of any state having jurisdiction with respect thereto.

In addition, such counsel shall state that they have participated in conferences with officers and other representatives of the Inergy Parties and the independent public accountants of the Partnership and the Underwriters, at which the contents of the Registration Statement and the Prospectus and related matters were discussed, and although such counsel is not passing on, and is not assuming any responsibility for the accuracy, completeness or fairness of the statements contained in, the Registration Statement and the Prospectus (except to the extent specified in the foregoing opinion), based on the foregoing, no information has come to such counsel's attention that causes such counsel to believe that the Registration Statement (other than (i) the financial statements included therein, including the notes and schedules thereto and the auditors' reports thereon, and (ii) the other financial data included therein, as to which such counsel need not comment), as of its effective date contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus (other than (i) the financial statements included therein, including the notes and schedules thereto and the auditors' reports thereon, and (ii) the other financial data included therein, as to which such counsel need not comment), as of its issue date and the Closing Date contained an untrue statement of a material fact or omitted to state a material fact necessary to make

the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering such opinion, such counsel may (A) rely in respect of matters of fact upon certificates of officers and employees of the Inergy Parties and upon information obtained from public officials, (B) assume that all documents submitted to them as originals are authentic, that all copies submitted to them conform to the originals thereof, and that the signatures on all documents examined by them are genuine, (C) state that their opinion is limited to federal laws, the Delaware LP Act, the Delaware LLC Act, the DGCL and the laws of the State of New York, (D) with respect to the opinions expressed in paragraphs (a), (b), (c) and (d) above as to the due qualification or registration as a foreign limited partnership, corporation or limited liability company, as the case may be, of the Partnership, the Operating Company, the Operating Subs, New Propane and the General Partners, state that such opinions are based upon the opinions of local counsel provided pursuant to (e) below and upon certificates of foreign qualification or registration provided by the Secretary of State of the States of the States listed on Exhibit A to such opinion (each of which shall be dated as of a date not more than fourteen days prior to the Closing Date and shall be provided to you), (E) state that they express no opinion with respect to the title of any of the Inergy Entities to any of their respective real or personal property purported to be transferred by the Contribution Documents nor with respect to the accuracy or descriptions of real or personal property, and (F) state that they express no opinion with respect to state or local taxes or tax statutes to which any of the limited partners of the Inergy Entities may be subject.

(d) On the Closing Date (and, if applicable, the Option Closing Date), you shall have received the opinion of Stinson, Mag & Fizzel, counsel for the Partnership, addressed to you and dated the Closing Date (and, if applicable, the Option Closing Date), to the effect that:

(i) None of the offering, issuance and sale by the Partnership of the Units, the execution, delivery and performance of the Underwriting Agreement or the Operative Agreements by the Inergy Entities which are parties thereto, or the consummation of the transactions contemplated hereby and thereby (including the Transactions and specifically including the Non-Managing General Partner Exchange Offer) (i) constituted, constitutes or will constitute a breach or violation of, or a default under (or an event which, with notice or lapse of time or both, would constitute such a default), any agreement, lease or other instrument known to such counsel (excluding any Operative Agreement or any agreement filed as an exhibit to the Registration Statement) to which any of the Inergy Entities or any of their properties may be bound, which breach, violation or default would reasonably be expected to have a Material Adverse Effect (ii) violated, violates or will violate any order, judgment, decree or injunction of any federal, Texas or Delaware court or government agency or body known to such counsel directed to any of the Inergy

Entities or any of their properties in a proceeding to which any of them or their property is a party.

(ii) To the knowledge of such counsel after due inquiry, none of the Inergy Entities is in (i) violation of its Organizational Documents, or of any law, statute, ordinance, administrative or governmental rule or regulation applicable to it or of any decree of any court or governmental agency or body having jurisdiction over it or (ii) breach, default (or an event which, with notice or lapse of time or both, would constitute such a default) or violation in the performance of any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or in any agreement, indenture, lease or other instrument to which it is a party or by which it or any of its properties may be bound, which breach, default or violation would, if continued, have a Material Adverse Effect or could materially impair the ability of any of the Inergy Entities to perform their obligations under the Underwriting Agreement, the Contribution Documents or the Operative Agreements.

(iii) To the knowledge of such counsel after due inquiry, each of the Inergy Entities has such permits, consents, licenses, franchises, certificates and authorizations of governmental or regulatory authorities ("permits") as are necessary to own its properties and to conduct its business in the manner described in the Prospectus, subject to such qualifications as may be set forth in the Prospectus and except for such permits which, if not obtained, would not, individually or in the aggregate, have a material adverse effect upon the ability of the Partnership Group, to conduct their businesses in all material respects as currently conducted or as contemplated by the Prospectus to be conducted; and, to the knowledge of such counsel after due inquiry, none of the Inergy Entities has received any notice of proceedings relating to the revocation or modification of any such permits which, individually or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would reasonably be expected to have a Material Adverse Effect.

(iv) No permit, consent, approval, authorization, order, registration, filing or qualification ("consent") of or with any federal or Delaware court, governmental agency or body is required for the offering, issuance and sale by the Partnership of the Units, the execution, delivery and performance of the Underwriting Agreement and the Operative Agreements by the Inergy Entities party thereto or the consummation by the Inergy Entities of the transactions contemplated by the Underwriting Agreement or the Operative Agreements (including the Transactions and specifically including the Non-Managing General Partner Exchange Offer), except (i) for such consents required under the Act, the Exchange Act and state securities or "Blue Sky" laws, as to which such counsel need not express any opinion, (ii) for such consents which have been obtained or made, (iii) for such consents which (A) are of a routine or administrative nature, (B) are not customarily obtained or made prior to the consummation of transactions such as those contemplated by the Underwriting Agreement and the Operative Agreements and (C) are expected in

the reasonable judgment of the Managing General Partner to be obtained or made in the ordinary course of business subsequent to the consummation of the Transactions, (iv) for such consents which, if not obtained or made, would not, individually or in the aggregate, have a Material Adverse Effect or (v) as disclosed in the Prospectus.

(v) The persons and entities listed on Schedule II own the Senior Subordinated Units in the Partnership set forth opposite their respective names.

(vi) The persons and entities listed on Schedule III own ___% of the issued and outstanding common membership interests and 100% of the preferred membership interests in the Non-Managing General Partner. such membership interests have been duly authorized and validly issued and fully paid (to the extent required under Holdings limited liability company Agreement) and nonassessable (except as such nonassessability may be affected by Section 18-607 of the Delaware LLC Act). With respect to the persons and entities listed on Schedule III, Mr. John Sherman owns ___ common membership interests and he owns such interests free and clear of all liens, encumbrances, security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming Mr. Sherman or such persons or entities listed on Schedule III as debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LLC Act.

(vii) The Non-Managing General Partner Exchange Offer and the Wilson and Rolesville Exchange Offer are exempt from the registration requirements of the 1933 Act and the securities laws of any state having jurisdiction with respect thereto.

(viii) Except as described in the Prospectus, to the knowledge of such counsel after due inquiry, there is no litigation, proceeding or governmental investigation pending or threatened against any of the Inergy Entities or to which any of the Inergy Entities is a party or to which any of their respective properties is subject, which, if adversely determined to such Inergy Entities, is reasonably likely to have a material adverse effect on the condition (financial or other), business or results of operations of the Partnership Group.

In addition, such counsel shall state that they have participated in conferences with officers and other representatives of the Inergy Parties and the independent public accountants of the Partnership and the Underwriters, at which the contents of the Registration Statement and the Prospectus and related matters were discussed, and although such counsel is not passing on, and is not assuming any responsibility for the accuracy, completeness or fairness of the statements contained in, the Registration Statement and the Prospectus (except to the extent specified in the foregoing opinion),

based on the foregoing, no information has come to such counsel's attention that causes such counsel to believe that the Registration Statement (other than (i) the financial statements included therein, including the notes and schedules thereto and the auditors' reports thereon, and (ii) the other financial data included therein, as to which such counsel need not comment), as of its effective date contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus (other than (i) the financial statements included therein, including the notes and schedules thereto and the auditors' reports thereon, and (ii) the other financial data included therein, as to which such counsel need not comment), as of its issue date and the Closing Date contained an untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering such opinion, such counsel may (A) rely in respect of matters of fact upon certificates of officers and employees of the Inergy Parties and upon information obtained from public officials, (B) assume that all documents submitted to them as originals are authentic, that all copies submitted to them conform to the originals thereof, and that the signatures on all documents examined by them are genuine, (C) state that their opinion is limited to federal laws, the Delaware LP Act, the Delaware LLC Act, the DGCL and the laws of the State of Missouri, (D) state that they express no opinion with respect to the title of any of the Inergy Entities to any of their respective real or personal property purported to be transferred by the Contribution Documents nor with respect to the accuracy or descriptions of real or personal property, and (E) state that they express no opinion with respect to state or local taxes or tax statutes to which any of the limited partners of the Inergy Entities may be subject.

(e) On the Closing Date, you shall have received the opinions of (i) Stinson, Mag & Fizzel with respect to the States of Missouri and Illinois, (ii) Womble, Carlyle, Sandridge & Rice with respect to the State of North Carolina, (iii) Wyatt, Tarrant & Combs, LLP with respect to the States of Tennessee and Indiana, (iv) Fuller & Henry, Ltd. with respect to the State of Ohio and (v) Varnum, Riddering, Schmidt & Howell, LLP with respect to the State of Michigan, each of which is acting as special local counsel for the Partnership, addressed to you and dated the Closing Date, to the effect that:

(i) The Partnership has been duly qualified or registered as a foreign limited partnership for the transaction of business under the laws of [insert applicable state]. Each of the Managing General Partner, the Non-Managing General Partner, the Operating Company and the Operating Subs has been duly qualified or registered as a foreign limited liability company, for the transaction of business under the laws of [insert applicable state]. Service Sub has been duly qualified or registered as a foreign corporation for the transaction of business under the laws of [insert applicable state].

(ii) Each member of the Partnership Group, as applicable, has all requisite limited liability company, limited partnership or corporate power and authority under the laws of the State of [insert applicable state] to own or lease its properties and to conduct its business in the State of [insert applicable state], in each case in all material respects as described or otherwise disclosed in the Registration Statement and the Prospectus; and upon the consummation of the Transactions (assuming that the Partnership will not be liable under the laws of the State of Delaware for the liabilities of the Operating Company, Service Sub and the Operating Subs and assuming that the holders of Units will not be liable under the laws of the State of [insert applicable state] for the liabilities of the Partnership Group), the Partnership will not be liable under the laws of the State of [insert applicable state] for the liabilities of the Operating Company, Service Sub and the Operating Subs and the holders of Units will not be liable under the laws of the State of [insert applicable state] for the liabilities of the Partnership Group except in each case to the same extent as under the laws of the State of Delaware.

(iii) No permit, consent, approval, authorization, order, registration, filing or qualification ("consent") of or with any court, governmental agency or body of the State of [insert applicable state] having jurisdiction over the Partnership Group or any of their respective properties is required for the issuance and sale of the Units by the Partnership, or for the conveyance of the properties located in the State of [insert applicable state] purported to be conveyed to the Operating Company, Service Sub or the Operating Subs pursuant to the Conveyances, except (A) for such consents required under the Act, the Exchange Act and state securities or "Blue Sky" laws, as to which such counsel need not express any opinion, (B) for such consents which have been obtained or made, (C) for such consents which (I) are of a routine or administrative nature, (II) are not customarily obtained or made prior to the consummation of transactions such as those contemplated by this Agreement and the Operative Agreements and (III) are expected in the reasonable judgment of the Managing General Partner to be obtained or made in the ordinary course of business subsequent to the consummation of the Transactions, (D) for such consents which, if not obtained or made, would not, individually or in the aggregate, have a material adverse effect upon the operations conducted in the State of [insert applicable state] by the Partnership Group or (v) as disclosed in the Prospectus.

(iv) The execution, delivery and performance of the Conveyances relating to the transfer of property in the State of [insert applicable state] did not or will not violate any statute of the State of [insert applicable state] or any rule, regulation or, to the knowledge of such counsel, any order of any agency of the State of [insert applicable state] having jurisdiction over any of the Inergy Entities or any of their respective properties, except for any such violations which, individually or in the aggregate, would not have a material adverse effect on the holders of Units or the operations conducted in the State of [insert applicable state] by the Partnership Group, taken as a whole.

(v) Each of the Conveyances is in a form legally sufficient as between the parties thereto to convey to the transferee thereunder all of the right, title and interest of the transferor stated therein in and to the properties located in the State of [insert applicable state], as described in the Conveyances, subject to the conditions, reservations and limitations contained in the Conveyances, except motor vehicles or other property requiring conveyance of certificated title as to which the Conveyances are legally sufficient to compel delivery of such certificated title.

(vi) Each of the deeds and real property assignments (including, without limitation, the form of the exhibits and schedules thereto) is in a form legally sufficient for recordation in the appropriate public offices of the State of [insert applicable state], to the extent such recordation is required, and, upon proper recordation of any of such deeds and real property assignments in the State of [insert applicable state], will constitute notice to all third parties under the recordation statutes of the State of [insert applicable state] concerning record title to the assets transferred thereby; recordation in the office of the County Clerk for each county in which the Partnership or any of its subsidiaries owns property is the appropriate public office in the State of [insert applicable state] for the recordation of deeds and assignments of interests in real property located in such county.

In rendering such opinion, such counsel may (A) rely in respect of matters of fact upon certificates of officers and employees of the Inergy Parties and upon information obtained from public officials, (B) assume that all documents submitted to them as originals are authentic, and all copies submitted to them conform to the originals thereof, and that the signatures on all documents examined by them are genuine, (C) state that such opinions are limited to the laws of the State of [insert applicable state], excepting therefrom municipal and local ordinances and regulations, (D) state that they express no opinion with respect to state or local taxes or tax statutes to which any of the limited partners of the Partnership or any of the Inergy Entities may be subject, and (E) with respect to the opinion in paragraph (i) rely upon certificates of foreign qualification provided by the Secretary of State of [insert applicable state] (each of which shall be dated as of the date not more than fourteen days prior to the Closing Date and provided to you.)

In rendering such opinion, such counsel shall state that (A) Vinson & Elkins L.L.P. and Stinson Mag & Fizzel are hereby authorized to rely upon such opinion letter in connection with the Transactions as if such opinion letter were addressed and delivered to them on the date hereof and (B) subject to the foregoing, such opinion letter may be relied upon only by the Underwriters and its counsel in connection with the Transactions and no other use or distribution of this opinion letter may be made without such counsel's prior written consent.

(f) You shall have received on the Closing Date (and, if applicable, the Option Closing Date), from Baker Botts L.L.P., counsel to the Underwriters, such opinion or opinions,

dated the Closing Date (and, if applicable, the Option Closing Date) with respect to such matters as you may reasonably require; and the Partnership shall have furnished to such counsel such documents as they reasonably request for the purposes of enabling them to review or pass on the matters referred to in this Section 6 and in order to evidence the accuracy, completeness and satisfaction of the representations, warranties and conditions herein contained.

(g) You shall have received at or prior to the Closing Date from Baker Botts L.L.P. a memorandum or memoranda, in form and substance satisfactory to you, with respect to the qualification for offering and sale by the Underwriters of the Units under state securities or Blue Sky laws of such jurisdictions as the Underwriters may have designated to the Partnership.

(h) On the business day immediately preceding the date of this Agreement and on the Closing Date (and, if applicable, the Option Closing Date), you shall have received from Ernst & Young LLP, a letter or letters, dated the date of this Agreement and the Closing Date (and, if applicable, the Option Closing Date), respectively, in form and substance satisfactory to you, confirming that they are independent public accountants with respect to the Partnership and the General Partners within the meaning of the 1933 Act and 1933 Act Rules and Regulations, and stating to the effect set forth in Schedule IV hereto.

(i) Except as set forth in the Registration Statement and the Prospectus, (i) none of the members of the Partnership Group shall have sustained since the date of the latest audited financial statements included or in the Registration Statement and in the Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree; and (ii) subsequent to the respective dates as of which such information is given in the Registration Statement and the Prospectus (or any amendment or supplement thereto), none of the Inergy Entities shall have incurred any liability or obligation, direct or contingent, or entered into any transactions, and there shall not have been any change in the capital stock or short-term or long-term debt of the Partnership Group or any change, or any development involving or which might reasonably be expected to involve a prospective change in the condition (financial or other), net worth, business, affairs, management, prospects, results of operations or cash flow of the Partnership or its subsidiaries, the effect of which, in any such case described in clause (i) or (ii), is in your judgment so material or adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Units being delivered on such Closing Date (and, if applicable, the Option Closing Date) on the terms and in the manner contemplated in the Prospectus.

(j) There shall not have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the Nasdaq National Market or the establishing on such exchanges or market by the SEC or by such exchanges or markets of minimum or maximum prices which are not in force and effect on the date hereof; (ii) a suspension or material limitation in trading in the Partnership's securities on The Nasdaq National Market or the

establishing on such market by the SEC or by such market of minimum or maximum prices which are not in force and effect on the date hereof; (iii) a general moratorium on commercial banking activities declared by either federal or any state authorities; (iv) the outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war, which in your judgment makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Units in the manner contemplated in the Prospectus; or (v) any calamity or crisis, change in national, international or world affairs, act of God, change in the international or domestic markets, or change in the existing financial, political or economic conditions in the United States or elsewhere, which in your judgment makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Units in the manner contemplated in the Prospectus.

(k) You shall have received certificates, dated the Closing Date (and, if applicable, the Option Closing Date) and signed by the President and the Chief Financial Officer of the Managing General Partner, in their capacities as such, stating that:

(i) the condition set forth in Section 6(a) has been fully satisfied;

(ii) they have carefully examined the Registration Statement and the Prospectus as amended or supplemented and nothing has come to their attention that would lead them to believe that either the Registration Statement or the Prospectus, or any amendment or supplement thereto as of their respective effective, issue or filing dates, contained, and the Prospectus as amended or supplemented and at such Closing Date, contains any untrue statement of a material fact, or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading;

(iii) since the Effective Date, there has occurred no event required to be set forth in an amendment or supplement to the Registration Statement or the Prospectus which has not been so set forth;

(iv) all representations and warranties made herein by the Inergy Parties are true and correct at such Closing Date, with the same effect as if made on and as of such Closing Date, and all agreements herein to be performed or complied with by the Inergy Parties on or prior to such Closing Date have been duly performed and complied with by the Inergy Parties;

(v) none of the members of the Partnership Group has sustained since the date of the latest audited financial statements included in the Registration Statement and the Prospectus any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree;

(vi) except as disclosed in the Registration Statement and the Prospectus (or any amendment or supplement thereto), subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, none of the Partnership Group has incurred any liabilities or obligations, direct or contingent, other than in the ordinary course of business, or entered into any transactions not in the ordinary course of business, which in either case are material to the Partnership Group; and there has not been any change in the capital stock or material increase in the short-term debt or long-term debt of the Partnership Group or any material adverse change or any development involving or which may reasonably be expected to involve a prospective material adverse change, in the condition (financial or other), net worth, business, affairs, management, prospects, results of operations or cash flow of the Partnership Group; and there has been no dividend or distribution of any kind, paid or made by the Partnership Group on any class of its capital stock;

(vii) there has not been any change or decrease specified in paragraph iii(E) or (iii)(F) of the letter or letters delivered to the Underwriters referred to in Section 6(g) above, except those changes and decreases that are disclosed therein; and

(viii) covering such other matters as you may reasonably request.

(m) The Inergy Parties shall not have failed, refused, or been unable, at or prior to the Closing Date (and, if applicable, the Option Closing Date) to have performed any agreement on their part to be performed or any of the conditions herein contained and required to be performed or satisfied by them at or prior to such Closing Date.

(n) The Partnership shall have furnished to you at the Closing Date (and, if applicable, the Option Closing Date) such further information, opinions, certificates, letters and documents as you may have reasonably requested.

(o) The Units shall have been approved for trading upon official notice of issuance on The Nasdaq National Market.

(p) You shall have received duly and validly executed letter agreements referred to in Section 5(m) hereof.

All such opinions, certificates, letters and documents will be in compliance with the provisions hereof only if they are satisfactory in form and substance to you and to Baker Botts L.L.P., counsel for the several Underwriters. The Partnership will furnish you with such signed and conformed copies of such opinions, certificates, letters and documents as you may request.

If any of the conditions specified above in this Section 6 shall not have been satisfied at or prior to the Closing Date (and, if applicable, the Option Closing Date) or waived by you in writing, this Agreement may be terminated by you on notice to the Partnership.

7. INDEMNIFICATION AND CONTRIBUTION. (a) The Inergy Parties will indemnify and hold harmless each Underwriter from and against any losses, damages or liabilities, joint or several, to which such Underwriter may become subject, under the 1933 Act or otherwise, insofar as such losses, damages or liabilities (or actions or claims in respect thereof) arise out of or are based upon (i) an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement, the Prospectus or any other prospectus relating to the Units, or any amendment or supplement thereto, or in any blue sky application or other document executed by the Partnership or based on any information furnished in writing by the Partnership, filed in any state or other jurisdiction in order to qualify any or all of the Units under the securities laws thereof (the "BLUE SKY APPLICATION"), or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses incurred by such Underwriter in connection with investigating, preparing, pursuing or defending against or appearing as a third party witness in connection with any such loss, damage, liability or action or claim, including, without limitation, any investigation or proceeding by any governmental agency or body, commenced or threatened, including the reasonable fees and expenses of counsel to the indemnified party, as such expenses are incurred (including such losses, damages, liabilities or expenses to the extent of the aggregate amount paid in settlement of any such action or claim, provided that (subject to Section 7( c) hereof) any such settlement is effected with the written consent of the Partnership); provided, however, that the Inergy Parties shall not be liable in any such case to the extent, but only to the extent, that any such loss, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, the Registration Statement, the Prospectus or any other prospectus relating to the Units, or any such amendment or supplement, in reliance upon and in conformity with written information relating to the Underwriters furnished to the Partnership by you or by any Underwriter through you, expressly for use in the preparation thereof (as provided in Section 14 hereof).

(b) Each Underwriter, severally and not jointly, will indemnify and hold harmless the Inergy Parties from and against any losses, damages or liabilities to which the Inergy Parties may become subject, under the 1933 Act or otherwise, insofar as such losses, damages or liabilities (or actions or claims in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement, the Prospectus or any other prospectus relating to the Units, or any amendment or supplement thereto, or any Blue Sky Application, or arise out of are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission

was made in any Preliminary Prospectus, the Registration Statement, the Prospectus or any other prospectus relating to the Units, or any such amendment or supplement, or any Blue Sky Application, in reliance upon and in conformity with written information relating to the Underwriters furnished to the Partnership by you or by any Underwriter through you, expressly for use in the preparation thereof (as provided in Section 14 hereof), and will reimburse the Inergy Parties for any legal or other expenses incurred by the Inergy Parties in connection with investigating or defending any such action or claim as such expenses are incurred (including such losses, damages, liabilities or expenses to the extent of the aggregate amount paid in settlement of any such action or claim, provided that (subject to Section 7(c) hereof) any such settlement is effected with the written consent of the Underwriters).

(c) Promptly after receipt by an indemnified party under Section 7(a) or 7(b) hereof of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against an indemnifying party under Section 7(a) or 7(b) hereof, notify each such indemnifying party in writing of the commencement thereof, but the failure so to notify such indemnifying party shall not relieve such indemnifying party from any liability except to the extent that it has been prejudiced in any material respect by such failure or from any liability that it may have to any such indemnified party otherwise than under Section 7(a) or 7(b) hereof. In case any such action shall be brought against any such indemnified party and it shall notify each indemnifying party of the commencement thereof, each such indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party under Section 7(a) or 7(b) hereof similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of such indemnified party, be counsel to such indemnifying party), and, after notice from such indemnifying party to such indemnified party of its election so to assume the defense thereof, such indemnifying party shall not be liable to such indemnified party under Section 7(a) or 7(b) hereof for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation. The indemnified party shall have the right to employ its own counsel in any such action, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the employment of counsel by such indemnified party at the expense of the indemnifying party has been authorized by the indemnifying party, (ii) the indemnified party shall have been advised by such counsel that there may be a conflict of interest between the indemnifying party and the indemnified party in the conduct of the defense, or certain aspects of the defense, of such action (in which case the indemnifying party shall not have the right to direct the defense of such action with respect to those matters or aspects of the defense on which a conflict exists or may exist on behalf of the indemnified party) or (iii) the indemnifying party shall not in fact have employed counsel reasonably satisfactory to such indemnified party to assume the defense of such action, in any of which events such fees and expenses to the extent applicable shall be borne, and shall be paid as incurred, by the indemnifying party. If at any time such indemnified party shall have requested such indemnifying party under Section 7(a) or 7(b) hereof to reimburse such indemnified party for fees and expenses of counsel, such indemnifying

party agrees that it shall be liable for any settlement of the nature contemplated by Section 7(a) or 7(b) hereof effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of such request for reimbursement, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request for reimbursement prior to the date of such settlement. No such indemnifying party shall, without the written consent of such indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder (whether or not such indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (A) includes an unconditional release of such indemnified party from all liability arising out of such action or claim and (B) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any such indemnified party. In no event shall such indemnifying parties be liable for the fees and expenses of more than one counsel, including any local counsel, for all such indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances.

(d) If the indemnification provided for in this Section 7 is unavailable to or insufficient to indemnify or hold harmless an indemnified party under Section 7(a) or 7(b) hereof in respect of any losses, damages or liabilities (or actions or claims in respect thereof) referred to therein, then each indemnifying party under Section 7(a) or 7(b) hereof shall contribute to the amount paid or payable by such indemnified party as a result of such losses, damages or liabilities (or actions or claims in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Inergy Parties, on the one hand, and the Underwriters, on the other hand, from the offering of the Units. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under Section 7(c) hereof and such indemnifying party was prejudiced in a material respect by such failure, then each such indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault, as applicable, of the Inergy Parties, on the one hand, and the Underwriters, on the other hand, in connection with the statements or omissions that resulted in such losses, damages or liabilities (or actions or claims in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by, as applicable, the Inergy Parties, on the one hand, and the Underwriters, on the other hand, shall be deemed to be in the same proportion as the total net proceeds from such offering (before deducting expenses) received by the Partnership bear to the total underwriting discounts and commissions received by the Underwriters. The relative fault, as applicable, of the Inergy Parties, on the one hand, and the Underwriters, on the other hand, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by

the Inergy Parties, on the one hand, or the Underwriters, on the other hand, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Inergy Parties and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7(d) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to above in this Section 7(d). The amount paid or payable by such an indemnified party as a result of the losses, damages or liabilities (or actions or claims in respect thereof) referred to above in this Section 7(d) shall be deemed to include any legal or other expenses incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 7(d), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Units underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The obligations of the Underwriters in this Section 7(d) to contribute are several in proportion to their respective underwriting obligations with respect to the Units and not joint.

(e) The obligations of the Inergy Parties under this Section 7 shall be in addition to any liability that the Inergy Parties may otherwise have and shall extend, upon the same terms and conditions, to each officer, director, employee, agent or other representative and to each person, if any, who controls any Underwriter within the meaning of the 1933 Act; and the obligations of the Underwriters under this Section 7 shall be in addition to any liability that the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each officer and director of the Partnership who signed the Registration Statement and to each person, if any, who controls the Partnership within the meaning of the 1933 Act.

(f) The parties to this Agreement hereby acknowledge that they are sophisticated business persons who were represented by counsel during the negotiations regarding the provisions hereof, including, without limitation, the provisions of this Section 7, and are fully informed regarding such provisions. They further acknowledge that the provisions of this Section 7 fairly allocate the risks in light of the ability of the parties to investigate the Partnership and its business in order to assure that adequate disclosure is made in the Registration Statement, any Preliminary Prospectus, the Prospectus, and any supplement or amendment thereof, as required by the 1933 Act.

8. REPRESENTATIONS AND AGREEMENTS TO SURVIVE DELIVERY. The respective representations, warranties, agreements and statements of the Inergy Parties and the Underwriters, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain operative and in full force and effect regardless of any

investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or any controlling person of any Underwriter, the Partnership or any of its officers, directors or any controlling persons and shall survive delivery of and payment for the Units hereunder.

9. SUBSTITUTION OF UNDERWRITERS. (a) If any Underwriter shall default in its obligation to purchase the Units which it has agreed to purchase hereunder, you may in your discretion arrange for you or another party or other parties to purchase such Units on the terms contained herein. If within thirty-six hours after such default by any Underwriter you do not arrange for the purchase of such Units, then the Partnership shall be entitled to a further period of thirty-six hours within which to procure another party or parties reasonably satisfactory to you to purchase such Units on such terms. In the event that, within the respective prescribed periods, you notify the Partnership that you have so arranged for the purchase of such Units, or the Partnership notifies you that it has so arranged for the purchase of such Units, you or the Partnership shall have the right to postpone the Closing Date for a period of not more than seven days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Partnership agrees to file promptly any amendments to the Registration Statement or the Prospectus which in your opinion may thereby be made necessary. The term "UNDERWRITER" as used in this Agreement shall include any persons substituted under this Section 9 with like effect as if such person had originally been a party to this Agreement with respect to such Units.

(b) If, after giving effect to any arrangements for the purchase of the Units of a defaulting Underwriter or Underwriters made by you and the Partnership as provided in subsection (a) above, the aggregate number of Units which remains unpurchased does not exceed one-eleventh of the total Units to be sold on the Closing Date, then the Partnership shall have the right to require each non-defaulting Underwriter to purchase the Units which such Underwriter agreed to purchase hereunder and, in addition, to require each non-defaulting Underwriter to purchase its pro rata share (based on the number of Units which such Underwriter agreed to purchase hereunder) of the Units of such defaulting Underwriter or Underwriters for which such arrangements have not been made; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

(c) If, after giving effect to any arrangements for the purchase of the Units of a defaulting Underwriter or Underwriters made by you and the Partnership as provided in subsection (a) above, the number of Units which remains unpurchased exceeds one-eleventh of the total Units to be sold on the Closing Date, or if the Partnership shall not exercise the right described in subsection (b) above to require the non-defaulting Underwriters to purchase Units of the defaulting Underwriter or Underwriters, then this Agreement (or, with respect to the Option Closing Date, the obligations of the Underwriters to purchase and of the Partnership to sell the Option Units) shall thereupon terminate, without liability on the part of any non-defaulting Underwriter or the Partnership except for the expenses to be borne by the Partnership and the Underwriters as provided in Section 11 hereof and the indemnity and contribution agreements in

Section 7 hereof; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

10. EFFECTIVE DATE AND TERMINATION. (a) This Agreement shall become effective at 1:00 p.m., New York time, on the first business day following the effective date of the Registration Statement, or at such earlier time after the effective date of the Registration Statement as you in your discretion shall first release the Units for offering to the public; provided, however, that the provisions of Section 7 and 11 shall at all times be effective. For the purposes of this Section 10(a), the Units shall be deemed to have been released to the public upon release by you of the publication of a newspaper advertisement relating to the Units or upon release of telegrams, facsimile transmissions or letters offering the Units for sale to securities dealers, whichever shall first occur.

(b) This Agreement may be terminated by you at any time before it becomes effective in accordance with Section 10(a) by notice to the Partnership; provided, however, that the provisions of this Section 10 and of Section 7 and Section 11 hereof shall at all times be effective. In the event of any termination of this Agreement pursuant to Section 9 or this Section 10(b) hereof, the Partnership shall not then be under any liability to any Underwriter except as provided in Section 7 or Section 11 hereof.

(c) This Agreement may be terminated by you at any time at or prior to the Closing Date by notice to the Partnership if any condition specified in Section 6 hereof shall not have been satisfied on or prior to the Closing Date. Any such termination shall be without liability of any party to any other party except as provided in Sections 7 and 11 hereof.

(d) This Agreement also may be terminated by you, by notice to the Partnership, as to any obligation of the Underwriters to purchase the Option Units, if any condition specified in Section 6 hereof shall not have been satisfied at or prior to the Option Closing Date or as provided in Section 9 of this Agreement.

If you terminate this Agreement as provided in Sections 10(b), 10(c) or 10(d), you shall notify the Partnership by telephone or telegram, confirmed by letter.

11. COSTS AND EXPENSES. The Partnership, whether or not the transactions contemplated hereby are consummated or this Agreement is prevented from becoming effective under Section 10 hereof or is terminated, will bear and pay the costs and expenses incident to the registration of the Units and public offering thereof, including, without limitation, (a) all expenses (including stock transfer taxes) incurred in connection with the delivery to the several Underwriters of the Units, the filing fees of the SEC, the fees and expenses of the Partnership's counsel and accountants and the fees and expenses of counsel for the Partnership, (b) the preparation, printing, filing, delivery and shipping of the Registration Statement, each Preliminary Prospectus, the Prospectus and any amendments or supplements thereto (except as

otherwise expressly provided in Section 5(d) hereof) and the printing, delivery and shipping of this Agreement and other underwriting documents, including the Agreement Among Underwriters, the Selected Dealer Agreement, Underwriters' Questionnaires and Powers of Attorney and Blue Sky Memoranda, and any instruments or documents related to any of the foregoing, (c) the furnishing of copies of such documents (except as otherwise expressly provided in Section 5(d) hereof) to the Underwriters, (d) the registration or qualification of the Units for offering and sale under the securities laws of the various states and other jurisdictions, including the fees and disbursements of counsel to the Underwriters relating to such registration or qualification and in connection with preparing any Blue Sky Memoranda or related analysis, (e) the filing fees of the NASD (if any) and fees and disbursements of counsel to the Underwriters relating to any review of the offering by the NASD, (f) all printing and engraving costs related to preparation of the certificates for the Units, including transfer agent and registrar fees, (g) all fees and expenses relating to the authorization of the Units for trading on The Nasdaq National Market (h) all travel expenses, including air fare and accommodation expenses, of representatives of the Partnership in connection with the offering of the Units, and (i) all of the other costs and expenses incident to the performance by the Partnership of the registration and offering of the Units; provided, that the Underwriters will bear and pay the fees and expenses of the Underwriters' counsel (except as provided in this Section 11), the Underwriters' out-of-pocket expenses, and any advertising costs and expenses incurred by the Underwriters incident to the public offering of the Units.

If this Agreement is terminated by you in accordance with the provisions of Section 10(c), the Partnership shall reimburse the Underwriters for all of their out-of-pocket expenses, including the fees and disbursements of counsel to the Underwriters.

13. NOTICES. All notices or communications hereunder, except as herein otherwise specifically provided, shall be in writing and if sent to the Underwriters shall be mailed, delivered, sent by facsimile transmission, or telegraphed and confirmed c/o A.G. Edwards & Sons, Inc. at One North Jefferson Avenue, St. Louis, Missouri 63103, Attention: Director, Corporate Finance, facsimile number [(314) ___-____], with a copy to _____, Attention: General Counsel, facsimile number [(314) ___-____], or if sent to the Partnership shall be mailed, delivered, sent by facsimile transmission, or telegraphed and confirmed to the Partnership at Inergy, L.P., 1101 Walnut, Suite 1500, Kansas City, Missouri 64106, facsimile number (816) 842-1904. Notice to any Underwriter pursuant to Section 7 shall be mailed, delivered, sent by facsimile transmission, or telegraphed and confirmed to such Underwriter's address as it appears in the Underwriters' Questionnaire furnished in connection with the offering of the Units or as otherwise furnished to the Partnership.

14. INFORMATION FURNISHED BY UNDERWRITERS. The statements set forth in the table on the cover page of the Prospectus and the statements in the table in the first paragraph, the third, tenth, eleventh, twelfth, thirteenth and fifteenth paragraphs and the third sentence of the seventh paragraph under the caption "Underwriting" in the Prospectus constitute the only

information furnished by or on behalf of the Underwriters through you as such information is referred to in Section 4(a)(ii) and Section 7 hereof.

15. PARTIES. This Agreement shall inure to the benefit of and be binding upon the Underwriters, the Inergy Parties and, to the extent provided in Sections 7 and 8, the officers and directors of the Managing General Partner and each person who controls the Partnership or any Underwriter and their respective heirs, executors, administrators, successors and assigns. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, corporation or other entity any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained; this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the parties hereto and their respective successors and assigns and said controlling persons and said officers and directors, and for the benefit of no other person, corporation or other entity. No purchaser of any of the Units from any Underwriter shall be construed a successor or assign by reason merely of such purchase.

In all dealings hereunder, you shall act on behalf of each of the several Underwriters, and the parties hereto shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of the Underwriters, made or given by you jointly or by A.G. Edwards & Sons, Inc. on behalf of you as the Underwriters, as if the same shall have been made or given in writing by the Underwriters.

16. COUNTERPARTS. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

17. PRONOUNS. Whenever a pronoun of any gender or number is used herein, it shall, where appropriate, be deemed to include any other gender and number.

18. TIME OF ESSENCE. Time shall be of the essence of this Agreement.

19. APPLICABLE LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Missouri, without giving effect to the choice of law or conflict of laws principles thereof.

If the foregoing is in accordance with your understanding, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement among the Inergy Parties and the Underwriters.

INERGY HOLDINGS, LLC

By:_____
Name:_____
Title:_____

INERGY PARTNERS, LLC

By:_____
Name:_____
Title:_____

NEW INERGY PROPANE, LLC

BY: INERGY PARTNERS, LLC, ITS SOLE MEMBER

By:_____
Name:_____
Title:_____

INERGY GP, LLC

BY: INERGY HOLDINGS, LLC, ITS SOLE MEMBER

By:_____
Name:_____
Title:_____

INERGY, L.P.

BY: INERGY GP, LLC, ITS GENERAL PARTNER

BY: INERGY HOLDINGS, LLC, ITS SOLE MEMBER

By:_____
Name:_____
Title:_____

INERGY PROPANE, LLC

BY: INERGY GP, LLC, ITS MANAGING MEMBER

By:_____
Name:_____
Title:_____

L&L TRANSPORTATION, LLC

BY: INERGY PROPANE, LLC, ITS SOLE MEMBER

By:_____
Name:_____
Title:_____

INERGY TRANSPORTATION, LLC

BY: INERGY PROPANE, LLC, ITS SOLE MEMBER

By:_____
Name:_____
Title:_____

INERGY SALES & SERVICE, INC.

By:_____
Name:_____
Title:_____

Accepted in St. Louis,
Missouri as of the date
first above written, on
behalf of ourselves and each
of the several Underwriters
named in Schedule I hereto.

A.G. Edwards & Sons, Inc.
First Union Securities, Inc.
Raymond James & Associates, Inc.

By: A.G. Edwards & Sons, Inc.

By: _____
Title: _____

SCHEDULE I

| Name | Number of Units |
| --- | --- |
| A.G. Edwards & Sons, Inc. | |
| First Union Securities, Inc. | |
| Raymond James & Associates, Inc | |
| Total | 1,500,000 |

SCHEDULE II

Persons and Entities who own Senior Subordinated Units of the Partnership

KCEP Ventures II, LP
Country Partners
Domex, Inc.
Investors 300, Inc.
L&L Leasing, Inc.
Moramerica Capital Corporation
NDSBIC, L.P.
Kansas Venture Capital, Inc.
Midstates Capital, L.P.
Diamond State Ventures, L.P.
Rocky Mountain Mezzanine
Firstar Capital Corporation
Eagle Fund II, L.P.
RNG Investments L.P.
KCEP Ventures III, LP
Clayton-Hamilton, LLC

SCHEDULE III

Persons and Entities who own Class A Preferred Interests of the Non-Managing General Partner

Alton Parker Carter
Gregory L. Chappell
Randy Claiborne
Richard A. Garner
Elaine H. Johnson
Cynthia B. Kibler
H. Faye Owen
Elaine H. Trujillo
James Warren Rogers
Michael L. Hendren
Peter H. Wilson
George Upchurch, Sr.
Shirley Upchurch
George Upchurch, Jr.
Zero Butane Gas, Inc.
Donald Ray Kerr
John W. Thompson
Judy G. Carpenter
Inergy Holdings, LLC

SCHEDULE IV

Pursuant to Section 6(g) of the Underwriting Agreement, Ernst & Young L.L.P. shall furnish letters to the Underwriters to the effect that:

(i) They are independent certified public accountants with respect to the General Partners and the Partnership within the meaning of the 1933 Act and the applicable Rules and Regulations thereunder.

(ii) In their opinion, the financial statements and any supplementary financial information audited by them and included in the Prospectus or the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the applicable Rules and Regulations with respect to registration statements on Form S-1; and, if applicable, they have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the unaudited consolidated interim financial statements, selected financial data, pro forma financial information, prospective financial statements and/or condensed financial statements derived from audited financial statements of the Partnership for the periods specified in such letter, as indicated in their reports thereon, copies of which have been furnished to the Underwriters.

(iii) On the basis of limited procedures, not constituting an audit in accordance with generally accepted auditing standards, consisting of a reading of the unaudited financial statements and other information referred to below, performing the procedures specified by the AICPA for a review of interim financial information as discussed in SAS No. 71, Interim Financial Information, on the latest available interim financial statements of the Partnership Group, inspection of the minute books of the Partnership Group since the date of the latest audited financial statements included in the Prospectus, inquiries of officials of the Partnership Group responsible for financial and accounting matters and such other inquiries and procedures as may be specified in such letter, nothing came to their attention that caused them to believe that:

(A) any material modifications should be made to the unaudited statements of consolidated income, statements of consolidated financial position and statements of consolidated cash flows included in the Prospectus for them to be in conformity with generally accepted accounting principles, or the unaudited statements of consolidated income, statements of consolidated financial position and statements of consolidated cash flows included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the related published Rules and Regulations thereunder.

(B) any other unaudited income statement data and balance sheet items included in the Prospectus do not agree with the corresponding items in the unaudited consolidated financial statements from which such data and items were derived, and any such unaudited data and items were not determined on a basis substantially consistent with the basis for the corresponding amounts in the audited consolidated financial statements included in the Prospectus.

(C) the unaudited financial statements which were not included in the Prospectus but from which were derived any unaudited condensed financial statements referred to in Clause (A) and any unaudited income statement data and balance sheet items included in the Prospectus and referred to in Clause (B) were not determined on a basis substantially consistent with the basis for the audited consolidated financial statements included in the Prospectus.

(D) any unaudited pro forma consolidated condensed financial statements included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the published rules and regulations thereunder or the pro forma adjustments have not been properly applied to the historical amounts in the compilation of those statements.

(E) as of a specified date not more than five days prior to the date of such letter, there have been any changes in the consolidated capital stock or any increase in the consolidated long-term debt of the Partnership Group, or any decreases in consolidated working capital, net current assets or net assets, or any changes in any other items specified by the Underwriters, in each case as compared with amounts shown in the latest balance sheet included in the Prospectus, except in each case for changes, increases or decreases which the Prospectus discloses have occurred or may occur or which are described in such letter.

(F) for the period from the date of the latest financial statements included in the Prospectus to the specified date referred to in Clause (E) there were any decreases in consolidated net revenues or operating profit or the total or per share amounts of consolidated net income or any changes in any other items specified by the Underwriters, in each case as compared with the comparable period of the preceding year and with any other period of corresponding length specified by the Underwriters, except in each case for changes, decreases or increases which the Prospectus discloses have occurred or may occur or which are described in such letter.

(iv) In addition to the audit referred to in their report(s) included in the Prospectus and the limited procedures, inspection of minute books, inquiries and other procedures referred to in paragraph (iii) above, they have carried out certain specified procedures, not constituting an audit in accordance with generally accepted auditing standards, with respect to certain amounts, percentages and financial information specified by the Underwriters, which are derived from the general accounting records of the Partnership Group for the periods covered by their reports and any interim or other periods since the latest period covered by their reports, which appear in the Prospectus, or in Part II of, or in exhibits and schedules to, the Registration Statement specified by the Underwriters, and have compared certain of such amounts, percentages and financial information with the accounting records of the Partnership Group and have found them to be in agreement.

Exhibit 3.3

CERTIFICATE OF FORMATION
OF
MCCRACKEN OIL & PROPANE COMPANY, LLC

The undersigned, for the purpose of forming a limited liability company (the "Company") under the Delaware Limited Liability Company Act (the "Act"), hereby makes, acknowledges and files this Certificate of Formation:

FIRST. The name of the Company is:

McCracken Oil & Propane Company, LLC

SECOND. The address of the Company's registered office in the State of Delaware is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801. The name of its registered agent at such address for service of process is The Corporation Trust Company.

THIRD. The Company shall commence its existence on the date this Certificate of Formation is filed with the Delaware Secretary of State.

IN WITNESS WHEREOF, the undersigned, for the purpose of forming a limited liability company under the Act, has executed this Certificate of Formation this 21st day of October, 1996.

/s/ RICHARD N. NIXON
By: _____
Richard N. Nixon
Authorized Person

EXHIBIT 3.3

CERTIFICATE OF AMENDMENT
TO
CERTIFICATE OF FORMATION
OF
MCCRACKEN OIL & PROPANE COMPANY, LLC

The undersigned sole member of McCracken Oil & Propane Company, LLC (the "Company"), for the purpose of amending the Company's Certificate of Formation under the Delaware Limited Liability Company Act (the "Act"), hereby makes, acknowledges and files this Certificate of Amendment.

The current name of the Company is McCracken Oil & Propane Company, LLC. The following paragraph of the Certificate of Formation is hereby amended as follows:

FIRST. The name of the Company is hereby changed to:

INERGY PROPANE, LLC

IN WITNESS WHEREOF, the undersigned, for the purpose of amending the Certificate of Formation of the Company under the Act, has executed this Certificate of Amendment this 20th day of September, 1999.

INERGY PARTNERS, LLC

/s/ John J. Sherman
By: _____
Name: John J. Sherman
Title: President

# SECOND AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT OF INERGY PROPANE, LLC

THIS SECOND AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT (the "Agreement") is entered into as of September 30, 1999, between Inergy Partners, LLC, a Delaware limited liability company ("IP"), Wilson Oil Company of Johnston County, Inc., a North Carolina corporation ("Wilson Oil") and Rolesville Gas and Oil Company, Inc., a North Carolina corporation ("Rolesville Oil").

## RECITALS

A. IP and Warren Rogers, an individual ("Rogers") caused McCracken Oil & Propane Company, LLC ("McCracken") to be formed as a limited liability company under the Delaware Limited Liability Company Act on October 25, 1996.

B. IP, Rogers and the Employee Investor Group (as defined in the Amendment) were parties to the Limited Liability Company Agreement of McCracken, dated November 4, 1996 (the "Initial LLC Agreement"), as amended by that certain Amendment to Limited Liability Company Agreement of McCracken, dated October 21, 1997 (the "Amendment").

C. Rogers and the members of the Employee Investor Group exchanged their membership interests in McCracken for cash or certain membership interests in IP pursuant to those certain Consents to Exchange of Interests, each dated as of September 30, 1998, and as a result are no longer members of the Company.

D. IP then amended and restated in its entirety the Initial LLC Agreement in that certain Amended and Restated Limited Liability Company Agreement of McCracken, dated as of September 30, 1998 (the "First Amended and Restated LLC Agreement") to, among other things, eliminate various provisions applicable only to Rogers and the Employee Investor Group.

E. IP, Wilson Oil and Rolesville Oil now desire to amend and restate in its entirety the First Amended and Restated LLC Agreement to, among other things, provide for common and preferred limited liability company interests, change the name of the limited liability company to Inergy Propane, LLC (the "Company") and admit certain new Members to the Company.

NOW, THEREFORE, in consideration of the premises and the mutual agreements contained herein, the parties hereto agree to amend and restate the First Amended and Restated LLC Agreement in its entirety as follows:

## ARTICLE I
## DEFINITIONS

1.1 Definitions Generally. Unless defined specifically herein, terms relating to a limited liability company shall have the meanings given to them in the Delaware Limited Liability Company Act.

1.2 Terms Defined Herein. As used herein, the following terms shall have the following meanings, unless the context otherwise specifies:

"ACT" means the Delaware Limited Liability Company Act, as amended from time to time.

"ADDITIONAL CAPITAL CALL" has the meaning set forth in Section 3.2 hereof.

"ADDITIONAL DISTRIBUTIONS" has the meaning set forth in Section 4.3 hereof.

"ADJUSTED CAPITAL ACCOUNT DEFICIT" means, with respect to each Member, the deficit balance, if any, in such Member's Common Capital Account and/or Preferred Capital Account as of the end of the relevant fiscal year, after giving effect to the following adjustments: (i) increased for any amounts such Member is unconditionally obligated to restore and the amount of such Member's share of Company Minimum Gain and Member Minimum Gain after taking into account any changes during such year; and (ii) reduced by the items described in Treasury Regulations (S) 1.704-1(b)(2)(ii)(d)(4), (5) and (6).

"AFFILIATE" means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such Person. For the purposes of this definition, "control," when used with respect to any Person means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"AGREEMENT" means this Second Amended and Restated Limited Liability Company Agreement of Inergy Propane, LLC, as amended from time to time.

"ASSET PURCHASE AGREEMENT" means the Asset Purchase Agreement, dated November 6, 1996 between McCracken and McCracken Enterprises, Inc. under which McCracken purchased from McCracken Enterprises, Inc. certain real estate, fixed assets and related properties, assets and facilities.

"BANKRUPTCY", with respect to any Person, means the entry of an order for relief against such Person under the Federal Bankruptcy Code or the insolvency of such Person under any state insolvency act.

"BUSINESS DAY" shall mean any day other than a Saturday or Sunday or a day on which banking institutions in Wake Forest, North Carolina are authorized or obligated to close.

"CERTIFICATE" means the Certificate of Formation of the Company filed with the Secretary of State of Delaware, as amended from time to time.

"CODE" means the Internal Revenue Code of 1986, as amended from time to time, or the corresponding provisions of future laws.

"COMMON CAPITAL ACCOUNT" means the separate account established and maintained by the Company for each Common Member pursuant to Section 3.5 hereof.

"COMMON INTEREST" means any Interest designated as such on Schedule A attached hereto.

"COMMON MEMBER" means any Member to the extent that such Member holds a Common Interest. All Common Members shall be Voting Members to the extent of their Common Interest.

"COMMON PERCENTAGE INTEREST" means a Common Member's percentage of the Common Interests in the Company including such Common Member's percentage of the net income, gain, loss, deductions and credits of the Company allocated to such Common Members. The Common Percentage Interest of each Common Member, prior to any adjustments thereto required by the provisions of this Agreement, shall be as set forth on Schedule A attached hereto.

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

"COMPANY MINIMUM GAIN" shall have the same meaning as the term "partnership minimum gain" set forth in Treasury Regulation (S) 1.704-2(d)(1). Company Minimum Gain shall be determined, first, by computing for each Nonrecourse Debt any gain that the Company would realize if the Company disposed of the property subject to that liability for no consideration other than full satisfaction of such liability and, then, aggregating the separately computed gains. For purposes of computing gain, the Company shall use the basis of such property that is used for purposes of determining the amount of the Common Capital Accounts and the Preferred Capital Accounts under Section 3.5 hereof. In any taxable year in which a Revaluation occurs, the net increase or decrease in Company Minimum Gain for such taxable year shall be determined by: (1) calculating the net decrease or increase in Company Minimum Gain using the current year's book value and the prior year's amount of Company Minimum Gain, and (2) adding back any decrease in Company Minimum Gain arising solely from the Revaluation.

"CONTRIBUTING MEMBER" has the meaning set forth in Section 3.3 hereof.

"CREDITS" means all tax credits allowed by the Code with respect to activities of the Company or the Property.

"DISTRIBUTIONS" means any distributions by the Company to the Common Members or Preferred Members of Liquidation Proceeds, Tax Distributions, Preferred Distributions or Additional Distributions.

"FAIR VALUE" of an asset means its fair market value.

"GAAP" means generally accepted accounting principles.

"ILLIQUID ASSETS" has the meaning set forth in Section 3.4 hereof.

"INCOME" and "LOSS" mean, respectively, for each fiscal year or other period, an amount equal to the Company's taxable income or loss for such year or period, determined in accordance with Code Section 703(a), except that for this purpose (i) all items of income, gain, deduction or loss required to be separately stated by Code Section 703(a)(1) shall be included in taxable income or loss; (ii) tax exempt income shall be added to taxable income or loss; (iii) any

expenditures described in Code Section 705(a)(2)(B) (or treated as Code Section 705(a)(2)(B) expenditures pursuant to Treasury Regulation (S) 1.704-1(b)(2)(iv)(i)) and not otherwise taken into account in computing taxable income or loss shall be subtracted; and (iv) taxable income or loss shall be adjusted to reflect any item of income or loss specially allocated in Article IV hereof.

"INITIAL CONTRIBUTIONS" means either the initial or the restated value of the capital contributed by the Members for their Interests.

"INITIAL LLC AGREEMENT" means the Limited Liability Company Agreement of McCracken, dated November 24, 1996.

"INTEREST" means either a Preferred Interest or a Common Interest. The type of Interest held by each Member shall be as set forth on Schedule A attached hereto.

"LIQUIDATION PROCEEDS" means all Property at the time of liquidation of the Company and all proceeds thereof.

"MEMBER" means each Person executing this Agreement, including a Substitute Member, if any.

"MEMBER MINIMUM GAIN" shall have the same meaning as the term "partner nonrecourse debt minimum gain" as set forth in Treasury Regulation (S) 1.704-2(i)(3). With respect to each Member Nonrecourse Debt, Member Minimum Gain shall be determined by computing for each Member Nonrecourse Debt any gain that the Company would realize if the Company disposed of the property subject to that liability for no consideration other than full satisfaction of such liability. For purposes of computing gain, the Company shall use the basis of such property that is used for purposes of determining the amount of the Common Capital Accounts and the Preferred Capital Accounts under Section 3.5 hereof. In any taxable year in which a Revaluation occurs, the net increase or decrease in Member Minimum Gain for such taxable year shall be determined by: (1) calculating the net decrease or increase in Member Minimum Gain using the current year's book value and the prior year's amount of Member Minimum Gain, and (2) adding back any decrease in Member Minimum Gain arising solely from the Revaluation.

"MEMBER NONRECOURSE DEBT" shall have the same meaning as the term "partner nonrecourse debt" set forth in Treasury Regulation (S) 1.704-2(b)(4).

"MEMBER NONRECOURSE DEDUCTIONS" shall have the same meaning as the term "partner nonrecourse deductions" set forth in Treasury Regulation (S) 1.704-2(i)(2). Generally, the amount of Member Nonrecourse Deductions with respect to a Member Nonrecourse Debt for a fiscal year equals the net increase during the year in the amount of the Member Minimum Gain (determined in accordance with Treasury Regulation (S) 1.704-2(i)) reduced (but not below zero) by the aggregate distributions made during the year of proceeds of Member Nonrecourse Debt and allocable to the increase in Member Minimum Gain determined according to the provisions of Treasury Regulation (S) 1.704-2(i).

"NON-CONTRIBUTING MEMBER" has the meaning set forth in Section 3.3 hereof.

"NONRECOURSE DEBT" means a Company liability with respect to which no Member bears the economic risk of loss as determined under Treasury Regulations (S)(S) 1.752-1(a)(2) and 1.752-2.

"NONRECOURSE DEDUCTIONS" shall have the same meaning as the term "nonrecourse deductions" set forth in Treasury Regulation (S) 1.704-2(c). Generally, the amount of Nonrecourse Deductions for a fiscal year equals the net increase in the amount of Company Minimum Gain (determined in accordance with Treasury Regulation (S) 1.704-2(d)) during such year reduced (but not below zero) by the aggregate distributions made during the year of proceeds of a Nonrecourse Debt that are allocable to the increase in Company Minimum Gain, determined according to the provisions of Treasury Regulation (S) 1.704-2(c) and (h).

"NON-VOTING MEMBER" is a Member who is not entitled to vote in any matter requiring a vote under the terms of this Agreement.

"OPERATING INCOME" means the gross receipts of the Company minus the cost of goods sold of the Company.

"PERSON" means any individual, partnership, limited liability company, corporation, association, cooperative, estate, trust, custodian, nominee or any other individual or entity in its own or any representative capacity.

"PREFERRED CAPITAL ACCOUNT" means the separate account established and maintained by the Company for each Preferred Member pursuant to Section 3.5 hereof.

"PREFERRED DISTRIBUTION" has the meaning set forth in Section 4.2 hereof.

"PREFERRED INTEREST" means any Interest designated as such on Schedule A attached hereto.

"PREFERRED MEMBER" means any Member to the extent that such Member holds a Preferred Interest. All Preferred Members shall be Non-Voting Members to the extent of their Preferred Interest.

"PREFERRED PERCENTAGE INTEREST" means a Preferred Member's percentage of the Preferred Interests in the Company including such Preferred Member's percentage of the net income, gain, loss, deductions and credits of the Company allocated to such Preferred Members. The Preferred Percentage Interest and the initial Preferred Capital Account balance of each Preferred Member, prior to any adjustments thereto required by the provisions of this Agreement, shall be as set forth on Schedule A attached hereto.

"PROPERTY" means all properties and assets, including intellectual property, contract rights and other intangible assets, that the Company may own or otherwise have an interest in from time to time.

"REPRESENTATIVE" has the meaning set forth in Section 5.1 hereof.

"RESERVES" means amounts set aside from time to time by the Members pursuant to Section 4.10 hereof.

"REVALUATION" shall mean the occurrence of any event described in clause (x), (y) or (z) of Section 3.5(b) hereof in which the book basis of Property is adjusted to its Fair Value.

"SUBSTITUTE MEMBER" has the meaning set forth in Section 7.6 hereof.

"TAX DISTRIBUTION" has the meaning set forth in Section 4.1 hereof.

"TAX MATTERS PARTNER" means the Member designated pursuant to Section 6.4 hereof to represent the Company in matters before the Internal Revenue Service.

"TRANSFER" means (i) when used as a verb, to give, sell, exchange, assign, transfer, lease, pledge, hypothecate, bequeath, devise or otherwise dispose of or encumber, and (ii) when used as a noun, the nouns corresponding to such verbs, in either case voluntarily or involuntarily, by operation of law or otherwise.

"TRANSFEREE" has the meaning set forth in Section 7.1 hereof.

"TRANSFEROR" means any Member Transferring his or her Interest in accordance with the provisions of this Agreement.

"TREASURY REGULATIONS" means the regulations promulgated by the Treasury Department with respect to the Code, as such regulations are amended from time to time, or the corresponding provisions of future regulations.

"VOTING MEMBER" is a Member who is entitled to vote in all matters requiring a vote under the terms of this Agreement.

"VOTING MEMBER MAJORITY" means those Voting Members holding a majority of the Common Percentage Interests held by all Voting Members.

1.3 Other Definitional Provisions.

(a) As used in this Agreement, accounting terms not defined in this Agreement, and accounting terms partly defined to the extent not defined, shall have the respective meanings given to them under GAAP.

(b) The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and section, subsection, schedule and exhibit references are to this Agreement unless otherwise specified.

(c) Words of the masculine gender shall be deemed to include the feminine or neuter genders, and vice versa, where applicable. Words of the singular number shall be deemed to include the plural number, and vice versa, where applicable.

## ARTICLE II
## BUSINESS PURPOSES AND OFFICES

2.1 Name; Business Purpose.

(a) The name of the Company shall be as stated in the Certificate. The name of the Company may be changed from time to time by the Voting Member Majority.

(b) The purpose of the Company is to own the assets, properties and facilities purchased by the Company pursuant to the Asset Purchase Agreement, to use such assets to market and distribute propane gas and other petroleum related products (including, without limitation, short truck delivery of distillates and gasoline), selling parts, appliances and supplies related thereto, and operating a Radio Shack franchise, to do any and all things necessary or incidental thereto, and to engage in such other business as the Voting Member Majority deems in the best interests of the Company.

2.2 Powers. The Company may carry on any lawful business, purpose or activity permitted by the Act and shall possess and may exercise all the powers granted by the Act, any other law, or this Agreement, together with any powers incidental thereto, as far as such powers and privileges are necessary or convenient to the conduct, promotion or attainment of the business, purposes or activities of the Company.

2.3 Principal Office. The principal office of the Company shall be located at 2010 South Main Street, Suite 402, Wake Forest, North Carolina, or at such other place(s) as the Voting Member Majority may determine from time to time.

2.4 Registered Office and Registered Agent. The location of the registered office and the name of the registered agent of the Company in the State of Delaware shall be as stated in the Certificate. The registered office and registered agent of the Company in the State of Delaware may be changed, from time to time, by the Voting Member Majority.

2.5 Amendment of the Certificate. The Company shall amend the Certificate at such time or times and in such manner as may be approved by the Voting Member Majority or as required by the Act or this Agreement.

2.6 Liability of Members. No Member, Representative or officer, solely by reason of being a Member, Representative or officer, shall be liable, under a judgment, decree or order of a court, or in any other manner, for any debt, obligation or liability of the Company, whether arising in contract, tort or otherwise, or for the acts or omissions of the other Members or any other Representative or officer of the Company. The failure of the Company to observe any formalities or requirements relating to the exercise of its powers or management of its business or affairs under this Agreement or the Act shall not be grounds for imposing liability on the Members, Representatives or officers for liabilities of the Company.

2.7 Authority; Investment Intent; Restriction Against Transfer. Each Member warrants to the Company and to the other Members that: (a) the Member is duly organized, validly existing and in good standing under the laws of its state of organization, if applicable, and that the Member has the requisite power and authority to execute this Agreement and to perform its obligations hereunder; (b) the Member is acquiring an Interest for such Member's own

account as an investment and without any intent to distribute such Interest or any portion thereof or interest therein; and (c) the Member acknowledges that the Interests have not been registered under the Securities Act of 1933 or any state securities laws, and such Member's Interest may not be resold or transferred except as provided in Article VII hereof and except pursuant to a registration statement under or an exemption from the registration provisions of the federal and applicable state securities laws.

## ARTICLE III
## CAPITAL CONTRIBUTIONS AND LOANS

3.1 Initial Capital Accounts and Percentage Interests. The initial or restated Common Capital Account, the initial Preferred Capital Account, the initial or restated Common Percentage Interest and/or the initial Preferred Percentage Interest, as the case may be, of each Member shall be as set forth opposite such Member's name on Schedule A attached hereto.

3.2 Additional Capital Calls. The Common Members recognize that the Company may require from time to time, in addition to the Initial Contributions, capital in order to accomplish the purpose and business of the Company. Accordingly, additional cash capital contributions ("Additional Capital Calls") may be called for from time to time by the Voting Member Majority. Within ten Business Days after the date such Additional Capital Call is declared by the Voting Member Majority, each Common Member shall be entitled to contribute, in cash, to the capital of the Company an amount (the "Additional Contribution") equal to such Common Member's Common Percentage Interest at the time of the Additional Capital Call multiplied by the aggregate additional capital contributions. No Common Member shall be obligated to make any Additional Contributions to the Company and, accordingly, no Common Member shall be liable for damage to the Company or any other Common Member as a result of the failure of such Common Member to make any such Additional Contributions. The remedies set forth in Section 3.3 below shall be the sole remedies for any such failure.

3.3 Percentage Interest Adjustments.

(a) If the Common Capital Accounts of the Common Members are adjusted pursuant to Section 3.5(b), then, after such adjustments are made, the Common Percentage Interests of the Common Members will be correspondingly adjusted as follows:

(i) Effective as of ten Business Days after the last date a capital contribution under Section 3.2 above may be made, the Common Percentage Interests of the Common Members shall be automatically adjusted to take account of such failure of such Common Member to make such capital contribution. The Common Percentage Interest of each Common Member shall be the respective percentage obtained by dividing the total balance in such Common Member's Common Capital Account as of such date by the total balance in all Common Members' Common Capital Accounts as of such date. Any payment by a Contributing Member of all or a portion of a Non-Contributing Member's contribution pursuant to Section 3.3(a)(ii) below shall result in a comparable adjustment in the Common Percentage Interests of the Common Members. The sum of the Common Percentage Interests of the Common Members, as adjusted

in accordance with this Section 3.3(a)(i), shall equal 100%. Any increase in the Common Percentage Interest of a Common Member pursuant to this Section 3.3(a)(i) shall have the same designation as a Common Interest as the Common Percentage Interest held by such Common Member prior to any such increase.

(ii) If any Common Member fails for any reason to make in a timely manner any part or all of an Additional Contribution called for under Section 3.2 (the "Unpaid Additional Contribution"), such Common Member shall be deemed a "Non-Contributing Member" and the Company shall promptly give written notice of the failure to contribute to all Common Members. Each of the Common Members contributing their pro-rata share of an Additional Contribution (the "Contributing Members") shall have the right, but not the obligation, for a period of 10 days after notice of such failure to contribute by a Non-Contributing Member is given, to contribute to the Company an amount equal to (A) the amount of each Non-Contributing Member's Unpaid Additional Contribution multiplied by a fraction the numerator of which is the Contributing Member's Common Percentage Interest at the time of the Additional Capital Call and the denominator of which is the sum of the Common Percentage Interests of all Contributing Members who desire to contribute to the Company such Contributing Members' pro-rata share of the Non-Contributing Member's Unpaid Additional Contribution or (B) such greater amount of the Non-Contributing Member's Unpaid Additional Contribution as shall be agreed upon by all of such Contributing Members. Upon the payment by the Contributing Members of all or a portion of the Non-Contributing Member's Unpaid Additional Contribution, the Common Percentage Interests of the Common Members shall be adjusted as provided in Section 3.3(a)(i) above. Any increase in the Common Percentage Interest of a Common Member pursuant to this Section 3.3(a)(ii) shall have the same designation as a Common Interest as the Common Percentage Interest held by such Common Member prior to any such increase.

(b) The Company shall not dissolve as a result of any failure by a Common Member to make a capital contribution under Section 3.2 above, unless the Voting Member Majority following such a failure elects to dissolve the Company.

3.4 Capital Account Adjustments and Revaluation. If a Common Member fails for any reason to make a capital contribution under Section 3.2 above within ten Business Days after the last date such capital contribution may be made (the "Default Date"), then the Common Capital Accounts of the Common Members will be adjusted pursuant to Section 3.5(b) hereof. For purposes of adjustments made pursuant to this Section 3.4, the Fair Value of the Company's assets shall be determined as follows:

(i) Cash, deposit accounts, United States securities with a maturity of 90 days or less or other cash equivalents shall be valued at the principal or par amounts with accrued interest thereon, if any, through the Default Date.

(ii) All securities and commodities which are traded on a generally recognized exchange shall be valued at the closing price, or if applicable the average of the bid and ask price, on the Default Date.

(iii) All assets of the Company which are not described in subparagraphs (i) or (ii) above and which would be current assets of the Company under the accrual method of accounting shall be valued in an amount equal to their book value determined in accordance with generally accepted accounting principles consistently applied as if the Company applied the accrual method of accounting.

(iv) All assets not described in the preceding subparagraphs (i) through (iii) (the "Illiquid Assets") shall be valued in an amount equal to the Fair Value of such Illiquid Assets as determined by a Voting Member Majority.

3.5 Capital Accounts.

(a) A separate Common Capital Account shall be maintained for each Common Member. Each Common Member's Common Capital Account shall be (i) increased by (a) the amount of money contributed by such Common Member, (b) the Fair Value of property contributed by such Common Member (net of liabilities secured by such contributed property that the Company is considered to assume or take subject to under Code Section 752), (c) allocations to such Common Member, pursuant to Article IV hereof, of Company income and gain (or items thereof), and (d) to the extent not already netted out under clause (ii)(b) below, the amount of any Company liabilities assumed by the Common Member or which are secured by any property distributed to such Common Member; and (ii) decreased by (a) the amount of money distributed to such Common Member, (b) the Fair Value of property distributed to such Common Member (net of liabilities secured by such distributed property that such Common Member is considered to assume or take subject to under Code Section 752), (c) allocations to such Common Member, pursuant to Article IV hereof, of Company loss and deductions (or items thereof), and (d) to the extent not already netted out under clause (i)(b) above, the amount of any liabilities of the Common Member assumed by the Company or which are secured by any property contributed by such Common Member to the Company.

A separate Preferred Capital Account shall be maintained for each Preferred Member. Each Preferred Member's Preferred Capital Account shall be (i) increased by (a) the amount of money contributed by such Preferred Member, (b) the Fair Value of property contributed by such Preferred Member (net of liabilities secured by such contributed property that the Company is considered to assume or take subject to under Code Section 752), (c) allocations to such Preferred Member, pursuant to Article IV hereof, of Company income and gain (or items thereof), and (d) to the extent not already netted out under clause (ii)(b) below, the amount of any Company liabilities assumed by the Preferred Member or which are secured by any property distributed to such Preferred Member; and (ii) decreased by (a) the amount of money distributed to such Preferred Member, (b) the Fair Value of property distributed to such Preferred Member (net of

liabilities secured by such distributed property that such Preferred Member is considered to assume or take subject to under Code Section 752), (c) allocations to such Preferred Member, pursuant to Article IV hereof, of Company loss and deductions (or items thereof), and (d) to the extent not already netted out under clause (i)(b) above, the amount of any liabilities of the Preferred Member assumed by the Company or which are secured by any property contributed by such Preferred Member to the Company.

In the event any Interest is transferred in accordance with the terms of this Agreement, the Transferee shall succeed to the Common Capital Account and/or the Preferred Capital Account of the Transferor to the extent it relates to the transferred interest, and the Common Capital Account and/or the Preferred Capital Account of each Transferee shall be increased and decreased in the manner set forth above.

(b) In the event of (x) an additional capital contribution by a Common Member that results in a shift in Common Percentage Interests, (y) the distribution by the Company to a Common Member of more than a de minimis amount of property (other than cash) or a distribution of property as consideration for a Common Interest or (z) the liquidation of the Company within the meaning of Treasury Regulation (S) 1.704-1(b)(2)(ii)(g), the book basis of the Property shall be adjusted to Fair Value and the Common Capital Accounts of the Common Members shall be adjusted simultaneously to reflect the aggregate net adjustment to book basis as if the Company recognized gain or loss equal to the amount of such aggregate net adjustment.

(c) In the event that Property is subject to Code Section 704(c) or is revalued on the books of the Company in accordance with paragraph (b) above pursuant to Treasury Regulation (S) 1.704-1(b)(2)(iv)(f), the Members' Common Capital Accounts and/or Preferred Capital Accounts shall be adjusted in accordance with Treasury Regulation (S) 1.704-1(b)(2)(iv)(g) for allocations to the Members of depreciation, amortization and gain or loss, as computed for book purposes (and not tax purposes) with respect to such Property.

(d) The foregoing provisions of this Section 3.5 and the other provisions of this Agreement relating to the maintenance of the Common Capital Accounts and/or the Preferred Capital Accounts are intended to comply with Treasury Regulations (S)(S) 1.704-1(b) and 1.704-2, and shall be interpreted and applied in a manner consistent with such Treasury Regulations. In the event the Members determine that it is prudent or advisable to modify the manner in which the Common Capital Accounts and/or the Preferred Capital Accounts, or any increases or decreases therein, are computed in order to comply with such Treasury Regulations, the Members may cause such modification to be made, provided such modification is not likely to have a material effect on the amounts distributable to any Member upon the dissolution of the Company.

3.6 Capital Withdrawal Rights, Interest and Priority. Except as expressly provided in this Agreement, no Member shall be entitled to withdraw or reduce such Member's Common Capital Account or Preferred Capital Account or to receive any Distributions. No Member shall be entitled to demand or receive any Distributions in any form other than in cash. No Member shall be entitled to receive or be credited with any interest on the balance in such Member's

Common Capital Account or Preferred Capital Account at any time. Except as may be otherwise expressly provided herein, no Member shall have any priority over any other Member as to the return of the balance in such Member's Common Capital Account or Preferred Capital Account.

3.7 Loans. Any Member may advance funds as a loan to the Company in such amounts, at such times and on such terms and conditions as may be approved by the Voting Member Majority. Loans by a Member to the Company shall not be considered as contributions to the capital of the Company.

## ARTICLE IV
## ALLOCATIONS AND DISTRIBUTIONS

4.1 Distributions to Pay Taxes. With respect to any tax year in which the Company shall report taxable income, the Company shall distribute to the Common Members, based upon their respective Common Percentage Interests at the time of such distribution, an aggregate amount equal to the Company's taxable income, plus or minus other items of income, gain, loss or deduction passing through to the Common Members, times the sum of the effective applicable Federal income tax rate and the higher of North Carolina or Missouri state income tax rates and assuming that each Common Member is an individual paying Federal and state income tax at the highest marginal income tax rates with respect to the applicable type of income (a "Tax Distribution"). All Tax Distributions shall be made at a time sufficient to enable the Common Members to pay any required estimated tax payments.

4.2 Preferred Distributions. On or before the last Business Day of each month immediately following the end of each calendar quarter (a "Due Date"), commencing with the calendar quarter ending December 31, 1999, the Company shall distribute cash to each Preferred Member in an amount equal to the initial balance in such Preferred Member's Preferred Capital Account multiplied by 2.0% (a "Preferred Distribution"); provided, however, no such Preferred Distribution shall be required if such distribution would, as reasonably determined by a Voting Member Majority, cause a default under any agreement or covenant between a bank or other lending institution and the Company or any one of its Affiliates (any such limitation that precludes payment of a Preferred Distribution being referred to as the "Limitation"). In the event any Preferred Distribution, or portion thereof, is not made with respect to a calendar quarter, such Preferred Distribution, or portion thereof (the "Accrued Preferred Distribution"), shall accumulate and be payable at such time as the Limitation no longer prevents payment. In addition, with respect to any such Accrued Preferred Distribution there shall be payable an amount equal to (A) times (B) times (C), where (A) equals such Accrued Preferred Distribution, (B) equals a percentage equal to the higher of the Company's cost of funds or the cost of funds of any of the Affiliates of the Company, and (C) equals a fraction, the numerator of which is the number of days since the Due Date of such Accrued Preferred Distribution or the most recent anniversary thereof, and the denominator of which is 365 (such additional amount and any unpaid portion thereof is hereinafter referred to as the "Arrearage"). If any Arrearage is not paid by an anniversary of the Due Date of the related Accrued Preferred Distribution, then such Arrearage shall be added to and become a part of the Accrued Preferred Distribution as of such anniversary date and shall no longer be an "Arrearage" hereunder. All payments made pursuant to this Section 4.2 shall be applied first to any Arrearage and then to the Accrued Preferred Distribution.

4.3 Additional Cash Distributions. The Company shall make, from time to time, such distributions as shall be determined by the Voting Member Majority (an "Additional Distribution"); provided, however, no such Additional Distributions shall be made if there are accrued but unpaid Preferred Distributions under Section 4.2 hereof. Such Additional Distributions shall be distributed to the Common Members in accordance with their respective Common Percentage Interests, as adjusted.

4.4 Liquidation Distributions. Liquidation Proceeds shall be distributed in the following order of priority:

(a) First, to the payment of any Accrued Preferred Distributions and Arrearages under Section 4.2 hereof.

(b) Next, to the payment of debts and liabilities of the Company (including to Members to the extent otherwise permitted by law) and the expenses of liquidation.

(c) Next, to the setting up of such reserves as the Person required or authorized by law to wind up the Company's affairs may reasonably deem necessary or appropriate for any disputed, contingent or unforeseen liabilities or obligations of the Company, provided that any such reserves shall be paid over by such Person to an independent escrow agent, to be held by such agent or its successor for such period as such Person shall deem advisable for the purpose of applying such reserves to the payment of such liabilities or obligations and, at the expiration of such period, the balance of such reserves, if any, shall be distributed as hereinafter provided.

(d) Next, to the Preferred Members in proportion to and to the extent of their respective positive Preferred Capital Account balances.

(e) Next, to the Common Members in proportion to and to the extent of their respective positive Common Capital Account balances after taking into account the allocation of all Operating Income, Income or Loss pursuant to this Agreement for the fiscal year(s) in which the Company is liquidated.

(f) Next, to the Common Members in accordance with their respective Common Percentage Interests, as adjusted.

4.5 Profits, Losses and Distributive Shares of Tax Items. The Company's net income or net loss, as the case may be, for each fiscal year of the Company or part thereof, as determined in accordance with such method of accounting as may be adopted for the Company pursuant to Article VI hereof, shall be allocated to the Members for both financial accounting and income tax purposes as set forth in this Article IV, except as otherwise provided for herein or unless decided otherwise by the Voting Member Majority.

4.6 Allocation of Operating Income, Income, Loss and Credits.

(a) Operating Income, Income or Loss and Credits shall be allocated among the Members as follows:

(i) Loss shall be allocated among the Members in the following order of priority:

(A) First to the Common Members in proportion to and to the extent of their respective positive Common Capital Account balances; then

(B) To the Preferred Members in proportion to and to the extent of their respective positive Preferred Capital Account balances; then

(C) To the Common Members in accordance with their respective Common Percentage Interests, as adjusted.

(ii) Operating Income, Income and Credits shall be allocated among the Members in the following order of priority:

(A) First, Operating Income shall be allocated to the Preferred Members in accordance with their respective Preferred Percentage Interests until the cumulative amount of Operating Income allocated pursuant to this subparagraph (A) equals the cumulative amount of cash actually distributed to the Preferred Members pursuant to Section 4.2 hereof; then

(B) Income shall be allocated to the Common Members, on a pro rata basis in accordance with the amounts previously allocated to such Common Members under Section 4.6(a)(i)(C) hereof, until the cumulative amount of Income allocated pursuant to this subparagraph (B) equals the cumulative amount of Losses allocated to the Common Members pursuant to Section 4.6(a)(i)(C) hereof; then

(C) Income shall be allocated to the Preferred Members, on a pro rata basis in accordance with the amounts previously allocated to such Preferred Members under Section 4.6(a)(i)(B) hereof, until the cumulative amount of Income allocated pursuant to this subparagraph (C) equals the cumulative amount of Losses allocated to the Preferred Members pursuant to Section 4.6(a)(i)(B) hereof; then

(D) Income shall be allocated to the Common Members, on a pro rata basis in accordance with the amounts previously allocated to such Common Members under Section 4.6(a)(i)(A) hereof, until the cumulative amount of Income allocated pursuant to this subparagraph (D) equals the cumulative amount of Losses allocated to the Common Members pursuant to Section 4.6(a)(i)(A) hereof; then

(E) Income and Credits shall be allocated to the Common Members in accordance with their respective Common Percentage Interests, as adjusted.

To the extent there is any adjustment in the respective Common Percentage Interests of the Common Members or the respective Preferred Percentage Interests of the Preferred Members, as the case may be, Operating Income, Income, Loss and Credits shall be allocated among the pre-adjustment and post-adjustment periods as provided in Section 4.7(k) below.

4.7 Special Rules Regarding Allocations. Notwithstanding the foregoing provisions of this Article IV, the following special rules shall apply in allocating the net income or net loss of the Company:

(a) Section 704(c) and Revaluation Allocations. In accordance with Code Section 704(c) and the Treasury Regulations thereunder, income, gain, loss and deduction with respect to any property contributed to the capital of the Company shall, solely for tax purposes, be allocated between the Members so as to take account of any variation between the adjusted basis of such property to the Company for federal income tax purposes and its Fair Value at the time of contribution. In the event of a Revaluation, subsequent allocations of income, gain, loss and deduction with respect to such property shall take account of any variation between the adjusted basis of such property to the Company for federal income tax purposes and its Fair Value immediately after the adjustment in the same manner as under Code Section 704(c) and the Treasury Regulations thereunder. Any elections or other decisions relating to such allocations shall be made by the Members in a manner that reasonably reflects the purpose and intention of this Agreement. Allocations pursuant to this Section 4.7(a) are solely for income tax purposes and shall not affect, or in any way be taken into account in computing, for book purposes, each Member's Common Capital Account, Preferred Capital Account or share of income or loss, pursuant to any provision of this Agreement.

(b) Minimum Gain Chargeback. Notwithstanding any other provision of this Article IV, if there is a net decrease in Company Minimum Gain during a Company taxable year, each Member shall be allocated items of income and gain for such year (and, if necessary, for subsequent years) in an amount equal to that Member's share of the net decrease in Company Minimum Gain during such year (hereinafter referred to as the "Minimum Gain Chargeback Requirement"). A Member's share of the net decrease in Company Minimum Gain is the amount of the total decrease multiplied by the Member's percentage share of the Company Minimum Gain at the end of the immediately preceding taxable year. A Member is not subject to the Minimum Gain Chargeback Requirement to the extent: (1) the Member's share of the net decrease in Company Minimum Gain is caused by a guarantee, refinancing or other change in the debt instrument causing it to become partially or wholly recourse debt or a Member Nonrecourse Debt, and the Member bears the economic risk of loss for the newly guaranteed, refinanced or otherwise changed liability; (2) the Member contributes capital to the Company that is used to repay the Nonrecourse Debt and the Member's share of the net decrease in Company Minimum Gain results from the repayment; or (3) the Minimum Gain Chargeback Requirement would cause a distortion and the Commissioner of the Internal Revenue Service waives such requirement.

A Member's share of Company Minimum Gain shall be computed in accordance with Treasury Regulation (S) 1.704-2(g) and as of the end of any Company taxable year shall equal: (1) the sum of the Nonrecourse Deductions allocated to that Member up to that time and the distributions made to that Member up to that time of proceeds of a Nonrecourse Debt allocable to an increase of Company Minimum Gain, minus (2) the sum of that Member's aggregate share of net decrease in Company Minimum Gain plus that Member's aggregate share of decreases resulting from revaluations of Property subject to Nonrecourse Debts. In addition, a Member's share of Company Minimum Gain shall be adjusted for the conversion of recourse and Member Nonrecourse Debts into Nonrecourse Debts in accordance with Treasury Regulation (S) 1.704-2(g)(3). In computing the above, amounts allocated or distributed to the Member's predecessor in interest shall be taken into account.

(c) Member Minimum Gain Chargeback. Notwithstanding any other provision of this Article IV other than Section 4.7(b) above, if there is a net decrease in Member Minimum Gain during a Company taxable year, each Member who has a share of the Member Minimum Gain (determined under Treasury Regulation (S) 1.704-2(i)(5) as of the beginning of the year) shall be allocated items of income and gain for such year (and, if necessary, for subsequent years) equal to that Member's share of the net decrease in Member Minimum Gain. In accordance with Treasury Regulation (S) 1.704-2(i)(4), a Member is not subject to this Member Minimum Gain Chargeback requirement to the extent the net decrease in Member Minimum Gain arises because the liability ceases to be Member Nonrecourse Debt due to a conversion, refinancing or other change in the debt instrument that causes it to be partially or wholly a Nonrecourse Debt. The amount that would otherwise be subject to the Member Minimum Gain Chargeback requirement is added to the Member's share of Company Minimum Gain.

(d) Qualified Income Offset. In the event a Member unexpectedly receives an adjustment, allocation or distribution described in Treasury Regulation (S)1.704.1(b)(2)(ii)(d)(4), (5) or (6), that causes or increases such Member's Adjusted Capital Account Deficit, items of Company income and gain shall be specially allocated to such Member in an amount and manner sufficient to eliminate such Adjusted Capital Account Deficit as quickly as possible, provided that an allocation under this Section 4.7(d) shall be made if and only to the extent such Member would have an Adjusted Capital Account Deficit after all other allocations under this Article IV have been made.

(e) Nonrecourse Deductions. Nonrecourse Deductions for any fiscal year or other period shall be allocated to the Common Members in proportion to their Common Percentage Interests, as adjusted.

(f) Member Nonrecourse Deductions. Any Member Nonrecourse Deductions shall be allocated to the Member that bears the risk of loss with respect to the loan to which such Member Nonrecourse Deductions are attributable in accordance with Treasury Regulation (S) 1.704-2(i).

(g) Curative Allocations. Any special allocations of items of income, gain, deduction or loss pursuant to Sections 4.7(b), (c), (d), (e) and (f) hereof shall be taken

into account in computing subsequent allocations of income and gain pursuant to this Article IV, so that the net amount of any items so allocated and all other items allocated to each Member pursuant to this Article IV shall, to the extent possible, be equal to the net amount that would have been allocated to each such Member pursuant to the provisions of this Article IV if such adjustments, allocations or distributions had not occurred. In addition, allocations pursuant to this Section 4.7(g) with respect to Nonrecourse Deductions in Section 4.7(e) above and Member Nonrecourse Deductions in Section 4.7(f) above shall be deferred to the extent the Members reasonably determine that such allocations are likely to be offset by subsequent allocations of Company Minimum Gain or Member Minimum Gain, respectively.

(h) Loss Allocation Limitation. Notwithstanding the other provisions of this Article IV, unless otherwise agreed to by the Voting Member Majority, no Member shall be allocated Loss in any taxable year that would cause or increase an Adjusted Capital Account Deficit as of the end of such taxable year.

(i) Share of Nonrecourse Liabilities. Solely for purposes of determining a Common Member's proportionate share of the "excess nonrecourse liabilities" of the Company within the meaning of Treasury Regulation (S) 1.752-3(a)(3), each Common Member's interest in Company profits is equal to such Common Member's respective Common Percentage Interest, as adjusted.

(j) Compliance with Treasury Regulations. The foregoing provisions of this Section 4.7 are intended to comply with Treasury Regulation (S)(S) 1.704-1(b), 1.704-2 and 1.752-1 through 1.752-5, and shall be interpreted and applied in a manner consistent with such Treasury Regulations. In the event it is determined by the Voting Member Majority that it is prudent or advisable to amend this Agreement in order to comply with such Treasury Regulations, the Voting Member Majority is empowered to so amend or modify this Agreement, notwithstanding any other provision of this Agreement.

(k) General Allocation Provisions. For purposes of determining the Operating Income, Income, Loss or any other items for any period, Operating Income, Income, Loss or any such other items shall be determined on a daily basis, using any permissible method under Code Section 706 and the Treasury Regulations thereunder.

4.8 Withholding of Distributions. Notwithstanding any other provision of this Agreement, a Voting Member Majority (or any Person required or authorized by law to wind up the Company's affairs) may suspend, reduce or otherwise restrict Distributions of Liquidation Proceeds or Additional Distributions for such time as a Voting Member Majority deems appropriate.

4.9 No Priority. Except as may be otherwise expressly provided herein, no Member shall have priority over the other Members as to Company income, gain, loss, credits and deductions or distributions.

4.10 Tax Withholding. Notwithstanding any other provision of this Agreement, the Voting Member Majority is authorized to take any action that they determine to be necessary or

appropriate to cause the Company to comply with any withholding requirements established under any federal, state or local tax law, including, without limitation, withholding on any Distribution to any Member. For the purposes of this Article IV, any amount withheld on any Distribution and paid over to the appropriate governmental body shall be treated as if such amount had in fact been distributed to the Member.

4.11 Reserves. The Voting Member Majority shall have the right to establish, maintain and expend Reserves to provide for working capital, for future maintenance, repair or replacement of the Property, for debt service, for future investments and for such other purposes as the Voting Member Majority may deem necessary or advisable.

## ARTICLE V
## MANAGEMENT

5.1 Management. The business and affairs of the Company shall be managed by the Voting Member Majority. A Voting Member shall act through one or more persons (a "Representative") as it shall designate by notice to the other Voting Members.

5.2 Voting. All Preferred Members shall be Non-Voting Members to the extent of their Preferred Interests. All Common Members shall be Voting Members to the extent of their Common Interests. The Voting Members shall be entitled to vote on all matters requiring a vote under the terms of this Agreement. Each Voting Member shall vote according to their respective Common Percentage Interests in the Company. Upon the Transfer of an Interest pursuant to the terms of this Agreement, each Interest shall retain any and all voting rights associated therewith.

5.3 Officers. The Voting Members may delegate their powers and authority under this Agreement in whole or in part to one or more officers of the Company as the Voting Member Majority deems appropriate, which officer shall have such power and authority as the Voting Member Majority deems appropriate. Michael L. Hendren is the president and chief executive officer of the Company until he resigns or is removed by the Voting Member Majority.

5.4 Meetings of the Voting Members. Meetings of the Voting Members shall not be required to be held at any regular frequency, but, instead, shall be held upon the call of any Voting Member holding more than 20% in Common Percentage Interest, acting through one or more of its Representatives. All meetings of the Voting Members shall be held at the principal office of the Company or at such other place, either within or without the State of Delaware, as shall be designated by the person calling the meeting and stated in the notice of the meeting or in a duly executed waiver of notice thereof. Representatives may participate in a meeting of the Voting Members by means of conference telephone or video equipment or similar communications equipment whereby all Representatives participating in the meeting can hear each other, and participation in a meeting in this manner shall constitute presence in person at the meeting.

5.5 Notice of Meeting. Notice of each meeting of the Voting Members, stating the place, day and hour of the meeting, shall be given by the Voting Member calling the meeting to the other Voting Members at least three Business Days before the day on which the meeting is to be held. "Notice" and "call" with respect to such meetings shall be deemed to be synonymous.

5.6 Waiver of Notice. Whenever any notice is required to be given to any Voting Member under the provisions of this Agreement, a waiver thereof in writing signed by such Member, acting through one or more of its Representatives, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Attendance of a Representative at any meeting of the Voting Members shall constitute a waiver of notice of such meeting by the Voting Member he/she represents except where a Representative attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

5.7 Action Without a Meeting. Any action that is required to or may be taken at a meeting of the Voting Members may be taken without a meeting if consents in writing, setting forth the action so taken, are signed by one or more of the Representatives of the Voting Member Majority. Such consents shall have the same force and effect as a unanimous vote at a meeting duly held.

5.8 Non-Voting Members. Non-Voting Members shall have no right to notice of or to attend any meeting of the Voting Members.

5.9 Definitions. For purposes of Sections 5.9 through 5.17 hereof, inclusive, references to:

(a) The "Company" shall include, in addition to the resulting or surviving limited liability company, any constituent limited liability company (including any constituent of a constituent) absorbed in a consolidation or merger so that any Person who is or was a manager or officer of such constituent limited liability company, or is or was serving at the request of such constituent limited liability company as a director, officer or in any other comparable position of any Other Enterprise shall stand in the same position under the provisions of this Article V with respect to the resulting or surviving limited liability company as such Person would if such Person had served the resulting or surviving limited liability company in the same capacity;

(b) "Other Enterprises" or "Other Enterprise" shall include, without limitation, any other limited liability company, corporation, partnership, joint venture, trust or employee benefit plan, in which a Person is serving at the request of the Company;

(c) "fines" shall include any excise taxes assessed against a person with respect to an employee benefit plan;

(d) "defense" shall include investigations of any threatened, pending or completed action, suit or proceeding as well as appeals thereof and shall also include any defensive assertion of a cross-claim or counterclaim;

(e) "serving at the request of the Company" shall include any service as a director, officer, Representative or in any other comparable position that imposes duties on, or involves services by, a Person with respect to any Other Enterprise; and a Person who acted in good faith and in a manner such Person reasonably believed to be in or not opposed to the interest of any Other Enterprise shall be deemed to have acted "in the best interest of the Company" as referred to in this Article V; and "Officer" shall include any

"Authorized Person" who is authorized to act on behalf of the Company pursuant to the terms hereof, whether or not such person has been designated an officer of the Company; and

(f) "officer" shall include an "authorized person" who is authorized to act on behalf of the Company pursuant to the terms hereof, whether or not such person has been designated an officer of the Company.

5.10 Limitation of Liability. No Person shall be liable to the Company or its Members for any loss, damage, liability or expense suffered by the Company or its Members on account of any action taken or omitted to be taken by such Person as an officer of the Company or as a Representative or by such Person while serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise, if such Person discharges such Person's duties in good faith, and in a manner such Person reasonably believes to be in or not opposed to the best interests of the Company. The liability of an officer or Representative hereunder shall be limited only for those actions taken or omitted to be taken by such Person in the discharge of such Person's obligations in connection with the management of the business and affairs of the Company or any Other Enterprise. The foregoing limitation of liability shall apply to all officers and to all Persons who serve as a Representative at any time.

5.11 Right to Indemnification. The Company shall indemnify each Person who has been or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, investigative or appellate (regardless of whether such action, suit or proceeding is by or in the right of the Company or by third parties) by reason of the fact that such Person is or was a Voting Member of the Company, an officer of the Company, a Representative or is or was serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise, against all liabilities and expenses, including, without limitation, judgments, amounts paid in settlement, attorneys' fees, ERISA excise taxes or penalties, fines and other expenses, actually and reasonably incurred by such Person in connection with such action, suit or proceeding (including, without limitation, the investigation, defense, settlement or appeal of such action, suit or proceeding); provided, however, that the Company shall not be required to indemnify or advance expenses to any Person on account of such Person's conduct that was finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct; provided, further, that the Company shall not be required to indemnify or advance expenses to any Person in connection with an action, suit or proceeding initiated by such Person unless the initiation of such action, suit or proceeding was authorized in advance by the Voting Members; provided, however, that an officer or Representative shall be indemnified hereunder only for those actions taken or omitted to be taken by such Person in the discharge of such Person's obligations in connection with the management of the business and affairs of the Company or any Other Enterprise. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or under a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that such Person's conduct was finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct. The foregoing right to indemnification shall apply to all Persons serving as officers and to all Persons who serve as a Representative at any time or who serve at any time at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise. Nothing herein prevents any Member from

indemnifying its representatives or officers under such Member's organizational documents or other agreements. If any Person is entitled to indemnification both from the Company and from a Member, then indemnification would come first from the Company and thereafter from the Member.

5.12 Enforcement of Indemnification. In the event the Company refuses to indemnify any Person who may be entitled to be indemnified or to have expenses advanced under this Article V, such Person shall have the right to maintain an action in any court of competent jurisdiction against the Company to determine whether or not such Person is entitled to such indemnification or advancement of expenses hereunder. If such court action is successful and the Person is determined to be entitled to such indemnification or advancement of expenses, such Person shall be reimbursed by the Company for all fees and expenses (including attorneys' fees) actually and reasonably incurred in connection with any such action (including, without limitation, the investigation, defense, settlement or appeal of such action).

5.13 Advancement of Expenses. Expenses (including attorneys' fees) reasonably incurred in defending an action, suit or proceeding, whether civil, criminal, administrative, investigative or appellate, shall be paid by the Company in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the Person subject thereto to repay such amount if it shall ultimately be determined that such Person is not entitled to indemnification by the Company. In no event shall any advance be made in instances where the Voting Members or legal counsel for the Company reasonably determines that such Person would not be entitled to indemnification hereunder.

5.14 Non-Exclusivity. The indemnification and advancement of expenses provided by this Article V shall not be exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any statute, or any agreement, vote of Voting Members, policy of insurance or otherwise, both as to action in their official capacity and as to action in another capacity while holding their respective offices, and shall not limit in any way any right that the Company may have to make additional indemnifications with respect to the same or different Persons or classes of Persons. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article V shall continue as to a Person who has ceased to be an officer of the Company, a Representative or a Person eligible for designation as a Representative and as to a Person who has ceased serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise and shall inure to the benefit of the heirs, executors and administrators of such Person.

5.15 Insurance. The Voting Member Majority may cause the Company to purchase and maintain insurance on behalf of any Person who is or was an officer, agent or employee of the Company or a Representative or is or was serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise, against any liability asserted against such Person and incurred by such Person in any such capacity, or arising out of such Person's status as such, whether or not the Company would have the power, or the obligation, to indemnify such Person against such liability under the provisions of this Article V.

5.16 Amendment and Vesting of Rights. The rights granted or created hereby shall be vested in each Person entitled to indemnification hereunder as a bargained-for, contractual

condition of such Person's serving or having served as an officer of the Company or a Representative or serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise and, while this Article V may be amended or repealed, no such amendment or repeal shall release, terminate or adversely affect the rights of such Person under this Article V with respect to any (a) act taken or the failure to take any act by such Person prior to such amendment or repeal, or (b) any action, suit or proceeding concerning such act or failure to act filed after such amendment or repeal.

5.17 Severability. If any provision of this Article V or the application of any such provision to any Person or circumstance is held invalid, illegal or unenforceable for any reason whatsoever, the remaining provisions of this Article V and the application of such provision to other Persons or circumstances shall not be affected thereby and, to the fullest extent possible, the court finding such provision invalid, illegal or unenforceable shall modify and construe the provision so as to render it valid and enforceable as against all Persons and to give the maximum possible protection to Persons subject to indemnification hereby within the bounds of validity, legality and enforceability. Without limiting the generality of the foregoing, if any officer of the Company, any Representative or any Person who is or was serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise is entitled under any provision of this Article V to indemnification by the Company for some or a portion of the judgments, amounts paid in settlement, attorneys' fees, ERISA excise taxes or penalties, fines or other expenses actually and reasonably incurred by any such Person in connection with any threatened, pending or completed action, suit or proceeding (including, without limitation, the investigation, defense, settlement or appeal of such action, suit or proceeding), whether civil, criminal, administrative, investigative or appellate, but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify such Person for the portion thereof to which such Person is entitled.

5.18 Contracts with Members or their Affiliates. All contracts or transactions between the Company and one of its Members or officers or between the Company and another limited liability company, corporation, partnership, association or other organization in which a Member has a financial interest or with which such Member is affiliated are permissible if such contract or transaction, and such Member's or officer's interest therein, are fully disclosed to the Voting Members and approved by the Voting Member Majority.

5.19 Other Business Ventures. Any Member may engage in, or possess an interest in, other business ventures of every nature and description, independently or with others, whether or not similar or identical to the business of the Company, and neither the Company nor any other Member shall have any right by virtue of this Agreement in or to such other business ventures or to the income or profits derived therefrom. The Members and Representatives shall not be required to devote all of their time or business efforts to the affairs of the Company, but shall devote so much of their time and attention to the Company as is reasonably necessary and advisable to manage the affairs of the Company to the best advantage of the Company. The foregoing shall not supersede any employment, confidentiality, noncompete or other specific agreement that may exist between the Company (or an Affiliate of the Company) and any Member (or an Affiliate of any Member).

ARTICLE VI
ACCOUNTING AND BANK ACCOUNTS

6.1 Fiscal Year. The fiscal year and taxable year of the Company shall end on September 30 of each year, unless a different year is required by the Code, or is adopted by the Voting Member Majority.

6.2 Books and Records. At all times during the existence of the Company, the Company shall cause to be maintained full and accurate books of account, which shall reflect all Company transactions and be appropriate and adequate for the Company's business. The books and records of the Company shall be maintained at the principal office of the Company. Each Member or its representatives shall have the right during ordinary business hours and upon reasonable notice to inspect and copy (at such Member's own expense) all books and records of the Company. The Voting Member Majority may cause the Company to retain a firm of certified public accountants of recognized standing to audit the financial statements of the Company.

6.3 Financial Reports.

(a) Within 15 days after the end of each month, there shall be prepared and delivered to each Member:

(i) an unaudited balance sheet as of the end of such month and related unaudited financial statements for the month then ended; and

(ii) other pertinent information regarding the Company.

(b) Within 90 days after the end of each fiscal year, there shall be prepared and delivered to each Member:

(i) an audited balance sheet as of the end of such year and related audited financial statements for the year then ended; and

(ii) other pertinent information regarding the Company.

(c) Within 75 days after the end of each fiscal year, there shall be prepared and delivered to each Member all information with respect to the Company necessary for the preparation of the Members' federal and state income tax returns.

6.4 Tax Returns and Elections; Tax Matters Partner. The Company shall cause to be prepared and timely filed all federal, state and local income tax returns and other returns or statements required of the Company by applicable law. The Company shall claim all deductions and make such elections for federal or state income tax purposes that the Members reasonably believe will produce the most favorable tax results for the Members. IP is hereby designated as the Company's "Tax Matters Partner," as defined in the Code, and in such capacity is hereby authorized and empowered to act for and represent the Company and each of the Members before the Internal Revenue Service in any audit or examination of any Company tax return and before any court selected by the Members for judicial review of any adjustment assessed by the Internal Revenue Service. IP does hereby accept such designation. IP shall provide the other Members with written notice of any federal income tax audit and shall keep the other Members

informed of all material developments involved in such proceedings. The Members specifically acknowledge, without limiting the general applicability of this Section 6.4, that IP shall not be liable, responsible or accountable in damages or otherwise to the Company or any Member with respect to any action taken by it in its capacity as the Tax Matters Partner, provided that IP acted in a manner it believed to be in the best interests of the Company and its Members. All reasonable out-of-pocket expenses incurred by IP in its capacity as the Tax Matters Partner shall be considered expenses of the Company for which IP shall be entitled to full reimbursement. Nothing in this Section 6.4 shall limit the ability of the Members to take any action in their individual capacity relating to tax audit matters that is left to the determination of an individual partner under Code Section 6222 through Code Section 6232.

6.5 Section 754 Election. In the event a distribution of Company assets occurs that satisfies the provisions of Section 734 of the Code, upon the determination of the Voting Member Majority, the Company shall elect, pursuant to Section 754 of the Code, to adjust the basis of the Property to the extent allowed by Section 734 and shall cause such adjustments to be made and maintained. Any additional accounting expenses incurred by the Company in connection with making or maintaining any such basis adjustment shall be reimbursed to the Company from time to time by the distributee who benefits from the making and maintenance of such basis adjustment.

6.6 Bank Accounts. All funds of the Company shall be deposited in a separate bank, money market or similar account(s) approved by the Voting Member Majority and in the Company's name. Withdrawals therefrom shall be made only by such persons as are authorized by the Voting Member Majority.

## ARTICLE VII
## TRANSFERS OF INTERESTS

7.1 General Transfer Restrictions. No Member may Transfer all or any part of such Member's Interest, except (i) as provided in this Agreement under Section 7.3, 7.4 or otherwise, (ii) pursuant to an Exempt Transfer or (iii) with the written consent of all the Voting Members; provided, however, that, notwithstanding, the described clauses (i), (ii) and (iii) above, no Transfer shall be permitted if it would result in the "termination" of the Company pursuant to (S) 708 of the Code. Any purported Transfer of an Interest in violation of the terms of this Agreement shall be null and void and of no effect. Any permitted Transfer shall be effected by a written instrument and shall be effective as of the date specified in such instrument. Any person receiving an Interest from a Member in a permitted Transfer shall not become a Substitute Member except in accordance with Section 7.6. Any assignee of an Interest as allowed by this Section 7.1 who does not become a Substitute Member as provided in Section 7.6 (a "Transferee") shall not be a Member and shall not have any right to vote as a Member or to participate in the management of the business and affairs of the Company, such right to vote such Interest and to participate in the management of the business and affairs of the Company continuing with the Transferor. The Transferee shall, however, be entitled to distributions and allocations of the Company, as provided in Article IV of this Agreement, attributable to the Interest that is the subject of the Transfer to such Transferee. Any Transferee desiring to make a further Transfer shall become subject to all of the provisions of this Article VII to the same extent and in the same manner as any Member desiring to make any Transfer.

7.2 Exempt Transfers. The restrictions contained in this Article VII will not apply with respect to:

(i) any Transfer to the spouse of a Member;

(ii) any Transfer to a lineal descendant, natural or adopted, of a Member or to the spouse of any such lineal descendant;

(iii) any Transfer to the trustee of a trust for the substantial benefit of a Member and/or one or more persons described in (i) or (ii) above;

(iv) any Transfer to John Sherman or any entity of which the vote is controlled by John Sherman; or

(v) any Transfer to the Company;

provided, however, that the restrictions contained in this Article VII will continue to be applicable to the Interests after any such Transfer, other than a Transfer to the Company, and before any such Transfer is effected the transferees of such Interests, other than the Company, shall agree in writing to be bound by all of the provisions of this Agreement and shall execute and deliver to the Company a counterpart of this Agreement.

7.3 Third Party Offer to Purchase. If a third party (a "Proposed Purchaser") makes an offer (the "Third Party Offer") to purchase the Common Interest of a Member or Members, and such purchase would enable the Proposed Purchaser to acquire one or more Members' Interests, which Members' Interests include in the aggregate more than 50% in Common Percentage Interest, then within ten Business Days after the issuance of the Third Party Offer to a Member or Members, the Proposed Purchaser shall issue to the other Members an offer (the "Tag-Along Offer") whereby such Members, individually, may elect, within 30 days after receipt of the Tag-Along Offer, one of the following alternatives:

(a) If a Common Member, to sell any or all of its Common Interest to the Proposed Purchaser under the same terms and conditions as the Third Party Offer; or

(b) If a Preferred Member, to sell any or all of its Preferred Interest to the Proposed Purchaser for a purchase price equal to the balance in such Preferred Member's Preferred Capital Account plus all Accrued Preferred Distributions and Arrearages under Section 4.2 hereof; or

(c) To take no action and continue to hold its Interest in the Company.

7.4 Third Party Offer to Acquire the Entire Company. If a third party makes an offer (the "Purchase Offer") to purchase all of the Common Interests in the Company for an identical price per Common Percentage Interest, and the holders of more than 50% in Common Percentage Interest desire to accept the Purchase Offer, then the other Members hereby agree to participate in such sale (i) if a Common Member, on the same terms and conditions as the Purchase Offer and (ii) if a Preferred Member, at a purchase price equal to the balance in such

Preferred Member's Preferred Capital Account plus all Accrued Preferred Distributions and Arrearages under Section 4.2 hereof.

7.5 Designation of Interests. The designation of an Interest as a Preferred Interest or a Common Interest will continue and any and all rights associated therewith shall be retained by each Interest sold or otherwise Transferred pursuant to the terms of this Agreement.

7.6 Substitute Members. No assignee of all or part of a Member's Interest shall become a Member in place of the Member assigning the Interest (a "Substitute Member") unless and until:

(a) The transferring Member has stated such intention in the instrument of assignment;

(b) The Transferee has executed an instrument accepting and adopting the terms and provisions of this Agreement;

(c) The Transferee delivers an opinion of Counsel acceptable to the Company that the Transfer will not result in a termination of the Company pursuant to Section 708 of the Code and such Transfer is exempt from registration under all applicable securities laws;

(d) The transferring Member or Transferee has paid all reasonable expenses of the Company in connection with the admission of the Transferee as a Substitute Member; and

(e) All non-transferring Voting Members in their sole and absolute discretion have consented in writing to such Transferee becoming a Substitute Member.

Upon satisfaction of all of the foregoing conditions with respect to a particular Transferee, the Voting Members shall cause this Agreement to be duly amended to reflect the admission of the Transferee as a Substitute Member.

7.7 Effect of Admission as a Substitute Member. Unless and until admitted as a Substitute Member pursuant to Section 7.6 hereof, a Transferee shall not be entitled to exercise any rights of a Member in the Company, including the right to vote, grant approvals or give consents with respect to such Interest, the right to require any information or accounting with respect to the Company's business or the right to inspect the Company's books and records, but such Transferee shall only be entitled to receive, to the extent of the Interest transferred to it, the Distributions to which the transferring Member would be entitled. A Transferee that has become a Substitute Member has, to the extent of the Interest transferred to it, all the rights and powers of the Person for whom it is substituted and is subject to the restrictions and liabilities of a Member under this Agreement and the Act. Upon admission of a Transferee as a Substitute Member, the transferring Member shall cease to be a Member of the Company to the extent of such Interest. A Person shall not cease to be a Member upon assignment of all of such Member's Interest unless and until the Transferee becomes a Substitute Member.

7.8 Additional Members. Additional Members (whether Voting Members or Non-Voting Members) may be admitted to the Company and additional Interests may be issued only by the consent of a Voting Member Majority, and the Common Percentage Interests and the Preferred Percentage Interests shall be adjusted as approved by such Voting Member Majority.

7.9 Resignation. No Member may resign or withdraw from the Company. Except as provided in Section 8.1(c) of this Agreement, upon the occurrence of any event that terminates the continued membership of a Member in the Company, the Company shall not be dissolved.

7.10 Miscellaneous Provisions Regarding Article VII.

(a) Without limiting any of the foregoing, the Members shall not, and shall cause each of their respective affiliates not to, (i) take any action the effect of which would prevent or frustrate the carrying out of the procedures contemplated by this Article VII or (ii) at any time (whether before or after any termination of this Agreement) make any assertion, claim or defense that this Article VII or any of the provisions hereof violate or are inconsistent with the terms of this Agreement or any laws or public policies.

(b) At the closing of any purchase and sale of a Common Interest or a Preferred Interest under this Article VII, the purchaser and the selling Member shall deliver such certificates and such assignment documents in customary form as may be reasonably requested in order to consummate the transaction, and, unless otherwise specified herein, the purchaser shall deliver the purchase price in immediately available funds to such bank account as shall have been specified by the selling Member at least three Business Days prior to the closing (or, if no such notice has been given, by delivery of a certified or bank check). At such closing, the selling Member shall sell and transfer its Common Interest and/or its Preferred Interest to the purchaser free and clear of Liens other than Liens arising out of Company financing and shall so warrant to the purchaser. The selling Member shall also represent and warrant to the purchaser that the selling Member has good and marketable title to the Common Interest or Preferred Interest being sold and transferred. In addition, each of the selling Member and the purchaser shall make customary representations and warranties to the other including representations and warranties with respect to organization, valid existence, authorization, and non-contravention. With respect to obligations arising out of Company financing, the purchaser shall, in addition to paying the purchase price, either (i) satisfy or otherwise obtain release from all liability on the part of the selling Member and its Affiliates with respect to all obligations of the Company, including debt and lease obligations, which such selling Member and/or its Affiliates shall have guaranteed, or (ii) indemnify and hold harmless the selling Member and its Affiliates against such liability and secure such indemnification with a letter of credit or payment bond reasonably satisfactory to such selling Member. As used herein, "Lien" shall mean, as to any Interest, liens, encumbrances, security interests and other rights, interest or claims of others therein (including, without limitation, warrants, options, rights of first refusal, rights of first offer, co-sale and similar rights).

(c) If, with respect to any purchase and sale of a Common Interest or a Preferred Interest under this Article VII, the selling Member is not present at the time and

place designated for a closing, or, if present, fails to produce the certificates or assignment documents reasonably requested to consummate the transaction or fails to satisfy any other obligation to be satisfied at the closing, as aforesaid, for any reason whatsoever or no reason, then the purchase price and any other document or instrument required by the Company at the closing ("Closing Documentation") shall be deposited with the President of the Company. The foregoing shall constitute valid payment even though the selling Member shall voluntarily encumber and dispose of said Interests contrary to the provisions hereof and irrespective of the fact that any pledgee, transferee or other person may thereby have acquired said Interests or the fact that certificates or assignment documents for any of said Interests may have been delivered to any pledgee, transferee or other person.

If the Closing Documentation is deposited with the President of the Company as provided herein, then from and after the date of such deposit and even if the certificates evidencing said Interests or the assignment documents have not been delivered to the Company, the purchase of said Interests shall be deemed to have been fully effected and all title and interest in and to the Interests so purchased shall be deemed to have been vested in the Company, and all rights of the selling Member or of any transferee, assignee or any other person having an interest therein, as a Member of the Company or otherwise, shall terminate except for the right to receive the Closing Documentation, but without interest; and the President of the Company, as attorney-in-fact for and in the name of the selling Member, shall cause the Interests so purchased to be transferred on the books and records of the Company to the Company, and shall issue a new certificate or certificates therefor to the purchaser(s) thereof. The selling Member does hereby irrevocably appoint and designate the President of the Company and his successors in office as his attorney-in-fact, for and on his behalf, to receive, receipt for, hold and collect the said Closing Documentation, to effect the transfer of said Interests on the books and records of the Company, and to issue said certificate or certificates in the manner above provided. The selling Member shall be entitled to receive the Closing Documentation upon delivery to the Company of the certificates evidencing the Interests so purchased, and assignment documents duly indorsed for transfer, as aforesaid, together with any document or instrument required of such Member.

## ARTICLE VIII
## DISSOLUTION AND TERMINATION

8.1 Events Causing Dissolution. The Company shall be dissolved only upon the first to occur of the following events:

(a) December 31, 2026.

(b) The election to dissolve being made by a Voting Member Majority.

(c) At any time there are no Members, provided that the Company shall not be dissolved if within 90 days after the occurrence of the event that terminated the continued membership of the last remaining Member, the personal representative of the last remaining Member agrees in writing to continue the Company and to the admission of the personal representative of such Member or its nominee or designee to the Company

as a Member, effective as of the occurrence of the event that terminated the continued membership of the last remaining Member.

(d) Upon the entry of a decree of dissolution with respect to the Company under Section 18-802 of the Act.

(e) When the Company is not the surviving entity in a merger or consolidation under the Act.

8.2 Effect of Dissolution. Except with respect to an event referred to in Section 8.1(e) of this Agreement, and except as otherwise provided in this Agreement, upon the dissolution of the Company, the Voting Members or surviving Voting Member, as the case may be, shall take such actions as may be required pursuant to the Act and shall proceed to wind up, liquidate and terminate the business and affairs of the Company. In connection with such winding up, the Voting Members or surviving Voting Member shall have the authority to liquidate and reduce to cash (to the extent necessary or appropriate) the assets of the Company as promptly as is consistent with obtaining Fair Value therefor, to apply and distribute the proceeds of such liquidation and any remaining assets in accordance with the provisions of Section 8.3 hereof, and to do any and all acts and things authorized by, and in accordance with, the Act and other applicable laws for the purpose of winding up and liquidation.

8.3 Application of Proceeds. Upon dissolution and liquidation of the Company, the assets of the Company shall be applied and distributed in the order of priority set forth in Section 4.4 hereof.

8.4 Continuing Obligations. In the event any Member is required to assume or pay any debt, expense, obligation or liability of the Company following dissolution or termination, first, the Common Members shall pay and indemnify such Member for their respective Common Percentage Interest of such debt, expense, obligation or liability required to be paid by such Member to the extent of assets distributed to such Common Members, then, the Preferred Members shall pay and indemnify such Member for their respective Preferred Percentage Interest of such debt, expense, obligation or liability required to be paid by such Member to the extent of assets distributed to such Preferred Members.

## ARTICLE IX
## MISCELLANEOUS

9.1 Title to Assets. Title to the Property and all other assets acquired by the Company shall be held in the name of the Company. No Member shall individually have any ownership interest or rights in the Property or any other assets of the Company, except indirectly by virtue of such Member's ownership of an Interest. No Member shall have any right to seek or obtain a partition of the Property or other assets of the Company, nor shall a Member have the right to any specific assets of the Company upon the liquidation of or any distribution from the Company.

9.2 Nature of Interest in the Company. An Interest shall be personal property for all purposes.

9.3 Notices. Any notice, demand, request or other communication required or permitted to be given pursuant to this Agreement or the Act to the Company, a Member, or any other Person (a "Notice") shall be sufficient if in writing and if hand-delivered, mailed or sent by commercial overnight delivery service, to the Company at its principal office or to a Member at the address of the Member as it appears on the records of the Company or if sent by facsimile transmission to the telephone number, if any, of the recipient's facsimile machine as such telephone number appears on the records of the Company. All Notices that are mailed shall be deemed to be given when deposited in the United States mail, postage prepaid. All Notices that are hand-delivered shall be deemed to be given upon delivery. All notices that are given by commercial overnight delivery shall be deemed to be given upon delivery by the delivery service. All Notices that are given by facsimile transmission shall be deemed to be given upon receipt.

9.4 Waiver of Default. No consent or waiver, express or implied, by the Company or a Member with respect to any breach or default by the other Members hereunder shall be deemed or construed to be a consent or waiver with respect to any other breach or default by such Member of the same provision or any other provision of this Agreement. Failure on the part of the Company or a Member to complain of any act or failure to act of the other Members or to declare such other Member in default shall not be deemed to constitute a waiver by the Company or the Members of any rights hereunder.

9.5 No Third Party Rights. None of the provisions contained in this Agreement shall be for the benefit of or enforceable by any third parties, including, but not limited to, creditors of the Company; provided, however, the Company may enforce any right granted to the Company under the Act, the Certificate or this Agreement.

9.6 Entire Agreement. This Agreement, together with the Certificate, constitutes the entire agreement between the Members, in such capacity, relative to the formation, operation and continuation of the Company.

9.7 Amendments to this Agreement.

(a) Except as otherwise provided herein, this Agreement shall not be modified or amended in any manner other than by the written agreement of the Voting Member Majority at the time of such modification or amendment (which agreement need not be executed by any Members other than Members constituting such Voting Member Majority); provided, however, any amendment affecting the allocation of Income and Loss to a Member shall be approved by that Member.

(b) In addition to the rights of the Voting Member Majority to modify or amend this Agreement pursuant to Section 9.7(a) hereof, this Agreement may be amended by the Voting Member Majority, without any execution of such amendment by all Members, in order to reflect the occurrence of any of the following events provided that all of the conditions, if any, contained in the relevant sections of this Agreement with respect to such event have been satisfied:

(i) an adjustment of the Common Percentage Interests of the Common Members and the Preferred Percentage Interests of the Preferred Members, as the case may be, upon a Common Member's or a Preferred Member's failure to make a capital contribution as required hereunder; and

(ii) the modification of this Agreement to comply with the relevant tax laws pursuant to Sections 3.6 or 4.7(j) hereof.

9.8 Severability. In the event any provision of this Agreement is held to be illegal, invalid or unenforceable to any extent, the legality, validity and enforceability of the remainder of this Agreement shall not be affected thereby and shall remain in full force and effect and shall be enforced to the greatest extent permitted by law.

9.9 Binding Agreement. Subject to the restrictions on the disposition of Interests herein contained, the provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective heirs, personal representatives, successors and permitted assigns.

9.10 Headings. The headings of Sections of this Agreement are for convenience of reference only and shall not be considered in construing or interpreting any of the terms or provisions hereof.

9.11 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and all of which shall constitute one agreement.

9.12 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware.

9.13 Remedies. In the event of a default by a Member in the performance of any obligation undertaken in this Agreement, in addition to any other remedy available to the non-defaulting Members, the defaulting Member shall pay to the non-defaulting Members all costs, damages, and expenses, including reasonable attorneys' fees, incurred by the non-defaulting Member as a result of such default. In the event that any dispute arises with respect to the enforcement, interpretation, or application of this Agreement and court proceedings are instituted to resolve such dispute, the prevailing party in such court proceedings shall be entitled to recover from the non-prevailing party all costs and expenses, including, but not limited to, reasonable attorneys' fees, incurred by the prevailing party in such court proceedings.

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

INERGY PARTNERS, LLC

/s/ JOHN J. SHERMAN
By: _____
Name: John J. Sherman
Title: President

WILSON OIL COMPANY OF JOHNSTON COUNTY, INC.

/s/ JOHN J. SHERMAN
By: _____
Name: John J. Sherman
Title: President

ROLESVILLE GAS AND OIL COMPANY, INC.

/s/ JOHN J. SHERMAN
By: _____
Name: John J. Sherman
Title: President

SCHEDULE A
INITIAL OR RESTATED CAPITAL ACCOUNTS
AND PERCENTAGE INTERESTS

| | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest |
|---|---|---|---|---|
| Inergy Partners, LLC | $ | $ -0- | 100% | 0% |
| Wilson Oil Company of Johnston County, Inc. | $-0- | $2,608,385 | 0% | 48.4075% |
| Rolesville Gas and Oil Company, Inc. | $-0- | $2,780,000 | 0% | 51.5925% |

Exhibit 3.5

CERTIFICATE OF FORMATION

OF

INERGY GP, LLC

The undersigned, for the purpose of forming a limited liability company (the "Company") under the Delaware Limited Liability Company Act (the "Act"), hereby makes, acknowledges and files this Certificate of Formation:

FIRST. The name of the Company is:

Inergy GP, LLC

SECOND. The address of the Company's registered office in the State of Delaware is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801. The name of its registered agent at such address for service of process is The Corporation Trust Company.

THIRD. The Company shall commence its existence on the date this Certificate of Formation is filed with the Delaware Secretary of State.

IN WITNESS WHEREOF, the undersigned, for the purpose of forming a limited liability company under the Act, has executed this Certificate of Formation this 2nd day of March, 2001.

SMF REGISTERED SERVICES, INC.

/s/ RICHARD N. NIXON
By:_____
Richard N. Nixon, Vice President
Authorized Person

# LIMITED LIABILITY COMPANY AGREEMENT
# OF
# INERGY GP, LLC

THIS LIMITED LIABILITY COMPANY AGREEMENT (this "Agreement"), is made as of the 2nd day of March, 2001, by Inergy GP, LLC, a Delaware limited liability company (the "Company"), and Inergy Holdings, LLC, a Delaware limited liability company (the "Member").

## RECITAL:

The Member has caused the Company to be formed as a limited liability company under the Delaware Limited Liability Company Act and the Member desires to adopt this Agreement as the limited liability company agreement of the Company.

## AGREEMENT:

In consideration of the premises and the agreements contained herein, the undersigned declare and agree as follows:

## ARTICLE I - DEFINITIONS

1.1 TERMS DEFINED HEREIN. As used herein, the following terms shall have the following meanings, unless the context otherwise requires:

"ACT" means the Delaware Limited Liability Company Act, as amended from time to time.

"AGREEMENT" means the Limited Liability Company Agreement of the Company as amended from time to time.

"BOARD OF DIRECTORS" or "BOARD" means the board of directors of the Company established under Section 4.1 hereof.

"CERTIFICATE" means the Certificate of Formation of the Company filed with the Delaware Secretary of State, as amended from time to time.

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

"DIRECTOR" means a member of the Board of Directors.

"INTEREST" refers to all of the Member's rights and interests in the Company in the Member's capacity as a Member, all as provided in the Certificate, this Agreement and the Act, including, without limitation, the Member's interest in the capital, income, gain, deductions, losses, and credits of the Company.

"PERSON" means any individual, partnership, limited liability company, corporation, cooperative, trust or other entity.

## ARTICLE II - BUSINESS PURPOSES AND OFFICES

2.1 NAME; BUSINESS PURPOSE.

(a) The name of the Company shall be as stated in the Certificate. The name of the Company may be changed from time to time by the determination of the Member.

(b) The business purpose of the Company is to act as the general partner of Inergy, L.P., a Delaware limited partnership, to act as the managing partner of Inergy Propane, LLC, a Delaware limited liability company, and to do any and all things necessary, appropriate or incidental thereto. The Company is formed only for such business purpose and shall not be deemed to create any declaration or agreement by the Company or the Member with respect to any other activities whatsoever other than the activities within such business purpose.

2.2 POWERS. In addition to the powers and privileges conferred upon the Company by law and those incidental thereto, the Company shall have the same powers as a natural person to do all things necessary or convenient to carry out its business and affairs.

2.3 PRINCIPAL OFFICE. The principal office of the Company shall be located at such place as the Member may determine from time to time.

2.4 LIABILITY OF THE MEMBER. The Member, solely by reason of being the Member, shall not be liable, under a judgment, decree or order of a court, or in any other manner, for a debt, obligation or liability of the Company, whether arising in contract, tort or otherwise. The failure of the Company to observe any formalities or requirements relating to the exercise of its powers or management of its business or affairs under this Agreement or the Act shall not be grounds for imposing liability on the Member for liabilities of the Company. The Company is not intended to be a partnership.

2.5 REGISTERED OFFICE AND REGISTERED AGENT. The location of the registered office and the name of the registered agent of the Company in the State of Delaware shall be as stated in the Certificate. The registered office and registered agent of the Company in the State of Delaware may be changed, from time to time, by the Member.

2.6 AMENDMENT OF THE CERTIFICATE. The Company shall amend the Certificate at such time or times and in such manner as may be required by the Act and this Agreement.

2.7 EFFECTIVE DATE. This Agreement shall be effective on the date of this Agreement.

## ARTICLE III - OWNERSHIP INTEREST

3.1 INTEREST. The Member shall own the entire equity interest of the Company and as such the Interest held of the Member is the only outstanding Interest of the Company. The Member's initial capital investment in the Company shall be $1,000.

3.2 VOTING. Unless otherwise granted to the Board of Directors in the Certificate or this Agreement, the Member shall possess the entire voting interest in all matters relating to the

Company, including, without limitation, matters relating to the amendment of this Agreement, any merger, consolidation or conversion of the Company, sale of all or substantially all of the assets of the Company and the termination, dissolution and liquidation of the Company.

3.3 DISTRIBUTION. Distributions by the Company of cash or other property shall be made to the Member at such time as the Board of Directors deems appropriate.

## ARTICLE IV - MANAGEMENT

4.1 MANAGEMENT AND BOARD OF DIRECTORS.

(a) Directors

(i) General Powers. The business and affairs of the Company shall be managed by its Board of Directors.

(ii) Number, Tenure and Qualifications. The number of Directors of the Company shall be five (5). The initial Directors of the Company shall be John J. Sherman, Phillip L. Elbert, Richard C. Green, Jr., David J. Schulte and Warren H. Gfeller. Each Director shall have a vote. Each Director shall hold office until the next annual election of the Board of Directors or until a successor shall have been elected and qualified or until such Director's death, resignation or until removed by the Member, in the Member's sole discretion.

(iii) Regular Meetings. The Board of Directors shall provide, by resolution, the time and place for the holding of regular meetings without other notice than such resolution.

(iv) Special Meetings. Special meetings of the Board of Directors may be called by or at the request of the President or any two Directors. The person or persons authorized to call special meetings of the Board of Directors may fix any place as the place for holding any special meeting of the Board of Directors called by them.

(v) Notice. Notice of any special meeting of the Board of Directors shall be given not less than three (3) days nor more than sixty (60) days prior thereto. Such notice shall be given in the manner provided in Section 8.1 Any Director may waive notice of any meeting. The attendance of a Director at any meeting shall constitute a waiver of notice of such meeting, except where a Director attends a meeting for the express purpose of objecting to the transaction of any business presented because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any annual, regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

(vi) Quorum and Manner of Acting. In order to have a quorum for transaction of business at any meeting of the Board of Directors, a majority of the number of Directors fixed by this Agreement shall be present. The act of the

majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

(vii) Attendance by Communications Equipment. Members of the Board of Directors, or of any committee of the Board of Directors may participate in and act at any meeting of such Board or committee through the use of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other. Participation in such a meeting shall constitute attendance and presence in person at the meeting of the person or persons so participating.

(viii) Vacancies. Any vacancy occurring in the Board of Directors, and any directorship to be filled by reason of an increase in the number of Directors, may be filled by election by the Member.

(ix) Presumption of Assent. A Director of the Company who is present at a meeting of the Board of Directors at which action on any Company matter is taken shall be conclusively presumed to have assented to the action taken unless such Director's dissent shall be entered in the minutes of the meeting or unless such Director shall file a written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the secretary of the Company immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favor of such action.

(x) Committees. The Board of Directors may, by resolution or resolutions adopted by a majority of the number of Directors fixed by this Agreement, designate two or more Directors of the Company to constitute one or more committees. Each such committee, to the extent provided in such resolution or resolutions, shall have and may exercise all of the authority of the Board in the management of the Company; provided, however, that the designation of each such committee and the delegation thereto of authority shall not operate to relieve the Board, or any member thereof, of any responsibility imposed upon it or such member by law. Each such committee shall keep regular minutes of its proceedings, which minutes shall be recorded in the minute book of the Company. The secretary or an assistant secretary of the Company may act as secretary for each such committee if the committee so requests.

(xi) Informal Action. Any action required to be taken at a meeting of the Board of Directors of the Company, or any other action which may be taken at a meeting of the Board of Directors may be taken without a meeting if a consent in writing, setting forth the actions so taken, shall be signed by a majority of the number of Directors fixed by this Agreement.

(b) Officers.

(i) Designations. The officers of the Company shall be a President, a

secretary and such other officers, agents and employees as the Board of Directors may deem proper. Any two or more offices may be held by the same person, except the offices of President and secretary.

(ii) Election and Term of Office. The officers of the Company shall be elected by the Board of Directors. Each officer shall hold office until a successor shall have been elected and qualified or until such officer's death, resignation or removal in the manner hereinafter provided. Election or appointment of an officer or agent shall not of itself create contract rights.

(iii) Removal. Any officer or agent elected or appointed by the Board of Directors may be removed at any time by the Board of Directors.

(iv) Chairman of the Board of Directors. The Board of Directors, in its discretion, may elect an individual who is a Director to serve as Chairman of the Board. The Chairman shall preside at all meetings of the Board of Directors.

(v) President. The Board of Directors shall elect an individual to serve as President. The President shall be the chief executive officer of the Company. The President may sign, with the secretary, an assistant secretary or any other proper officer of the Company thereunto duly authorized by the Board of Directors, any deeds, mortgages, bonds, contracts or other instruments which the Board of Directors has authorized to be executed except in cases where the execution thereof shall be expressly delegated by the Board of Directors or by this Agreement to some other officer or agent of the Company or shall be required by law to be otherwise executed. In general, the President shall perform all duties incident to the office of President and chief executive officer of the Company and such other duties as may be prescribed from time to time by the Board of Directors.

(vi) Vice Presidents. The Board of Directors, in its discretion, may elect one or more vice presidents. In the absence of the President or in the event of the President's inability or refusal to act, the vice president (or in the event there be more than one vice president, the vice presidents in the order designated, or in the absence of any designation, then in the order of their election) shall perform the duties of the President, and the vice president, when so acting, shall have all of the powers and be subject to all the restrictions upon the President. Each vice president shall perform such other duties as from time to time may be assigned by the President or the Board of Directors.

(vii) Secretary. The secretary shall: (a) keep records of Company action, including the records of action taken by the Member and minutes of meetings of the Board of Directors in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of this Agreement or as required by law; and (c) in general, perform all duties incident to the office of secretary and such other duties as from time to time may be assigned by the President or the Board of Directors.

(viii) Assistant Secretaries. The Board of Directors, in its discretion, may elect one or more assistant secretaries. The assistant secretaries in general shall perform such duties as shall be assigned to them by the President, or the Board of Directors.

(ix) Compensation. The compensation of the officers other than the President of the Company shall be fixed from time to time by the President and no officer shall be prevented from receiving such compensation by reason of the fact that such officer is also a Director of the Company. The compensation of the President shall be fixed by the Board of Directors.

(c) Authorization of Persons to Act. At any time and from time to time, the Board of Directors may designate any Person to carry out the decisions of the Board of Directors, including, but not limited to, the execution of any instruments on behalf of the Company.

4.2 ACTION BY THE MEMBER. The Member may take such action as may be appropriate for the Member of a limited liability company under the Act by a written consent signed by the Member. The Member will annually elect the Directors of the Company at such time as the Member may specify.

## ARTICLE V - INDEMNIFICATION

5.1 LIMITATION OF LIABILITY; INDEMNIFICATION. None of the Directors, President or any other officer of the Company shall be liable to the Member or to the Company for (a) any action or inaction except to the extent such person acted in bad faith or engaged in willful misconduct in the performance of such person's duties to the Company or the Member, (b) any action or inaction arising from reliance upon the opinion or advice as to legal matters of legal counsel or as to accounting matters of accountants selected by any of them in good faith or (c) any action or inaction of any agent, contractor or consultant selected by any of them in good faith.

5.2 DEFINITIONS. For purposes of Sections 5.2 through 5.12 hereof, inclusive, reference to:

(a) The "Company" shall include, in addition to the resulting or surviving limited liability company, any constituent limited liability company (including any constituent of a constituent) absorbed in a consolidation or merger so that any Person who is or was a manager, director, or officer of such constituent limited liability company, or is or was serving at the request of such constituent limited liability company as a director, officer or in any other comparable position of any Other Enterprise shall stand in the same position under the provisions of this Article V with respect to the resulting or surviving limited liability company as such Person would if such Person had served the resulting or surviving limited liability company in the same capacity.

(b) "Other Enterprises" or "Other Enterprise" shall include, without limitation, any other limited liability company, corporation, partnership, joint venture, trust or employee benefit plan, in which a Person is serving at the request of the Company;

(c) "fines" shall include any excise taxes assessed against a person with respect to an employee benefit plan;

(d) "defense" shall include investigations of any threatened, pending or completed action, suit or proceeding as well as appeals thereof and shall also include any defensive assertion of a cross-claim or counterclaim;

(e) "serving at the request of the Company" shall include any service as a director, officer, Representative or in any other comparable position that imposes duties on, or involves services by, a Person with respect to any Other Enterprise; and a Person who acted in good faith and in a manner such Person reasonably believed to be in or not opposed to the interest of any Other Enterprise shall be deemed to have acted "in the best interest of the Company" as referred to in this Article V; and "Officer" shall include any "Authorized Person" who is authorized to act on behalf of the Company pursuant to the terms hereof, whether or not such person has been designated an officer of the Company; and

(f) "officer" shall include an "authorized person" who is authorized to act on behalf of the Company pursuant to the terms hereof, whether or not such person has been designated an officer of the Company.

5.3 LIMITATION OF LIABILITY. No Person shall be liable to the Company or its Member for any loss, damage, liability or expense suffered by the Company or its Member on account of any action taken or omitted to be taken by such Person as a director or an officer of the Company or as a Representative or by such Person while serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise, if such Person discharges such Person's duties in good faith, and in a manner such Person reasonably believes to be in or not opposed to the best interests of the Company. The liability of a director or an officer or Representative hereunder shall be limited only for those actions taken or omitted to be taken by such Person in the discharge of such Person's obligations in connection with the management of the business and affairs of the Company or any Other Enterprise. The foregoing limitation of liability shall apply to all directors, officers and to all Persons who serve as a Representative at any time.

5.4 RIGHT TO INDEMNIFICATION. The Company shall indemnify each Person who has been or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, investigative or appellate (regardless of whether such action, suit or proceeding is by or in the right of the Company or by third parties) by reason of the fact that such Person is or was a Member of the Company, a director or an officer of the Company, a Representative or is or was serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise, against all liabilities and expenses, including, without limitation, judgments, amounts paid in settlement, attorneys' fees, ERISA excise taxes or penalties, fines and other expenses, actually and reasonably incurred by such Person in connection with such action, suit or proceeding (including, without limitation, the investigation, defense, settlement or appeal of such action, suit or proceeding); provided, however, that the Company shall not be required to indemnify or advance expenses to any Person on account of such Person's conduct that was finally adjudged to

have been knowingly fraudulent, deliberately dishonest or willful misconduct; provided, further, that the Company shall not be required to indemnify or advance expenses to any Person in connection with an action, suit or proceeding initiated by such Person unless the initiation of such action, suit or proceeding was authorized in advance by the Board of Directors; provided, however, that a director or an officer or Representative shall be indemnified hereunder only for those actions taken or omitted to be taken by such Person in the discharge of such Person's obligations in connection with the management of the business and affairs of the Company or any Other Enterprise. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or under a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that such Person's conduct was finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct. The foregoing right to indemnification shall apply to all Persons serving as directors or officers and to all Persons who serve as a Representative at any time or who serve at any time at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise. Nothing herein prevents the Member from indemnifying its representatives or directors or officers under such Member's organizational documents or other agreements. If any Person is entitled to indemnification both from the Company and from a Member, then indemnification would come first from the Company and thereafter from the Member.

5.5 ENFORCEMENT OF INDEMNIFICATION. In the event the Company refuses to indemnify any Person who may be entitled to be indemnified or to have expenses advanced under this Article V, such Person shall have the right to maintain an action in any court of competent jurisdiction against the Company to determine whether or not such Person is entitled to such indemnification or advancement of expenses hereunder. If such court action is successful and the Person is determined to be entitled to such indemnification or advancement of expenses, such Person shall be reimbursed by the Company for all fees and expenses (including attorneys' fees) actually and reasonably incurred in connection with any such action (including, without limitation, the investigation, defense, settlement or appeal of such action).

5.6 ADVANCEMENT OF EXPENSES. Expenses (including attorneys' fees) reasonably incurred in defending an action, suit or proceeding, whether civil, criminal, administrative, investigative or appellate, shall be paid by the Company in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the Person subject thereto to repay such amount if it shall ultimately be determined that such Person is not entitled to indemnification by the Company. In no event shall any advance be made in instances where the Member or legal counsel for the Company reasonably determines that such Person would not be entitled to indemnification hereunder.

5.7 NON-EXCLUSIVITY. The indemnification and advancement of expenses provided by this Article V shall not be exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any statute, or any agreement, vote of the Board of Directors or Member, policy of insurance or otherwise, both as to action in their official capacity and as to action in another capacity while holding their respective offices, and shall not limit in any way any right that the Company may have to make additional indemnifications with respect to the same or different Persons or classes of Persons. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article V shall continue as to a Person who has ceased to be a director or an officer of the Company, a Representative or a

Person eligible for designation as a Representative and as to a Person who has ceased serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise and shall inure to the benefit of the heirs, executors and administrators of such Person.

5.8 INSURANCE. The Board of Directors may cause the Company to purchase and maintain insurance on behalf of any Person who is or was a director or an officer, agent or employee of the Company or a Representative or is or was serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise, against any liability asserted against such Person and incurred by such Person in any such capacity, or arising out of such Person's status as such, whether or not the Company would have the power, or the obligation, to indemnify such Person against such liability under the provisions of this Article V.

5.9 AMENDMENT AND VESTING OF RIGHTS. The rights granted or created hereby shall be vested in each Person entitled to indemnification hereunder as a bargained-for, contractual condition of such Person's serving or having served as a director or an officer of the Company or a Representative or serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise and, while this Article V may be amended or repealed, no such amendment or repeal shall release, terminate or adversely affect the rights of such Person under this Article V with respect to any (a) act taken or the failure to take any act by such Person prior to such amendment or repeal, or (b) any action, suit or proceeding concerning such act or failure to act filed after such amendment or repeal.

5.10 SEVERABILITY. If any provision of this Article V or the application of any such provision to any Person or circumstance is held invalid, illegal or unenforceable for any reason whatsoever, the remaining provisions of this Article V and the application of such provision to other Persons or circumstances shall not be affected thereby and, to the fullest extent possible, the court finding such provision invalid, illegal or unenforceable shall modify and construe the provision so as to render it valid and enforceable as against all Persons and to give the maximum possible protection to Persons subject to indemnification hereby within the bounds of validity, legality and enforceability. Without limiting the generality of the foregoing, if any director or officer of the Company, any Representative or any Person who is or was serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise is entitled under any provision of this Article V to indemnification by the Company for some or a portion of the judgments, amounts paid in settlement, attorneys' fees, ERISA excise taxes or penalties, fines or other expenses actually and reasonably incurred by any such Person in connection with any threatened, pending or completed action, suit or proceeding (including, without limitation, the investigation, defense, settlement or appeal of such action, suit or proceeding), whether civil, criminal, administrative, investigative or appellate, but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify such Person for the portion thereof to which such Person is entitled.

5.11 CONTRACTS WITH MEMBER OR THEIR AFFILIATES. All contracts or transactions between the Company and its Member, one of its directors, or officers or between the Company and another limited liability company, corporation, partnership, association or other organization in which the Member has a financial interest or with which such Member is affiliated are permissible if such contract or transaction, and such Member's or officer's interest therein, are

fully disclosed to the Board of Directors and approved by the Board of Directors.

5.12 OTHER BUSINESS VENTURES. Any Member may engage in, or possess an interest in, other business ventures of every nature and description, independently or with others, whether or not similar or identical to the business of the Company, and neither the Company nor any other Member shall have any right by virtue of this Agreement in or to such other business ventures or to the income or profits derived therefrom. The Member and Representatives shall not be required to devote all of their time or business efforts to the affairs of the Company, but shall devote so much of their time and attention to the Company as is reasonably necessary and advisable to manage the affairs of the Company to the best advantage of the Company. The foregoing shall not supersede any employment, confidentiality, noncompete or other specific agreement that may exist between the Company (or an Affiliate of the Company) and any Member (or an Affiliate of any Member).

## ARTICLE VI - ACCOUNTING MATTERS

6.1 FISCAL YEAR. The fiscal year and taxable year of the Company shall end on December 31 of each year, unless a different year is required by the Code or otherwise established by the Board of Directors.

6.2 BOOKS AND RECORDS. At all times during the existence of the Company, the Company shall cause to be maintained full and accurate books of account, which shall reflect all Company transactions and be appropriate and adequate for the Company's business.

## ARTICLE VII - DISSOLUTION AND TERMINATION

7.1 EVENTS CAUSING DISSOLUTION. The Company shall be of perpetual duration; however, the Company may be dissolved upon:

(a) The direction of the Member to dissolve the Company;

(b) A decree of dissolution being entered with respect to the Company by a court of competent jurisdiction; or

(c) A merger or consolidation under the Act where the Company is not the surviving entity in such merger or consolidation.

7.2 EFFECT OF DISSOLUTION. Except as otherwise provided in this Agreement, upon the dissolution of the Company, the Member shall take such actions as may be required pursuant to the Act and shall proceed to wind up, liquidate and terminate the business and affairs of the Company. In connection with such winding up, the Member shall have the authority to liquidate and reduce to cash (to the extent necessary or appropriate) the assets of the Company as promptly as is consistent with obtaining Fair Value therefor, to apply and distribute the proceeds of such liquidation and any remaining assets in accordance with the provisions of Section 7.3, and to do any and all acts and things authorized by, and in accordance with, the Act and other applicable laws for the purpose of winding up and liquidation.

7.3 APPLICATION OF PROCEEDS. Upon dissolution and liquidation of the Company, the assets of the Company shall be applied and distributed in the following order of priority:

(a) To the payment of debts and liabilities of the Company (including to the Member to the extent otherwise permitted by law) and the expenses of liquidation.

(b) Next, to the setting up of such reserves as the Person required or authorized by law to wind up the Company's affairs may reasonably deem necessary or appropriate for any disputed, contingent or unforeseen liabilities or obligations of the Company, provided that any such reserves shall be paid over by such Person to an escrow agent appointed by the Board of Directors, to be held by such agent or its successor for such period as such Person shall deem advisable for the purpose of applying such reserves to the payment of such liabilities or obligations and, at the expiration of such period, the balance of such reserves, if any, shall be distributed as hereinafter provided.

(c) The remainder to the Member.

ARTICLE VIII - ARTICLE IX - MISCELLANEOUS

8.1 NOTICES. Any notice, demand, request or other communication (a "Notice") required or permitted to be given by this Agreement or the Act to the Company, the Member, a Director, or any other Person shall be sufficient if in writing and if hand delivered or mailed by registered or certified mail to the Company at its principal office or to the Member or any other Person at the address of the Member or such other Person as it appears on the records of the Company or sent by facsimile transmission to the telephone number, if any, of the recipient's facsimile machine as such telephone number appears on the records of the Company. All Notices that are mailed shall be deemed to be given when deposited in the United States mail, postage prepaid. All Notices that are hand delivered shall be deemed to be given upon delivery. All Notices that are given by facsimile transmission shall be deemed to be given upon receipt, it being agreed that the burden of proving receipt shall be on the sender of such Notice and such burden shall not be satisfied by a transmission report generated by the sender's facsimile machine.

8.2 NO THIRD PARTY RIGHTS. None of the provisions contained in this Agreement shall be for the benefit of or enforceable by any third parties, including, but not limited to, creditors of the Company; provided, however, the Company may enforce any rights granted to the Company under the Act, the Certificate, or this Agreement.

8.3 ENTIRE AGREEMENT. This Agreement, together with the Certificate, constitutes the entire agreement, relative to the formation, operation and continuation of the Company.

8.4 AMENDMENTS TO THIS AGREEMENT. Except as otherwise provided herein, this Agreement shall not be modified or amended in any manner other than with the written approval of the Member.

8.5 SEVERABILITY. In the event any provision of this Agreement is held to be illegal, invalid or unenforceable to any extent, the legality, validity and enforceability of the remainder

of this Agreement shall not be affected thereby and shall remain in full force and effect and shall be enforced to the greatest extent permitted by law.

8.6 HEADINGS. The headings of the Sections of this Agreement are for convenience only and shall not be considered in construing or interpreting any of the terms or provisions hereof.

8.7 GOVERNING LAW. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware.

IN WITNESS WHEREOF, the sole Member of the Company has duly executed this Agreement as of the date first written above.

INERGY GP, LLC

By: INERGY HOLDINGS, LLC, the sole Member of Inergy GP, LLC

/s/ JOHN J. SHERMAN
By:_____
John J. Sherman, Sole Voting Member of Inergy Holdings, LLC

INERGY HOLDINGS, LLC

/s/ JOHN J. SHERMAN
By:_____
John J. Sherman, Sole Voting Member

# CERTIFICATE OF FORMATION
# OF
# MID-ATLANTIC ENERGY, LLC

The undersigned, for the purpose of forming a limited liability company (the "Company") under the Delaware Limited Liability Company Act (the "Act"), hereby makes, acknowledges and files this Certificate of Formation:

FIRST. The name of the Company is:

Mid-Atlantic Energy, LLC

SECOND. The address of the Company's registered office in the State of Delaware is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801. The name of its registered agent at such address for service of process is The Corporation Trust Company.

THIRD. The Company shall commence its existence on the date this Certificate of Formation is filed with the Delaware Secretary of State.

IN WITNESS WHEREOF, the undersigned, for the purpose of forming a limited liability company under the Act, has executed this Certificate of Formation this 7th day of November, 1996.

/s/ RICHARD N. NIXON

By: _____

Richard N. Nixon
Authorized Person

EXHIBIT 3.7

CERTIFICATE OF AMENDMENT
TO
CERTIFICATE OF FORMATION
OF
MID-ATLANTIC ENERGY, LLC

The undersigned, for the purpose of amending the Certificate of Formation of Mid-Atlantic Energy, LLC (the "Company") under the Delaware Limited Liability Company Act (the "Act"), hereby makes, acknowledges and files the Certificate of Amendment to Certificate of Formation:

1. The name of the limited liability company is: Mid-Atlantic Energy, LLC.

2. The Certificate of Formation of the limited liability company is hereby amended by deleting all of the present Article FIRST and inserting in lieu thereof the following Article FIRST:

FIRST. The name of the Company is:

Integrated Propane Partners, LLC

IN WITNESS WHEREOF, the undersigned, for the purpose of amending the Certificate of Formation of the Company under the Act, has executed this Certificate of Amendment to Certificate of Formation this 27th day of April, 1998.

INTEGRATED ENERGY HOLDINGS, LLC, as a
member of Mid-Atlantic Energy, LLC

By: /s/ John J. Sherman
Name: John J. Sherman
Title: Member

CERTIFICATE OF AMENDMENT
TO
CERTIFICATE OF FORMATION
OF
INTEGRATED PROPANE PARTNERS, LLC

The undersigned sole member of Integrated Propane Partners, LLC (the "Company"), for the purpose of amending the Company's Certificate of Formation under the Delaware Limited Liability Company Act (the "Act"), hereby makes, acknowledges and files this Certificate of Amendment.

The current name of the Company is Integrated Propane Partners, LLC. The following paragraph of the Certificate of Formation is hereby amended as follows:

FIRST. The name of the Company is hereby changed to:

INERGY PARTNERS, LLC

IN WITNESS WHEREOF, the undersigned, for the purpose of amending the Certificate of Formation of the Company under the Act, has executed this Certificate of Amendment this 17th day of February, 1999.

INTEGRATED ENERGY HOLDINGS, LLC

By: /s/ John J. Sherman
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Name: John J. Sherman
Title: Voting Member

# AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT OF INTEGRATED PROPANE PARTNERS, LLC

THIS AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT (the "Agreement") is entered into as of September 30, 1998, between Michael L. Hendren, an individual ("Hendren"), Integrated Energy Holdings, LLC, a Delaware limited liability company ("IEH") and each of the individuals set forth on Exhibit A attached hereto and incorporated herein by reference (such individuals are hereinafter collectively referred to as the "Employee Investor Group").

## RECITALS

A. Hendren and IEH caused Mid-Atlantic Energy, LLC ("Mid-Atlantic") to be formed as a limited liability company under the Delaware Limited Liability Company Act on November 8, 1996.

B. Hendren and IEH are parties to the Limited Liability Company Agreement of Mid-Atlantic, dated November 22, 1996 (the "Initial LLC Agreement").

C. Hendren and IEH desire to amend and restate in its entirety the Initial LLC Agreement to, among other things, provide for common and preferred limited liability company interests, change the name of the limited liability company to Integrated Propane Partners, LLC (the "Company") and admit certain new Members to the Company.

NOW, THEREFORE, in consideration of the premises and the mutual agreements contained herein, the parties hereto agree to amend and restate the Initial LLC Agreement in its entirety as follows:

## ARTICLE I
## DEFINITIONS

1.1 Definitions Generally. Unless defined specifically herein, terms relating to a limited liability company shall have the meanings given to them in the Delaware Limited Liability Company Act.

1.2 Terms Defined Herein. As used herein, the following terms shall have the following meanings, unless the context otherwise specifies:

"ACT" means the Delaware Limited Liability Company Act, as amended from time to time.

"ADDITIONAL CAPITAL CALL" has the meaning set forth in Section 3.2 hereof.

"ADDITIONAL DISTRIBUTIONS" has the meaning set forth in Section 4.3 hereof.

"ADJUSTED CAPITAL ACCOUNT DEFICIT" means, with respect to each Member, the deficit balance, if any, in such Member's Common Capital Account and/or Preferred Capital Account as of the end of the relevant fiscal year, after giving effect to the following adjustments:

(i) increased for any amounts such Member is unconditionally obligated to restore and the amount of such Member's share of Company Minimum Gain and Member Minimum Gain after taking into account any changes during such year; and (ii) reduced by the items described in Treasury Regulations (S) 1.704-1(b)(2)(ii)(d)(4), (5) and (6).

"AFFILIATE" means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such Person. For the purposes of this definition, "control," when used with respect to any Person means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"AGREEMENT" means this Amended and Restated Limited Liability Company Agreement of Integrated Propane Partners, LLC, as amended from time to time.

"BANKRUPTCY", with respect to any Person, means the entry of an order for relief against such Person under the Federal Bankruptcy Code or the insolvency of such Person under any state insolvency act.

"BUSINESS DAY" shall mean any day other than a Saturday or Sunday or a day on which banking institutions in Kansas City, Missouri are authorized or obligated to close.

"CERTIFICATE" means the Certificate of Formation of the Company filed with the Secretary of State of Delaware, as amended from time to time.

"CLASS A PREFERRED INTEREST" means any Interest designated as such on Schedule A attached hereto.

"CLASS A PREFERRED MEMBER" means any Member to the extent that such Member holds a Class A Preferred Interest. All Class A Preferred Members shall be Non-Voting Members to the extent of their Class A Preferred Interest.

"COMMON CAPITAL ACCOUNT" means the separate account established and maintained by the Company for each Common Member pursuant to Section 3.5 hereof.

"COMMON INTEREST" means any Interest designated as such on Schedule A attached hereto.

"COMMON MEMBER" means any Member to the extent that such Member holds a Common Interest. All Common Members, other than members of the Employee Investor Group, shall be Voting Members to the extent of their Common Interest.

"COMMON PERCENTAGE INTEREST" means a Common Member's percentage of the Common Interests in the Company including such Common Member's percentage of the net income, gain, loss, deductions and credits of the Company allocated to such Common Members. The Common Percentage Interest of each Common Member, prior to any adjustments thereto required by the provisions of this Agreement, shall be as set forth on Schedule A attached hereto.

"CODE" means the Internal Revenue Code of 1986, as amended from time to time, or the corresponding provisions of future laws.

"COMPANY" means Integrated Propane Partners, LLC, a Delaware limited liability company.

"COMPANY MINIMUM GAIN" shall have the same meaning as the term "partnership minimum gain" set forth in Treasury Regulation (S) 1.704-2(d)(1). Company Minimum Gain shall be determined, first, by computing for each Nonrecourse Debt any gain that the Company would realize if the Company disposed of the property subject to that liability for no consideration other than full satisfaction of such liability and, then, aggregating the separately computed gains. For purposes of computing gain, the Company shall use the basis of such property that is used for purposes of determining the amount of the Common Capital Accounts and the Preferred Capital Accounts under Section 3.5 hereof. In any taxable year in which a Revaluation occurs, the net increase or decrease in Company Minimum Gain for such taxable year shall be determined by: (1) calculating the net decrease or increase in Company Minimum Gain using the current year's book value and the prior year's amount of Company Minimum Gain, and (2) adding back any decrease in Company Minimum Gain arising solely from the Revaluation.

"CONTRIBUTING MEMBER" has the meaning set forth in Section 3.3 hereof.

"CREDITS" means all tax credits allowed by the Code with respect to activities of the Company or the Property.

"DISTRIBUTIONS" means any distributions by the Company to the Common Members or Class A Preferred Members of Liquidation Proceeds, Tax Distributions, Preferred Distributions or Additional Distributions.

"EBITDA" means the net income of the Operating Company before provision for income taxes determined in accordance with GAAP plus the amount included in such net income for interest, depreciation and amortization of intangible items.

"EMPLOYEE INVESTOR GROUP" means the individuals collectively set forth on Exhibit A hereto, and their successors and permitted assigns.

"EXEMPT TRANSFER" has the meaning set forth in Section 7.3 hereof.

"FAIR VALUE" of an asset means its fair market value.

"GAAP" means generally accepted accounting principles.

"IEH" means Integrated Energy Holdings, LLC, a Delaware limited liability company.

"ILLIQUID ASSETS" has the meaning set forth in Section 3.4 hereof.

"INCOME" and "LOSS" mean, respectively, for each fiscal year or other period, an amount equal to the Company's taxable income or loss for such year or period, determined in accordance with Code Section 703(a), except that for this purpose (i) all items of income, gain, deduction or

loss required to be separately stated by Code Section 703(a)(1) shall be included in taxable income or loss; (ii) tax exempt income shall be added to taxable income or loss; (iii) any expenditures described in Code Section 705(a)(2)(B) (or treated as Code Section 705(a)(2)(B) expenditures pursuant to Treasury Regulation (S) 1.704-1(b)(2)(iv)(i)) and not otherwise taken into account in computing taxable income or loss shall be subtracted; and (iv) taxable income or loss shall be adjusted to reflect any item of income or loss specially allocated in Article IV hereof and the Company's taxable income shall be reduced or its loss increased by the amount of Operating Income allocated pursuant to Section 4.6(a)(ii)(A) hereof.

"INITIAL CONTRIBUTIONS" means either the initial or the restated value of the capital contributed by the Members for their Interests.

"INITIAL LLC AGREEMENT" means the Limited Liability Company Agreement of Mid-Atlantic, dated November 22, 1996.

"INTEREST" means either a Class A Preferred Interest or a Common Interest. The type of Interest held by each Member shall be as set forth on Schedule A attached hereto.

"LIQUIDATION PROCEEDS" means all Property at the time of liquidation of the Company and all proceeds thereof.

"MCCRACKEN" means McCracken Oil & Propane Company, LLC, a Delaware limited liability company.

"MEMBER" means each Person executing this Agreement, including a Substitute Member, if any.

"MEMBER MINIMUM GAIN" shall have the same meaning as the term "partner nonrecourse debt minimum gain" as set forth in Treasury Regulation (S) 1.704-2(i)(3). With respect to each Member Nonrecourse Debt, Member Minimum Gain shall be determined by computing for each Member Nonrecourse Debt any gain that the Company would realize if the Company disposed of the property subject to that liability for no consideration other than full satisfaction of such liability. For purposes of computing gain, the Company shall use the basis of such property that is used for purposes of determining the amount of the Common Capital Accounts and the Preferred Capital Accounts under Section 3.5 hereof. In any taxable year in which a Revaluation occurs, the net increase or decrease in Member Minimum Gain for such taxable year shall be determined by: (1) calculating the net decrease or increase in Member Minimum Gain using the current year's book value and the prior year's amount of Member Minimum Gain, and (2) adding back any decrease in Member Minimum Gain arising solely from the Revaluation.

"MEMBER NONRECOURSE DEBT" shall have the same meaning as the term "partner nonrecourse debt" set forth in Treasury Regulation (S) 1.704-2(b)(4).

"MEMBER NONRECOURSE DEDUCTIONS" shall have the same meaning as the term "partner nonrecourse deductions" set forth in Treasury Regulation (S) 1.704-2(i)(2). Generally, the amount of Member Nonrecourse Deductions with respect to a Member Nonrecourse Debt for a fiscal year equals the net increase during the year in the amount of the Member Minimum Gain

(determined in accordance with Treasury Regulation (S) 1.704-2(i)) reduced (but not below zero) by the aggregate distributions made during the year of proceeds of Member Nonrecourse Debt and allocable to the increase in Member Minimum Gain determined according to the provisions of Treasury Regulation (S) 1.704-2(i).

"NON-CONTRIBUTING MEMBER" has the meaning set forth in Section 3.3 hereof.

"NON-EXEMPT TRANSFER" means any Transfer that is not an exempt transfer under Section 7.3 hereof.

"NONRECOURSE DEBT" means a Company liability with respect to which no Member bears the economic risk of loss as determined under Treasury Regulations (S)(S) 1.752-1(a)(2) and 1.752-2.

"NONRECOURSE DEDUCTIONS" shall have the same meaning as the term "nonrecourse deductions" set forth in Treasury Regulation (S) 1.704-2(c). Generally, the amount of Nonrecourse Deductions for a fiscal year equals the net increase in the amount of Company Minimum Gain (determined in accordance with Treasury Regulation (S) 1.704-2(d)) during such year reduced (but not below zero) by the aggregate distributions made during the year of proceeds of a Nonrecourse Debt that are allocable to the increase in Company Minimum Gain, determined according to the provisions of Treasury Regulation (S) 1.704-2(c) and (h).

"NON-VOTING MEMBER" is a Member who is not entitled to vote in any matter requiring a vote under the terms of this Agreement.

"OPERATING COMPANIES" means McCracken Oil & Propane Company, LLC, a Delaware limited liability company, and such other entities as the Company may from time to time acquire and own a majority interest in.

"OPERATING INCOME" means the gross receipts of the Operating Companies minus the cost of goods sold of the Operating Companies.

"PERSON" means any individual, partnership, limited liability company, corporation, association, cooperative, estate, trust, custodian, nominee or any other individual or entity in its own or any representative capacity.

"PREFERRED CAPITAL ACCOUNT" means the separate account established and maintained by the Company for each Class A Preferred Member pursuant to Section 3.5 hereof.

"PREFERRED DISTRIBUTION" has the meaning set forth in Section 4.2 hereof.

"PREFERRED PERCENTAGE INTEREST" means a Class A Preferred Member's percentage of the Class A Preferred Interests in the Company including such Class A Preferred Member's percentage of the net income, gain, loss, deductions and credits of the Company allocated to such Class A Preferred Members. The Preferred Percentage Interest and the initial Preferred Capital Account balance of each Class A Preferred Member, prior to any adjustments thereto required by the provisions of this Agreement, shall be as set forth on Schedule A attached hereto.

"PROPERTY" means all properties and assets, including intellectual property, contract rights and other intangible assets, that the Company may own or otherwise have an interest in from time to time.

"REPRESENTATIVE" has the meaning set forth in Section 5.1 hereof.

"RESERVES" means amounts set aside from time to time by the Members pursuant to Section 4.10 hereof.

"REVALUATION" shall mean the occurrence of any event described in clause (x), (y) or (z) of Section 3.5(b) hereof in which the book basis of Property is adjusted to its Fair Value.

"SUBSTITUTE MEMBER" has the meaning set forth in Section 7.7 hereof.

"TAX DISTRIBUTION" has the meaning set forth in Section 4.1 hereof.

"TAX MATTERS PARTNER" means the Member designated pursuant to Section 6.4 hereof to represent the Company in matters before the Internal Revenue Service.

"TRANSFER" means (i) when used as a verb, to give, sell, exchange, assign, transfer, lease, pledge, hypothecate, bequeath, devise or otherwise dispose of or encumber, and (ii) when used as a noun, the nouns corresponding to such verbs, in either case voluntarily or involuntarily, by operation of law or otherwise.

"TRANSFEREE" has the meaning set forth in Section 7.1 hereof.

"TRANSFEROR" has the meaning set forth in Section 7.2 hereof.

"TREASURY REGULATIONS" means the regulations promulgated by the Treasury Department with respect to the Code, as such regulations are amended from time to time, or the corresponding provisions of future regulations.

"VOTING MEMBER" is a Member who is entitled to vote in all matters requiring a vote under the terms of this Agreement.

"VOTING MEMBER MAJORITY" means those Voting Members holding a majority of the Common Percentage Interests held by all Voting Members.

1.3 Other Definitional Provisions.

(a) As used in this Agreement, accounting terms not defined in this Agreement, and accounting terms partly defined to the extent not defined, shall have the respective meanings given to them under GAAP.

(b) The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and section, subsection, schedule and exhibit references are to this Agreement unless otherwise specified.

(c) Words of the masculine gender shall be deemed to include the feminine or neuter genders, and vice versa, where applicable. Words of the singular number shall be deemed to include the plural number, and vice versa, where applicable.

## ARTICLE II
## BUSINESS PURPOSES AND OFFICES

2.1 Name; Business Purpose.

(a) The name of the Company shall be as stated in the Certificate. The name of the Company may be changed from time to time by the Voting Member Majority.

(b) The purpose of the Company is to invest in the Operating Companies, to do any and all things necessary or incidental thereto, and to engage in such other business as the Voting Member Majority deems in the best interests of the Company.

2.2 Powers. The Company may carry on any lawful business, purpose or activity permitted by the Act and shall possess and may exercise all the powers granted by the Act, any other law, or this Agreement, together with any powers incidental thereto, as far as such powers and privileges are necessary or convenient to the conduct, promotion or attainment of the business, purposes or activities of the Company.

2.3 Principal Office. The principal office of the Company shall be located at 1000 Broadway, Suite 500, Kansas City, Missouri, or at such other place(s) as the Voting Member Majority may determine from time to time.

2.4 Registered Office and Registered Agent. The location of the registered office and the name of the registered agent of the Company in the State of Delaware shall be as stated in the Certificate. The registered office and registered agent of the Company in the State of Delaware may be changed, from time to time, by the Voting Member Majority.

2.5 Amendment of the Certificate. The Company shall amend the Certificate at such time or times and in such manner as may be approved by the Voting Member Majority or as required by the Act or this Agreement.

2.6 Liability of Members. No Member, Representative or officer, solely by reason of being a Member, Representative or officer, shall be liable, under a judgment, decree or order of a court, or in any other manner, for any debt, obligation or liability of the Company, whether arising in contract, tort or otherwise, or for the acts or omissions of the other Members or any other Representative or officer of the Company. The failure of the Company to observe any formalities or requirements relating to the exercise of its powers or management of its business or affairs under this Agreement or the Act shall not be grounds for imposing liability on the Members, Representatives or officers for liabilities of the Company.

2.7 Authority; Investment Intent; Restriction Against Transfer. Each Member warrants to the Company and to the other Members that: (a) the Member is duly organized, validly existing and in good standing under the laws of its state of organization, if applicable, and that the Member has the requisite power and authority to execute this Agreement and to perform its obligations hereunder; (b) the Member is acquiring an Interest for such Member's own

account as an investment and without any intent to distribute such Interest or any portion thereof or interest therein; and (c) the Member acknowledges that the Interests have not been registered under the Securities Act of 1933 or any state securities laws, and such Member's Interest may not be resold or transferred except as provided in Article VII hereof and except pursuant to a registration statement under or an exemption from the registration provisions of the federal and applicable state securities laws.

## ARTICLE III
## CAPITAL CONTRIBUTIONS AND LOANS

3.l Initial Capital Accounts and Percentage Interests. The initial or restated Common Capital Account, the initial Preferred Capital Account, the initial or restated Common Percentage Interest and/or the initial Preferred Percentage Interest, as the case may be, of each Member shall be as set forth opposite such Member's name on either Exhibit A or Schedule A attached hereto.

3.2 Additional Capital Calls. The Common Members recognize that the Company may require from time to time, in addition to the Initial Contributions, capital in order to accomplish the purpose and business of the Company. Accordingly, additional cash capital contributions ("Additional Capital Calls") may be called for from time to time by the Voting Member Majority. Within ten Business Days after the date such Additional Capital Call is declared by the Voting Member Majority, each Common Member shall be entitled to contribute, in cash, to the capital of the Company an amount (the "Additional Contribution") equal to such Common Member's Common Percentage Interest at the time of the Additional Capital Call multiplied by the aggregate additional capital contributions. No Common Member shall be obligated to make any Additional Contributions to the Company and, accordingly, no Common Member shall be liable for damage to the Company or any other Common Member as a result of the failure of such Common Member to make any such Additional Contributions. The remedies set forth in Section 3.3 below shall be the sole remedies for any such failure.

3.3 Percentage Interest Adjustments.

(a) If the Common Capital Accounts of the Common Members are adjusted pursuant to Section 3.5(b), then, after such adjustments are made, the Common Percentage Interests of the Common Members will be correspondingly adjusted as follows:

(i) Effective as of ten Business Days after the last date a capital contribution under Section 3.2 above may be made, the Common Percentage Interests of the Common Members shall be automatically adjusted to take account of such failure of such Common Member to make such capital contribution. The Common Percentage Interest of each Common Member shall be the respective percentage obtained by dividing the total balance in such Common Member's Common Capital Account as of such date by the total balance in all Common Members' Common Capital Accounts as of such date. Any payment by a

Contributing Member of all or a portion of a Non-Contributing Member's contribution pursuant to Section 3.3(a)(ii) below shall result in a comparable adjustment in the Common Percentage Interests of the Common Members. The sum of the Common Percentage Interests of the Common Members, as adjusted in accordance with this Section 3.3(a)(i), shall equal 100%. Any increase in the Common Percentage Interest of a Common Member pursuant to this Section 3.3(a)(i) shall have the same designation as a Common Interest as the Common Percentage Interest held by such Common Member prior to any such increase.

(ii) If any Common Member fails for any reason to make in a timely manner any part or all of an Additional Contribution called for under Section 3.2 (the "Unpaid Additional Contribution"), such Common Member shall be deemed a "Non-Contributing Member" and the Company shall promptly give written notice of the failure to contribute to all Common Members. Each of the Common Members contributing their pro-rata share of an Additional Contribution (the "Contributing Members") shall have the right, but not the obligation, for a period of 10 days after notice of such failure to contribute by a Non-Contributing Member is given, to contribute to the Company an amount equal to (A) the amount of each Non-Contributing Member's Unpaid Additional Contribution multiplied by a fraction the numerator of which is the Contributing Member's Common Percentage Interest at the time of the Additional Capital Call and the denominator of which is the sum of the Common Percentage Interests of all Contributing Members who desire to contribute to the Company such Contributing Members' pro-rata share of the Non-Contributing Member's Unpaid Additional Contribution or (B) such greater amount of the Non-Contributing Member's Unpaid Additional Contribution as shall be agreed upon by all of such Contributing Members. Upon the payment by the Contributing Members of all or a portion of the Non-Contributing Member's Unpaid Additional Contribution, the Common Percentage Interests of the Common Members shall be adjusted as provided in Section 3.3(a)(i) above. Any increase in the Common Percentage Interest of a Common Member pursuant to this Section 3.3(a)(ii) shall have the same designation as a Common Interest as the Common Percentage Interest held by such Common Member prior to any such increase.

(b) The Company shall not dissolve as a result of any failure by a Common Member to make a capital contribution under Section 3.2 above, unless the Voting Member Majority following such a failure elects to dissolve the Company.

3.4 Capital Account Adjustments and Revaluation. If a Common Member fails for any reason to make a capital contribution under Section 3.2 above within ten Business Days after the last date such capital contribution may be made (the "Default Date"), then the Common Capital Accounts of the Common Members will be adjusted pursuant to Section 3.5(b) hereof. For purposes of adjustments made pursuant to this Section 3.4, the Fair Value of the Company's assets shall be determined as follows:

(i) Cash, deposit accounts, United States securities with a maturity of 90 days or less or other cash equivalents shall be valued at the principal or par amounts with accrued interest thereon, if any, through the Default Date.

(ii) All securities and commodities which are traded on a generally recognized exchange shall be valued at the closing price, or if applicable the average of the bid and ask price, on the Default Date.

(iii) All assets of the Company which are not described in subparagraphs (i) or (ii) above and which would be current assets of the Company under the accrual method of accounting shall be valued in an amount equal to their book value determined in accordance with generally accepted accounting principles consistently applied as if the Company applied the accrual method of accounting.

(iv) Except as to the value of the Company's interests in the Operating Companies, all assets not described in the preceding subparagraphs (i) through (iii) (the "Illiquid Assets") shall be valued in an amount equal to the Fair Value of such Illiquid Assets as determined by a Voting Member Majority.

(v) The Company's interests in the Operating Companies shall be valued using the methods described in (i) through (iv) above for the valuation of assets held by the Operating Companies (based on the entire equity interests of the Operating Companies) multiplied by the Company's percentage interests in the equity of the Operating Companies at the time of such valuation.

3.5 Capital Accounts.

(a) A separate Common Capital Account shall be maintained for each Common Member. Each Common Member's Common Capital Account shall be (i) increased by (a) the amount of money contributed by such Common Member, (b) the Fair Value of property contributed by such Common Member (net of liabilities secured by such contributed property that the Company is considered to assume or take subject to under Code Section 752), (c) allocations to such Common Member, pursuant to Article IV hereof, of Company income and gain (or items thereof), and (d) to the extent not already netted out under clause (ii)(b) below, the amount of any Company liabilities assumed by the Common Member or which are secured by any property distributed to such Common Member; and (ii) decreased by (a) the amount of money distributed to such Common Member, (b) the Fair Value of property distributed to such Common Member (net of liabilities secured by such distributed property that such Common Member is considered to assume or take subject to under Code Section 752), (c) allocations to such Common Member, pursuant to Article IV hereof, of Company loss and deductions (or items thereof), and (d) to the extent not already netted out under clause (i)(b) above, the amount of any liabilities of the Common Member assumed by the Company or which are secured by any property contributed by such Common Member to the Company.

A separate Preferred Capital Account shall be maintained for each Class A Preferred Member. Each Class A Preferred Member's Preferred Capital Account shall be (i) increased by (a) the amount of money contributed by such Class A Preferred Member, (b) the Fair Value of property contributed by such Class A Preferred Member (net of liabilities secured by such contributed property that the Company is considered to assume or take subject to under Code Section 752), (c) allocations to such Class A Preferred Member, pursuant to Article IV hereof, of Company income and gain (or items thereof), and (d) to the extent not already netted out under clause (ii)(b) below, the amount of any Company liabilities assumed by the Class A Preferred Member or which are secured by any property distributed to such Class A Preferred Member; and (ii) decreased by (a) the amount of money distributed to such Class A Preferred Member, (b) the Fair Value of property distributed to such Class A Preferred Member (net of liabilities secured by such distributed property that such Class A Preferred Member is considered to assume or take subject to under Code Section 752), (c) allocations to such Class A Preferred Member, pursuant to Article IV hereof, of Company loss and deductions (or items thereof), and (d) to the extent not already netted out under clause (i)(b) above, the amount of any liabilities of the Class A Preferred Member assumed by the Company or which are secured by any property contributed by such Class A Preferred Member to the Company.

In the event any Interest is transferred in accordance with the terms of this Agreement, the Transferee shall succeed to the Common Capital Account and/or the Preferred Capital Account of the Transferor to the extent it relates to the transferred interest, and the Common Capital Account and/or the Preferred Capital Account of each Transferee shall be increased and decreased in the manner set forth above.

(b) In the event of (x) an additional capital contribution by a Common Member that results in a shift in Common Percentage Interests, (y) the distribution by the Company to a Common Member of more than a de minimis amount of property (other than cash) or a distribution of property as consideration for a Common Interest or (z) the liquidation of the Company within the meaning of Treasury Regulation (S) 1.704-1(b)(2)(ii)(g), the book basis of the Property shall be adjusted to Fair Value and the Common Capital Accounts of the Common Members shall be adjusted simultaneously to reflect the aggregate net adjustment to book basis as if the Company recognized gain or loss equal to the amount of such aggregate net adjustment.

(c) In the event that Property is subject to Code Section 704(c) or is revalued on the books of the Company in accordance with paragraph (b) above pursuant to Treasury Regulation (S) 1.704-1(b)(2)(iv)(f), the Members' Common Capital Accounts and/or Preferred Capital Accounts shall be adjusted in accordance with Treasury Regulation (S) 1.704-1(b)(2)(iv)(g) for allocations to the Members of depreciation, amortization and gain or loss, as computed for book purposes (and not tax purposes) with respect to such Property.

(d) The foregoing provisions of this Section 3.5 and the other provisions of this Agreement relating to the maintenance of the Common Capital Accounts and/or the Preferred Capital Accounts are intended to comply with Treasury Regulations (S)(S) 1.704-1(b) and 1.704-2, and shall be interpreted and applied in a manner consistent with

such Treasury Regulations. In the event the Members determine that it is prudent or advisable to modify the manner in which the Common Capital Accounts and/or the Preferred Capital Accounts, or any increases or decreases therein, are computed in order to comply with such Treasury Regulations, the Members may cause such modification to be made, provided such modification is not likely to have a material effect on the amounts distributable to any Member upon the dissolution of the Company.

3.6 Capital Withdrawal Rights, Interest and Priority. Except as expressly provided in this Agreement, no Member shall be entitled to withdraw or reduce such Member's Common Capital Account or Preferred Capital Account or to receive any Distributions. No Member shall be entitled to demand or receive any Distributions in any form other than in cash. No Member shall be entitled to receive or be credited with any interest on the balance in such Member's Common Capital Account or Preferred Capital Account at any time. Except as may be otherwise expressly provided herein, no Member shall have any priority over any other Member as to the return of the balance in such Member's Common Capital Account or Preferred Capital Account.

3.7 Loans. Any Member may advance funds as a loan to the Company in such amounts, at such times and on such terms and conditions as may be approved by the Voting Member Majority. Loans by a Member to the Company shall not be considered as contributions to the capital of the Company.

## ARTICLE IV
## ALLOCATIONS AND DISTRIBUTIONS

4.1 Distributions to Pay Taxes. With respect to any tax year in which the Company shall report taxable income, the Company shall distribute to the Common Members, based upon their respective Common Percentage Interests at the time of such distribution, an aggregate amount equal to the Company's taxable income, plus or minus other items of income, gain, loss or deduction passing through to the Common Members, times the sum of the effective applicable Federal income tax rate and the higher of North Carolina or Missouri state income tax rates and assuming that each Common Member is an individual paying Federal and state income tax at the highest marginal income tax rates with respect to the applicable type of income (a "Tax Distribution"). All Tax Distributions shall be made at a time sufficient to enable the Common Members to pay any required estimated tax payments.

4.2 Preferred Distributions. On or before the last Business Day of each month immediately following the end of each calendar quarter (a "Due Date"), commencing with the calendar quarter ending December 31, 1998, the Company shall distribute cash to each Class A Preferred Member in an amount equal to the initial balance in such Class A Preferred Member's Preferred Capital Account multiplied by 2.25% (a "Preferred Distribution"); provided, however, no such Preferred Distribution shall be required if such distribution would, as reasonably determined by a Voting Member Majority, cause a default under any agreement or covenant between a bank or other lending institution and any one of the Company or the Operating Companies (any such limitation that precludes payment of a Preferred Distribution being referred to as the "Limitation"). In the event any Preferred Distribution, or portion thereof, is not made with respect to a calendar quarter, such Preferred Distribution, or portion thereof (the "Accrued Preferred Distribution"), shall accumulate and be payable at such time as the Limitation no longer prevents payment. In addition, with respect to any such Accrued Preferred Distribution

there shall be payable an amount equal to (A) times (B) times (C), where (A) equals such Accrued Preferred Distribution, (B) equals a percentage equal to the higher of the Company's cost of funds or the cost of funds of any of the Operating Companies, and (C) equals a fraction, the numerator of which is the number of days since the Due Date of such Accrued Preferred Distribution or the most recent anniversary thereof, and the denominator of which is 365 (such additional amount and any unpaid portion thereof is hereinafter referred to as the "Arrearage"). If any Arrearage is not paid by an anniversary of the Due Date of the related Accrued Preferred Distribution, then such Arrearage shall be added to and become a part of the Accrued Preferred Distribution as of such anniversary date and shall no longer be an "Arrearage" hereunder. All payments made pursuant to this Section 4.2 shall be applied first to any Arrearage and then to the Accrued Preferred Distribution.

4.3 Additional Cash Distributions. The Company shall make, from time to time, such distributions as shall be determined by the Voting Member Majority (an "Additional Distribution"); provided, however, no such Additional Distributions shall be made if there are accrued but unpaid Preferred Distributions under Section 4.2 hereof. Such Additional Distributions shall be distributed to the Common Members in accordance with their respective Common Percentage Interests, as adjusted.

4.4 Liquidation Distributions. Liquidation Proceeds shall be distributed in the following order of priority:

(a) First, to the payment of any Accrued Preferred Distributions and Arrearages under Section 4.2 hereof.

(b) Next, to the payment of debts and liabilities of the Company (including to Members to the extent otherwise permitted by law) and the expenses of liquidation.

(c) Next, to the setting up of such reserves as the Person required or authorized by law to wind up the Company's affairs may reasonably deem necessary or appropriate for any disputed, contingent or unforeseen liabilities or obligations of the Company, provided that any such reserves shall be paid over by such Person to an independent escrow agent, to be held by such agent or its successor for such period as such Person shall deem advisable for the purpose of applying such reserves to the payment of such liabilities or obligations and, at the expiration of such period, the balance of such reserves, if any, shall be distributed as hereinafter provided.

(d) Next, to the Class A Preferred Members in proportion to and to the extent of their respective positive Preferred Capital Account balances.

(e) Next, to the Common Members in proportion to and to the extent of their respective positive Common Capital Account balances after taking into account the allocation of all Operating Income, Income or Loss pursuant to this Agreement for the fiscal year(s) in which the Company is liquidated.

(f) Next, to the Common Members in accordance with their respective Common Percentage Interests, as adjusted.

4.5 Profits, Losses and Distributive Shares of Tax Items. The Company's net income or net loss, as the case may be, for each fiscal year of the Company or part thereof, as determined in accordance with such method of accounting as may be adopted for the Company pursuant to Article VI hereof, shall be allocated to the Members for both financial accounting and income tax purposes as set forth in this Article IV, except as otherwise provided for herein or unless decided otherwise by the Voting Member Majority.

4.6 Allocation of Operating Income, Income, Loss and Credits.

(a) Operating Income, Income or Loss and Credits shall be allocated among the Members as follows:

(i) Loss shall be allocated among the Members in the following order of priority:

(A) First to the Common Members in proportion to and to the extent of their respective positive Common Capital Account balances; then

(B) To the Class A Preferred Members in proportion to and to the extent of their respective positive Preferred Capital Account balances; then

(C) To the Common Members in accordance with their respective Common Percentage Interests, as adjusted.

(ii) Operating Income, Income and Credits shall be allocated among the Members in the following order of priority:

(A) First, Operating Income shall be allocated to the Class A Preferred Members in accordance with their respective Preferred Percentage Interests until the cumulative amount of Operating Income allocated pursuant to this subparagraph (A) equals the cumulative amount of cash actually distributed to the Class A Preferred Members pursuant to Section 3.2 hereof; then

(B) Income shall be allocated to the Common Members, on a pro rata basis in accordance with the amounts previously allocated to such Common Members under Section 4.6(a)(i)(C) hereof, until the cumulative amount of Income allocated pursuant to this subparagraph (B) equals the cumulative amount of Losses allocated to the Common Members pursuant to Section 4.6(a)(i)(C) hereof; then

(C) Income shall be allocated to the Class A Preferred Members, on a pro rata basis in accordance with the amounts previously allocated to such Class A Preferred Members under Section 4.6(a)(i)(B) hereof, until the cumulative amount of Income allocated pursuant to this

subparagraph (C) equals the cumulative amount of Losses allocated to the Class A Preferred Members pursuant to Section 4.6(a)(i)(B) hereof; then

(D) Income shall be allocated to the Common Members, on a pro rata basis in accordance with the amounts previously allocated to such Common Members under Section 4.6(a)(i)(A) hereof, until the cumulative amount of Income allocated pursuant to this subparagraph (D) equals the cumulative amount of Losses allocated to the Common Members pursuant to Section 4.6(a)(i)(A) hereof; then

(E) Income and Credits shall be allocated to the Common Members in accordance with their respective Common Percentage Interests, as adjusted.

To the extent there is any adjustment in the respective Common Percentage Interests of the Common Members or the respective Preferred Percentage Interests of the Class A Preferred Members, as the case may be, Operating Income, Income, Loss and Credits shall be allocated among the pre-adjustment and post-adjustment periods as provided in Section 4.7(k) below.

4.7 Special Rules Regarding Allocations. Notwithstanding the foregoing provisions of this Article IV, the following special rules shall apply in allocating the net income or net loss of the Company:

(a) Section 704(c) and Revaluation Allocations. In accordance with Code Section 704(c) and the Treasury Regulations thereunder, income, gain, loss and deduction with respect to any property contributed to the capital of the Company shall, solely for tax purposes, be allocated between the Members so as to take account of any variation between the adjusted basis of such property to the Company for federal income tax purposes and its Fair Value at the time of contribution. In the event of a Revaluation, subsequent allocations of income, gain, loss and deduction with respect to such property shall take account of any variation between the adjusted basis of such property to the Company for federal income tax purposes and its Fair Value immediately after the adjustment in the same manner as under Code Section 704(c) and the Treasury Regulations thereunder. Any elections or other decisions relating to such allocations shall be made by the Members in a manner that reasonably reflects the purpose and intention of this Agreement. Allocations pursuant to this Section 4.7(a) are solely for income tax purposes and shall not affect, or in any way be taken into account in computing, for book purposes, each Member's Common Capital Account, Preferred Capital Account or share of income or loss, pursuant to any provision of this Agreement.

(b) Minimum Gain Chargeback. Notwithstanding any other provision of this Article IV, if there is a net decrease in Company Minimum Gain during a Company taxable year, each Member shall be allocated items of income and gain for such year (and, if necessary, for subsequent years) in an amount equal to that Member's share of the net decrease in Company Minimum Gain during such year (hereinafter referred to as the "Minimum Gain Chargeback Requirement"). A Member's share of the net decrease in

Company Minimum Gain is the amount of the total decrease multiplied by the Member's percentage share of the Company Minimum Gain at the end of the immediately preceding taxable year. A Member is not subject to the Minimum Gain Chargeback Requirement to the extent: (1) the Member's share of the net decrease in Company Minimum Gain is caused by a guarantee, refinancing or other change in the debt instrument causing it to become partially or wholly recourse debt or a Member Nonrecourse Debt, and the Member bears the economic risk of loss for the newly guaranteed, refinanced or otherwise changed liability; (2) the Member contributes capital to the Company that is used to repay the Nonrecourse Debt and the Member's share of the net decrease in Company Minimum Gain results from the repayment; or (3) the Minimum Gain Chargeback Requirement would cause a distortion and the Commissioner of the Internal Revenue Service waives such requirement.

A Member's share of Company Minimum Gain shall be computed in accordance with Treasury Regulation (S) 1.704-2(g) and as of the end of any Company taxable year shall equal: (1) the sum of the Nonrecourse Deductions allocated to that Member up to that time and the distributions made to that Member up to that time of proceeds of a Nonrecourse Debt allocable to an increase of Company Minimum Gain, minus (2) the sum of that Member's aggregate share of net decrease in Company Minimum Gain plus that Member's aggregate share of decreases resulting from revaluations of Property subject to Nonrecourse Debts. In addition, a Member's share of Company Minimum Gain shall be adjusted for the conversion of recourse and Member Nonrecourse Debts into Nonrecourse Debts in accordance with Treasury Regulation (S) 1.704-2(g)(3). In computing the above, amounts allocated or distributed to the Member's predecessor in interest shall be taken into account.

(c) Member Minimum Gain Chargeback. Notwithstanding any other provision of this Article IV other than Section 4.7(b) above, if there is a net decrease in Member Minimum Gain during a Company taxable year, each Member who has a share of the Member Minimum Gain (determined under Treasury Regulation (S) 1.704-2(i)(5) as of the beginning of the year) shall be allocated items of income and gain for such year (and, if necessary, for subsequent years) equal to that Member's share of the net decrease in Member Minimum Gain. In accordance with Treasury Regulation (S) 1.704-2(i)(4), a Member is not subject to this Member Minimum Gain Chargeback requirement to the extent the net decrease in Member Minimum Gain arises because the liability ceases to be Member Nonrecourse Debt due to a conversion, refinancing or other change in the debt instrument that causes it to be partially or wholly a Nonrecourse Debt. The amount that would otherwise be subject to the Member Minimum Gain Chargeback requirement is added to the Member's share of Company Minimum Gain.

(d) Qualified Income Offset. In the event a Member unexpectedly receives an adjustment, allocation or distribution described in Treasury Regulation (S)1.704.1(b)(2)(ii)(d)(4), (5) or (6), that causes or increases such Member's Adjusted Capital Account Deficit, items of Company income and gain shall be specially allocated to such Member in an amount and manner sufficient to eliminate such Adjusted Capital Account Deficit as quickly as possible, provided that an allocation under this Section

4.7(d) shall be made if and only to the extent such Member would have an Adjusted Capital Account Deficit after all other allocations under this Article IV have been made.

(e) Nonrecourse Deductions. Nonrecourse Deductions for any fiscal year or other period shall be allocated to the Common Members in proportion to their Common Percentage Interests, as adjusted.

(f) Member Nonrecourse Deductions. Any Member Nonrecourse Deductions shall be allocated to the Member that bears the risk of loss with respect to the loan to which such Member Nonrecourse Deductions are attributable in accordance with Treasury Regulation (S) 1.704-2(i).

(g) Curative Allocations. Any special allocations of items of income, gain, deduction or loss pursuant to Sections 4.7(b), (c), (d), (e) and (f) hereof shall be taken into account in computing subsequent allocations of income and gain pursuant to this Article IV, so that the net amount of any items so allocated and all other items allocated to each Member pursuant to this Article IV shall, to the extent possible, be equal to the net amount that would have been allocated to each such Member pursuant to the provisions of this Article IV if such adjustments, allocations or distributions had not occurred. In addition, allocations pursuant to this Section 4.7(g) with respect to Nonrecourse Deductions in Section 4.7(e) above and Member Nonrecourse Deductions in Section 4.7(f) above shall be deferred to the extent the Members reasonably determine that such allocations are likely to be offset by subsequent allocations of Company Minimum Gain or Member Minimum Gain, respectively.

(h) Loss Allocation Limitation. Notwithstanding the other provisions of this Article IV, unless otherwise agreed to by the Voting Member Majority, no Member shall be allocated Loss in any taxable year that would cause or increase an Adjusted Capital Account Deficit as of the end of such taxable year.

(i) Share of Nonrecourse Liabilities. Solely for purposes of determining a Common Member's proportionate share of the "excess nonrecourse liabilities" of the Company within the meaning of Treasury Regulation (S) 1.752-3(a)(3), each Common Member's interest in Company profits is equal to such Common Member's respective Common Percentage Interest, as adjusted.

(j) Compliance with Treasury Regulations. The foregoing provisions of this Section 4.7 are intended to comply with Treasury Regulation (S)(S) 1.704-1(b), 1.704-2 and 1.752-1 through 1.752-5, and shall be interpreted and applied in a manner consistent with such Treasury Regulations. In the event it is determined by the Voting Member Majority that it is prudent or advisable to amend this Agreement in order to comply with such Treasury Regulations, the Voting Member Majority is empowered to so amend or modify this Agreement, notwithstanding any other provision of this Agreement.

(k) General Allocation Provisions. For purposes of determining the Operating Income, Income, Loss or any other items for any period, Operating Income, Income, Loss

or any such other items shall be determined on a daily basis, using any permissible method under Code Section 706 and the Treasury Regulations thereunder.

4.8 Withholding of Distributions. Notwithstanding any other provision of this Agreement, a Voting Member Majority (or any Person required or authorized by law to wind up the Company's affairs) may suspend, reduce or otherwise restrict Distributions of Liquidation Proceeds or Additional Distributions for such time as a Voting Member Majority deems appropriate.

4.9 No Priority. Except as may be otherwise expressly provided herein, no Member shall have priority over the other Members as to Company income, gain, loss, credits and deductions or distributions.

4.10 Tax Withholding. Notwithstanding any other provision of this Agreement, the Voting Member Majority is authorized to take any action that they determine to be necessary or appropriate to cause the Company to comply with any withholding requirements established under any federal, state or local tax law, including, without limitation, withholding on any Distribution to any Member. For the purposes of this Article IV, any amount withheld on any Distribution and paid over to the appropriate governmental body shall be treated as if such amount had in fact been distributed to the Member.

4.11 Reserves. The Voting Member Majority shall have the right to establish, maintain and expend Reserves to provide for working capital, for future maintenance, repair or replacement of the Property, for debt service, for future investments and for such other purposes as the Voting Member Majority may deem necessary or advisable.

4.12 Right to Publicly Traded Common Units. In the event the Company issues to the public or causes a related entity to issue to the public equity interests in the Company or such related entity and there results a public market for such equity interests (such publicly traded equity interests are hereinafter referred to as "Common Units"), the Company hereby agrees to use its best efforts to permit the Class A Preferred Members to exchange their Class A Preferred Interests for such Common Units, either at the time of the public offering of such Common Units or subsequently, subject to the execution by the Class A Preferred Members of such agreements and undertakings as may be necessary to effectuate such public offering. If there are insufficient Common Units available for all Class A Preferred Members, such Common Units will be allocated among the Class A Preferred Members in accordance with their respective Preferred Percentage Interests or as otherwise determined by a Voting Member Majority.

## ARTICLE V
## MANAGEMENT

5.1 Management. The business and affairs of the Company shall be managed by the Voting Member Majority. A Voting Member shall act through one or more persons (a "Representative") as it shall designate by notice to the other Voting Members.

5.2 Voting. All Class A Preferred Members shall be Non-Voting Members to the extent of their Class A Preferred Interests. All Common Members, other than members of the Employee Investor Group, shall be Voting Members to the extent of their Common Interests.

All members of the Employee Investor Group shall be Non-Voting Members to the extent of both their Class A Preferred Interests and their Common Interests. The Voting Members shall be entitled to vote on all matters requiring a vote under the terms of this Agreement. Each Voting Member shall vote according to their respective Common Percentage Interests in the Company. Upon the Transfer of an Interest pursuant to the terms of this Agreement, each Interest shall retain any and all voting rights associated therewith.

5.3 Officers. The Voting Members may delegate their powers and authority under this Agreement in whole or in part to one or more officers of the Company as the Voting Member Majority deems appropriate, which officer shall have such power and authority as the Voting Member Majority deems appropriate.

5.4 Meetings of the Voting Members. Meetings of the Voting Members shall not be required to be held at any regular frequency, but, instead, shall be held upon the call of any Voting Member holding more than 20% in Common Percentage Interest, acting through one or more of its Representatives. All meetings of the Voting Members shall be held at the principal office of the Company or at such other place, either within or without the State of Delaware, as shall be designated by the person calling the meeting and stated in the notice of the meeting or in a duly executed waiver of notice thereof. Representatives may participate in a meeting of the Voting Members by means of conference telephone or video equipment or similar communications equipment whereby all Representatives participating in the meeting can hear each other, and participation in a meeting in this manner shall constitute presence in person at the meeting.

5.5 Notice of Meeting. Notice of each meeting of the Voting Members, stating the place, day and hour of the meeting, shall be given by the Voting Member calling the meeting to the other Voting Members at least three Business Days before the day on which the meeting is to be held. "Notice" and "call" with respect to such meetings shall be deemed to be synonymous.

5.6 Waiver of Notice. Whenever any notice is required to be given to any Voting Member under the provisions of this Agreement, a waiver thereof in writing signed by such Member, acting through one or more of its Representatives, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Attendance of a Representative at any meeting of the Voting Members shall constitute a waiver of notice of such meeting by the Voting Member he/she represents except where a Representative attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

5.7 Action Without a Meeting. Any action that is required to or may be taken at a meeting of the Voting Members may be taken without a meeting if consents in writing, setting forth the action so taken, are signed by one or more of the Representatives of the Voting Member Majority. Such consents shall have the same force and effect as a unanimous vote at a meeting duly held.

5.8 Non-Voting Members. Non-Voting Members shall have no right to notice of or to attend any meeting of the Voting Members.

5.9 Definitions. For purposes of Sections 5.9 through 5.17 hereof, inclusive, references to:

(a) The "Company" shall include, in addition to the resulting or surviving limited liability company, any constituent limited liability company (including any constituent of a constituent) absorbed in a consolidation or merger so that any Person who is or was a manager or officer of such constituent limited liability company, or is or was serving at the request of such constituent limited liability company as a director, officer or in any other comparable position of any Other Enterprise shall stand in the same position under the provisions of this Article V with respect to the resulting or surviving limited liability company as such Person would if such Person had served the resulting or surviving limited liability company in the same capacity;

(b) "Other Enterprises" or "Other Enterprise" shall include, without limitation, any other limited liability company, corporation, partnership, joint venture, trust or employee benefit plan, in which a Person is serving at the request of the Company;

(c) "fines" shall include any excise taxes assessed against a person with respect to an employee benefit plan;

(d) "defense" shall include investigations of any threatened, pending or completed action, suit or proceeding as well as appeals thereof and shall also include any defensive assertion of a cross-claim or counterclaim;

(e) "serving at the request of the Company" shall include any service as a director, officer, Representative or in any other comparable position that imposes duties on, or involves services by, a Person with respect to any Other Enterprise; and a Person who acted in good faith and in a manner such Person reasonably believed to be in or not opposed to the interest of any Other Enterprise shall be deemed to have acted "in the best interest of the Company" as referred to in this Article V; and "Officer" shall include any "Authorized Person" who is authorized to act on behalf of the Company pursuant to the terms hereof, whether or not such person has been designated an officer of the Company; and

(f) "officer" shall include an "authorized person" who is authorized to act on behalf of the Company pursuant to the terms hereof, whether or not such person has been designated an officer of the Company.

5.10 Limitation of Liability. No Person shall be liable to the Company or its Members for any loss, damage, liability or expense suffered by the Company or its Members on account of any action taken or omitted to be taken by such Person as an officer of the Company or as a Representative or by such Person while serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise, if such Person discharges such Person's duties in good faith, and in a manner such Person reasonably believes to be in or not opposed to the best interests of the Company. The liability of an officer or Representative hereunder shall be limited only for those actions taken or omitted to be taken by such Person in the discharge of such Person's obligations in connection with the management of the business

and affairs of the Company or any Other Enterprise. The foregoing limitation of liability shall apply to all officers and to all Persons who serve as a Representative at any time.

5.11 Right to Indemnification. The Company shall indemnify each Person who has been or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, investigative or appellate (regardless of whether such action, suit or proceeding is by or in the right of the Company or by third parties) by reason of the fact that such Person is or was a Voting Member of the Company, an officer of the Company, a Representative or is or was serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise, against all liabilities and expenses, including, without limitation, judgments, amounts paid in settlement, attorneys' fees, ERISA excise taxes or penalties, fines and other expenses, actually and reasonably incurred by such Person in connection with such action, suit or proceeding (including, without limitation, the investigation, defense, settlement or appeal of such action, suit or proceeding); provided, however, that the Company shall not be required to indemnify or advance expenses to any Person on account of such Person's conduct that was finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct; provided, further, that the Company shall not be required to indemnify or advance expenses to any Person in connection with an action, suit or proceeding initiated by such Person unless the initiation of such action, suit or proceeding was authorized in advance by the Voting Members; provided, however, that an officer or Representative shall be indemnified hereunder only for those actions taken or omitted to be taken by such Person in the discharge of such Person's obligations in connection with the management of the business and affairs of the Company or any Other Enterprise. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or under a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that such Person's conduct was finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct. The foregoing right to indemnification shall apply to all Persons serving as officers and to all Persons who serve as a Representative at any time or who serve at any time at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise. Nothing herein prevents any Member from indemnifying its representatives or officers under such Member's organizational documents or other agreements. If any Person is entitled to indemnification both from the Company and from a Member, then indemnification would come first from the Company and thereafter from the Member.

5.12 Enforcement of Indemnification. In the event the Company refuses to indemnify any Person who may be entitled to be indemnified or to have expenses advanced under this Article V, such Person shall have the right to maintain an action in any court of competent jurisdiction against the Company to determine whether or not such Person is entitled to such indemnification or advancement of expenses hereunder. If such court action is successful and the Person is determined to be entitled to such indemnification or advancement of expenses, such Person shall be reimbursed by the Company for all fees and expenses (including attorneys' fees) actually and reasonably incurred in connection with any such action (including, without limitation, the investigation, defense, settlement or appeal of such action).

5.13 Advancement of Expenses. Expenses (including attorneys' fees) reasonably incurred in defending an action, suit or proceeding, whether civil, criminal, administrative,

investigative or appellate, shall be paid by the Company in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the Person subject thereto to repay such amount if it shall ultimately be determined that such Person is not entitled to indemnification by the Company. In no event shall any advance be made in instances where the Voting Members or legal counsel for the Company reasonably determines that such Person would not be entitled to indemnification hereunder.

5.14 Non-Exclusivity. The indemnification and advancement of expenses provided by this Article V shall not be exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any statute, or any agreement, vote of Voting Members, policy of insurance or otherwise, both as to action in their official capacity and as to action in another capacity while holding their respective offices, and shall not limit in any way any right that the Company may have to make additional indemnifications with respect to the same or different Persons or classes of Persons. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article V shall continue as to a Person who has ceased to be an officer of the Company, a Representative or a Person eligible for designation as a Representative and as to a Person who has ceased serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise and shall inure to the benefit of the heirs, executors and administrators of such Person.

5.15 Insurance. The Voting Member Majority may cause the Company to purchase and maintain insurance on behalf of any Person who is or was an officer, agent or employee of the Company or a Representative or is or was serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise, against any liability asserted against such Person and incurred by such Person in any such capacity, or arising out of such Person's status as such, whether or not the Company would have the power, or the obligation, to indemnify such Person against such liability under the provisions of this Article V.

5.16 Amendment and Vesting of Rights. The rights granted or created hereby shall be vested in each Person entitled to indemnification hereunder as a bargained-for, contractual condition of such Person's serving or having served as an officer of the Company or a Representative or serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise and, while this Article V may be amended or repealed, no such amendment or repeal shall release, terminate or adversely affect the rights of such Person under this Article V with respect to any (a) act taken or the failure to take any act by such Person prior to such amendment or repeal, or (b) any action, suit or proceeding concerning such act or failure to act filed after such amendment or repeal.

5.17 Severability. If any provision of this Article V or the application of any such provision to any Person or circumstance is held invalid, illegal or unenforceable for any reason whatsoever, the remaining provisions of this Article V and the application of such provision to other Persons or circumstances shall not be affected thereby and, to the fullest extent possible, the court finding such provision invalid, illegal or unenforceable shall modify and construe the provision so as to render it valid and enforceable as against all Persons and to give the maximum possible protection to Persons subject to indemnification hereby within the bounds of validity, legality and enforceability. Without limiting the generality of the foregoing, if any officer of the Company, any Representative or any Person who is or was serving at the request of the

Company as a director, officer or in any other comparable position of any Other Enterprise is entitled under any provision of this Article V to indemnification by the Company for some or a portion of the judgments, amounts paid in settlement, attorneys' fees, ERISA excise taxes or penalties, fines or other expenses actually and reasonably incurred by any such Person in connection with any threatened, pending or completed action, suit or proceeding (including, without limitation, the investigation, defense, settlement or appeal of such action, suit or proceeding), whether civil, criminal, administrative, investigative or appellate, but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify such Person for the portion thereof to which such Person is entitled.

5.18 Contracts with Members or their Affiliates. All contracts or transactions between the Company and one of its Members or officers or between the Company and another limited liability company, corporation, partnership, association or other organization in which a Member has a financial interest or with which such Member is affiliated are permissible if such contract or transaction, and such Member's or officer's interest therein, are fully disclosed to the Voting Members and approved by the Voting Member Majority.

5.19 Other Business Ventures. Any Member may engage in, or possess an interest in, other business ventures of every nature and description, independently or with others, whether or not similar or identical to the business of the Company, and neither the Company nor any other Member shall have any right by virtue of this Agreement in or to such other business ventures or to the income or profits derived therefrom. The Members and Representatives shall not be required to devote all of their time or business efforts to the affairs of the Company, but shall devote so much of their time and attention to the Company as is reasonably necessary and advisable to manage the affairs of the Company to the best advantage of the Company. The foregoing shall not supersede any employment, confidentiality, noncompete or other specific agreement that may exist between the Company (or an Affiliate of the Company) and any Member (or an Affiliate of any Member).

## ARTICLE VI
## ACCOUNTING AND BANK ACCOUNTS

6.1 Fiscal Year. The fiscal year and taxable year of the Company shall end on September 30 of each year, unless a different year is required by the Code, or is adopted by the Voting Member Majority.

6.2 Books and Records. At all times during the existence of the Company, the Company shall cause to be maintained full and accurate books of account, which shall reflect all Company transactions and be appropriate and adequate for the Company's business. The books and records of the Company shall be maintained at the principal office of the Company. Each Member or its representatives shall have the right during ordinary business hours and upon reasonable notice to inspect and copy (at such Member's own expense) all books and records of the Company. The Voting Member Majority may cause the Company to retain a firm of certified public accountants of recognized standing to audit the financial statements of the Company.

6.3 Tax Information. As soon as practicable after the end of each fiscal year, there shall be prepared and delivered to each Member all information with respect to the Company necessary for the preparation of the Members' federal and state income tax returns.

6.4 Tax Returns and Elections; Tax Matters Partner. The Company shall cause to be prepared and timely filed all federal, state and local income tax returns and other returns or statements required of the Company by applicable law. The Company shall claim all deductions and make such elections for federal or state income tax purposes that the Members reasonably believe will produce the most favorable tax results for the Members. IEH is hereby designated as the Company's "Tax Matters Partner," as defined in the Code, and in such capacity is hereby authorized and empowered to act for and represent the Company and each of the Members before the Internal Revenue Service in any audit or examination of any Company tax return and before any court selected by the Members for judicial review of any adjustment assessed by the Internal Revenue Service. IEH does hereby accept such designation. IEH shall provide the other Members with written notice of any federal income tax audit and shall keep the other Members informed of all material developments involved in such proceedings. The Members specifically acknowledge, without limiting the general applicability of this Section 6.4, that IEH shall not be liable, responsible or accountable in damages or otherwise to the Company or any Member with respect to any action taken by it in its capacity as the Tax Matters Partner, provided that IEH acted in a manner it believed to be in the best interests of the Company and its Members. All reasonable out-of-pocket expenses incurred by IEH in its capacity as the Tax Matters Partner shall be considered expenses of the Company for which IEH shall be entitled to full reimbursement. Nothing in this Section 6.4 shall limit the ability of the Members to take any action in their individual capacity relating to tax audit matters that is left to the determination of an individual partner under Code Section 6222 through Code Section 6232.

6.5 Section 754 Election. In the event a distribution of Company assets occurs that satisfies the provisions of Section 734 of the Code, upon the determination of the Voting Member Majority, the Company shall elect, pursuant to Section 754 of the Code, to adjust the basis of the Property to the extent allowed by Section 734 and shall cause such adjustments to be made and maintained. Any additional accounting expenses incurred by the Company in connection with making or maintaining any such basis adjustment shall be reimbursed to the Company from time to time by the distributee who benefits from the making and maintenance of such basis adjustment.

6.6 Bank Accounts. All funds of the Company shall be deposited in a separate bank, money market or similar account(s) approved by the Voting Member Majority and in the Company's name. Withdrawals therefrom shall be made only by such persons as are authorized by the Voting Member Majority.

## ARTICLE VII
## TRANSFERS OF INTERESTS

7.1 General Transfer Restrictions. No Member may Transfer all or any part of such Member's Interest, except (i) pursuant to the provisions of Section 7.2, (ii) pursuant to an Exempt Transfer or (iii) with the written consent of all the Voting Members; provided, however, that, notwithstanding, the described clauses (i), (ii) and (iii) above, no Transfer shall be permitted if it would result in the "termination" of the Company pursuant to (S) 708 of the Code. Any purported

Transfer of an Interest in violation of the terms of this Agreement shall be null and void and of no effect. Any permitted Transfer shall be effected by a written instrument and shall be effective as of the date specified in such instrument. Any person receiving an Interest from a Member in a permitted Transfer shall not become a Substitute Member except in accordance with Section 7.7. Any assignee of an Interest as allowed by this Section 7.1 who does not become a Substitute Member as provided in Section 7.7 (a "Transferee") shall not be a Member and shall not have any right to vote as a Member or to participate in the management of the business and affairs of the Company, such right to vote such Interest and to participate in the management of the business and affairs of the Company continuing with the Transferor. The Transferee shall, however, be entitled to distributions and allocations of the Company, as provided in Article IV of this Agreement, attributable to the Interest that is the subject of the Transfer to such Transferee. Any Transferee desiring to make a further Transfer shall become subject to all of the provisions of this Article VII to the same extent and in the same manner as any Member desiring to make any Transfer.

7.2 First Offer Right.

(a) If any Member (the "Transferor") wishes to make a Non-Exempt Transfer of Interests, then, at least 25 Business Days before making any such Non-Exempt Transfer (the "First Offer Election Period"), the Transferor will deliver a written notice (the "First Offer Notice") to the Company and to all Voting Members (the "Offerees").

(b) The First Offer Notice will specify the proposed percentage and type of Interests to be the subject of such Transfer (the "Offered Interests") and disclose in reasonable detail the proposed terms and conditions of the Transfer. The purchase price for any such Transfer shall be payable at the closing of the transaction in cash or, at the option of the Offerees, with a promissory note payable in regular installments over a period of no more than five years bearing interest at a rate equal to the Company's cost of funds.

(c) The Offerees may, in the aggregate, give notice to elect to purchase all (but not less than all) of the Offered Interests, at the price and on the terms specified in the First Offer Notice by delivering written notice of such election (the "First Offer Election Notice") to the Transferor within 15 Business Days after delivery of the First Offer Notice. If more than one Offeree (other than the Company) gives notice of election to purchase the Offered Interests, they shall be entitled to purchase such Offered Interests in proportion to their existing Common Percentage Interests, as adjusted, of the Company, unless they agree otherwise. If the Offerees (other than the Company) do not elect to purchase all of the Offered Interests, the Company may give notice to elect to purchase all (but not less than all) of the Offered Interests by delivering written notice to the Transferor within 7 Business Days after the expiration of the period referred to in the first sentence of this clause (c).

(d) If any Offerees have elected to purchase any Offered Interests, the transfer of such shares will be consummated as soon as practical (but in any event within 10 Business Days) after the expiration of the First Offer Election Period. If the Offerees have not elected to purchase all of the Offered Interests, the Transferor may, within 90

days after the expiration of the First Offer Election Period, transfer all (but not less than all) of such Offered Interests to one or more Third Parties at a price and on terms no more favorable to the Third Parties than offered to the Offerees in the First Offer Notice; provided, however, that prior to such Transfer, such Third Parties shall have agreed in writing to be bound by the provisions of this Agreement and shall have delivered to the Company an executed counterpart of this Agreement. Any Offered Interests not transferred within such 90-day period will be subject to the provisions of this Section 7.2 upon any subsequent transfer.

(e) Notwithstanding the foregoing, unless the Transferor shall have consented to the purchase of less than all of the Offered Interests, no Offeree may purchase any Offered Interests unless all of the Offered Interests are to be purchased by the Offerees.

(f) The designation of the Offered Interests as Class A Preferred Interests or Common Interests will continue and any and all rights associated therewith shall be retained by each Offered Interest sold or otherwise transferred pursuant to this Section 7.2.

7.3 Exempt Transfers. The restrictions contained in this Article VII will not apply with respect to:

(i) any Transfer to the spouse of a Member;

(ii) any Transfer to a lineal descendant, natural or adopted, of a Member or to the spouse of any such lineal descendant;

(iii) any Transfer to the trustee of a trust for the substantial benefit of a Member and/or one or more persons described in (i) or (ii) above;

(iv) any Transfer to John Sherman or any entity of which the vote is controlled by John Sherman; or

(v) any Transfer to the Company;

provided, however, that the restrictions contained in this Article VII and, in the case of an Interest held at any time by an Employee Member, Sections 7.10 through 7.14 hereof will continue to be applicable to the Interests after any such Transfer, other than a Transfer to the Company (but with the buy-back provisions of Section 7.13 being based upon the employment status of the original Employee Member), and before any such Transfer is effected the transferees of such Interests, other than the Company, shall agree in writing to be bound by all the provisions of this Agreement and shall execute and deliver to the Company a counterpart of this Agreement.

7.4 Third Party Offer to Purchase. If a third party (a "Proposed Purchaser") makes an offer (the "Third Party Offer") to purchase the Common Interest of a Member or Members, and such purchase would enable the Proposed Purchaser to acquire one or more Members' Interests, which Members' Interests include in the aggregate more than 50% in Common Percentage Interest, then within ten Business Days after the issuance of the Third Party Offer to a Member

or Members, the Proposed Purchaser shall issue to the other Members an offer (the "Tag-Along Offer") whereby such Members, individually, may elect, within 30 days after receipt of the Tag-Along Offer, one of the following alternatives:

(a) If a Common Member, to sell any or all of its Common Interest to the Proposed Purchaser under the same terms and conditions as the Third Party Offer; or

(b) If a Class A Preferred Member, to sell any or all of its Class A Preferred Interest to the Proposed Purchaser for a purchase price equal to the balance in such Class A Preferred Member's Preferred Capital Account plus all Accrued Preferred Distributions and Arrearages under Section 4.2 hereof; or

(c) To take no action and continue to hold its Interest in the Company.

7.5 Third Party Offer to Acquire the Entire Company. If a third party makes an offer (the "Purchase Offer") to purchase all of the Common Interests in the Company for an identical price per Common Percentage Interest, and the holders of more than 50% in Common Percentage Interest desire to accept the Purchase Offer, then the other Members hereby agree to participate in such sale (i) if a Common Member, on the same terms and conditions as the Purchase Offer and (ii) if a Class A Preferred Member, at a purchase price equal to the balance in such Class A Preferred Member's Preferred Capital Account plus all Accrued Preferred Distributions and Arrearages under Section 4.2 hereof.

7.6 Designation of Interests. The designation of an Interest as a Class A Preferred Interest or a Common Interest will continue and any and all rights associated therewith shall be retained by each Interest sold or otherwise Transferred pursuant to the terms of this Agreement.

7.7 Substitute Members. No assignee of all or part of a Member's Interest shall become a Member in place of the Member assigning the Interest (a "Substitute Member") unless and until:

(a) The transferring Member has stated such intention in the instrument of assignment;

(b) The Transferee has executed an instrument accepting and adopting the terms and provisions of this Agreement;

(c) The Transferee delivers an opinion of Counsel acceptable to the Company that the Transfer will not result in a termination of the Company pursuant to Section 708 of the Code and such Transfer is exempt from registration under all applicable securities laws;

(d) The transferring Member or Transferee has paid all reasonable expenses of the Company in connection with the admission of the Transferee as a Substitute Member; and

(e) All non-transferring Voting Members in their sole and absolute discretion have consented in writing to such Transferee becoming a Substitute Member.

Upon satisfaction of all of the foregoing conditions with respect to a particular Transferee, the Voting Members shall cause this Agreement to be duly amended to reflect the admission of the Transferee as a Substitute Member.

7.8 Effect of Admission as a Substitute Member. Unless and until admitted as a Substitute Member pursuant to Section 7.7 hereof, a Transferee shall not be entitled to exercise any rights of a Member in the Company, including the right to vote, grant approvals or give consents with respect to such Interest, the right to require any information or accounting with respect to the Company's business or the right to inspect the Company's books and records, but such Transferee shall only be entitled to receive, to the extent of the Interest transferred to it, the Distributions to which the transferring Member would be entitled. A Transferee that has become a Substitute Member has, to the extent of the Interest transferred to it, all the rights and powers of the Person for whom it is substituted and is subject to the restrictions and liabilities of a Member under this Agreement and the Act. Upon admission of a Transferee as a Substitute Member, the transferring Member shall cease to be a Member of the Company to the extent of such Interest. A Person shall not cease to be a Member upon assignment of all of such Member's Interest unless and until the Transferee becomes a Substitute Member.

7.9 Additional Members. Additional Members (whether Voting Members or Non-Voting Members) may be admitted to the Company and additional Interests may be issued only by the consent of a Voting Member Majority, and the Common Percentage Interests and the Preferred Percentage Interests shall be adjusted as approved by such Voting Member Majority.

7.10 Applicability. The provisions of Sections 7.10, 7.11, 7.12, 7.13 and 7.14 hereof shall apply only to the Interests held by Members included in the Employee Investor Group (herein referred to individually as an "Employee Member" and collectively as the "Employee Members").

7.11 Termination of Employment. Upon the termination of an Employee Member's employment with McCracken, for any reason or no reason, the Employee Member shall sell and the Company shall buy such Employee Member's Interest or Interests in the Company, at a purchase price determined by a predetermined valuation formula, as set forth in Section 7.12 below, and subject to the terms and conditions set forth in Sections 7.13 and 7.14 below.

7.12 Valuation of Interests.

(a) Class A Preferred Interests. The value of the Class A Preferred Interests shall be equal to the balance in an Employee Member's Preferred Capital Account on a specific date plus all Accrued Preferred Distributions and Arrearages under Section 4.2 hereof.

(b) Common Interests. The Common Interests held by the Employee Members shall be valued by the Company as of September 30th of each year using the valuation formula set forth in Schedule B attached hereto. The valuation determined each year by the valuation formula set forth in Schedule B is hereinafter referred to as the "EBITDA Valuation." The EBITDA Valuation determined as of September 30th of each year shall be used for the ensuing twelve-month period to determine the price at which an

Employee Member's Common Interest is repurchased by the Company pursuant to Section 7.11 hereof.

7.13 Buy-Back Provisions. Upon the termination of an Employee Member's employment with McCracken, for any reason or no reason, the Employee Member shall sell and the Company shall buy such Employee Member's Interest in the Company subject to the following terms and conditions:

(a) Class A Preferred Interests. If an Employee Member leaves the employment of McCracken by reason of resigning, being terminated with or without cause or due to such Employee Member's normal retirement, death or disability at any time, then the Employee Member shall sell and the Company shall buy such Employee Member's Class A Preferred Interest in the Company at a purchase price equal to the balance in such Employee Member's Preferred Capital Account on the date such Employee Member's employment with McCracken terminates multiplied by the Preferred Vesting Percentage (as defined below) plus all Accrued Preferred Distributions and Arrearages under Section 4.2 hereof. The "Preferred Vesting Percentage" shall be equal to:

(i) 50%, if such Employee Member's employment with McCracken terminates on or before the expiration of one year from the date on which such Employee Member acquires his or her Interest in the Company pursuant to the Amended and Restated McCracken Oil & Propane Company, LLC Equity Purchase Plan (such date is hereinafter referred to as the "Acquisition Date");

(ii) 60%, if such Employee Member's employment with McCracken terminates after the expiration of one year from the Acquisition Date but on or before the expiration of two years from the Acquisition Date;

(iii) 70%, if such Employee Member's employment with McCracken terminates after the expiration of two years from the Acquisition Date but on or before the expiration of three years from the Acquisition Date;

(iv) 80%, if such Employee Member's employment with McCracken terminates after the expiration of three years from the Acquisition Date but on or before the expiration of four years from the Acquisition Date;

(v) 90%, if such Employee Member's employment with McCracken terminates after the expiration of four years from the Acquisition Date but on or before the expiration of five years from the Acquisition Date; or

(vi) 100%, if such Employee Member's employment with McCracken terminates at any time after the expiration of five years from the Acquisition Date:

provided, however, in the event an Employee Member leaves the employment of McCracken due to such Employee Member's normal retirement, death or disability on or at any time before the expiration of three years from the Acquisition Date, then the "Preferred Vesting Percentage" shall be equal to 70%.

(b) Common Interests. If an Employee Member leaves the employment of McCracken by reason of resigning, being terminated with or without cause or due to such Employee Member's normal retirement, death or disability at any time, then the Employee Member shall sell and the Company shall buy such Employee Member's Common Interest in the Company at a purchase price equal to the EBITDA Valuation on the date such Employee Member's employment with McCracken terminates multiplied by the Common Vesting Percentage. The "Common Vesting Percentage" shall be equal to:

(i) 0%, if such Employee Member's employment with McCracken terminates on or before the expiration of five years from the Acquisition Date; or

(ii) 100%, if such Employee Member's employment with McCracken terminates at any time after the expiration of five years from the Acquisition Date.

7.14 Payment upon Buy-Back. Upon the termination of an Employee Member's employment with McCracken such that the Company will buy such Employee Member's Common Interest and Class A Preferred Interest pursuant to the buy-back provisions set forth in Section 7.13 above, the Company shall pay the purchase price for the Common Interest and Class A Preferred Interest, as determined pursuant to Section 7.13 above, in cash, or at the Company's option, pay all or any part of the purchase price in equal quarterly installment payments over a period of 5 years, bearing interest at the applicable federal rate under Section 1274 of the Internal Revenue Code of 1986, as amended.

7.15 Resignation. No Member may resign or withdraw from the Company. Except as provided in Section 8.1(c) of this Agreement, upon the occurrence of any event that terminates the continued membership of a Member in the Company, the Company shall not be dissolved.

7.16 Miscellaneous Provisions Regarding Article VII.

(a) Without limiting any of the foregoing, the Members shall not, and shall cause each of their respective affiliates not to, (i) take any action the effect of which would prevent or frustrate the carrying out of the procedures contemplated by this Article VII or (ii) at any time (whether before or after any termination of this Agreement) make any assertion, claim or defense that this Article VII or any of the provisions hereof violate or are inconsistent with the terms of this Agreement or any laws or public policies.

(b) At the closing of any purchase and sale of a Common Interest or a Class A Preferred Interest under this Article VII, the purchaser and the selling Member shall deliver such certificates and such assignment documents in customary form as may be reasonably requested in order to consummate the transaction, and, unless otherwise specified herein, the purchaser shall deliver the purchase price in immediately available funds to such bank account as shall have been specified by the selling Member at least three Business Days prior to the closing (or, if no such notice has been given, by delivery of a certified or bank check). At such closing, the selling Member shall sell and transfer its Common Interest and/or its Class A Preferred Interest to the purchaser free and clear of Liens other than Liens arising out of Company financing and shall so warrant to the purchaser. The selling Member shall also represent and warrant to the purchaser that the

selling Member has good and marketable title to the Common Interest or Class A Preferred Interest being sold and transferred. In addition, each of the selling Member and the purchaser shall make customary representations and warranties to the other including representations and warranties with respect to organization, valid existence, authorization, and non-contravention. With respect to obligations arising out of Company financing, the purchaser shall, in addition to paying the purchase price, either (i) satisfy or otherwise obtain release from all liability on the part of the selling Member and its Affiliates with respect to all obligations of the Company, including debt and lease obligations, which such selling Member and/or its Affiliates shall have guaranteed, or (ii) indemnify and hold harmless the selling Member and its Affiliates against such liability and secure such indemnification with a letter of credit or payment bond reasonably satisfactory to such selling Member. As used herein, "Lien" shall mean, as to any Interest, liens, encumbrances, security interests and other rights, interest or claims of others therein (including, without limitation, warrants, options, rights of first refusal, rights of first offer, co-sale and similar rights).

(c) If, with respect to any purchase and sale of a Common Interest or a Class A Preferred Interest under this Article VII, the selling Member is not present at the time and place designated for a closing, or, if present, fails to produce the certificates or assignment documents reasonably requested to consummate the transaction or fails to satisfy any other obligation to be satisfied at the closing, as aforesaid, for any reason whatsoever or no reason, then the purchase price and any other document or instrument required by the Company at the closing ("Closing Documentation") shall be deposited with the President of the Company. The foregoing shall constitute valid payment even though the selling Member shall voluntarily encumber and dispose of said Interests contrary to the provisions hereof and irrespective of the fact that any pledgee, transferee or other person may thereby have acquired said Interests or the fact that certificates or assignment documents for any of said Interests may have been delivered to any pledgee, transferee or other person.

If the Closing Documentation is deposited with the President of the Company as provided herein, then from and after the date of such deposit and even if the certificates evidencing said Interests or the assignment documents have not been delivered to the Company, the purchase of said Interests shall be deemed to have been fully effected and all title and interest in and to the Interests so purchased shall be deemed to have been vested in the Company, and all rights of the selling Member or of any transferee, assignee or any other person having an interest therein, as a Member of the Company or otherwise, shall terminate except for the right to receive the Closing Documentation, but without interest; and the President of the Company, as attorney-in-fact for and in the name of the selling Member, shall cause the Interests so purchased to be transferred on the books and records of the Company to the Company, and shall issue a new certificate or certificates therefor to the purchaser(s) thereof. The selling Member does hereby irrevocably appoint and designate the President of the Company and his successors in office as his attorney-in-fact, for and on his behalf, to receive, receipt for, hold and collect the said Closing Documentation, to effect the transfer of said Interests on the books and records of the Company, and to issue said certificate or certificates in the manner above provided. The selling Member shall be entitled to receive the Closing Documentation upon delivery

to the Company of the certificates evidencing the Interests so purchased, and assignment documents duly indorsed for transfer, as aforesaid, together with any document or instrument required of such Member.

## ARTICLE VIII
## DISSOLUTION AND TERMINATION

8.1 Events Causing Dissolution. The Company shall be dissolved only upon the first to occur of the following events:

(a) December 31, 2026.

(b) The election to dissolve being made by a Voting Member Majority.

(c) At any time there are no Members, provided that the Company shall not be dissolved if within 90 days after the occurrence of the event that terminated the continued membership of the last remaining Member, the personal representative of the last remaining Member agrees in writing to continue the Company and to the admission of the personal representative of such Member or its nominee or designee to the Company as a Member, effective as of the occurrence of the event that terminated the continued membership of the last remaining Member.

(d) Upon the entry of a decree of dissolution with respect to the Company under Section 18-802 of the Act.

(e) When the Company is not the surviving entity in a merger or consolidation under the Act.

8.2 Effect of Dissolution. Except with respect to an event referred to in Section 8.1(e) of this Agreement, and except as otherwise provided in this Agreement, upon the dissolution of the Company, the Voting Members or surviving Voting Member, as the case may be, shall take such actions as may be required pursuant to the Act and shall proceed to wind up, liquidate and terminate the business and affairs of the Company. In connection with such winding up, the Voting Members or surviving Voting Member shall have the authority to liquidate and reduce to cash (to the extent necessary or appropriate) the assets of the Company as promptly as is consistent with obtaining Fair Value therefor, to apply and distribute the proceeds of such liquidation and any remaining assets in accordance with the provisions of Section 8.3 hereof, and to do any and all acts and things authorized by, and in accordance with, the Act and other applicable laws for the purpose of winding up and liquidation.

8.3 Application of Proceeds. Upon dissolution and liquidation of the Company, the assets of the Company shall be applied and distributed in the order of priority set forth in Section 4.4 hereof.

8.4 Continuing Obligations. In the event any Member is required to assume or pay any debt, expense, obligation or liability of the Company following dissolution or termination, first, the Common Members shall pay and indemnify such Member for their respective Common Percentage Interest of such debt, expense, obligation or liability required to be paid by such Member to the extent of assets distributed to such Common Members, then, the Class A

Preferred Members shall pay and indemnify such Member for their respective Preferred Percentage Interest of such debt, expense, obligation or liability required to be paid by such Member to the extent of assets distributed to such Class A Preferred Members.

## ARTICLE IX
## MISCELLANEOUS

9.1 Title to Assets. Title to the Property and all other assets acquired by the Company shall be held in the name of the Company. No Member shall individually have any ownership interest or rights in the Property or any other assets of the Company, except indirectly by virtue of such Member's ownership of an Interest. No Member shall have any right to seek or obtain a partition of the Property or other assets of the Company, nor shall a Member have the right to any specific assets of the Company upon the liquidation of or any distribution from the Company.

9.2 Nature of Interest in the Company. An Interest shall be personal property for all purposes.

9.3 Notices. Any notice, demand, request or other communication required or permitted to be given pursuant to this Agreement or the Act to the Company, a Member, or any other Person (a "Notice") shall be sufficient if in writing and if hand-delivered, mailed or sent by commercial overnight delivery service, to the Company at its principal office or to a Member at the address of the Member as it appears on the records of the Company or if sent by facsimile transmission to the telephone number, if any, of the recipient's facsimile machine as such telephone number appears on the records of the Company. All Notices that are mailed shall be deemed to be given when deposited in the United States mail, postage prepaid. All Notices that are hand-delivered shall be deemed to be given upon delivery. All notices that are given by commercial overnight delivery shall be deemed to be given upon delivery by the delivery service. All Notices that are given by facsimile transmission shall be deemed to be given upon receipt.

9.4 Waiver of Default. No consent or waiver, express or implied, by the Company or a Member with respect to any breach or default by the other Members hereunder shall be deemed or construed to be a consent or waiver with respect to any other breach or default by such Member of the same provision or any other provision of this Agreement. Failure on the part of the Company or a Member to complain of any act or failure to act of the other Members or to declare such other Member in default shall not be deemed to constitute a waiver by the Company or the Members of any rights hereunder.

9.5 No Third Party Rights. None of the provisions contained in this Agreement shall be for the benefit of or enforceable by any third parties, including, but not limited to, creditors of the Company; provided, however, the Company may enforce any right granted to the Company under the Act, the Certificate or this Agreement.

9.6 Entire Agreement. This Agreement, together with the Certificate, constitutes the entire agreement between the Members, in such capacity, relative to the formation, operation and continuation of the Company.

9.7 Amendments to this Agreement.

(a) Except as otherwise provided herein, this Agreement shall not be modified or amended in any manner other than by the written agreement of the Voting Member Majority at the time of such modification or amendment; provided, however, any amendment affecting the allocation of Income and Loss to a Member shall be approved by that Member.

(b) This Agreement may be amended by the Voting Member Majority, without any execution of such amendment by all Members, in order to reflect the occurrence of any of the following events provided that all of the conditions, if any, contained in the relevant sections of this Agreement with respect to such event have been satisfied:

(i) an adjustment of the Common Percentage Interests of the Common Members and the Preferred Percentage Interests of the Class A Preferred Members, as the case may be, upon a Common Member's or a Class A Preferred Member's failure to make a capital contribution as required hereunder; and

(ii) the modification of this Agreement to comply with the relevant tax laws pursuant to Sections 3.6 or 4.7(j) hereof.

9.8 Severability. In the event any provision of this Agreement is held to be illegal, invalid or unenforceable to any extent, the legality, validity and enforceability of the remainder of this Agreement shall not be affected thereby and shall remain in full force and effect and shall be enforced to the greatest extent permitted by law.

9.9 Binding Agreement. Subject to the restrictions on the disposition of Interests herein contained, the provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective heirs, personal representatives, successors and permitted assigns.

9.10 Headings. The headings of Sections of this Agreement are for convenience of reference only and shall not be considered in construing or interpreting any of the terms or provisions hereof.

9.11 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and all of which shall constitute one agreement.

9.12 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware.

9.13 Remedies. In the event of a default by a Member in the performance of any obligation undertaken in this Agreement, in addition to any other remedy available to the non-defaulting Members, the defaulting Member shall pay to the non-defaulting Members all costs, damages, and expenses, including reasonable attorneys' fees, incurred by the non-defaulting Member as a result of such default. In the event that any dispute arises with respect to the enforcement, interpretation, or application of this Agreement and court proceedings are instituted

to resolve such dispute, the prevailing party in such court proceedings shall be entitled to recover from the non-prevailing party all costs and expenses, including, but not limited to, reasonable attorneys' fees, incurred by the prevailing party in such court proceedings.

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

INTEGRATED ENERGY HOLDINGS, LLC

/s/ JOHN J. SHERMAN
By: _____
Name: John J. Sherman
Title: Member

Michael L. Hendren

MEMBERS OF THE EMPLOYEE INVESTOR GROUP:

/s/ ALTON PARKER CARTER
_____
Alton Parker Carter

/s/ GREGORY L. CHAPPELL
_____
Gregory L. Chappell

/s/ RANDY CLAIBORNE
_____
Randy Claiborne

/s/ RICHARD A. GARNER
_____
Richard A. Garner

/s/ ELAINE H. JOHNSON
_____
Elaine H. Johnson

/s/ CYNTHIA B. KIBLER
_____
Cynthia B. Kibler

/s/ ELAINE H. TRUJILLO
_____
Elaine H. Trujillo

/s/ WILLIAM T. MATTHEWS
_____
William T. Matthews

/s/ H. FAYE OWEN
_____
H. Faye Owen

/s/ CHERYL W. PERRY
_____
Cheryl W. Perry

/s/ BUDDY EUGENE STREET
_____
Buddy Eugene Street

/s/ JAMES WARREN ROGERS
_____
James Warren Rogers

EXHIBIT A
MEMBERS OF THE EMPLOYEE INVESTOR GROUP,
INITIAL OR RESTATED CAPITAL ACCOUNTS AND PERCENTAGE INTERESTS

| Name | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest |
|---|---|---|---|---|
| 1. Alton Parker Carter | $ 609 | $ 7,408 | 0.0228% | 0.3155% |
| 2. Gregory L. Chappell | $ 609 | $ 7,408 | 0.0228% | 0.3155% |
| 3. Randy Claiborne | $ 305 | $ 3,702 | 0.0114% | 0.1577% |
| 4. Richard A. Garner | $ 305 | $ 3,702 | 0.0114% | 0.1577% |
| 5. Elaine H. Johnson | $ 366 | $ 4,443 | 0.0137% | 0.1892% |
| 6. Cynthia B. Kibler | $ 1,216 | $ 14,813 | 0.0455% | 0.6308% |
| 7. William T. Matthews | $ 305 | $ 3,702 | 0.0114% | 0.1577% |
| 8. H. Faye Owen | $ 305 | $ 3,702 | 0.0114% | 0.1577% |
| 9. Cheryl W. Perry | $ 305 | $ 3,702 | 0.0114% | 0.1577% |
| 10. Buddy Eugene Street | $ 3,046 | $ 37,025 | 0.1140% | 1.5767% |
| 11. Elaine H. Trujillo | $ 1,216 | $ 14,813 | 0.0455% | 0.6308% |
| 12. James Warren Rogers | $30,455 | $679,200 | 1.14% | 28.9250% |

SCHEDULE A
INITIAL OR RESTATED CAPITAL ACCOUNTS
AND PERCENTAGE INTERESTS

| | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest |
|---|---|---|---|---|
| Michael L. Hendren | $ -0- | $1,564,520 | 0% | 66.6280% |
| Integrated Energy Holdings, LLC | $2,632,493 | $ -0- | 98.5386% | 0% |

SCHEDULE B
INTEGRATED PROPANE PARTNERS, LLC
VALUATION FORMULA

The following formula sets forth the method that will be used to value the Company at September 30th of each year. The value determined by the valuation formula set forth below will then be used as a basis for determining the price at which an Employee Member's Common Interest in the Company will be repurchased by the Company upon the termination of such an Employee Member's employment with McCracken. The following formula will be determined from the consolidated financial statements of the Company.

EBITDA for the fiscal year ended September 30th

PLUS OR MINUS

the Weather Adjustment Factor

EQUALS

Adjusted EBITDA

MULTIPLY BY

the Valuation Multiple

EQUALS

the value of the Company before adjustments

PLUS

Fixed Asset Purchases after April 1

PLUS OR MINUS

Net Working Capital

MINUS

Long-Term Debt

EQUALS

the EBITDA Valuation

The EBITDA Valuation determined pursuant to the valuation formula set forth above will be calculated with reference to the following assumptions and definitions:

1. "EBITDA" means earnings before interest, taxes, depreciation and amortization.

2. The "Weather Adjustment Factor" will be determined pursuant to the following formula:

| | |
|---|---|
| | Actual Degree Days for period from April through March |
| Less: | Normal Degree Days of 3,750 |
| Equals: | Degree Day deviation from normal |
| Times: | Actual propane and distillate gallons per Degree Day for period from October through March |
| Equals: | Estimated impact on gallons sold |
| Times: | 90% of actual propane and distillate unit gross profit for period from October through March |
| Equals: | Weather Adjustment Factor |

"Degree Days" represent the difference between sixty-five degrees Fahrenheit and the mean temperature on a given day, provided that the mean temperature on such day is less than sixty-five degrees Fahrenheit.

3. The "Valuation Multiple" will be equal to 6; provided, however, the Company and each Employee Members shall have the option of engaging, at their own expense, a third party mutually agreeable to the Company and such Employee Member to determine the Valuation Multiple to be used to determine the EBITDA Valuation for any year. Such third party shall determine the Valuation Multiple by valuing the Company as a going concern facing a change of control transaction. No minority discount shall be applied by such third party in determining the Valuation Multiple.

4. The EBITDA in a given year will receive minimal benefit for Fixed Assets acquired after the middle of the year. Therefore, only the amount of Fixed Assets purchased after April 1 of a given year will be added into the valuation formula.

5. The current portion of long-term debt is included in Long-Term Debt rather than Net Working Capital.

AMENDMENT NO. 1 TO AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF INTEGRATED PROPANE PARTNERS, LLC

THIS AMENDMENT NO. 1 (the "Amendment") to the Limited Liability Company Agreement of Integrated Propane Partners, LLC referred to below is made and entered into as of December 10, 1998, between Integrated Energy Holdings, LLC, a Delaware limited liability company ("IEH") and Peter H. Wilson, an individual ("Wilson").

W I T N E S S E T H:

WHEREAS, Michael L. Hendren, the members of the Employee Investor Group and IEH, the members of Integrated Propane Partners, LLC (the "Company"), entered into that certain Amended and Restated Limited Liability Company Agreement of Integrated Propane Partners, LLC, dated September 30, 1998 (the "LLC Agreement"), pursuant to which the business plan of the Company was formulated and defined;

WHEREAS, IEH, as the Voting Member Majority, desires to amend certain provisions of the LLC Agreement on and subject to the terms hereof;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, IEH and Wilson do hereby promise and agree as follows (all capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the LLC Agreement):

1. Pursuant to Section 7.9 of the LLC Agreement, Wilson is hereby admitted as a Class A Preferred Member of the Company, with all of the rights and obligations assigned to a Class A Preferred Member pursuant to, and subject to all provisions and limitations set forth in, the LLC Agreement; provided, however, Wilson shall not be considered a member of the Employee Investor Group. Wilson is hereby issued a Class A Preferred Interest in the Company, with a Preferred Percentage Interest assigned thereto. Wilson hereby confirms and agrees to comply with, and be bound by, all of the terms and conditions of the LLC Agreement. Concurrently herewith, the Preferred Percentage Interests of such Class A Preferred Members shall be realigned as follows:

| | |
|---|---|
| Alton Parker Carter | 0.2558% |
| Gregory L. Chappell | 0.2558% |
| Randy Claiborne | 0.1278% |
| Richard A. Garner | 0.1278% |
| Elaine H. Johnson | 0.1534% |
| Cynthia B. Kibler | 0.5115% |
| William T. Matthews | 0.1278% |
| H. Faye Owen | 0.1278% |
| Cheryl W. Perry | 0.1278% |
| Buddy Eugene Street | 1.2785% |

| | |
|---|---|
| Elaine H. Trujillo | 0.5115% |
| James Warren Rogers | 23.4519% |
| Michael L. Hendren | 54.0209% |
| Peter H. Wilson | 18.9217% |
| Integrated Energy Holdings, LLC | 0% |

Furthermore, Exhibit A and Schedule A to the LLC Agreement are hereby amended by deleting said Exhibit A and said Schedule A in their entirety and by substituting, in lieu thereof, the Exhibit A and the Schedule A attached hereto, to reflect the realignment of such Preferred Percentage Interests.

3. The parties hereto hereby acknowledge that Wilson has contributed 412 shares of Common Stock, $10.00 par value per share, of Wilson Oil Company of Johnston County, Inc., which has a dollar value of approximately $548,000.00, to the Company in exchange for his Class A Preferred Interest in the Company.

4. Section 4.2 of the LLC Agreement is hereby amended by deleting said Section 4.2 in its entirety and by substituting the following new Section 4.2 in lieu thereof:

> 4.2 Preferred Distributions. On or before the last Business Day of each month immediately following the end of each calendar quarter (a "Due Date"), commencing with the calendar quarter ending December 31, 1998, the Company shall distribute cash to each Class A Preferred Member in an amount equal to the initial balance in such Class A Preferred Member's Preferred Capital Account multiplied by 2.25%; provided, however, the Company shall distribute cash to Peter H. Wilson in an amount equal to the initial balance in Peter H. Wilson's Preferred Capital Account multiplied by 2.0% on each Due Date, commencing with the April 30, 1999 Due Date (each such distribution is hereinafter referred to as a "Preferred Distribution"). Notwithstanding the immediately preceding sentence, no Preferred Distribution shall be required if such distribution would, as reasonably determined by a Voting Member Majority, cause a default under any agreement or covenant between a bank or other lending institution and any one of the Company or the Operating Companies (any such limitation that precludes payment of a Preferred Distribution being referred to as the "Limitation"). In the event any Preferred Distribution, or portion thereof, is not made with respect to a calendar quarter, such Preferred Distribution, or portion thereof (the "Accrued Preferred Distribution"), shall accumulate and be payable at such time as the Limitation no longer prevents payment. In addition, with respect to any such Accrued Preferred Distribution there shall be payable an amount equal to (A) times (B) times (C), where (A) equals such Accrued Preferred Distribution, (B) equals a percentage equal to the higher of the Company's cost of funds or the cost of funds of any of the Operating Companies, and (C) equals a fraction, the numerator of which is the number of days since the Due Date of such Accrued Preferred Distribution or the most recent anniversary thereof, and the denominator of which is 365 (such additional amount and any unpaid portion thereof is hereinafter referred to as the "Arrearage"). If any Arrearage is not paid by an anniversary of the Due Date of the related Accrued

Preferred Distribution, then such Arrearage shall be added to and become a part of the Accrued Preferred Distribution as of such anniversary date and shall no longer be an "Arrearage" hereunder. All payments made pursuant to this Section 4.2 shall be applied first to any Arrearage and then to the Accrued Preferred Distribution.

5. Section 4.4(a) of the LLC Agreement is hereby amended by deleting said Section 4.4(a) in its entirety and by substituting the following new Section 4.4(a) in lieu thereof:

(a) First, to the payment of any Accrued Preferred Distributions and Arrearages under Section 4.2 hereof. In the event the Liquidation Proceeds are not sufficient to pay all Accrued Preferred Distributions and Arrearages, then the Liquidation Proceeds shall be distributed to the Class A Preferred Members in proportion to their respective Accrued Preferred Distribution and Arrearage under Section 4.2 hereof.

6. Section 4.6(a)(ii)(A) of the LLC Agreement is hereby amended by deleting said Section 4.6(a)(ii)(A) in its entirety and by substituting the following new Section 4.6(a)(ii)(A) in lieu thereof:

(A) First, Operating Income shall be allocated to the Class A Preferred Members in accordance with their respective Preferred Percentage Interests until the cumulative amount of Operating Income allocated pursuant to this subparagraph (A) equals the cumulative amount of cash actually distributed to the Class A Preferred Members pursuant to Section 4.2 hereof; then

7. Except as expressly amended hereby, all of the terms, conditions and provisions of the LLC Agreement shall remain unamended and in full force and effect in accordance with its terms, and the LLC Agreement, as amended hereby, is hereby ratified and confirmed. The amendments provided herein shall be limited precisely as drafted and shall not constitute an amendment of any other term, condition or provision of the LLC Agreement.

8. References in the LLC Agreement to "Agreement", "hereof", "herein" and words of similar impact shall be deemed to be a reference to the LLC Agreement as amended by this Amendment.

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

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment and affixed their signatures hereto as of the date first above written.

INTEGRATED ENERGY HOLDINGS, LLC

By: /s/ JOHN J. SHERMAN
---
Name: John J. Sherman
Title: Voting Member

/s/ PETER H. WILSON
---
Peter H. Wilson

EXHIBIT A
MEMBERS OF THE EMPLOYEE INVESTOR GROUP,
INITIAL OR RESTATED CAPITAL ACCOUNTS AND PERCENTAGE INTERESTS

| Name | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest |
|---|---|---|---|---|
| 1. Alton Parker Carter | $ 609 | $ 7,408 | 0.0228% | 0.2558% |
| 2. Gregory L. Chappell | $ 609 | $ 7,408 | 0.0228% | 0.2558% |
| 3. Randy Claiborne | $ 305 | $ 3,702 | 0.0114% | 0.1278% |
| 4. Richard A. Garner | $ 305 | $ 3,702 | 0.0114% | 0.1278% |
| 5. Elaine H. Johnson | $ 366 | $ 4,443 | 0.0137% | 0.1534% |
| 6. Cynthia B. Kibler | $ 1,216 | $ 14,813 | 0.0455% | 0.5115% |
| 7. William T. Matthews | $ 305 | $ 3,702 | 0.0114% | 0.1278% |
| 8. H. Faye Owen | $ 305 | $ 3,702 | 0.0114% | 0.1278% |
| 9. Cheryl W. Perry | $ 305 | $ 3,702 | 0.0114% | 0.1278% |
| 10. Buddy Eugene Street | $ 3,046 | $ 37,025 | 0.1140% | 1.2785% |
| 11. Elaine H. Trujillo | $ 1,216 | $ 14,813 | 0.0455% | 0.5115% |
| 12. James Warren Rogers | $30,455 | $679,200 | 1.14% | 23.4519% |

SCHEDULE A
INITIAL OR RESTATED CAPITAL ACCOUNTS
AND PERCENTAGE INTERESTS

| | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest |
|---|---|---|---|---|
| Michael L. Hendren | $ -0- | $1,564,520 | 0% | 54.0209% |
| Peter H. Wilson | $ -0- | $ 548,000 | 0% | 18.9217% |
| Integrated Energy Holdings, LLC | $2,632,493 | $ -0- | 98.5386% | 0% |

AMENDMENT NO. 2 TO AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF INERGY PARTNERS, LLC

THIS AMENDMENT NO. 2 (the "Amendment") to the Limited Liability Company Agreement of Inergy Partners, LLC referred to below is made and entered into as of August 4, 1999, between Inergy Holdings, LLC, a Delaware limited liability company (f/k/a Integrated Energy Holdings, LLC) ("Holdings"), George Upchurch, Sr., an individual, Shirley Upchurch, an individual, and George Upchurch, Jr., an individual.

W I T N E S S E T H:

WHEREAS, Michael L. Hendren, the members of the Employee Investor Group and Holdings, the members of Inergy Partners, LLC (f/k/a Integrated Propane Partners, LLC) (the "Company"), entered into that certain Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated September 30, 1998, as amended by Amendment No. 1 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated December 10, 1998 (the "LLC Agreement"), pursuant to which the business plan of the Company was formulated and defined;

WHEREAS, Holdings, as the Voting Member Majority, desires to amend certain provisions of the LLC Agreement on and subject to the terms hereof;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, Holdings, George Upchurch, Sr., Shirley Upchurch and George Upchurch, Jr. do hereby promise and agree as follows (all capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the LLC Agreement):

1. Pursuant to Section 7.9 of the LLC Agreement, each of George Upchurch, Sr., Shirley Upchurch and George Upchurch, Jr. is hereby admitted as a Class A Preferred Member of the Company, with all of the rights and obligations assigned to a Class A Preferred Member pursuant to, and subject to all provisions and limitations set forth in, the LLC Agreement; provided, however, George Upchurch, Sr., Shirley Upchurch and George Upchurch, Jr. shall not be considered members of the Employee Investor Group. Each of George Upchurch, Sr., Shirley Upchurch and George Upchurch, Jr. is hereby issued a Class A Preferred Interest in the Company, with a Preferred Percentage Interest assigned thereto. George Upchurch, Sr., Shirley Upchurch and George Upchurch, Jr. hereby confirm and agree to comply with, and be bound by, all of the terms and conditions of the LLC Agreement. Concurrently herewith, the Preferred Percentage Interests of such Class A Preferred Members shall be realigned as follows:

| | |
|---|---|
| Alton Parker Carter | 0.2247% |
| Gregory L. Chappell | 0.2247% |
| Randy Claiborne | 0.1123% |
| Richard A. Garner | 0.1123% |

| | |
|---|---|
| Elaine H. Johnson | 0.1348% |
| Cynthia B. Kibler | 0.4494% |
| William T. Matthews | 0.1123% |
| H. Faye Owen | 0.1123% |
| Cheryl W. Perry | 0.1123% |
| Buddy Eugene Street | 1.1233% |
| Elaine H. Trujillo | 0.4494% |
| James Warren Rogers | 20.6059% |
| Michael L. Hendren | 47.4653% |
| Peter H. Wilson | 16.6255% |
| George Upchurch, Sr. | 6.1891% |
| Shirley Upchurch | 2.9125% |
| George Upchurch, Jr. | 3.0339% |
| Inergy Holdings, LLC | 0% |

Furthermore, Exhibit A and Schedule A to the LLC Agreement are hereby amended by deleting said Exhibit A and said Schedule A in their entirety and by substituting, in lieu thereof, the Exhibit A and the Schedule A attached hereto, to reflect the realignment of such Preferred Percentage Interests.

3. The parties hereto hereby acknowledge that George Upchurch, Sr. has contributed 7.2857 shares of Common Stock, $10.00 par value per share, of Rolesville Oil Company, which has a dollar value of approximately $204,000.00, to the Company in exchange for his Class A Preferred Interest in the Company. The parties hereto hereby acknowledge that Shirley Upchurch has contributed 3.4286 shares of Common Stock, $10.00 par value per share, of Rolesville Oil Company, which has a dollar value of approximately $96,000.00, to the Company in exchange for her Class A Preferred Interest in the Company. The parties hereto hereby acknowledge that George Upchurch, Jr. has contributed 3.5714 shares of Common Stock, $10.00 par value per share, of Rolesville Oil Company, which has a dollar value of approximately $100,000.00, to the Company in exchange for his Class A Preferred Interest in the Company.

4. Section 4.2 of the LLC Agreement is hereby amended by deleting said Section 4.2 in its entirety and by substituting the following new Section 4.2 in lieu thereof:

> 4.2 Preferred Distributions. On or before the last Business Day of each month immediately following the end of each calendar quarter (a "Due Date"), commencing with the calendar quarter ending December 31, 1998, the Company shall distribute cash to each Class A Preferred Member in an amount equal to the initial balance in such Class A Preferred Member's Preferred Capital Account multiplied by 2.25%; provided, however, the Company shall distribute cash to Peter H. Wilson in an amount equal to the initial balance in Peter H. Wilson's Preferred Capital Account multiplied by 2.0% on each Due Date, commencing with the April 30, 1999 Due Date; provided, further, the Company shall distribute cash to each of George Upchurch, Sr., Shirley Upchurch and George Upchurch, Jr. in an amount equal to the initial balance in each of their respective Preferred Capital Accounts multiplied by 2.0% on each Due Date,

commencing with the October 29, 1999 Due Date (each such distribution is hereinafter referred to as a "Preferred Distribution"). However, the Preferred Distribution made to George Upchurch, Sr., Shirley Upchurch and George Upchurch, Jr. on the October 29, 1999 Due Date only shall be equal to the Preferred Distribution multiplied by 57 and then divided by 92. Notwithstanding the immediately preceding sentences, no Preferred Distribution shall be required if such distribution would, as reasonably determined by a Voting Member Majority, cause a default under any agreement or covenant between a bank or other lending institution and any one of the Company or the Operating Companies (any such limitation that precludes payment of a Preferred Distribution being referred to as the "Limitation"). In the event any Preferred Distribution, or portion thereof, is not made with respect to a calendar quarter, such Preferred Distribution, or portion thereof (the "Accrued Preferred Distribution"), shall accumulate and be payable at such time as the Limitation no longer prevents payment. In addition, with respect to any such Accrued Preferred Distribution there shall be payable an amount equal to (A) times (B) times (C), where (A) equals such Accrued Preferred Distribution, (B) equals a percentage equal to the higher of the Company's cost of funds or the cost of funds of any of the Operating Companies, and (C) equals a fraction, the numerator of which is the number of days since the Due Date of such Accrued Preferred Distribution or the most recent anniversary thereof, and the denominator of which is 365 (such additional amount and any unpaid portion thereof is hereinafter referred to as the "Arrearage"). If any Arrearage is not paid by an anniversary of the Due Date of the related Accrued Preferred Distribution, then such Arrearage shall be added to and become a part of the Accrued Preferred Distribution as of such anniversary date and shall no longer be an "Arrearage" hereunder. All payments made pursuant to this Section 4.2 shall be applied first to any Arrearage and then to the Accrued Preferred Distribution.

5. Except as expressly amended hereby, all of the terms, conditions and provisions of the LLC Agreement shall remain unamended and in full force and effect in accordance with its terms, and the LLC Agreement, as amended hereby, is hereby ratified and confirmed. The amendments provided herein shall be limited precisely as drafted and shall not constitute an amendment of any other term, condition or provision of the LLC Agreement.

6. References in the LLC Agreement to "Agreement", "hereof", "herein" and words of similar impact shall be deemed to be a reference to the LLC Agreement as amended by this Amendment.

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

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment and affixed their signatures hereto as of the date first above written.

INERGY HOLDINGS, LLC

/s/ John J. Sherman
By:_____
Name: John J. Sherman
Title: Voting Member

/s/ George Upchurch, Sr.
_____
George Upchurch, Sr.

/s/ Shirley Upchurch
_____
Shirley Upchurch

/s/ George Upchurch, Jr.
_____
George Upchurch, Jr.

EXHIBIT A

MEMBERS OF THE EMPLOYEE INVESTOR GROUP,
INITIAL OR RESTATED CAPITAL ACCOUNTS AND PERCENTAGE INTERESTS

| Name | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest |
|---|---|---|---|---|
| 1. Alton Parker Carter | $ 609 | $ 7,408 | 0.0228% | 0.2247% |
| 2. Gregory L. Chappell | $ 609 | $ 7,408 | 0.0228% | 0.2247% |
| 3. Randy Claiborne | $ 305 | $ 3,702 | 0.0114% | 0.1123% |
| 4. Richard A. Garner | $ 305 | $ 3,702 | 0.0114% | 0.1123% |
| 5. Elaine H. Johnson | $ 366 | $ 4,443 | 0.0137% | 0.1348% |
| 6. Cynthia B. Kibler | $ 1,216 | $ 14,813 | 0.0455% | 0.4494% |
| 7. William T. Matthews | $ 305 | $ 3,702 | 0.0114% | 0.1123% |
| 8. H. Faye Owen | $ 305 | $ 3,702 | 0.0114% | 0.1123% |
| 9. Cheryl W. Perry | $ 305 | $ 3,702 | 0.0114% | 0.1123% |
| 10. Buddy Eugene Street | $ 3,046 | $ 37,025 | 0.1140% | 1.1233% |
| 11. Elaine H. Trujillo | $ 1,216 | $ 14,813 | 0.0455% | 0.4494% |
| 12. James Warren Rogers | $30,455 | $679,200 | 1.14% | 20.6059% |

SCHEDULE A

INITIAL OR RESTATED CAPITAL ACCOUNTS
AND PERCENTAGE INTERESTS

| | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest |
|---|---|---|---|---|
| Michael L. Hendren | $ -0- | $1,564,520 | 0% | 47.4653% |
| Peter H. Wilson | $ -0- | $ 548,000 | 0% | 16.6255% |
| George Upchurch, Sr. | $ -0- | $ 204,000 | 0% | 6.1891% |
| Shirley Upchurch | $ -0- | $ 96,000 | 0% | 2.9125% |
| George Upchurch, Jr. | $ -0- | $ 100,000 | 0% | 3.0339% |
| Inergy Holdings, LLC | $2,632,493 | $ -0- | 98.5386% | 0% |

AMENDMENT NO. 3 TO AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF INERGY PARTNERS, LLC

THIS AMENDMENT NO. 3 (the "Amendment") to the Limited Liability Company Agreement of Inergy Partners, LLC referred to below is made and entered into as of September 28, 1999, between Inergy Holdings, LLC, a Delaware limited liability company (f/k/a Integrated Energy Holdings, LLC) ("Holdings"), and Bradley Propane, Inc., a Tennessee corporation ("Bradley").

W I T N E S S E T H:

WHEREAS, Michael L. Hendren, the members of the Employee Investor Group and Holdings, the members of Inergy Partners, LLC (f/k/a Integrated Propane Partners, LLC) (the "Company"), entered into that certain Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated September 30, 1998, as amended by Amendment No. 1 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated December 10, 1998 and Amendment No. 2 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated August 4, 1999 (the "LLC Agreement"), pursuant to which the business plan of the Company was formulated and defined;

WHEREAS, Holdings, as the Voting Member Majority, desires to amend certain provisions of the LLC Agreement on and subject to the terms hereof;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, Holdings and Bradley do hereby promise and agree as follows (all capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the LLC Agreement):

1. Pursuant to Section 7.9 of the LLC Agreement, Bradley is hereby admitted as both a Common Member and a Class A Preferred Member of the Company, with all of the rights and obligations assigned to a Common Member and a Class A Preferred Member pursuant to, and subject to all provisions and limitations set forth in, the LLC Agreement; provided, however, Bradley shall not be considered a member of the Employee Investor Group. Bradley is hereby issued both a Common Interest and a Class A Preferred Interest in the Company, each with a Common Percentage Interest and a Preferred Percentage Interest, respectively, assigned thereto. Bradley hereby confirms and agrees to comply with, and be bound by, all of the terms and conditions of the LLC Agreement. Concurrently herewith, the Common Percentage Interests of such Common Members shall be realigned as follows:

| | |
|---|---|
| Alton Parker Carter | 0.0223% |
| Gregory L. Chappell | 0.0223% |
| Randy Claiborne | 0.0111% |

| | |
|---|---|
| Richard A. Garner | 0.0111% |
| Elaine H. Johnson | 0.0134% |
| Cynthia B. Kibler | 0.0444% |
| William T. Matthews | 0.0111% |
| H. Faye Owen | 0.0111% |
| Cheryl W. Perry | 0.0111% |
| Buddy Eugene Street | 0.1112% |
| Elaine H. Trujillo | 0.0444% |
| James Warren Rogers | 1.1115% |
| Bradley Propane, Inc. | 2.5000% |
| Inergy Holdings, LLC | 96.0750% |

Concurrently herewith, the Preferred Percentage Interests of such Class A Preferred Members shall also be realigned as follows:

| | |
|---|---|
| Alton Parker Carter | 0.1513% |
| Gregory L. Chappell | 0.1513% |
| Randy Claiborne | 0.0756% |
| Richard A. Garner | 0.0756% |
| Elaine H. Johnson | 0.0908% |
| Cynthia B. Kibler | 0.3025% |
| William T. Matthews | 0.0756% |
| H. Faye Owen | 0.0756% |
| Cheryl W. Perry | 0.0756% |
| Buddy Eugene Street | 0.7562% |
| Elaine H. Trujillo | 0.3025% |
| James Warren Rogers | 13.8722% |
| Michael L. Hendren | 31.9542% |
| Peter H. Wilson | 11.1925% |
| George Upchurch, Sr. | 4.1666% |
| Shirley Upchurch | 1.9607% |
| George Upchurch, Jr. | 2.0424% |
| Bradley Propane, Inc. | 32.6788% |
| Inergy Holdings, LLC | 0% |

Furthermore, Exhibit A and Schedule A to the LLC Agreement are hereby amended by deleting said Exhibit A and said Schedule A in their entirety and by substituting, in lieu thereof, the Exhibit A and the Schedule A attached hereto, to reflect the realignment of such Common and Preferred Percentage Interests.

3. The parties hereto hereby acknowledge that Bradley has contributed to the Company, assets with a value approximately equal to $400,000 in exchange for its Common Interest in the Company and assets with a value approximately equal to $1,600,000 in exchange for its Class A Preferred Interest in the Company.

4. Section 4.2 of the LLC Agreement is hereby amended by deleting said Section 4.2 in its entirety and by substituting the following new Section 4.2 in lieu thereof:

4.2 Preferred Distributions. On or before the last Business Day of each month immediately following the end of each calendar quarter (a "Due Date"), commencing with the calendar quarter ending December 31, 1998, the Company shall distribute cash to each Class A Preferred Member in an amount equal to the initial balance in such Class A Preferred Member's Preferred Capital Account multiplied by 2.25%; provided, however, the Company shall distribute cash to Peter H. Wilson in an amount equal to the initial balance in Peter H. Wilson's Preferred Capital Account multiplied by 2.0% on each Due Date, commencing with the April 30, 1999 Due Date; provided, further, the Company shall distribute cash to each of George Upchurch, Sr., Shirley Upchurch and George Upchurch, Jr. in an amount equal to the initial balance in each of their respective Preferred Capital Accounts multiplied by 2.0% on each Due Date, commencing with the October 29, 1999 Due Date; and provided, further, the Company shall distribute cash to Bradley Propane, Inc. in an amount equal to the initial balance in the Preferred Capital Account of Bradley Propane, Inc. multiplied by 2.0% on each Due Date, commencing with the January 31, 2000 Due Date (each such distribution is hereinafter referred to as a "Preferred Distribution"). However, the Preferred Distribution made to George Upchurch, Sr., Shirley Upchurch and George Upchurch, Jr. on the October 29, 1999 Due Date only shall be equal to the Preferred Distribution multiplied by 57 and then divided by 92. Notwithstanding the immediately preceding sentences, no Preferred Distribution shall be required if such distribution would, as reasonably determined by a Voting Member Majority, cause a default under any agreement or covenant between a bank or other lending institution and any one of the Company or the Operating Companies (any such limitation that precludes payment of a Preferred Distribution being referred to as the "Limitation"). In the event any Preferred Distribution, or portion thereof, is not made with respect to a calendar quarter, such Preferred Distribution, or portion thereof (the "Accrued Preferred Distribution"), shall accumulate and be payable at such time as the Limitation no longer prevents payment. In addition, with respect to any such Accrued Preferred Distribution there shall be payable an amount equal to (A) times (B) times (C), where (A) equals such Accrued Preferred Distribution, (B) equals a percentage equal to the higher of the Company's cost of funds or the cost of funds of any of the Operating Companies, and (C) equals a fraction, the numerator of which is the number of days since the Due Date of such Accrued Preferred Distribution or the most recent anniversary thereof, and the denominator of which is 365 (such additional amount and any unpaid portion thereof is hereinafter referred to as the "Arrearage"). If any Arrearage is not paid by an anniversary of the Due Date of the related Accrued Preferred Distribution, then such Arrearage shall be added to and become a part of the Accrued Preferred Distribution as of such anniversary date and shall no longer be an "Arrearage" hereunder. All payments made pursuant to this Section 4.2 shall be applied first to any Arrearage and then to the Accrued Preferred Distribution.

5. Pursuant to Section 7.1 of the LLC Agreement, Holdings hereby consents in advance to (i) the Transfer of 10% of Bradley's Common Interest and 10% of Bradley's Class A Preferred Interest to Donald Ray Kerr and (ii) the Transfer of 90% of Bradley's Common

Interest and 90% of Bradley's Class A Preferred Interest to Zero Butane Gas, Inc. Upon the satisfaction of Section 7.7(a) through Section 7.7(d) of the LLC Agreement, and pursuant to Section 7.7(e) of the LLC Agreement, Holdings hereby consents in advance to the Transferees of such Interests becoming Substitute Members of the Company. Such Substitute Members shall be obligated to provide Capital Contributions under Section 3.2 of the LLC Agreement in accordance with such Common Percentage Interest, or portion thereof assigned to the transferred Common Interests.

6. Except as expressly amended hereby, all of the terms, conditions and provisions of the LLC Agreement shall remain unamended and in full force and effect in accordance with its terms, and the LLC Agreement, as amended hereby, is hereby ratified and confirmed. The amendments provided herein shall be limited precisely as drafted and shall not constitute an amendment of any other term, condition or provision of the LLC Agreement.

7. References in the LLC Agreement to "Agreement", "hereof", "herein" and words of similar impact shall be deemed to be a reference to the LLC Agreement as amended by this Amendment.

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

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment and affixed their signatures hereto as of the date first above written.

INERGY HOLDINGS, LLC

/s/ John J. Sherman
By: _____
Name: John J. Sherman
Title: Voting Member

BRADLEY PROPANE, INC.

/s/ James E. Pratt, Jr.
By: _____
Name: James E. Pratt, Jr.
Title: President

EXHIBIT A
MEMBERS OF THE EMPLOYEE INVESTOR GROUP,
INITIAL OR RESTATED CAPITAL ACCOUNTS AND PERCENTAGE INTERESTS

| Name | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest |
|---|---|---|---|---|
| 1. Alton Parker Carter | $ 3,568 | $ 7,408 | 0.0223% | 0.1513% |
| 2. Gregory L. Chappell | $ 3,568 | $ 7,408 | 0.0223% | 0.1513% |
| 3. Randy Claiborne | $ 1,776 | $ 3,702 | 0.0111% | 0.0756% |
| 4. Richard A. Garner | $ 1,776 | $ 3,702 | 0.0111% | 0.0756% |
| 5. Elaine H. Johnson | $ 2,144 | $ 4,443 | 0.0134% | 0.0908% |
| 6. Cynthia B. Kibler | $ 7,104 | $ 14,813 | 0.0444% | 0.3025% |
| 7. William T. Matthews | $ 1,776 | $ 3,702 | 0.0111% | 0.0756% |
| 8. H. Faye Owen | $ 1,776 | $ 3,702 | 0.0111% | 0.0756% |
| 9. Cheryl W. Perry | $ 1,776 | $ 3,702 | 0.0111% | 0.0756% |
| 10. Buddy Eugene Street | $ 17,792 | $ 37,025 | 0.1112% | 0.7562% |
| 11. Elaine H. Trujillo | $ 7,104 | $ 14,813 | 0.0444% | 0.3025% |
| 12. James Warren Rogers | $177,840 | $679,200 | 1.1115% | 13.8722% |

SCHEDULE A
INITIAL OR RESTATED CAPITAL ACCOUNTS
AND PERCENTAGE INTERESTS

| | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest |
|---|---|---|---|---|
| Michael L. Hendren | $ -0- | $1,564,520 | 0% | 31.9542% |
| Peter H. Wilson | $ -0- | $ 548,000 | 0% | 11.1925% |
| George Upchurch, Sr. | $ -0- | $ 204,000 | 0% | 4.1666% |
| Shirley Upchurch | $ -0- | $ 96,000 | 0% | 1.9607% |
| George Upchurch, Jr. | $ -0- | $ 100,000 | 0% | 2.0424% |
| Bradley Propane, Inc. | $ 400,000 | $1,600,000 | 2.5000% | 32.6788% |
| Inergy Holdings, LLC | $15,372,000 | $ -0- | 96.0750% | 0% |

AMENDMENT NO. 4 TO AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF INERGY PARTNERS, LLC

THIS AMENDMENT NO. 4 (the "Amendment") to the Limited Liability Company Agreement of Inergy Partners, LLC referred to below is made and entered into as of December 31, 1999, between Inergy Holdings, LLC, a Delaware limited liability company (f/k/a Integrated Energy Holdings, LLC) ("Holdings"), and KCEP Ventures II, L.P., a Missouri limited partnership ("KCEP").

W I T N E S S E T H:

WHEREAS, Michael L. Hendren, the members of the Employee Investor Group and Holdings, the members of Inergy Partners, LLC (f/k/a Integrated Propane Partners, LLC) (the "Company"), entered into that certain Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated September 30, 1998, as amended by Amendment No. 1 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated December 10, 1998, Amendment No. 2 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated August 4, 1999, and Amendment No. 3 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated September 28, 1999 (the "LLC Agreement");

WHEREAS, Holdings, as the Voting Member Majority, desires to amend certain provisions of the LLC Agreement on and subject to the terms hereof, to reflect the issuance of a Class A Preferred Interest in the Company to KCEP, pursuant to a Securities Purchase Agreement between the Company and KCEP dated as of December 31, 1999 (the "KCEP Agreement").

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, Holdings and KCEP do hereby promise and agree as follows (all capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the LLC Agreement):

1. KCEP is hereby issued a Class A Preferred Interest in the Company as provided in the KCEP Agreement and KCEP is admitted as a Class A Preferred Member of the Company, with all of the rights and obligations assigned to a Class A Preferred Member pursuant to, and subject to all provisions and limitations set forth in, the LLC Agreement. KCEP hereby confirms and agrees to comply with, and be bound by, all of the terms and conditions of the LLC Agreement.

Exhibit A and Schedule A to the LLC Agreement are hereby amended by deleting said Exhibit A and said Schedule A in their entirety and by substituting, in lieu thereof, the Exhibit A and the Schedule A attached hereto, to reflect the realignment of Preferred Percentage Interests resulting from the admission of KCEP as a Class A Preferred Member and to reflect the deemed initial balance in the Preferred Capital Account of KCEP.

2. Section 4.2 of the LLC Agreement is hereby amended by deleting said Section 4.2 in its entirety and by substituting the following new Section 4.2 in lieu thereof:

> 4.2 Preferred Distributions. On or before the last Business Day of each month immediately following the end of each calendar quarter (a "Due Date"), commencing with the calendar quarter ending December 31, 1998, the Company shall distribute cash to each Class A Preferred Member in an amount equal to the initial balance in such Class A Preferred Member's Preferred Capital Account multiplied by such Class A Preferred Member's preferred distribution percentage (each such distribution is hereinafter referred to as a "Preferred Distribution"), and commencing as of such Class A Preferred Member's initial Due Date, as reflected on Exhibit A and Schedule A attached hereto. Notwithstanding the immediately preceding sentence, no Preferred Distribution shall be required if such distribution would, as reasonably determined by a Voting Member Majority, cause a default under any agreement or covenant between a bank or other lending institution and any one of the Company or the Operating Companies (any such limitation that precludes payment of a Preferred Distribution being referred to as the "Limitation"). In the event any Preferred Distribution, or portion thereof, is not made with respect to a calendar quarter, such Preferred Distribution, or portion thereof (the "Accrued Preferred Distribution"), shall accumulate and be payable at such time as the Limitation no longer prevents payment. In addition, with respect to any such Accrued Preferred Distribution there shall be payable an amount equal to (A) times (B) times (C), where (A) equals such Accrued Preferred Distribution, (B) equals a percentage equal to the higher of the Company's cost of funds or the cost of funds of any of the Operating Companies, and (C) equals a fraction, the numerator of which is the number of days since the Due Date of such Accrued Preferred Distribution or the most recent anniversary thereof, and the denominator of which is 365 (such additional amount and any unpaid portion thereof is hereinafter referred to as the "Arrearage"). If any Arrearage is not paid by an anniversary of the Due Date of the related Accrued Preferred Distribution, then such Arrearage shall be added to and become a part of the Accrued Preferred Distribution as of such anniversary date and shall no longer be an "Arrearage" hereunder. All payments made pursuant to this Section 4.2 shall be applied first to any Arrearage and then to the Accrued Preferred Distribution.

3. A public offering by the Company or its affiliates through a master limited partnership structure (an "MLP Offering") is contemplated by the Company and KCEP under the KCEP Agreement. KCEP's Class A Preferred Interest will be convertible into, or exchanged for, Senior Subordinated Units (the "Senior Units") of a master limited partnership ("MLP") that is the subject of an MLP Offering, which conversion or exchange (the "Conversion") shall occur upon closing of such MLP Offering. The Conversion shall be effected by adding the following new section 4.7(l) to the LLC Agreement:

> 4.7(l) Deemed Gain Allocation. Notwithstanding any other provision herein to the contrary, in the event of an adjustment to the Common Capital Accounts of the Company at the time of a public offering by the Company or its affiliates through a master limited partnership structure at a time during which KCEP Ventures II, L.P. or its permitted assignee ("KCEP") owns a Class A Preferred Interest in the Company, the Class A Preferred Capital Account of

KCEP at such time shall be allocated an amount of deemed gain referred to in Section 3.5(b) which would make its Preferred Capital Account equal to the Put Price (for all of such Class A Preferred Interest) referred to in Section 9.5 of the Securities Purchase Agreement between the Company and KCEP dated as of December 30, 1999, and such amount shall reduce the amount of such deemed gain which would otherwise be allocated to Common Capital Accounts under Section 3.5(b) at such time.

KCEP's Preferred Capital Account, as adjusted, would then be exchanged in the MLP Offering for Senior Units of the MLP (priced to yield the same amount as the publicly traded Common Units included in the MLP Offering). The Company and KCEP contemplate that the Senior Units will be junior in payment terms to any publicly traded units included in the MLP Offering. In the event that the initial yield (which would be the minimum annual distribution divided by the initial offering price in the MLP Offering) on the publicly traded Common Units included in the MLP Offering is less than 10.75%, then KCEP's Preferred Capital Account shall be increased based upon the formula set forth in Appendix A attached hereto.

4. Notwithstanding any provision of the LLC Agreement to the contrary, the Company may, at its election, retain all or a portion of any Distributions that are payable by the Company to KCEP at any time prior to the earlier of (a) an MLP offering, or (b) the end of the eighteen (18) month period commencing on the date of this Amendment; provided, however, that KCEP's Preferred Capital Account shall be increased in an amount equal to the amount of any such retained Distributions, which increase in KCEP's Preferred Capital Account shall constitute full satisfaction of any obligations of the Company to KCEP in regard to such retained Distributions.

5. Except as expressly amended hereby, all of the terms, conditions and provisions of the LLC Agreement shall remain unamended and in full force and effect in accordance with its terms, and the LLC Agreement, as amended hereby, is hereby ratified and confirmed. The amendments provided herein shall be limited precisely as drafted and shall not constitute an amendment of any other term, condition or provision of the LLC Agreement.

6. References in the LLC Agreement to "Agreement", "hereof", "herein" and words of similar impact shall be deemed to be a reference to the LLC Agreement as amended by this Amendment.

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

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment and affixed their signatures hereto as of the date first above written.

INERGY HOLDINGS, LLC

By: /s/ John J. Sherman
---
John J. Sherman, Voting Member

KCEP VENTURES II, L.P.

By: KCEP II, L.C., its general partner

By: /s/ David J. Schulte
---
David J. Schulte,
Managing Director of KCEP II, L.C.

EXHIBIT A

MEMBERS OF THE EMPLOYEE INVESTOR GROUP,
INITIAL OR RESTATED CAPITAL ACCOUNTS, PERCENTAGE INTERESTS,
AND PREFERRED DISTRIBUTIONS

| Name | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest | Preferred Distribution Percentage | Initial Due Date for Preferred Distributions |
|---|---|---|---|---|---|---|
| Alton Parker Carter | $ 3,568 | $ 7,408 | 0.0223% | 0.1075% | 2.25% | 1-29-99 |
| Gregory L. Chappell | $ 3,568 | $ 7,408 | 0.0223% | 0.1075% | 2.25% | 1-29-99 |
| Randy Claiborne | $ 1,776 | $ 3,702 | 0.0111% | 0.0537% | 2.25% | 1-29-99 |
| Richard A. Garner | $ 1,776 | $ 3,702 | 0.0111% | 0.0537% | 2.25% | 1-29-99 |
| Elaine H. Johnson | $ 2,144 | $ 4,443 | 0.0134% | 0.0645% | 2.25% | 1-29-99 |
| Cynthia B. Kibler | $ 7,104 | $ 14,813 | 0.0444% | 0.2149% | 2.25% | 1-29-99 |
| William T. Matthews | $ 1,776 | $ 3,702 | 0.0111% | 0.0537% | 2.25% | 1-29-99 |
| H. Faye Owen | $ 1,776 | $ 3,702 | 0.0111% | 0.0537% | 2.25% | 1-29-99 |
| Buddy Eugene Street | $ 17,792 | $ 37,025 | 0.1112% | 0.5372% | 2.25% | 1-29-99 |
| Elaine H. Trujillo | $ 7,104 | $ 14,813 | 0.0444% | 0.2149% | 2.25% | 1-29-99 |
| James Warren Rogers | $177,840 | $679,200 | 1.1116% | 9.8543% | 2.25% | 1-29-99 |

SCHEDULE A

INITIAL OR RESTATED CAPITAL ACCOUNTS,
PERCENTAGE INTERESTS AND PREFERRED DISTRIBUTIONS

| Name | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest | Preferred Distribution Percentage | Initial Due Date for Preferred Distributions |
|---|---|---|---|---|---|---|
| Michael L. Hendren | $ -0- | $1,564,520 | 0% | 22.6991% | 2.25% | 01-29-99 |
| Peter H. Wilson | $ -0- | $ 548,000 | 0% | 7.9507% | 2.00% | 04-30-99 |
| George Upchurch, Sr. | $ -0- | $ 204,000 | 0% | 2.9597% | 2.00% | 10-29-99(1) |
| Shirley Upchurch | $ -0- | $ 96,000 | 0% | 1.3928% | 2.00% | 10-29-99(1) |
| George Upchurch, Jr. | $ -0- | $ 100,000 | 0% | 1.4509% | 2.00% | 10-29-99(1) |
| Bradley Propane, Inc. | $ 400,064 | $1,600,000 | 2.50023% | 23.2139% | 2.00% | 01-31-00 |
| KCEP Ventures II, L.P. | $ -0- | $2,000,000 | 0% | 29.0173% | 2.50% | 04-28-00 |
| Inergy Holdings, LLC | $15,374,794 | $ -0- | 96.08577% | 0% | | |

(1) Preferred distribution prorated for initial quarter.

APPENDIX A

CONVERSION PREMIUM

The conversion premium will be $8,000 per basis point of reduced yield from 10.74% to 10.26%, and $12,000 for each basis point of reduced yield below 10.26%. The following table illustrates the conversion premium.

| Public Yield | Premium per Basis Point | Conversion Premium | Conversion Value |
|---|---|---|---|
| 10.75 | $ 0 | $ 0 | $4,000,000 |
| 10.74 | 8,000 | 8,000 | 4,008,000 |
| 10.26 | 8,000 | 392,000 | 4,392,000 |
| 10.25 | 12,000 | 404,000 | 4,404,000 |
| 10.00 | 12,000 | 704,000 | 4,704,000 |

AMENDMENT NO. 5 TO AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF INERGY PARTNERS, LLC

THIS AMENDMENT NO. 5 (the "Amendment") to the Limited Liability Company Agreement of Inergy Partners, LLC referred to below is made and entered into as of January 1, 2000, between Inergy Holdings, LLC, a Delaware limited liability company (f/k/a Integrated Energy Holdings, LLC) ("Holdings"), Zero Butane Gas, Inc., a Tennessee corporation ("Zero"), Donald Ray Kerr, an individual ("Kerr"), John W. Thompson, an individual ("Thompson"), and Judy G. Carpenter, an individual ("Carpenter") (Zero, Kerr, Thompson and Carpenter are sometimes collectively referred to herein as the "Transferees").

W I T N E S S E T H:

WHEREAS, Michael L. Hendren, the members of the Employee Investor Group and Holdings, the members of Inergy Partners, LLC (f/k/a Integrated Propane Partners, LLC) (the "Company"), entered into that certain Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated September 30, 1998, as amended by Amendment No. 1 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated December 10, 1998, Amendment No. 2 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated August 4, 1999, Amendment No. 3 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated September 28, 1999, and Amendment No. 4 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated December 31, 1999 (the "LLC Agreement"); and

WHEREAS, Holdings, as the Voting Member Majority, desires to amend certain provisions of the LLC Agreement on and subject to the terms hereof, to reflect the transfer by Bradley Propane, Inc., a Tennessee corporation ("Bradley"), of its Common Interest and Class A Preferred Interest in the Company to Zero on December 31, 1999, and the subsequent transfer by Zero of a portion of such Common Interest and Class A Preferred Interest to Kerr, Thompson, and Carpenter, on January 1, 2000.

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, Holdings and the Transferees do hereby promise and agree as follows (all capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the LLC Agreement):

1. Pursuant to Section 7.7 of the LLC Agreement, Zero is hereby, effective as of December 31, 1999, admitted as a Substitute Member in place of Bradley, as a Common Member with respect to all of Bradley's Common Interest in the Company and as a Class A Preferred Member with respect to all of Bradley's Class A Preferred Interest in the Company, with all of the rights and obligations assigned to a Common Member and a Class A Preferred Member pursuant to, and subject to all provisions and limitations set forth in, the LLC Agreement, except that Zero shall be a Non-Voting Member with respect to its Common Interest. Pursuant to Section 7.7 of the LLC Agreement, Kerr is hereby, effective as of January 1, 2000, admitted as a Substitute Member of the Company in place of Zero to the extent of the Common Interest and Class A Preferred Interest transferred by Zero to Kerr on January 1, 2000 as

reflected on Schedule A attached hereto, and Kerr is hereby admitted as both a Common Member and a Class A Preferred Member of the Company, with all of the rights and obligations assigned to a Common Member and a Class A Preferred Member pursuant to, and subject to all provisions and limitations set forth in, the LLC Agreement, except that Kerr shall be a Non-Voting Member with respect to his Common Interest. Pursuant to Section 7.7 of the LLC Agreement, Thompson is hereby, effective as of January 1, 2000, admitted as a Substitute Member of the Company in place of Zero to the extent of the Common Interest transferred by Zero to Thompson on January 1, 2000 as reflected on Schedule A attached hereto, and Thompson is hereby admitted as a Common Member of the Company, with all of the rights and obligations assigned to a Common Member pursuant to, and subject to all provisions and limitations set forth in, the LLC Agreement, except that Thompson shall be a Non-Voting Member with respect to his Common Interest. Pursuant to Section 7.7 of the LLC Agreement, Carpenter is hereby, effective as of January 1, 2000, admitted as a Substitute Member of the Company in place of Zero to the extent of the Common Interest transferred by Zero to Carpenter on January 1, 2000 as reflected on Schedule A attached hereto, and Carpenter is hereby admitted as a Common Member of the Company, with all of the rights and obligations assigned to a Common Member pursuant to, and subject to all provisions and limitations set forth in, the LLC Agreement, except that Carpenter shall be a Non-Voting Member with respect to her Common Interest. Zero, Kerr, Thompson and Carpenter each hereby confirms and agrees to comply with, and be bound by, all of the terms and conditions of the LLC Agreement.

Exhibit A and Schedule A to the LLC Agreement are hereby amended by deleting said Exhibit A and said Schedule A in their entirety and by substituting, in lieu thereof, the Exhibit A and the Schedule A attached hereto, to reflect the realignment of Common Percentage Interests, Preferred Percentage Interests, and Preferred Distribution Percentages, resulting from the transfer by Bradley of its Common Interest and Class A Preferred Interest to Zero and the subsequent transfers by Zero of portions thereof to Kerr, Thompson and Carpenter, and to reflect the deemed initial balances in the respective Capital Accounts of the Transferees.

2. Except as expressly amended hereby, all of the terms, conditions and provisions of the LLC Agreement shall remain unamended and in full force and effect in accordance with its terms, and the LLC Agreement, as amended hereby, is hereby ratified and confirmed. The amendments provided herein shall be limited precisely as drafted and shall not constitute an amendment of any other term, condition or provision of the LLC Agreement.

3. References in the LLC Agreement to "Agreement", "hereof", "herein" and words of similar impact shall be deemed to be a reference to the LLC Agreement as amended by this Amendment.

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

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment and affixed their signatures hereto as of the date first above written.

INERGY HOLDINGS, LLC

By: /s/ John J. Sherman
John J. Sherman, Voting Member

ZERO BUTANE GAS, INC.

By: /s/ James E. Pratt, Jr.
James E. Pratt, Jr., President

/s/ DONALD RAY KERR
DONALD RAY KERR

/s/ JOHN W. THOMPSON
JOHN W. THOMPSON

/s/ JUDY G. CARPENTER
JUDY G. CARPENTER

EXHIBIT A

MEMBERS OF THE EMPLOYEE INVESTOR GROUP,
INITIAL OR RESTATED CAPITAL ACCOUNTS, PERCENTAGE INTERESTS,
AND PREFERRED DISTRIBUTIONS

| Name | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest | Preferred Distribution Percentage | Initial Due Date for Preferred Distributions |
|---|---|---|---|---|---|---|
| Alton Parker Carter | $ 3,568 | $ 7,408 | 0.0223% | 0.1075% | 2.25% | 1-29-99 |
| Gregory L. Chappell | $ 3,568 | $ 7,408 | 0.0223% | 0.1075% | 2.25% | 1-29-99 |
| Randy Claiborne | $ 1,776 | $ 3,702 | 0.0111% | 0.0537% | 2.25% | 1-29-99 |
| Richard A. Garner | $ 1,776 | $ 3,702 | 0.0111% | 0.0537% | 2.25% | 1-29-99 |
| Elaine H. Johnson | $ 2,144 | $ 4,443 | 0.0134% | 0.0645% | 2.25% | 1-29-99 |
| Cynthia B. Kibler | $ 7,104 | $ 14,813 | 0.0444% | 0.2149% | 2.25% | 1-29-99 |
| William T. Matthews | $ 1,776 | $ 3,702 | 0.0111% | 0.0537% | 2.25% | 1-29-99 |
| H. Faye Owen | $ 1,776 | $ 3,702 | 0.0111% | 0.0537% | 2.25% | 1-29-99 |
| Buddy Eugene Street | $ 17,793 | $ 37,025 | 0.1112% | 0.5372% | 2.25% | 1-29-99 |
| Elaine H. Trujillo | $ 7,104 | $ 14,813 | 0.0444% | 0.2149% | 2.25% | 1-29-99 |
| James Warren Rogers | $177,868 | $679,200 | 1.1116% | 9.8543% | 2.25% | 1-29-99 |

SCHEDULE A

INITIAL OR RESTATED CAPITAL ACCOUNTS,
PERCENTAGE INTERESTS AND PREFERRED DISTRIBUTIONS

| Name | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest | Preferred Distribution Percentage | Initial Due Date for Preferred Distributions |
|---|---|---|---|---|---|---|
| Michael L. Hendren | $ -0- | $1,564,520 | 0% | 22.6991% | 2.25% | 01-29-99 |
| Peter H. Wilson | $ -0- | $ 548,000 | 0% | 7.9507% | 2.00% | 04-30-99 |
| George Upchurch, Sr. | $ -0- | $ 204,000 | 0% | 2.9597% | 2.00% | 10-29-99(1) |
| Shirley Upchurch | $ -0- | $ 96,000 | 0% | 1.3928% | 2.00% | 10-29-99(1) |
| George Upchurch, Jr. | $ -0- | $ 100,000 | 0% | 1.4509% | 2.00% | 10-29-99(1) |
| Zero Butane Gas, Inc. | $ 347,658 | $1,490,377 | 2.17268% | 21.6234% | 2.00% | 04-28-00 |
| Donald Ray Kerr | $ 27,406 | $ 109,623 | .1713% | 1.5905% | 2.00% | 04-28-00 |
| John W. Thompson | $ 20,000 | $ -0- | .1250% | 0% | 0% | |
| Judy G. Carpenter | $ 5,000 | $ -0- | .03125% | 0% | 0% | |
| KCEP Ventures II, L.P. | $ -0- | $2,000,000 | 0% | 29.0173% | 2.50% | 04-28-00 |
| Inergy Holdings, LLC | $15,374,794 | $ -0- | 96.08577% | 0% | 0% | |

(1) Preferred distribution prorated for initial quarter.

AMENDMENT NO. 6 TO AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF INERGY PARTNERS, LLC

THIS AMENDMENT NO. 6 (the "Amendment") to the Limited Liability Company Agreement of Inergy Partners, LLC referred to below is made and entered into as of May __, 2000, between Inergy Holdings, LLC, a Delaware limited liability company (f/k/a Integrated Energy Holdings, LLC) ("Holdings"), and Country Gas Co., an Illinois corporation ("Country Gas").

W I T N E S S E T H:

WHEREAS, Michael L. Hendren, the members of the Employee Investor Group and Holdings, the members of Inergy Partners, LLC (f/k/a Integrated Propane Partners, LLC) (the "Company"), entered into that certain Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated September 30, 1998, as amended by Amendment No. 1 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated December 10, 1998, Amendment No. 2 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated August 4, 1999, Amendment No. 3 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated September 28, 1999, Amendment No. 4 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated December 31, 1999, and Amendment No. 5 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated January 1, 2000 (the "LLC Agreement"); and

WHEREAS, Holdings, as the Voting Member Majority, desires to amend certain provisions of the LLC Agreement on and subject to the terms hereof, to reflect the issuance of a Class A Preferred Interest in the Company to Country Gas, pursuant to that certain Asset Purchase Agreement, dated May 20, 2000 among the Company, Country Gas, Leonard Petersohn, Arlene Petersohn, the Eugene N. Garrison Revocable Trust u/t/d September 9, 1999, the Betty J. Garrison Revocable Trust u/t/d September 9, 1999, Eugene Garrison and Betty Garrison (the "Asset Purchase Agreement").

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, Holdings and Country Gas do hereby promise and agree as follows (all capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the LLC Agreement):

1. Country Gas is hereby issued a Class A Preferred Interest in the Company as provided in the Asset Purchase Agreement and Country Gas is admitted as a Class A Preferred Member of the Company, with all of the rights and obligations assigned to a Class A Preferred Member pursuant to, and subject to all provisions and limitations set forth in, the LLC

Agreement. Country Gas hereby confirms and agrees to comply with, and be bound by, all of the terms and conditions of the LLC Agreement.

Exhibit A and Schedule A to the LLC Agreement are hereby amended by deleting said Exhibit A and said Schedule A in their entirety and by substituting, in lieu thereof, the Exhibit A and the Schedule A attached hereto, to reflect the realignment of Preferred Percentage Interests, and Preferred Distribution Percentages, resulting from the admission of Country Gas as a Class A Preferred Member and to reflect the deemed initial balance in the Preferred Capital Account of Country Gas.

2. It is the Company's intention to arrange for the organization of a master limited partnership (the "MLP") that will be the successor to the Company's business and assets and thereafter effect a public offering of units of the MLP (the "IPO") in a manner similar to public offerings made by publicly traded master limited partnerships that are engaged in the distribution and sale of propane. Notwithstanding anything contained in Section 4.12 of the LLC Agreement to the contrary, in the event the Company effects the IPO, Country Gas hereby agrees to immediately exchange its Class A Preferred Interest in the Company for subordinated units in the MLP, pursuant to which all rights and privileges of the Class A Preferred Interest in the Company held by Country Gas shall be exchanged for all rights and privileges of the subordinated units of the MLP. The subordinated units are expected to have the rights and privileges of the Senior Subordinated Units described on Exhibit B attached hereto and made a part hereof.

3. Except as expressly amended hereby, all of the terms, conditions and provisions of the LLC Agreement shall remain unamended and in full force and effect in accordance with its terms, and the LLC Agreement, as amended hereby, is hereby ratified and confirmed. The amendments provided herein shall be limited precisely as drafted and shall not constitute an amendment of any other term, condition or provision of the LLC Agreement.

4. References in the LLC Agreement to "Agreement", "hereof", "herein" and words of similar impact shall be deemed to be a reference to the LLC Agreement as amended by this Amendment.

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

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment and affixed their signatures hereto as of the date first above written.

INERGY HOLDINGS, LLC

By: /s/ John J. Sherman
_____
John J. Sherman, Voting Member

COUNTRY GAS CO.

By: /s/ Leonard Petersohn
_____
Leonard Petersohn, President

EXHIBIT A

MEMBERS OF THE EMPLOYEE INVESTOR GROUP,
INITIAL OR RESTATED CAPITAL ACCOUNTS, PERCENTAGE INTERESTS,
AND PREFERRED DISTRIBUTIONS

| Name | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest | Preferred Distribution Percentage | Initial Due Date for Preferred Distributions |
|---|---|---|---|---|---|---|
| Alton Parker Carter | $ 3,568 | $ 7,408 | 0.0223% | 0.0466% | 2.25% | 1-29-99 |
| Gregory L. Chappell | $ 3,568 | $ 7,408 | 0.0223% | 0.0466% | 2.25% | 1-29-99 |
| Randy Claiborne | $ 1,776 | $ 3,702 | 0.0111% | 0.0233% | 2.25% | 1-29-99 |
| Richard A. Garner | $ 1,776 | $ 3,702 | 0.0111% | 0.0233% | 2.25% | 1-29-99 |
| Elaine H. Johnson | $ 2,144 | $ 4,443 | 0.0134% | 0.0280% | 2.25% | 1-29-99 |
| Cynthia B. Kibler | $ 7,104 | $ 14,813 | 0.0444% | 0.0932% | 2.25% | 1-29-99 |
| William T. Matthews | $ 1,776 | $ 3,702 | 0.0111% | 0.0233% | 2.25% | 1-29-99 |
| H. Faye Owen | $ 1,776 | $ 3,702 | 0.0111% | 0.0233% | 2.25% | 1-29-99 |
| Buddy Eugene Street | $ 17,793 | $ 37,025 | 0.1112% | 0.2330% | 2.25% | 1-29-99 |
| Elaine H. Trujillo | $ 7,104 | $ 14,813 | 0.0444% | 0.0932% | 2.25% | 1-29-99 |
| James Warren Rogers | $177,868 | $679,200 | 1.1116% | 4.2737% | 2.25% | 1-29-99 |

SCHEDULE A

INITIAL OR RESTATED CAPITAL ACCOUNTS,
PERCENTAGE INTERESTS AND PREFERRED DISTRIBUTIONS

| Name | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest | Preferred Distribution Percentage | Initial Due Date for Preferred Distributions |
|---|---|---|---|---|---|---|
| Michael L. Hendren | $ -0- | $1,564,520 | 0% | 9.8444% | 2.25% | 01-29-99 |
| Peter H. Wilson | $ -0- | $ 548,000 | 0% | 3.4482% | 2.00% | 04-30-99 |
| George Upchurch, Sr. | $ -0- | $ 204,000 | 0% | 1.2836% | 2.00% | 10-29-99(1) |
| Shirley Upchurch | $ -0- | $ 96,000 | 0% | 0.6041% | 2.00% | 10-29-99(1) |
| George Upchurch, Jr. | $ -0- | $ 100,000 | 0% | 0.6292% | 2.00% | 10-29-99(1) |
| Zero Butane Gas, Inc. | $ 347,658 | $1,490,377 | 2.17268% | 9.3779% | 2.00% | 04-28-00 |
| Donald Ray Kerr | $ 27,406 | $ 109,623 | .1713% | 0.6898% | 2.00% | 04-28-00 |
| John W. Thompson | $ 20,000 | $ -0- | .1250% | 0% | 0% | |
| Judy G. Carpenter | $ 5,000 | $ -0- | .03125% | 0% | 0% | |
| KCEP Ventures II, L.P. | $ -0- | $2,000,000 | 0% | 12.5846% | 2.50% | 04-28-00 |
| Country Gas Co. | $ -0- | $9,000,000 | 0% | 56.6307% | 2.25% | 07-30-00(1) |
| Inergy Holdings, LLC | $15,374,794 | $ -0- | 96.08577% | 0% | 0% | |

(1) Preferred distribution prorated for initial quarter.

EXHIBIT B

SUMMARY OF CERTAIN TERMS
OF INITIAL PUBLIC OFFERING

Subject to negotiations with underwriters, an initial public offering will have the features described herein. The Senior Subordinated Units issued to Country Gas Co. ("Country Gas") and to each of the other holders of Preferred Interests in Inergy Partners, LLC (the "LLC"), will have a yield equal to (but subordinated to) the yield on the publicly-traded common units, an indicated value equal to the initial offering price of the common units and the following additional components:

1. Generally, the partnership will be required to distribute all "Available Cash" quarterly;

2. Available cash will be distributed based on the following priorities:

a. First, to the Common Units (issued to the public) and General Partner (2%), pro rata, until each has received its minimum quarterly distribution (MQD) per quarter, plus arrearages (the MQD will be a fixed amount per unit which will be a basis for the pricing of the sale of units to the public);

b. Second, to the Senior Subordinated Units and General Partner (2%), pro rata, until each has received the MQD amount referred to above;

c. Third, to the Junior Subordinated Units and General Partner (2%), pro rata, until each has received the MQD amount referred to above; and

d. Finally, after each unit has received the MQD, available cash will be distributed proportionately to all units except that the General Partner will receive incentive distributions after distributions exceed certain target levels.

3. At the expiration of the subordination period, the subordinated units will convert to common units on a one-for-one basis and will receive distributions pro rata with all other common units. The subordination period is expected to terminate as follows:

a. As to 25% of the subordinated units at the end of three years so long as certain earnings and distribution levels are met;

b. As to 25% of the subordinated units at the end of four years so long as earnings and distribution levels are met; and

c. As to the balance of the subordinated units at the end of five years so long as earnings and distribution levels are met.

4. Distributions from Capital Surplus, defined generally as any distributions other than from operating samples, will be distributed as follows:

a. First to all units (including the General Partner) until each unit has received an amount equal to the initial price to the public;

b. Next, to the holders of common units in the amount of any arrearages; and

c. Thereafter, all distributions will be treated as if from operating surplus but with the General Partner receiving the highest level of incentive distributions.

It is not anticipated that there will be distributions from operating surplus.

5. Distributions and allocations upon liquidation will be made so as to, after payments to creditors, return first to the common unitholders their unrecovered capital plus arrearages, then to return to the senior subordinated unitholders their unrecovered capital, then to return to the junior subordinated unitholders their unrecovered capital, then to the unitholders and the general partners based upon the incentive distribution proportions, applied on a cumulative basis. Special allocations of gains or losses for tax purposes may occur upon liquidating events.

6. Generally, the master limited partnership in existence after the IPO will be governed by the General Partner who has broad powers over the partnership. The limited partners will generally have no voting rights. In certain cases, the General Partner may be removed by a vote of the limited partners.

7. The partnership will be allowed to issue additional common units in certain non-diluted events. All units will generally be protected in certain dilutive transactions such as splits, etc.

8. To the extent possible, the transactions involved in issuing the units shall be designed to avoid income taxes to Country Gas.

9. The holders of common units in the LLC will also receive Senior Subordinated Units in the master limited partnership. These units will be subject to the same restrictions on public trading as the units received by Country Gas.

Other provisions will apply to these units. These provisions may change to meet the requirements of underwriters, however, these summary terms are expected to be incorporated into the master limited partnership agreement at the time of a public offering. The tax consequences of the acquisition, ownership and disposition of the units are not described in this Exhibit.

AMENDMENT NO. 7 TO AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF INERGY PARTNERS, LLC

THIS AMENDMENT NO. 7 (the "Amendment") to the Limited Liability Company Agreement of Inergy Partners, LLC referred to below is made and entered into as of the 12th day of January, 2001, between Inergy Holdings, LLC, a Delaware limited liability company (f/k/a Integrated Energy Holdings, LLC) ("Holdings"), Domex, Inc., an Indiana corporation ("Domex"), Investors 300, Inc., an Indiana corporation ("Investors") and L&L Leasing, Inc., an Indiana corporation ("L&L Leasing").

W I T N E S S E T H:

WHEREAS, Michael L. Hendren, the members of the Employee Investor Group and Holdings, the members of Inergy Partners, LLC (f/k/a Integrated Propane Partners, LLC) (the "Company"), entered into that certain Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated September 30, 1998, as amended by Amendment No. 1 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated December 10, 1998, Amendment No. 2 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated August 4, 1999, Amendment No. 3 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated September 28, 1999, Amendment No. 4 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated December 31, 1999, Amendment No. 5 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated January 1, 2000, and Amendment No. 6 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated May 31, 2000 (the "LLC Agreement"); and

WHEREAS, Holdings, as the Voting Member Majority, desires to amend certain provisions of the LLC Agreement on and subject to the terms hereof, to reflect the issuance of a Class A Preferred Interest in the Company to each of Domex, Investors 300 and L&L Leasing pursuant to that certain Asset Purchase Agreement, dated September 8, 2000 among the Company, Domex, Investors, L&L Leasing, Jerry Boman, Wayne Cook, Glen E. Cook and Phillip L. Elbert, as amended (the "Asset Purchase Agreement").

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, Holdings, Domex, Investors and L&L Leasing do hereby promise and agree as follows (all capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the LLC Agreement):

1. Domex, Investors and L&L Leasing are each hereby issued a Class A Preferred Interest in the Company as provided in the Asset Purchase Agreement and Domex, Investors and L&L leasing are each admitted as Class A Preferred Members of the Company, with all of the rights and obligations assigned to a Class A Preferred Member pursuant to, and subject to all provisions and limitations set forth in, the LLC Agreement. Domex, Investors and L&L Leasing hereby confirm and agree to comply with, and be bound by, all of the terms and conditions of the LLC Agreement.

Exhibit A and Schedule A to the LLC Agreement are hereby amended by deleting said Exhibit A and said Schedule A in their entirety and by substituting, in lieu thereof, the Exhibit A and the Schedule A attached hereto, to reflect the realignment of Preferred Percentage Interests, and Preferred Distribution Percentages, resulting from the admission of Domex, Investors and L&L Leasing as Class A Preferred Members and to reflect the deemed initial balance in the Preferred Capital Account of each of Domex, Investors and L&L Leasing.

2. It is the Company's intention to arrange for the organization of a master limited partnership (the "MLP") that will be the successor to the Company's business and assets and thereafter effect a public offering of units of the MLP (the "IPO") in a manner similar to public offerings made by publicly traded master limited partnerships that are engaged in the distribution and sale of propane. Notwithstanding anything contained in Section 4.12 of the LLC Agreement to the contrary, in the event the Company effects the IPO, Domex, Investors and L&L Leasing hereby agree to immediately exchange their Class A Preferred Interests in the Company for subordinated units in the MLP, pursuant to which all rights and privileges of the Class A Preferred Interest in the Company held by Domex, Investors or L&L Leasing shall be exchanged for all rights and privileges of the subordinated units of the MLP. The subordinated units are expected to have the rights and privileges of the Senior Subordinated Units described on Exhibit B attached hereto and made a part hereof.

3. Except as expressly amended hereby, all of the terms, conditions and provisions of the LLC Agreement shall remain unamended and in full force and effect in accordance with its terms, and the LLC Agreement, as amended hereby, is hereby ratified and confirmed. The amendments provided herein shall be limited precisely as drafted and shall not constitute an amendment of any other term, condition or provision of the LLC Agreement.

4. References in the LLC Agreement to "Agreement", "hereof", "herein" and words of similar impact shall be deemed to be a reference to the LLC Agreement as amended by this Amendment.

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

[End of Page]

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment and affixed their signatures hereto as of the date first above written.

INERGY HOLDINGS, LLC

By: /s/ John J. Sherman
---
John J. Sherman, Voting Member

DOMEX, INC.

By: /s/ Phillip L. Elbert
---
Name: Phillip L. Elbert
Title: Vice President

INVESTORS 300, INC.

By: /s/ Phillip L. Elbert
---
Name: Phillip L. Elbert
Title: Vice President

L&L LEASING, INC.

By: /s/ Phillip L. Elbert
---
Name: Phillip L. Elbert
Title: Vice President

EXHIBIT A

MEMBERS OF THE EMPLOYEE INVESTOR GROUP,
INITIAL OR RESTATED CAPITAL ACCOUNTS, PERCENTAGE INTERESTS,
AND PREFERRED DISTRIBUTIONS

| Name | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest | Preferred Distribution Percentage | Initial Due Date for Preferred Distribution |
|---|---|---|---|---|---|---|
| Alton Parker Carter | $ 3,569 | $ 7,408 | 0.0223% | 0.0319% | 2.25% | 1-29-99 |
| Gregory L. Chappell | $ 3,569 | $ 7,408 | 0.0223% | 0.0319% | 2.25% | 1-29-99 |
| Randy Claiborne | $ 1,777 | $ 3,702 | 0.0111% | 0.0159% | 2.25% | 1-29-99 |
| Richard A. Garner | $ 1,777 | $ 3,702 | 0.0111% | 0.0159% | 2.25% | 1-29-99 |
| Elaine H. Johnson | $ 2,145 | $ 4,443 | 0.0134% | 0.0191% | 2.25% | 1-29-99 |
| Cynthia B. Kibler | $ 7,122 | $ 14,813 | 0.0445% | 0.0637% | 2.25% | 1-29-99 |
| H. Faye Owen | $ 1,777 | $ 3,702 | 0.0111% | 0.0159% | 2.25% | 1-29-99 |
| Elaine H. Trujillo | $ 7,122 | $ 14,813 | 0.0445% | 0.0637% | 2.25% | 1-29-99 |
| James Warren Rogers | $178,141 | $679,200 | 1.1130% | 2.9208% | 2.25% | 1-29-99 |

SCHEDULE A

INITIAL OR RESTATED CAPITAL ACCOUNTS,
PERCENTAGE INTERESTS AND PREFERRED DISTRIBUTIONS

| Name | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest | Preferred Distribution Percentage | Initial Due Date for Preferred Distribution |
|---|---|---|---|---|---|---|
| Michael L. Hendren | $ -0- | $1,564,520 | 0% | 6.7280% | 2.25% | 01-29-99 |
| Peter H. Wilson | $ -0- | $ 548,000 | 0% | 2.3566% | 2.00% | 04-30-99 |
| George Upchurch, Sr. | $ -0- | $ 204,000 | 0% | 0.8773% | 2.00% | 10-29-99(1) |
| Shirley Upchurch | $ -0- | $ 96,000 | 0% | 0.4128% | 2.00% | 10-29-99(1) |
| George Upchurch, Jr. | $ -0- | $ 100,000 | 0% | 0.4300% | 2.00% | 10-29-99(1) |
| Zero Butane Gas, Inc. | $ 348,167 | $1,490,377 | 2.1753% | 6.4092% | 2.00% | 04-28-00 |
| Donald Ray Kerr | $ 27,449 | $ 109,623 | .1715% | 0.4714% | 2.00% | 04-28-00 |
| John W. Thompson | $ 20,039 | $ -0- | .1252% | 0% | 0% | |
| Judy G. Carpenter | $ 5,006 | $ -0- | .0313% | 0% | 0% | |
| KCEP Ventures II, L.P. | $ -0- | $2,000,000 | 0% | 8.6008% | 2.50% | 04-28-00 |
| Country Gas Company, Inc. | $ -0- | $9,000,000 | 0% | 38.7034% | 2.25% | 07-30-00(1) |
| Domex, Inc. | $ -0- | $ 962,264 | 0% | 4.1381% | 2.25% | 04-30-01(1) |
| Investors 300, Inc. | $ -0- | $4,367,199 | 0% | 18.7806% | 2.25% | 04-30-01(1) |
| L&L Leasing, Inc. | $ -0- | $2,072,569 | 0% | 8.9128% | 2.25% | 04-30-01(1) |
| Inergy Holdings, LLC | $15,397,750 | $ -0- | 96.2034% | 0% | 0% | |

(1) Preferred distribution prorated for initial quarter.

EXHIBIT B

SUBORDINATED UNITS

Subject to negotiations with underwriters, an initial public offering will have the features described herein. The Subordinated Units issued to Domex, Inc., Investors 300, Inc. and L&L Leasing, Inc. and to each of the other holders of Preferred Interests in Inergy Partners, LLC (the "LLC"), will have a yield equal to (but subordinated to) the yield on the publicly-traded common units, an indicated value equal to the initial offering price of the common units and the following additional components:

1. Generally, the partnership will be required to distribute all "Available Cash" quarterly;
2. Available cash will be distributed based on the following priorities:

a. First, to the Common Units (issued to the public) and General Partner (2%), pro rata, until each has received its minimum quarterly distribution (MQD) per quarter, plus arrearages (the MQD will be a fixed amount per unit which will be a basis for the pricing of the sale of units to the public);

b. Second, to the Subordinated Units and General Partner (2%), pro rata, until each has received the MQD amount referred to above; and

c. Finally, after each unit has received the MQD, available cash will be distributed proportionately to all units except that the General Partner will receive incentive distributions after distributions exceed certain target levels.

3. At the expiration of the subordination period, the subordinated units will convert to common units on a one-for-one basis and will receive distributions pro rata with all other common units. The subordination period is expected to terminate as follows:

a. As to 25% of the subordinated units at the end of three years so long as certain earnings and distribution levels are met;

b. As to 25% of the subordinated units at the end of four years so long as earnings and distribution levels are met; and

c. As to the balance of the subordinated units at the end of five years so long as earnings and distribution levels are met.

4. Distributions from Capital Surplus, defined generally as any distributions other than from operating surplus, will be distributed as follows:
a. First to all units (including the General Partner) until each unit has received an amount equal to the initial price to the public;

b. Next, to the holders of common units in the amount of any arrearages; and

c. Thereafter, all distributions will be treated as if from operating surplus but with the General Partner receiving the highest level of incentive distributions.

It is not anticipated that there will be distributions from operating surplus.

5. Distributions and allocations upon liquidation will be made so as to, after payments to creditors, return first to the common unitholders their unrecovered capital plus arrearages, then to return to the senior subordinated unitholders their unrecovered capital, then to return to the junior subordinated unitholders their unrecovered capital, then to the unitholders and the general partners based upon the incentive distribution proportions, applied on a cumulative basis. Special allocations of gains or losses for tax purposes may occur upon liquidating events.

6. Generally, the master limited partnership in existence after the IPO will be governed by the General Partner who has broad powers over the partnership. The limited partners will generally have no voting rights. In certain cases, the General Partner may be removed by a vote of the limited partners.

7. The partnership will be allowed to issue additional common units in certain non-dilutive events. All units will generally be protected in certain dilutive transactions such as splits, etc.

8. To the extent possible, the transactions involved in issuing the units shall be designed to avoid income taxes to Domex, Inc., Investors 300, Inc. and L&L Leasing, Inc.

9. The holders of common units in the LLC will also receive Subordinated Units in the master limited partnership. These units will be subject to the same restrictions on public trading as the units received by Domex, Inc., Investors 300, Inc. and L&L Leasing, Inc.

Other provisions will apply to these units. These provisions may change to meet the requirements of underwriters, however, these summary terms are expected to be incorporated into the master limited partnership agreement at the time of a public offering. The tax consequences of the acquisition, ownership and disposition of the units are not described in this Exhibit.

AMENDMENT NO. 8 TO AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF INERGY PARTNERS, LLC

THIS AMENDMENT NO. 8 (the "AMENDMENT") to the Limited Liability Company Agreement of Inergy Partners, LLC referred to below is made and entered into as of January 12, 2001, by and among Inergy Holdings, LLC, a Delaware limited liability company (f/k/a Integrated Energy Holdings, LLC) ("HOLDINGS"), and each of the Investors which are listed on the signature page hereof.

WITNESSETH:

WHEREAS, Michael L. Hendren, the members of the Employee Investor Group and Holdings, which are all of the members of Inergy Partners, LLC (f/k/a Integrated Propane Partners, LLC) (the "COMPANY"), entered into that certain Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated September 30, 1998, as amended by Amendment No. 1 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated December 10, 1998, Amendment No. 2 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated August 4, 1999, Amendment No. 3 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated September 28, 1999, Amendment No. 4 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated December 31, 1999, as amended as of even date herewith, Amendment No. 5 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated January 1, 2000, Amendment No. 6 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated May 31, 2000, and Amendment No. 7 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated January 12, 2001 (collectively, the "COMPANY'S LLC AGREEMENT");

WHEREAS, Holdings, as the Voting Member Majority (as defined in the Company's LLC Agreement), desires to amend certain provisions of the Company's LLC Agreement on and subject to the terms hereof, to reflect the issuance of the Class A Preferred Interests in the Company to the Investors pursuant to a Securities Purchase Agreement dated as of January 12, 2001, among the Company and the Investors and Warrant Investors that are signatories thereto (the "SECURITIES PURCHASE AGREEMENT").

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, Holdings and the Investors do hereby promise and agree as follows (all capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Company's LLC Agreement and the Securities Purchase Agreement):

1. Each Investor is hereby issued a Class A Preferred Interest in the Company as provided in the Securities Purchase Agreement and each Investor is admitted as a Class A Preferred Member of the Company, with all of the rights and obligations assigned to a Class A Preferred Member pursuant to, and subject to all provisions and limitations set forth in, the Company's LLC Agreement. Each Investor hereby confirms and agrees to comply with, and be bound by, all of the terms and conditions of the Company's LLC Agreement.

Exhibit A and Schedule A to the Company's LLC Agreement are hereby amended by deleting said Exhibit A and said Schedule A in their entirety and by substituting, in lieu thereof, the Exhibit A and the Schedule A attached hereto, to reflect the realignment of Preferred Percentage Interests resulting from the admission of each Investor as a Class A Preferred Member and to reflect the deemed initial balance in the Preferred Capital Account of each Investor.

2. The following definitions are hereby added to Section 1.2 of the Company's LLC Agreement:

"BOARD OF DIRECTORS" has the meaning set forth in Section 5.1 hereof.

"CASH EVENT" means any transaction or series of related transactions whereby all or substantially all of the assets of the Company and its Subsidiaries, taken together, are sold or otherwise disposed of (other than a sale contemporaneously with and in contemplation of a Qualified MLP Offering) wherein not less than 85% of the aggregate proceeds actually received by the Company and its Subsidiaries at the closing(s) constitutes cash.

"CASH EVENT MULTIPLIER" means a variable number to be multiplied by the then relevant amount, depending upon when the Cash Event occurs. For purposes hereof,

| IF THE CASH EVENT OCCURS | BUT NO LATER THAN | THEN THE CASH EVENT MULTIPLIER WILL BE |
|---|---|---|
| From Closing Date | August 31, 2001 | 1.6 |
| From September 1, 2001 | June 30, 2002 | 1.7 |
| From July 1, 2002 | December 31, 2002 | 1.8 |
| After January 1, 2003 | | 2.0 |

"CONVERSION EVENT" means a Cash Event or an Equity Event, as the case may be.

"DEEMED GAIN" shall have the meaning set forth in Section 4.7(l).

"DEFAULT" means an event or condition that with the passage of time or giving of notice, or both, would become (i) an Event of Default as defined in the Loan Agreement (as defined in the Securities Purchase Agreement) or (ii) any material breach or material default under the Securities Purchase Agreement or any of the Related Agreements (as defined therein).

"DIRECTOR" and "DIRECTORS" have the meanings set forth in Section 5.1.

"EQUITY EVENT" means (1) a Qualified MLP Offering or (2) any transaction or series of related transactions (including a merger, consolidation or "stock-for-stock" sale) wherein all or substantially all of the assets of the Company or not less than 90% of the Common Percentage Interests held by all Voting Members of the Company are sold or otherwise disposed of in exchange for voting Equity Securities representing the common or residual interest in the purchaser thereof or an Affiliate of such purchaser.

"EQUITY EVENT MULTIPLIER" means a variable number to be multiplied by the then relevant amount, depending upon when the Equity Event occurs. For purposes hereof,

| IF THE EQUITY EVENT OCCURS | BUT NO LATER THAN | THEN THE EQUITY EVENT MULTIPLIER WILL BE |
|---|---|---|
| From Closing Date | August 31, 2001 | 1.4 |
| From September 1, 2001 | December 31, 2001 | 1.5 |
| From January 1, 2002 | June 30, 2002 | 1.6 |
| From July 1, 2002 | December 31, 2002 | 1.7 |
| From January 1, 2003 | December 31, 2004 | 1.8 |
| At any time from and after January 1, 2005 | | 2.0 |

"EVENT OF DEFAULT" means (i) an Event of Default as defined in the Loan Agreement (as defined in the Securities Purchase Agreement) or (ii) any material breach or material default under the Securities Purchase Agreement or any of the

Related Agreements (as defined therein) (after giving effect to any provisions herein or therein expressly regarding the giving of notice, passage of time or both).

"INDEPENDENT DIRECTOR" has the meaning set forth in Section 5.1.

"INVESTOR" means each of the Investors that are signatory to the Securities Purchase Agreement or any Substitute Member with respect to any Investor.

"INVESTOR DIRECTOR" has the meaning set forth in Section 5.1.

"JOINDER AGREEMENT" shall have the meaning set forth in the Securities Purchase Agreement.

"KCEP" means KCEP Ventures II, L.P., a Missouri limited partnership.

"KCEP 1999 INTERESTS" mean the Class A Preferred Interests as purchased by KCEP on December 31, 1999 as reflected on Amendment No. 4 to the Company's LLC Agreement dated December 31, 1999, as amended as of even date herewith.

"KCEP DIRECTOR" has the meaning set forth in Section 5.1.

"KCEP MULTIPLIER" means, at any time at which a Conversion Event occurs, the number 2.25.

"LIQUIDITY EVENT" means any transaction or series of transactions resulting in (i) the sale or lease all or substantially all of the assets and properties of the Company or its Subsidiaries, (ii) the sale more than 50% of the Equity Securities (calculated based on the total of the Common Capital Accounts, adjusted pursuant to Section 3.5(b) hereof, and the Preferred Capital Accounts as of the date of such transaction or series of transactions) or voting membership interests of the Company or its Subsidiaries (other than pursuant to a Qualified MLP Offering), (iii) a merger or consolidation of the Company or its Subsidiaries with another Person or Persons (whether or not the Company is the surviving or resulting entity thereof), (iv) a liquidation, dissolution or termination of the Company, or (v) a Qualified MLP Offering.

"MAJORITY INVESTORS" shall have the meaning set forth in the Securities Purchase Agreement.

"QUALIFIED MLP OFFERING" shall have the meaning set forth in the Securities Purchase Agreement.

"REPRESENTATIVE" shall be one or more Persons, designated by written notice from the Voting Member Majority to the other Voting Members, through which the Voting Member Majority may act.

"SECURITIES PURCHASE AGREEMENT" means that certain Securities Purchase Agreement dated as of January 12, 2001, by and among the Company and the Investors and Warrant Investors that are signatories thereto.

"SUBSIDIARIES" shall have the meaning set forth in the Securities Purchase Agreement.

"WARRANT" shall have the meaning set forth in the Securities Purchase Agreement.

"WARRANT INVESTOR" means each of the Warrant Investors that are signatory to the Securities Purchase Agreement.

"WARRANT INVESTOR AMENDMENT TO LLC AGREEMENT" shall have the meaning set forth in the Securities Purchase Agreement.

3. Section 4.2 of the Company's LLC Agreement is hereby amended by deleting said Section 4.2 in its entirety and by substituting the following new Section 4.2 in lieu thereof:

4.2 Preferred Distributions. On or before the last Business Day of each month immediately following the end of each calendar quarter (a "Due Date"), commencing with the calendar quarter ending December 31, 1998, the Company shall distribute cash to each Class A Preferred Member in an amount equal to the initial balance in such Class A Preferred Member's Preferred Capital Account multiplied by such Class A Preferred Member's preferred distribution percentage (each such distribution is hereinafter referred to as a "Preferred Distribution"), and commencing as of such Class A Preferred Member's initial Due Date, as reflected on Exhibit A and Schedule A attached hereto, provided, that at all times during which a Default has occurred and remains in effect and has not been waived in writing by the Majority Investors, then the preferred distribution percentage for the Class A Preferred Interests held by the Investors shall automatically be adjusted to equal 3.25%; and provided, further, that at all times during which an Event of Default has occurred and remains in effect and has not been waived in writing by the Majority Investors, then the preferred distribution percentage for the Class A Preferred Interests held by the Investors shall automatically be adjusted to equal 3.75%. Notwithstanding the immediately preceding sentence, no Preferred Distribution shall be required if such distribution would, as reasonably determined by the Board of Directors, cause a default under any agreement or covenant between a bank or other lending institution and any one of the Company or the Operating Companies (any such limitation that precludes payment of a Preferred Distribution being referred to as the "Limitation"). In the event any Preferred Distribution, or portion thereof, is not made with respect to a

calendar quarter, such Preferred Distribution, or portion thereof, (the "Accrued Preferred Distribution"), shall accumulate and be payable at such time as the Limitation no longer prevents payment. In addition, with respect to any such Accrued Preferred Distribution there shall be payable an amount equal to (A) times (B) times (C), where (A) equals such Accrued Preferred Distribution, (B) equals a percentage equal to the higher of the Company's cost of funds or the cost of funds of any of the Operating Companies, and (C) equals a fraction, the numerator of which is the number of days since the Due Date of such Accrued Preferred Distribution or the most recent anniversary thereof, and the denominator of which is 365 (such additional amount and any unpaid portion thereof is hereinafter referred to as the "Arrearage"). If any Arrearage is not paid by an anniversary Due Date of the related Accrued Preferred Distribution, then such Arrearage shall be added to and become a part of the Accrued Preferred Distribution as of such anniversary date and shall no longer be an "Arrearage" hereunder. All payments made pursuant to this Section 4.2 shall be applied first to any Arrearage and then to the Accrued Preferred Distribution. Each Preferred Distribution is intended to be and shall be treated as a distribution to the Member in its capacity as a Member, and not as a guaranteed payment under section 707(c) of the Code. Accordingly, notwithstanding any other provision herein to the contrary, (i) the Preferred Distributions shall be applied to reduce each Class A Preferred Members' positive Preferred Capital Account, which shall result in a net reduction (taking into account the income allocation under Section 4.6(a)(ii) hereof) of such Preferred Capital Account equal to the amount of the excess distribution; and (ii) a Member shall not receive payment of any part of any Preferred Distribution to the extent that such Preferred Distribution would cause such Member to have an Adjusted Capital Account Deficit.

4. A Qualified MLP Offering by the Company or its affiliates through a master limited partnership structure is contemplated by the Company and the Investors under the Securities Purchase Agreement. Each Investor's Class A Preferred Interest will be convertible into, or exchanged for, Senior Subordinated Units (the "Senior Units") of a master limited partnership ("MLP") that is the subject of a Qualified MLP Offering, which conversion or exchange (the "Conversion") shall occur upon the closing of such Qualified MLP Offering. To provide for certain deemed gain allocations upon the Conversion or the occurrence of a Cash Event or Equity Event prior to the Qualified MLP Offering, Section 4.7(l) of the Company's LLC Agreement is hereby amended by deleting such section in its entirety and by substituting the following new Section 4.7(l) in lieu thereof, and new Sections 4.7(m) and 4.7(n) are hereby added to the Company's LLC Agreement:

4.7(l) Deemed Gain Allocation for KCEP 1999 Interests. Notwithstanding any other provision herein to the contrary, in the event of a Conversion Event and to the extent that the revaluation of the Property under Section 3.5(b) hereof will produce a positive aggregate net adjustment to the book basis of the Property as if the Company recognized gain equal to such aggregate net adjustment (the "Deemed Gain"), then (i) the Preferred Capital Account of

KCEP or its permitted transferee with respect to the KCEP 1999 Interests at the time of the Closing of such Conversion Event shall be allocated an amount of Deemed Gain that would increase the Preferred Capital Account with respect to the KCEP 1999 Interests to an amount equal to (A) the product of the amount referred to in Section 9.5(a)(i) of that certain Securities Purchase Agreement dated December 31, 1999 (as amended as of January 12, 2001 by the Securities Purchase Agreement, as defined herein), between the Company and KCEP, times (B) the KCEP 1999 Multiplier; and (ii) such amount shall reduce the amount of Deemed Gain that would otherwise be allocated to the Common Capital Accounts under Section 3.5(b) at such time. If the Conversion Event is a Qualified MLP Offering, the Preferred Capital Account with respect to the KCEP 1999 Interests, as adjusted, would then be exchanged in the Qualified MLP Offering for Senior Units of the MLP (priced to yield the same amount as the publicly traded Common Units included in the Qualified MLP Offering). The Company and KCEP contemplate that the Senior Units will be junior in payment terms to any publicly traded units included in the Qualified MLP Offering. The provisions of this Section 4.7(l) are intended to comply with Treasury Regulation (S) 1.704-1(b)(2)(iv)(f), and, together with the provisions of Section 4.7(a) hereof, shall be limited, interpreted, and applied in a manner consistent with such Regulation.

4.7(m) Deemed Gain Allocation for Interests, Other than the KCEP 1999 Interests, Held by the Investors. Notwithstanding any other provision herein to the contrary, in the event of a Conversion Event at a time during which an Investor or its permitted assignee owns a Class A Preferred Interest in the Company other than the KCEP 1999 Interests, and to the extent that the revaluation of the Property under Section 3.5(b) hereof will produce Deemed Gain, the Preferred Capital Account of each such Investor or permitted transferee at such time shall be adjusted, in lieu of any other allocation of gain under this Agreement, as follows:

(a) if the Conversion Event is a Cash Event, then (i) at the time of the Closing of such Cash Event the Preferred Capital Account of each Investor (or permitted transferee) shall be allocated an amount of Deemed Gain that would increase such Investor's (or transferee's) Preferred Capital Account to an amount equal to the product of the amount referred to in Section 9.5(a)(i) of the Securities Purchase Agreement times the Cash Event Multiplier, and (ii) such amount shall reduce the amount of Deemed Gain that would otherwise be allocated to the Common Capital Accounts under Section 3.5(b) at such time; provided, that for purposes of this Section 4.7(m) no such adjustment shall be made to the KCEP 1999 Interests and instead such adjustments to such interests shall be governed by Section 4.7(l) hereof.

(b) if the Conversion Event is an Equity Event, then (i) at the time of the Closing of such Equity Event the Preferred Capital Account of each Investor (or permitted transferee) shall be allocated an amount of Deemed Gain

that would increase such Investor's (or transferee's) Preferred Capital Account to an amount equal to the product of the amount referred to in Section 9.5(a)(i) of the Securities Purchase Agreement times the Equity Event Multiplier, and (ii) such amount shall reduce the amount of Deemed Gain that would otherwise be allocated to Common Capital Accounts under Section 3.5(b) at such time; provided, that for purposes of this Section 4.7(m) no such adjustment shall be made to the KCEP 1999 Interests and instead such adjustments to such interests shall be governed by Section 4.7(l) hereof.

If the Conversion Event is a Qualified MLP Offering, each Investor's Preferred Capital Account, as adjusted (except for the KCEP 1999 Interests, which shall be adjusted pursuant to Section 4.7(l)), would then be exchanged in the Qualified MLP Offering for Senior Units of the MLP (priced to yield the same amount as the publicly traded Common Units included in the Qualified MLP Offering). The Company and the Investors contemplate that the Senior Units will be junior in payment terms to any publicly traded units included in the Qualified MLP Offering. The provisions of this Section 4.7(m) are intended to comply with Treasury Regulation (S) 1.704-1(b)(2)(iv)(f), and, together with the provisions of Section 4.7(a) hereof, shall be limited, interpreted, and applied in a manner consistent with such Regulation.

4.7(n) Allocation of Insufficient Deemed Gain. To the extent that the amount of Deemed Gain is not sufficient to fully adjust all Investors' Preferred Capital Accounts as described in Section 4.7(l) and 4.7(m), the available Deemed Gain shall be allocated on a pro rata basis among the Investors' Preferred Capital Accounts, with each Investor's pro rata portion determined by the percentage that such Investor's Preferred Capital Account represents as compared with the total of all Investor's Preferred Capital Accounts, in each case adjusted pursuant to Sections 4.7(l) and 4.7(m) as though the amount of Deemed Gain is sufficient to fully adjust all of the Investor's Preferred Capital Accounts.

5. Notwithstanding any provision of the Company's LLC Agreement to the contrary, the Company may, at its election, retain all or a portion of any regularly scheduled quarterly Distributions that are payable by the Company to the Investors pursuant to Section 4.2 of this Agreement for one (1), but not more than one (1), of the calendar quarters ending on September 30, 2001, December 31, 2002, March 31, 2002 or June 30, 2002; provided, that the payment of regularly scheduled quarterly distributions on the KCEP 1999 Interests shall be governed by Section 4 of Amendment No. 4 to the Company's LLC Agreement dated December 31, 1999; and provided further, that each Investor's Preferred Capital Account shall be increased in an amount equal to the amount of any such retained Distributions, which increase in each Investor's Preferred Capital Account shall constitute full satisfaction of any obligations of the Company to each Investor in regard to such retained Distributions.

6. Sections 5.1, 5.2, 5.3, 5.9(a), 5.10, 5.11, 5.14, 5.15, 5.16, 5.17, and 5.18 of the Company's LLC Agreement are amended by deleting such sections in their entirety and by

substituting the following new sections in lieu thereof, to be effective immediately following the Closing, as defined in the Securities Purchase Agreement, without any further action on the part of the parties hereto or the Company:

5.1 Management and Board of Directors. Except as otherwise expressly set forth herein, the business and affairs of the Company shall be managed by a board of directors (the "Board of Directors") to the fullest extent allowed under the laws of the State of Delaware, subject to the following terms and conditions:

(a) Number; Qualifications; Designation.

(i) Initially, the Board of Directors shall consist of five members. Directors need not be Members. At each annual meeting of the members of the Company, or at each special meeting of the members of the Company involving the election of directors of the Company, and at any other time at which members of the Company will have the right to or will vote for or render consent in writing regarding the election of directors of the Company, before and after a Qualified MLP Offering, then and in each event, the Voting Majority Member and the Investors hereby covenant and agree to vote all voting membership interests of the Company presently owned or hereafter acquired by them (whether owned of record or over which any person exercises voting control) in favor of the following actions:

(A) to fix and maintain the number of directors (individually a "Director" and collectively, "Directors") including any increase in the size of the Board of Directors instituted by the Voting Member Majority and including such number of Directors consisting of representatives who are not Affiliates of or employed by the Investors, the Company or the Voting Member Majority (individually an "Independent Director" and collectively, "Independent Directors") as may be required by applicable law or applicable rules of a stock exchange or national market quotation system following the Qualified MLP Offering; and

(B) initially to fix the Board of Directors at five (5) Directors, and to cause and maintain the election to the Board of Directors of the Company of (a) one (1) Director designated by the Majority Investors, who shall initially be Richard C. Green, Jr. (the "Investor Director"), (b) one (1) Director designated by KCEP, who shall initially be David J. Schulte (the "KCEP Director"), (c) one Independent Director, who shall initially be Warren H. Gfeller, and (d) two remaining Directors designated by the Voting Member Majority, who shall initially be John J. Sherman and Phillip L. Elbert.

(ii) None of the parties entitled to designate Directors hereunder shall vote to remove either the entire Board of Directors, the

Independent Directors or any other Director designated by any other party or group of Members pursuant hereto, without the express prior written consent of the party entitled to so designate such Director. Upon prior written notice to the Board of Directors, a party entitled to designate a Director may also remove such Director at any time with or without cause and designate a replacement Director. Each of the parties hereto shall vote or cause to be voted all shares owned by it or over which it has voting control (i) to remove from the Board of Directors any Director designated by any party pursuant hereto at the request of such party, and (ii) to fill any vacancy in the membership of the Board of Directors with a designee of the party whose designee's resignation or removal from the Board of Directors caused such vacancy.

(iii) Upon the completion of a Qualified MLP Offering, (i) the Majority Investors shall have the right to designate one Director to the board of directors or other governing body which governs the business and affairs of the master limited partnership and the operating limited partnership to be formed pursuant to such Qualified MLP Offering until such time as 25% or more of the senior subordinated limited partnership units of the master limited partnership held by the Investors after the Qualified MLP Offering are no longer subject to any subordination period under the Qualified MLP Offering and (ii) KCEP shall have the right to designate one Director to the board of directors or other governing body which governs the business and affairs of the master limited partnership and the operating limited partnership to be formed pursuant to such Qualified MLP Offering until such time as 50% or more of the senior subordinated limited partnership units of the master limited partnership held by KCEP after the Qualified MLP Offering are no longer subject to any subordination period under the Qualified MLP Offering, at the later of which time the provisions of this Section shall terminate and be of no further force or effect.

(iv) The Company shall provide to each party entitled to designate Directors hereunder prior written notice of any intended mailing of notice to members for a meeting at which Directors are to be elected, and any party entitled to designate Directors pursuant hereto shall notify the Company in writing, prior to such meeting, of the person(s) designated by it or them as its or their nominee(s) for election as Director(s).

(v) If any party entitled to designate Directors hereunder fails to give notice to the Company as provided above, it shall be deemed that the designee of such party then serving as Director shall be its designee for reelection.

(vi) The Investor Director shall be designated by the Majority Investors and the KCEP Director shall be designated by KCEP. Any Independent Director shall be designated by the Voting Member Majority with the approval of Majority Investors, which approval shall not be unreasonably

withheld. The Voting Member Majority shall have the exclusive right to increase the size of the Board of Directors beyond its initial five members, and to designate all Directors other than the KCEP Director and the Investor Director and, subject to the provisions hereof, to designate the Independent Director.

(vii) Until a Qualified MLP Offering, as long as any Investor owns not less than one percent (1%) of the Class A Preferred Interests it is purchasing under the Securities Purchase Agreement, the Company shall invite a representative of each such Investor to attend all meetings of its Board of Directors in a nonvoting-observer capacity and, in this respect, shall give such representative copies of all notices, minutes, consents and other materials it provides to its directors; provided, however, that such representative shall agree to hold in confidence and trust all information so provided. The Company shall reimburse such representatives for all reasonable out-of-pocket travel and other expenses actually incurred to attend meetings of the Company's Board of Directors; provided, that for Board of Directors meeting held in the Kansas City, Missouri, metropolitan area, the Company shall be required to reimburse such expenses only for the representative of each Investor that, together with all of such Investor's Affiliates, holds Class A Preferred Interests having a Preferred Capital Account equal to or greater than $2,000,000.

(b) Election; Resignation; Vacancies. The Board of Directors shall be elected at each annual meeting of Voting Members and each director shall hold office for a term of one (1) year or until his or her successor is elected and qualified. Any director may resign at any time upon written notice to the Company. Any newly created directorship or any vacancy occurring in the Board of Directors for any cause shall only be filled by the person or persons entitled hereunder to designate a Director to such vacancy, and each director so elected shall hold office until the expiration of the term of office of the director whom he or she has replaced or until his or her successor is elected and qualified.

(c) Regular Meetings. Board meetings shall be held not less frequently than quarterly. Regular quarterly meetings of the Board of Directors may be held at such places within or without the State of Delaware and at such times as the Board of Directors may from time to time determine, and if so determined, notices thereof need not be given.

(d) Special Meetings. Special meetings of the Board of Directors may be held at any time or place within or without the State of Delaware whenever called by the Voting Member Majority or by any two members of the Board of Directors. Notice of a special meeting of the Board of Directors shall be given to each director in person, by telephone, or in writing by the person or persons calling the meeting at least twenty-four (24) hours (in the case of notice in person or by telephone or facsimile) or forty-eight (48) hours (in

the case of notice by telegram) or three (3) days (in the case of notice by mail) before the time at which the meeting is to be held.

(e) Telephonic Meetings Permitted. Members of the Board of Directors may participate in a meeting thereof by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 5.1 shall constitute presence in person at such meeting.

(f) Quorum; Vote Required for Action. At all meetings of the Board of Directors a majority of the whole Board of Directors shall constitute a quorum for the transaction of business; provided that John J. Sherman or his wife or personal representative shall also be present at such meeting. Except in cases in which applicable law or this Agreement otherwise provide, the vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors; provided that John J. Sherman or his wife or personal representative shall also be present at such meeting.

(g) Organization. Meetings of the Board of Directors shall be presided over by the Chairman of the Board, if any, or in his or her absence by the Vice Chairman of the Board, if any, or in his or her absence by the Chief Executive Officer, or in their absence by a chairman chosen at the meeting. The Secretary shall act as secretary of the meeting, but in his or her absence the chairman of the meeting may appoint any person to act as secretary of the meeting. The initial Chairman of the Board shall be John J. Sherman.

(h) Action by Written Consent of Directors. Unless otherwise restricted by applicable law or this Agreement, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board of Directors or such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or such committee.

(i) Committees. The Company shall not have any executive or similar committee of the Board of Directors unless the designees of the Voting Member Majority, the KCEP Director and the Investor Director consent in writing to the formation of such committee. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of the committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in place of any such absent or disqualified member. Any such committee, to the extent permitted by law and to the extent provided in

the resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Company and may authorize the seal of the Company to be affixed to all pages that may require it.

(j) Committee Rules. Unless the Board of Directors otherwise provides, each committee designated by the Board of Directors may make, alter, and repeal rules for the conduct of its business. In the absence of such rules each committee shall conduct its business in the same manner as the Board of Directors conducts its business pursuant to this Section 5.1.

(k) Board Compensation. The Company may compensate members of the Board of Directors for their service on the Board of Directors, and may reimburse members of the Board of Directors for their reasonable travel and other expenses incurred in connection with such service, pursuant to policies that may be established by the Board of Directors from time to time.

(l) Voting Member Majority. Except as set forth in the following sentence, the terms "Voting Member Majority," "Voting Members" and "Voting Member" shall be deemed to be deleted everywhere they appear in this Agreement including, without limitation, in the following Sections of this Agreement, and inserted in lieu thereof shall be the term "Board of Directors": 2.1(a) and (b), 2.3, 2.4, 2.5, 3.3(b), 3.4(iv), 3.7, 4.3, 4.5, 4.7(h) and (j), 4.8, 4.10, 4.11, 6.1, 6.2, 6.5 and 6.6 and Articles VII, VIII and IX. The terms "Voting Member Majority," "Voting Members" and "Voting Member" as they appear in Sections 3.2 and Article V of this Agreement shall continue in full force and effect. It is expressly understood and agreed that prior written approval of any Liquidity Event shall be required by both the Board of Directors and the Voting Member Majority; provided that, if a Default or Event of Default has occurred and remains in effect and has not been waived in writing by the Majority Investors, a Liquidity Event as described in subparts (i)-(iv) of the definition thereof shall not require the approval of the Voting Member Majority or any other Voting Members.

5.2 Voting. Except for the right granted to KCEP and the Investors to designate Directors under Section 5.1, all Class A Preferred Members shall be Non-Voting Members to the extent of their Class A Preferred Interests. All Common Members, other than members of the Employee Investor Group and other than Common Members that agree that they shall be Non-Voting Members, shall be Voting Members to the extent of their Common Interests. All members of the Employee Investor Group shall be Non-Voting Members to the extent of both their Class A Preferred Interests and their Common Interests. The Voting Members shall be entitled to vote, in person or by proxy, on all matters requiring a vote of the Voting Members under the express terms of this Agreement. Each Voting Member shall vote according to their respective Common Percentage

Interests in the Company. Upon the Transfer of an Interest pursuant to the terms of this Agreement, each Interest shall retain any and all voting rights associated therewith.

5.3 Officers. With the written consent of the designees of the Voting Member Majority, the KCEP Director and the Investor Director, the Board of Directors may delegate its powers and authority under this Agreement in whole or in part (i) to one or more officers of the Company as the Board of Directors deems appropriate, which officers shall have such power and authority as the Board of Directors deems appropriate; or (ii) to one or more Members of the Company as the Board of Directors deems appropriate, which Members shall have such power and authority as the Board of Directors deems appropriate.

5.9 (a) The "Company" shall include, in addition to the resulting or surviving limited liability company, any constituent limited liability company (including any constituent of a constituent) absorbed in a consolidation or merger so that any Person who is or was a manager, director, or officer of such constituent limited liability company, or is or was serving at the request of such constituent limited liability company as a director, officer or in any other comparable position of any Other Enterprise shall stand in the same position under the provisions of this Article V with respect to the resulting or surviving limited liability company as such Person would if such Person had served the resulting or surviving limited liability company in the same capacity;

5.10 Limitation of Liability. No Person shall be liable to the Company or its Members for any loss, damage, liability or expense suffered by the Company or its Members on account of any action taken or omitted to be taken by such Person as a director or an officer of the Company or as a Representative or by such Person while serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise, if such Person discharges such Person's duties in good faith, and in a manner such Person reasonably believes to be in or not opposed to the best interests of the Company. The liability of a director or an officer or Representative hereunder shall be limited only for those actions taken or omitted to be taken by such Person in the discharge of such Person's obligations in connection with the management of the business and affairs of the Company or any Other Enterprise. The foregoing limitation of liability shall apply to all directors, officers and to all Persons who serve as a Representative at any time.

5.11 Right to Indemnification. The Company shall indemnify each Person who has been or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, investigative or appellate (regardless of whether such action, suit or proceeding is by or in the right of the Company or by third parties) by reason of the fact that such Person is or was a Voting Member of the

Company, a director or an officer of the Company, a Representative or is or was serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise, against all liabilities and expenses, including, without limitation, judgments, amounts paid in settlement, attorneys' fees, ERISA excise taxes or penalties, fines and other expenses, actually and reasonably incurred by such Person in connection with such action, suit or proceeding (including, without limitation, the investigation, defense, settlement or appeal of such action, suit or proceeding); provided, however, that the Company shall not be required to indemnify or advance expenses to any Person on account of such Person's conduct that was finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct; provided, further, that the Company shall not be required to indemnify or advance expenses to any Person in connection with an action, suit or proceeding initiated by such Person unless the initiation of such action, suit or proceeding was authorized in advance by the Board of Directors; provided, however, that a director or an officer or Representative shall be indemnified hereunder only for those actions taken or omitted to be taken by such Person in the discharge of such Person's obligations in connection with the management of the business and affairs of the Company or any Other Enterprise. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or under a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that such Person's conduct was finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct. The foregoing right to indemnification shall apply to all Persons serving as directors or officers and to all Persons who serve as a Representative at any time or who serve at any time at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise. Nothing herein prevents any Member from indemnifying its representatives or directors or officers under such Member's organizational documents or other agreements. If any Person is entitled to indemnification both from the Company and from a Member, then indemnification would come first from the Company and thereafter from the Member.

5.14 Non-Exclusivity. The indemnification and advancement of expenses provided by this Article V shall not be exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any statute, or any agreement, vote of the Board of Directors or Voting Members, policy of insurance or otherwise, both as to action in their official capacity and as to action in another capacity while holding their respective offices, and shall not limit in any way any right that the Company may have to make additional indemnifications with respect to the same or different Persons or classes of Persons. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article V shall continue as to a Person who has ceased to be a director or an officer of the Company, a Representative or a Person eligible for designation as a Representative and as to a Person who has ceased serving at the request of the Company as a director, officer or in any other

comparable position of any Other Enterprise and shall inure to the benefit of the heirs, executors and administrators of such Person.

5.15 Insurance. The Board of Directors may cause the Company to purchase and maintain insurance on behalf of any Person who is or was a director or an officer, agent or employee of the Company or a Representative or is or was serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise, against any liability asserted against such Person and incurred by such Person in any such capacity, or arising out of such Person's status as such, whether or not the Company would have the power, or the obligation, to indemnify such Person against such liability under the provisions of this Article V.

5.16 Amendment and Vesting of Rights. The rights granted or created hereby shall be vested in each Person entitled to indemnification hereunder as a bargained-for, contractual condition of such Person's serving or having served as a director or an officer of the Company or a Representative or serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise and, while this Article V may be amended or repealed, no such amendment or repeal shall release, terminate or adversely affect the rights of such Person under this Article V with respect to any (a) act taken or the failure to take any act by such Person prior to such amendment or repeal, or (b) any action, suit or proceeding concerning such act or failure to act filed after such amendment or repeal.

5.17 Severability. If any provision of this Article V or the application of any such provision to any Person or circumstance is held invalid, illegal or unenforceable for any reason whatsoever, the remaining provisions of this Article V and the application of such provision to other Persons or circumstances shall not be affected thereby and, to the fullest extent possible, the court finding such provision invalid, illegal or unenforceable shall modify and construe the provision so as to render it valid and enforceable as against all Persons and to give the maximum possible protection to Persons subject to indemnification hereby within the bounds of validity, legality and enforceability. Without limiting the generality of the foregoing, if any director or officer of the Company, any Representative or any Person who is or was serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise is entitled under any provision of this Article V to indemnification by the Company for some or a portion of the judgments, amounts paid in settlement, attorneys' fees, ERISA excise taxes or penalties, fines or other expenses actually and reasonably incurred by any such Person in connection with any threatened, pending or completed action, suit or proceeding (including, without limitation, the investigation, defense, settlement or appeal of such action, suit or proceeding), whether civil, criminal, administrative, investigative or appellate, but not, however, for all of the

total amount thereof, the Company shall nevertheless indemnify such Person for the portion thereof to which such Person is entitled.

5.18 Contracts with Members or their Affiliates. All contracts or transactions between the Company and one of its Members, directors, or officers or between the Company and another limited liability company, corporation, partnership, association or other organization in which a Member has a financial interest or with which such Member is affiliated are permissible if such contract or transaction, and such Member's or officer's interest therein, are fully disclosed to the Board of Directors and approved by the Board of Directors.

7. Sections 7.4 and 7.5 of the Company's LLC Agreement are hereby amended by deleting Sections 7.4 and 7.5 in their entirety and by substituting the following new Sections 7.4 and 7.5 in lieu thereof:

7.4 Third Party Offer to Purchase.

(a) If a third party (a "Proposed Purchaser") makes an offer (the "Third Party Offer") to purchase the Common Interest of a Member or Members (each, a "Transferor"), whether such purchase is for cash, stock or other securities, other property, or a combination thereof, and such purchase would enable the Proposed Purchaser to acquire, in one or more transactions, in the aggregate more than 50% of the outstanding Common Percentage Interests, then such Transferor shall not accept such Third Party Offer unless the provisions of Section 7.4(b) and (c) are complied with.

(b) Within three (3) Business days after the issuance of the Third Party Offer to a Transferor, the Proposed Purchaser shall issue in writing to the other Members an offer (the "Tag-Along Offer"). The Tag-Along Offer shall specify the name of the Proposed Purchaser, the amount and type of securities to be purchased by such Proposed Purchaser (the "Offered Securities"), the amount and type of consideration offered for such securities, the anticipated closing date (which shall not be earlier than 30 days from the date of receipt of the Tag-Along Offer by the other Members), and all of the other terms and conditions of such proposed sale, and shall offer the other Members the opportunity whereby such Members, individually, may elect, within 30 days after receipt of the Tag-Along Offer, one of the following alternatives:

(i) If a Common Member, to sell any or all of its Common Interest to the Proposed Purchaser under the same terms and conditions as the Third Party Offer; or

(ii) If a Class A Preferred Member, to sell any or all of its Class A Preferred Interest to the Proposed Purchaser for a purchase price equal to the balance in such Class A Preferred Member's Preferred Capital Account plus all Accrued Preferred Distributions and Arrearages under Section 4.2 hereof;

provided, that the Common Capital Accounts shall be adjusted pursuant to Section 3.5(b) hereof and applicable Class A Preferred Capital Accounts shall be adjusted pursuant to Sections 4.7(l) and (m) hereof as though an Equity Event had occurred, in each case solely for purposes of determining the purchase price to be paid to each applicable Class A Preferred Member in such transaction; or

(iii) To take no action and continue to hold its Interest in the Company.

The Tag-Along Offer shall constitute an offer by the Proposed Purchaser to include in the proposed purchase:

(A) the amount of Common Interests of the Company, if any, designated by each Common Member, not to exceed the amount of Common Interests equal to the product of (1) the aggregate amount of Offered Securities, multiplied by (2) a fraction having the numerator equal to the amount of Common Interests held by such Common Member and the denominator equal to the amount of Common Interests held by the Transferor plus the amount of Common Interests held by all Common Members that exercise their rights to participate in such sale pursuant to Section 7.4(b)(i); and

(B) all of the Class A Preferred Interests designated by the Class A Preferred Members pursuant to Section 7.4(b)(ii).

If a Member desires to participate in the proposed sale, it shall so notify the Transferor not more than 30 days after such Member's receipt of the Tag-Along Offer. If any of the Members have accepted the Tag-Along Offer, the Transferor shall reduce the number of Common Interests that the Transferor would have sold in the proposed sale so as to permit the accepting Members to sell the number of Interests that such Members are entitled to sell under this Section 7.4. If the Members do not exercise their rights in accordance with this Section 7.4, then the Transferor may proceed with such transaction, but only on the terms set forth in the Tag-Along Offer; provided, however, that if the transaction is not completed within thirty (30) calendar days after the expiration of the other Members' rights to participate in such sale, the Transferor shall not be permitted to transfer any Common Interests without again complying with the provisions of this Section 7.4.

(c) To the extent that any Prospective Purchaser refuses to purchase any securities from a Member exercising its rights under Sections 7.4(b)(i) or (ii), the Transferor shall not sell to such Prospective Purchaser any Common Interests unless and until, simultaneously with such sale, the Transferor purchases from such Member, on the terms set forth in Section 7.4(b), the securities that such Member would otherwise have sold to the Prospective Purchaser pursuant to Section 7.4(b).

7.5 Third Party Offer to Acquire the Entire Company. If a third party makes an offer (the "Purchase Offer") to purchase all of the Common Interests in the Company for an identical price per Common Percentage Interest, and the holders of more than 50% in Common Percentage Interest desire to accept the Purchase Offer, then the other Members hereby agree to participate in such sale (i) if a Common Member, on the same terms and conditions as the Purchase Offer and (ii) if a Class A Preferred Member, at a purchase price equal to the balance in such Class A Preferred Member's Preferred Capital Account plus all Accrued Preferred Distributions and Arrearages under Section 4.2 hereof, provided, however, that the purchaser agrees to purchase all, but not less than all, of the Class A Preferred Interests if such purchaser acquires Common Interests representing more than 50% in Common Percentage Interest; and provided, further, that the Common Capital Accounts shall be adjusted pursuant to Section 3.5(b) hereof and applicable Class A Preferred Capital Accounts shall be adjusted pursuant to Sections 4.7(l) and (m) hereof as though an Equity Event had occurred, in each case solely for purposes of determining the purchase price to be paid to each applicable Class A Preferred Member in such transaction.

8. Section 9.7 of the Company's LLC Agreement is hereby amended by deleting said Section 9.7 in its entirety and substituting the following new Section 9.7 in lieu thereof:

9.7 Amendments to this Agreement

(a) Except as otherwise provided herein, and except as specifically set forth in Sections 9.7(b) and 9.7(c) below, this Agreement shall not be modified or amended in any manner other than by resolution of the Board of Directors at the time of such modification or amendment; provided, however, any amendment affecting the allocation of Income and Loss to a Member shall be approved by that Member.

(b) This Agreement may be amended by resolution of the Board of Directors, without any execution of such amendment by all Members, in order to reflect the occurrence of any of the following events, provided that all of the conditions, if any, contained in the relevant sections of this Agreement with respect to such event have been satisfied:

(i) an adjustment of the Common Percentage Interests of the Common Members and the Preferred Percentage Interests of the Class A Preferred Members, as the case may be, upon a Common Member's or a Class A Preferred Member's failure to make a capital contribution as required hereunder; and

(ii) the modification of this Agreement to comply with the relevant tax laws pursuant to Sections 3.6 or 4.7(j) hereof.

(c) Any amendment to this Agreement substantially and adversely affecting the allocation of Income and Loss to a Member which is an Investor, the balance of a Capital Account of a Member which is an Investor, the rights of a Member which is an Investor to distributions or deemed gain allocations under Article IV hereof, the right of a Member which is an Investor to sell its Interest pursuant to Section 7.4 or 7.5 hereof, the right of a Member which is an Investor to designate Directors under Article V hereof, or any other amendment that substantially and adversely affects the value of an Interest of a Member which is an Investor, shall be approved in writing by that Member.

9. Upon execution and delivery by a Warrant Investor of a Joinder Agreement and Warrant Investor Amendment to LLC Agreement upon exercise of such Warrant Investor's Warrant, such Warrant Investor shall be deemed to be an "Investor" under this Amendment and shall be entitled to all of the rights and privileges of an Investor under Sections 2, 3, 4, 5, 6, 7, and 8 of this Amendment, as though such Warrant Investor had executed this Amendment as of the date hereof.

10. Except as expressly amended hereby, all of the terms, conditions and provisions of the Company's LLC Agreement shall remain unamended and in full force and effect in accordance with its terms, and the Company's LLC Agreement, as amended hereby, is hereby ratified and confirmed. The amendments provided herein shall be limited precisely as drafted and shall not constitute an amendment of any other term, condition or provision of the Company's LLC Agreement.

11. References in the Company's LLC Agreement to "Agreement", "hereof", "herein" and words of similar impact shall be deemed to be a reference to the Company's LLC Agreement as amended by this Amendment.

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

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IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment are affixed to their signatures hereto as of the date first above written.

INERGY HOLDINGS, LLC:

By: /s/ John J. Sherman
---
John J. Sherman, Voting Member

INVESTORS:
KCEP VENTURES II, L.P.
By: KCEP II, L.C., its general partner

By: /s/ David J. Schulte
---
David J. Schulte
Managing Director of KCEP II, L.C.

MORAMERICA CAPITAL CORPORATION
By: InvestAmerica Investment Advisors, Inc., Agent

By: /s/ Kevin F. Mullane
---
Kevin F. Mullane, Vice President

NDSBIC, L.P.
By: InvestAmerica ND, L.L.C.,
General Partner
By: InvestAmerica ND Management, Inc.

By: /s/ Kevin F. Mullane
---
Kevin F. Mullane, Vice President

KANSAS VENTURE CAPITAL, INC.,
a Kansas corporation

By: /s/ John S. Dalton
---
John S. Dalton, President

SIGNATURE PAGE TO
AMENDMENT TO COMPANY LLC AGREEMENT

MIDSTATES CAPITAL, L.P., a Kansas limited partnership
By: Midstate Partners, L.L.C., its general partner

By: /s/ BART S. BERGMAN
---
Bart S. Bergman, Principal

DIAMOND STATES VENTURES, L.P.:
By: DSV Management LLC, its general partner

By: /s/ JOE T. HAYS
---
Joe T. Hays, President

ROCKY MOUNTAIN MEZZANINE FUND, II LP
By: Rocky Mountain Capital Partners, LLP, as general partner

By: /s/ PAUL A. LYONS, JR.
---
Paul A. Lyons, Jr., Partner

FIRSTAR CAPITAL CORPORATION, an Ohio corporation

By: /s/ RICK CROPPER
---
Rick Cropper, _____

EAGLE FUND I, LP
By: Eagle Fund, LLC, its general partner
By: Mississippi Valley Capital Company, its sole member

By: /s/ SCOTT D. FESLER
---
Scott D. Fesler, President

SIGNATURE PAGE TO
AMENDMENT TO COMPANY LLC AGREEMENT

RNG INVESTMENTS, L.P., A Delaware Limited Partnership

By: /s/ Richard C. Green, Jr.
---
Richard C. Green, Jr., Managing General Partner

SIGNATURE PAGE TO
AMENDMENT TO COMPANY LLC AGREEMENT

AMENDMENT NO. 9 TO AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF INERGY PARTNERS, LLC

THIS AMENDMENT NO. 9 (the "AMENDMENT") to the Limited Liability Company Agreement of Inergy Partners, LLC referred to below is made and entered into as of March 30, 2001, by and among Inergy Partners, LLC, a Delaware limited liability company formerly known as Integrated Propane Partners, LLC) ("COMPANY"), Peter H. Wilson ("PETER WILSON"), and KCEP Ventures II, L.P., a Missouri limited partnership ("VENTURES II").

WITNESSETH:

WHEREAS, the Company is governed by that certain Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated September 30, 1998, as amended by Amendment No. 1 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated December 10, 1998, Amendment No. 2 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated August 4, 1999, Amendment No. 3 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated September 28, 1999, Amendment No. 4 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated December 31, 1999, Amendment No. 5 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated January 1, 2000, Amendment No. 6 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated May 31, 2000, Amendment No. 7 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated January 12, 2001, and Amendment No. 8 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated January 12, 2001 (collectively, the "COMPANY'S LLC AGREEMENT");

WHEREAS, the Company entered into that certain Stock Exchange and Redemption Agreement, dated December 10, 1998, among the Company, Wilson Oil Company of Johnson County, Inc., Peter Wilson and John A. Wilson, Jr. (the "WILSON AGREEMENT"), and, pursuant to Section 4.3(b)(v) of the Wilson Agreement, Peter Wilson has, based on the achievement of certain Annualized Gross Profits (as defined in the Wilson Agreement) by the Company, become entitled to, and has elected to receive, a Common Interest in the Company valued at $150,000 (the "PETER WILSON COMMON INTEREST");

WHEREAS, RNG Investments, L.P., a Delaware limited partnership ("RNG"), purchased $1,500,000 of Class A Preferred Interests of the Company pursuant to that certain Securities Purchase Agreement dated January 12, 2001, among the Company and the Investors and Warrant Investors that are signatories thereto (the "Securities Purchase Agreement"), and RNG desires to transfer two-thirds (66.67%) of the Class A Preferred Interests acquired by RNG pursuant to the Securities Purchase Agreement, plus two-thirds (66.67%) of any additional securities of the Company payable or paid on RNG's Class A Preferred Interests as a result of any Distributions prior to or on the date of this Amendment (collectively, the "TRANSFERRED INTERESTS"), to Ventures II as the assignee of KCEP Ventures III, L.P. ("VENTURES III") of that certain Put/Call Agreement dated January 12, 2001, between RNG and KCEP Ventures III, L.P.;

WHEREAS, Ventures II as the assignee of Ventures III has exercised the Class A Preferred Interest Purchase Warrant issued to Ventures III on January 12, 2001 (the "WARRANT"), for the purchase from the Company of an additional Class A Preferred Interest having an Initial Preferred Capital Account of $1,500,000 (the "ADDITIONAL VENTURES II INTEREST"); and

WHEREAS, the Board of Directors of the Company desires to amend certain provisions of the LLC Agreement on and subject to the terms hereof, to reflect the issuance of the Peter Wilson Common Interest to Peter Wilson as of January 1, 2001, the transfer of the Transferred Interests by RNG to Ventures II as of March 16, 2001, and the issuance of the Additional Ventures II Interest as of March 30, 2001.

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Ventures II do hereby promise and agree as follows (all capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Company's LLC Agreement):

1. The Company hereby ratifies and confirms the issuance of the Peter Wilson Common Interest to Peter Wilson, effective as of January 1, 2001, with all of the rights and obligations assigned to a Common Member with respect to the Peter Wilson Common Interest pursuant to, and subject to all provisions and limitations set forth in, the Company's LLC Agreement, except that Peter Wilson shall be a Non-Voting Member with respect to the Peter Wilson Common Interest. Peter Wilson hereby, with respect to the Peter Wilson Common Interest, confirms and agrees to comply with, and be bound by, all of the terms and conditions of the Company's LLC Agreement.

2. Pursuant to Section 7.7 of the Company's LLC Agreement, Ventures II is hereby, effective as of March 16, 2001, admitted as a Substitute Member in place of RNG with respect to the Transferred Interests, with all of the rights and obligations assigned to a Class A Preferred Member with respect to such Transferred Interests pursuant to, and subject to all provisions and limitations set forth in, the Company's LLC Agreement, the Securities Purchase Agreement, and each of the Related Agreements (as such term is defined in the Securities Purchase Agreement). Ventures II hereby, with respect to the Transferred Interests, confirms and agrees to comply with, and be bound by, all of the terms and conditions of the Company's LLC Agreement.

3. The Company hereby ratifies and confirms the issuance of the Additional Ventures II Interest to Ventures II, effective as of March 30, 2001, pursuant to the Warrant, with all of the rights and obligations assigned to a Class A Preferred Member with respect to such Additional Ventures II Interest pursuant to, and subject to all provisions and limitations set forth in, the Company's LLC Agreement, the Securities Purchase Agreement, and each of the Related Agreements (as such term is defined in the Securities Purchase Agreement). Ventures II hereby, with respect to the Additional Ventures II Interest, confirms and agrees to comply with, and be bound by, all of the terms and conditions of the Company's LLC Agreement.

4. Exhibit A and Schedule A to the Company's LLC Agreement are hereby amended by deleting said Exhibit A and said Schedule A in their entirety and by substituting, in lieu thereof, the Exhibit A and the Schedule A attached hereto, to reflect the realignment of Common Capital Accounts, Preferred Capital Accounts, Common Percentage Interests, and Preferred Percentage Interests, resulting from the issuance of the Peter Wilson Common Interest to Peter Wilson, the

transfer of the Transferred Interests from RNG to Ventures II, and the issuance of the Additional Ventures II Interest.

5. Except as expressly amended hereby, all of the terms, conditions and provisions of the Company's LLC Agreement shall remain in full force and effect in accordance with its terms, and the Company's LLC Agreement, as amended hereby, is hereby ratified and confirmed. The amendments provided herein shall be limited precisely as drafted and shall not constitute an amendment of any other term, condition or provision of the Company's LLC Agreement.

6. References in the Company's LLC Agreement to "Agreement", "hereof", "herein" and words of similar impact shall be deemed to be a reference to the Company's LLC Agreement as amended by this Amendment.

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

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment are affixed to their signatures hereto as of the date first above written.

INERGY PARTNERS, LLC

By: /s/ John J. Sherman
_____
John J. Sherman, President

/s/ PETER H. WILSON
_____
PETER H. WILSON

KCEP VENTURES II, L.P.
By: KCEP II, L.L.C., its general partner

By: /s/ David J. Schulte
_____
David J. Schulte, Manager

EXHIBIT A

MEMBERS OF THE EMPLOYEE INVESTOR GROUP
INITIAL OR RESTATED CAPITAL ACCOUNTS, PERCENTAGE INTERESTS,
AND PREFERRED DISTRIBUTIONS
AS OF 3/30/01

| Name | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest | Preferred Distribution Percentage | Initial Due Date for Preferred Distributions |
|---|---|---|---|---|---|---|
| Alton Parker Carter | 6,660 | 7,408 | 0.0222% | 0.0186% | 2.25% | 1/29/1999 |
| Gregory L. Chappell | 6,660 | 7,408 | 0.0222% | 0.0186% | 2.25% | 1/29/1999 |
| Randy Claiborne | 3,330 | 3,702 | 0.0111% | 0.0093% | 2.25% | 1/29/1999 |
| Richard A. Garner | 3,330 | 3,702 | 0.0111% | 0.0093% | 2.25% | 1/29/1999 |
| Elaine H. Johnson | 4,020 | 4,443 | 0.0134% | 0.0112% | 2.25% | 1/29/1999 |
| Cynthia B. Kibler | 13,290 | 14,813 | 0.0443% | 0.0373% | 2.25% | 1/29/1999 |
| H. Faye Owen | 3,330 | 3,702 | 0.0111% | 0.0093% | 2.25% | 1/29/1999 |
| Elaine H. Trujillo | 13,290 | 14,813 | 0.0443% | 0.0373% | 2.25% | 1/29/1999 |
| James Warren Rogers | 332,100 | 679,200 | 1.1070% | 1.7085% | 2.25% | 1/29/1999 |
| Total Employee Group | 386,010 | 739,191 | 1.2867% | | | |

SCHEDULE A

INITIAL OR RESTATED CAPITAL ACCOUNTS,
PERCENTAGE INTERESTS AND PREFERRED DISTRIBUTIONS
AS OF 3/30/01

| Name | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest | Initial Due Preferred Distribution Percentage | Date for Preferred Distributions |
|---|---|---|---|---|---|---|
| Michael L. Hendren | 0 | 1,564,520 | 0.0000% | 3.9355% | 2.25% | 1/29/1999 |
| Peter H. Wilson | 150,000 | 548,000 | 0.5000% | 1.3785% | 2.00% | 4/30/1999 |
| George Upchurch, Sr. | 0 | 204,000 | 0.0000% | 0.5132% | 2.00% | 10/29/1999 * |
| Shirley Upchurch | 0 | 96,000 | 0.0000% | 0.2415% | 2.00% | 10/29/1999 * |
| George Uprchurch, Jr. | 0 | 100,000 | 0.0000% | 0.2515% | 2.00% | 10/29/1999 * |
| Zero Butane Gas, Inc. | 649,320 | 1,490,377 | 2.1644% | 3.7490% | 2.00% | 4/28/2000 |
| Donald Ray Kerr | 51,180 | 109,623 | 0.1706% | 0.2758% | 2.00% | 4/28/2000 |
| John W. Thompson | 37,380 | 0 | 0.1246% | 0.0000% | 0.00% | |
| Judy G. Carpenter | 9,390 | 0 | 0.0313% | 0.0000% | 0.00% | |
| KCEP Ventures II, L.P. | 0 | 2,000,000 | 0.0000% | 5.0310% | 2.50% | 4/28/2000 |
| Country Gas Co. | 0 | 9,000,000 | 0.0000% | 22.6394% | 2.25% | 7/30/2000 * |
| Inergy Holdings, LLC | 28,716,720 | 0 | 95.7224% | 0.0000% | 0.00% | |
| Domex, Inc. | 0 | 962,264 | 0.0000% | 2.4206% | 2.25% | 4/30/2001 * |
| Investors 300, Inc. | 0 | 4,367,199 | 0.0000% | 10.9856% | 2.25% | 4/30/2001 * |
| L&L Leasing, Inc. | 0 | 2,072,569 | 0.0000% | 5.2135% | 2.25% | 4/30/2001 * |
| KCEP Ventures II, L.P.** | 0 | 1,500,000 | 0.0000% | 3.7732% | 2.75% | 4/30/2001 * |
| Moramerica Capital Corporation** | 0 | 1,596,000 | 0.0000% | 4.0147% | 2.75% | 4/30/2001 * |
| NDSBIC, L.P.** | 0 | 504,000 | 0.0000% | 1.2678% | 2.75% | 4/30/2001 * |
| Kansas Venture Capital, Inc.** | 0 | 1,900,000 | 0.0000% | 4.7794% | 2.75% | 4/30/2001 * |
| Midstates Capital, L.P.** | 0 | 2,300,000 | 0.0000% | 5.7856% | 2.75% | 4/30/2001 * |
| Diamond State Ventures, L.P.** | 0 | 1,900,000 | 0.0000% | 4.7794% | 2.75% | 4/30/2001 * |
| Rocky Mountain Mezzanine Fund** | 0 | 3,800,000 | 0.0000% | 9.5588% | 2.75% | 4/30/2001 * |
| Firstar Capital Corporation** | 0 | 500,000 | 0.0000% | 1.2577% | 2.75% | 4/30/2001 * |
| Eagle Fund I, L.P.** | 0 | 500,000 | 0.0000% | 1.2577% | 2.75% | 4/30/2001 * |
| RNG Investments, L.P.** | 0 | 500,000 | 0.0000% | 1.2577% | 2.75% | 4/30/2001 * |
| KCEP Ven. II - Warrants | 0 | 1,500,000 | 0.0000% | 3.7732% | 2.75% | 4/30/2001 * |
| Total Non-Employee Group | 29,613,990 | 39,014,552 | 98.7133% | | | |
| Total Both Groups | 30,000,000 | 39,753,743 | 100.0000% | | | |

** Denotes member of 2001 Investor Group

*Preferred Distribution prorated for initial quarter

AMENDMENT NO. 10 TO AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF INERGY PARTNERS, LLC

THIS AMENDMENT NO. 10 (the "AMENDMENT") to the Limited Liability Company Agreement of Inergy Partners, LLC referred to below is made and entered into as of April ___, 2001, by and among Inergy Partners, LLC, a Delaware limited liability company formerly known as Integrated Propane Partners, LLC) ("COMPANY"), and Clayton Hamilton Equities, L.L.C., a Kansas limited liability company also known as Clayton-Hamilton LLC ("CLAYTON HAMILTON").

WITNESSETH:

WHEREAS, the Company is governed by that certain Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated September 30, 1998, as amended by Amendment No. 1 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated December 10, 1998, Amendment No. 2 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated August 4, 1999, Amendment No. 3 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated September 28, 1999, Amendment No. 4 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated December 31, 1999, Amendment No. 5 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated January 1, 2000, Amendment No. 6 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated May 31, 2000, Amendment No. 7 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated January 12, 2001, Amendment No. 8 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated January 12, 2001, and Amendment No. 9 to Amended and Restated Limited Liability Company Agreement of Inergy Partners, LLC, dated as of March 30, 2001 (collectively, the "COMPANY'S LLC AGREEMENT");

WHEREAS, Clayton Hamilton has exercised the Class A Preferred Interest Purchase Warrant issued to Clayton Hamilton on January 12, 2001 (the "WARRANT"), for the purchase from the Company of a Class A Preferred Interest having an Initial Preferred Capital Account of $100,000 (the "CLAYTON HAMILTON INTEREST"); and

WHEREAS, the Board of Directors of the Company desires to amend certain provisions of the LLC Agreement on and subject to the terms hereof, to reflect the issuance of the Clayton Hamilton Interest as of April ___, 2001.

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Clayton Hamilton do hereby promise and agree as follows (all capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Company's LLC Agreement):

1. The Company hereby ratifies and confirms the issuance of the Clayton Hamilton Interest to Clayton Hamilton, effective as of April ___, 2001, pursuant to the Warrant, with all of the rights and obligations assigned to a Class A Preferred Member with respect to such Clayton Hamilton Interest pursuant to, and subject to all provisions and limitations set forth in, the

Company's LLC Agreement, the Securities Purchase Agreement, and each of the Related Agreements (as such term is defined in the Securities Purchase Agreement). Clayton Hamilton hereby, with respect to the Clayton Hamilton Interest, confirms and agrees to comply with, and be bound by, all of the terms and conditions of the Company's LLC Agreement.

2. Exhibit A and Schedule A to the Company's LLC Agreement are hereby amended by deleting said Exhibit A and said Schedule A in their entirety and by substituting, in lieu thereof, the Exhibit A and the Schedule A attached hereto, to reflect the realignment of Preferred Capital Accounts, and Preferred Percentage Interests resulting from the issuance of the Clayton Hamilton Interest.

3. Except as expressly amended hereby, all of the terms, conditions and provisions of the Company's LLC Agreement shall remain in full force and effect in accordance with its terms, and the Company's LLC Agreement, as amended hereby, is hereby ratified and confirmed. The amendments provided herein shall be limited precisely as drafted and shall not constitute an amendment of any other term, condition or provision of the Company's LLC Agreement.

4. References in the Company's LLC Agreement to "Agreement", "hereof", "herein" and words of similar impact shall be deemed to be a reference to the Company's LLC Agreement as amended by this Amendment.

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

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment are affixed to their signatures hereto as of the date first above written.

INERGY PARTNERS, LLC

By: /s/ JOHN J. SHERMAN
---
John J. Sherman, President

CLAYTON HAMILTON EQUITIES, L.L.C.

By: /s/ WARREN H. GFELLER
---
Warren H. Gfeller, its Managing Member

EXHIBIT A

MEMBERS OF THE EMPLOYEE INVESTOR GROUP
INITIAL OR RESTATED CAPITAL ACCOUNTS, PERCENTAGE INTERESTS,
AND PREFERRED DISTRIBUTIONS
AS OF 3/30/01

| Name | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest | Preferred Distribution Percentage | Initial Due Date for Preferred Distributions |
|---|---|---|---|---|---|---|
| Alton Parker Carter | 6,660 | 7,408 | 0.0222% | 0.0186% | 2.25% | 1/29/1999 |
| Gregory L. Chappell | 6,660 | 7,408 | 0.0222% | 0.0186% | 2.25% | 1/29/1999 |
| Randy Claiborne | 3,330 | 3,702 | 0.0111% | 0.0093% | 2.25% | 1/29/1999 |
| Richard A. Garner | 3,330 | 3,702 | 0.0111% | 0.0093% | 2.25% | 1/29/1999 |
| Elaine H. Johnson | 4,020 | 4,443 | 0.0134% | 0.0112% | 2.25% | 1/29/1999 |
| Cynthia B. Kibler | 13,290 | 14,813 | 0.0443% | 0.0373% | 2.25% | 1/29/1999 |
| H. Faye Owen | 3,330 | 3,702 | 0.0111% | 0.0093% | 2.25% | 1/29/1999 |
| Elaine H. Trujillo | 13,290 | 14,813 | 0.0443% | 0.0373% | 2.25% | 1/29/1999 |
| James Warren Rogers | 332,100 | 679,200 | 1.1070% | 1.7085% | 2.25% | 1/29/1999 |
| Total Employee Group | 386,010 | 739,191 | 1.2867% | | | |

SCHEDULE A

INITIAL OR RESTATED CAPITAL ACCOUNTS,
PERCENTAGE INTERESTS AND PREFERRED DISTRIBUTIONS
AS OF 4/__/01

| Name | Initial or Restated Common Capital Account | Initial Preferred Capital Account | Common Percentage Interest | Preferred Percentage Interest | Preferred Distribution Percentage | Initial Due Date for Preferred Distributions |
|---|---|---|---|---|---|---|
| Michael L. Hendren | 0 | 1,564,520 | 0.0000% | 3.9257% | 2.25% | 1/29/1999 |
| Peter H. Wilson | 150,000 | 548,000 | 0.5000% | 1.3750% | 2.00% | 4/30/1999 |
| George Upchurch, Sr. | 0 | 204,000 | 0.0000% | 0.5119% | 2.00% | 10/29/1999 * |
| Shirley Upchurch | 0 | 96,000 | 0.0000% | 0.2409% | 2.00% | 10/29/1999 * |
| George Upchurch, Jr. | 0 | 100,000 | 0.0000% | 0.2509% | 2.00% | 10/29/1999 * |
| Zero Butane Gas, Inc. | 649,320 | 1,490,377 | 2.1644% | 3.7396% | 2.00% | 4/28/2000 |
| Donald Ray Kerr | 51,180 | 109,623 | 0.1706% | 0.2751% | 2.00% | 4/28/2000 |
| John W. Thompson | 37,380 | 0 | 0.1246% | 0.0000% | 0.00% | |
| Judy G. Carpenter | 9,390 | 0 | 0.0313% | 0.0000% | 0.00% | |
| KCEP Clayton Hamilton, L.P. | 0 | 2,000,000 | 0.0000% | 5.0183% | 2.50% | 4/28/2000 |
| Country Gas Co. | 0 | 9,000,000 | 0.0000% | 22.5826% | 2.25% | 7/30/2000 * |
| Inergy Holdings, LLC | 28,716,720 | 0 | 95.7224% | 0.0000% | 0.00% | |
| Domex, Inc. | 0 | 962,264 | 0.0000% | 2.4145% | 2.25% | 4/30/2001 * |
| Investors 300, Inc. | 0 | 4,367,199 | 0.0000% | 10.9581% | 2.25% | 4/30/2001 * |
| L&L Leasing, Inc. | 0 | 2,072,569 | 0.0000% | 5.2004% | 2.25% | 4/30/2001 * |
| KCEP Clayton Hamilton, L.P.(1) | 0 | 1,500,000 | 0.0000% | 3.7638% | 2.75% | 4/30/2001 * |
| Moramerica Capital Corporation(1) | 0 | 1,596,000 | 0.0000% | 4.0046% | 2.75% | 4/30/2001 * |
| NDSBIC, L.P.(1) | 0 | 504,000 | 0.0000% | 1.2646% | 2.75% | 4/30/2001 * |
| Kansas Venture Capital, Inc.(1) | 0 | 1,900,000 | 0.0000% | 4.7674% | 2.75% | 4/30/2001 * |
| Midstates Capital, L.P.(1) | 0 | 2,300,000 | 0.0000% | 5.7711% | 2.75% | 4/30/2001 * |
| Diamond State Ventures,L.P.(1) | 0 | 1,900,000 | 0.0000% | 4.7674% | 2.75% | 4/30/2001 * |
| Rocky Mountain Mezzanine Fund(1) | 0 | 3,800,000 | 0.0000% | 9.5349% | 2.75% | 4/30/2001 * |
| Firstar Capital Corporation(1) | 0 | 500,000 | 0.0000% | 1.2546% | 2.75% | 4/30/2001 * |
| Eagle Fund I, L.P.(1) | 0 | 500,000 | 0.0000% | 1.2546% | 2.75% | 4/30/2001 * |
| RNG Investments, L.P.(1) | 0 | 500,000 | 0.0000% | 3.8739% | 2.75% | 4/30/2001 * |
| KCEP Ven. II - Warrants | 0 | 1,500,000 | 0.0000% | 0.2509% | 2.75% | 4/30/2001 * |
| Clayton Hamilton Equities, L.L.C. | 0 | 100,000 | 0.0000% | | 2.75% | 7/30/2001 * |
| Total Non-Employee Group | 29,613,990 | 39,114,552 | 98.7133% | 98.1452% | | |
| Total Both Groups | 30,000,000 | 39,853,743 | 100.0000% | | | |

(1) Denotes member of 2001 Investor Group

*Preferred Distribution prorated for initial quarter

EXHIBIT 4.1

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as follows according to applicable laws or regulations:

| | | |
|---|---|---|
| TEN COM | - as tenants in common | UNIF GIFT/TRANSFERS MIIN ACT-_____Custodian_____ |
| TEN ENT | - as tenants by the entireties | (Cust) (Minor) |
| JT TEN | - as joint tenants with right of survivorship and not as tenants in common | under Uniform Gifts/Transfers to CD Minors Act_____ (State) |

Additional abbreviations, though not in the above list, may also be used.

ASSIGNMENT OF SENIOR SUBORDINATED UNITS
IN
INERGY, L.P.
IMPORTANT NOTICE REGARDING INVESTOR RESPONSIBILITIES
DUE TO TAX SHELTER STATUS OF INERGY, L.P.

You have acquired an interest in Inergy, L.P., 1101 Walnut, Suite 1500, Kansas City, Missouri 64106, whose taxpayer identification number is 43-1918951. The Internal Revenue Service has issued Inergy, L.P. the following tax shelter registration number: [_____].

YOU MUST REPORT THIS REGISTRATION NUMBER TO THE INTERNAL REVENUE SERVICE IF YOU CLAIM ANY DEDUCTION, LOSS, CREDIT OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OF YOUR INVESTMENT IN INERGY, L.P.

You must report the registration number as well as the name and taxpayer identification number of Inergy, L.P. on Form 8271. FORM 8271 MUST BE ATTACHED TO THE RETURN ON WHICH YOU CLAIM THE DEDUCTION, LOSS, CREDIT OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OF YOUR INVESTMENT IN INERGY, L.P.

If you transfer your interest in Inergy, L.P. to another person, you are required by the Internal Revenue Service to keep a list containing (a) that person's name, address and taxpayer identification number, (b) the date on which you transferred the interest and (c) the name, address and tax shelter registration number of Inergy, L.P. If you do not want to keep such a list, you must (1) send the information specified above to the Partnership, which will keep the list for this tax shelter, and (2) give a copy of this notice to the person to whom you transfer your interest. Your failure to comply with any of the above-described responsibilities could result in the imposition of a penalty under Section 6707(b) or 6708(a) of the Internal Revenue Code of 1986, as amended, unless such failure is shown to be due to reasonable cause.

ISSUANCE OF A REGISTRATION NUMBER DOES NOT INDICATE THAT THIS INVESTMENT OR THE CLAIMED TAX BENEFITS HAVE BEEN REVIEWED, EXAMINED OR APPROVED BY THE INTERNAL REVENUE SERVICE.

FOR VALUE RECEIVED, _____hereby assigns, conveys, sells and transfers unto_____

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

_____

_____
(Please print or typewrite name and address of Assignee)

_____Senior Subordinated Units representing limited partner interests evidenced by this Certificate, subject to the Partnership Agreement, and does hereby irrevocably constitute and appoint _____ as its attorney-in-fact with full power of substitution to transfer the same on the books of Inergy, L.P.

Date:_____ NOTE: The signature to any endorsement hereon must correspond with the name as written upon the face of this Certificate in every particular, without alteration, enlargement or change.

SIGNATURE(S) MUST BE GUARANTEED BY A MEMBER FIRM OF THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. OR BY A COMMERCIAL BANK OR TRUST COMPANY

_____
(Signature)

_____ _____
SIGNATURE(S) GUARANTEED (Signature)

No transfer of the Senior Subordinated Units evidenced hereby will be registered on the books of the Partnership, unless the Certificate evidencing the Senior Subordinated Units to be transferred is surrendered for registration or transfer and an Application for Transfer of Senior Subordinated Units has been executed by a transferee either (a) on the form set forth below or (b) on a separate application that the Partnership will furnish on request without charge. A transferor of the Senior Subordinated Units shall have no duty to the transferee with respect to execution of the transfer application in order for such transferee to obtain registration of the transfer of the Senior Subordinated Units.

APPLICATION FOR TRANSFER OF SENIOR SUBORDINATED UNITS

The undersigned ("Assignee") hereby applies for transfer to the name of the Assignee of the Senior Subordinated Units evidenced hereby.

The Assignee (a) requests admission as a Substituted Limited Partner, (b) agrees to comply with and be bound by, and hereby executes, the Amended and Restated Agreement of Limited Partnership of Inergy, L.P. (the "Partnership"), as amended, supplemented or restated to the date hereof (the "Partnership Agreement"), (c) represents and warrants that the Assignee has all right, power and authority and, if an individual, the capacity to enter into the Partnership Agreement, (d) appoints the Managing General Partner of the Partnership and, if a Liquidator shall be appointed, the Liquidator of the Partnership as the Assignee's attorney-in-fact to execute, swear to, acknowledge and file any document, including, without limitation, the Partnership Agreement and any amendment thereto and the Certificate of Limited Partnership of the Partnership and any amendment thereto, necessary or appropriate for the Assignee's admission as a Substituted Limited Partner and as a party to the Partnership Agreement, (e) gives the powers of attorney provided for in the Partnership Agreement, and (f) gives the consents and approvals and makes the waivers contained in the Partnership Agreement. Capitalized terms not defined herein have the meanings assigned to such terms in the Partnership Agreement.

Date:_____

_____ _____
Social Security or other identifying number of Assignee Signature of Assignee

_____ _____
Purchase Price including commissions, if any Name and Address of Assignee

Type of Entity (check one):
[_] Individual [_] Partnership [_] Corporation
Trust [_] Other (specify)_____

Nationality (check one):
[_] U.S. Citizen, Resident or Domestic Entity

[_] Foreign Corporation [_]Non-resident Alien

If the U.S. Citizen, Resident or Domestic Entity box is checked, the following certification must be completed.

Under Section 1445(e) of the Internal Revenue Code of 1986, as amended (the "Code"), the Partnership must withhold tax with respect to certain transfers of property if a holder of an interest in the Partnership is a foreign person. To inform the Partnership that no withholding is required with respect to the undersigned interestholder's interest in it, the undersigned hereby certifies the following (or, if applicable, certifies the following on behalf of the interestholder).

Complete either A or B:

A. Individual Interestholder

1. I am not a non-resident alien for purposes of U.S. Income taxation.
2. My U.S. taxpayer identification number (social security number) is_____
3. My home address is_____

B. Partnership, Corporation or other Interestholder

1. _____ is not a foreign corporation, foreign partnership, foreign trust or foreign estate (as those terms are defined in the Code and Treasury Regulations).
(Name of Interestholder)

2. The interestholder's U.S. employer identification number is_____
3. The interestholder's office address and place of incorporation (if applicable is)_____

The interestholder agrees to notify the Partnership within sixty (60) days of the date the interestholder becomes a foreign person.

The interestholder understands that this certificate may be disclosed to the Internal Revenue Service by the Partnership and that any false statement contained herein could be punishable by fine, imprisonment or both.

Under penalties of perjury, I declare that I have examined this certification and to the best of my knowledge and belief it is true, correct and complete and, if applicable, I further declare that I have authority to sign this document on behalf of

_____

Name of Interestholder

_____

Signature and Date

_____

Title (if applicable)

Note: If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee holder or an agent of any of the foregoing, and is holding for the account of any other person, this application should be completed by an officer thereof or, in the case of a broker or dealer, by a registered representative who is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or, in the case of any other nominee holder, a person performing a similar function. If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee owner or an agent of any of the foregoing, the above certification as to any person for whom the Assignee will hold the Senior Subordinated Units shall be made to the best of the Assignee's knowledge.

EXHIBIT 4.1
SPECIMEN

CERTIFICATE EVIDENCING SENIOR SUBORDINATED UNITS
CERTIFICATE NO. REPRESENTING LIMITED PARTNERSHIP INTERESTS IN SENIOR SUBORDINATED UNITS
INERGY, L.P.

In accordance with Section 4.1 of the Amended and Restated Agreement of Limited Partnership of Inergy, L.P., as amended, supplemented or restated from time to time (the "Partnership Agreement"), Inergy, L.P., a Delaware limited partnership (the "Partnership"), hereby certifies that

(the "Holder") is the registered owner of SENIOR SUBORDINATED UNITS

representing limited partner interests in the Partnership (the "Senior Subordinated Units") transferable on the books of the Partnership, in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed and accompanied by a properly executed application for transfer of the Senior Subordinated Units represented by this Certificate. The rights, preferences and limitations of the Senior Subordinated Units are set forth in, and this Certificate and the Senior Subordinated Units represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Partnership Agreement. Copies of the Partnership Agreement are on file at, and will be furnished without charge on delivery of written request to the Partnership at, the principal office of the Partnership located at 1101 Walnut, Suite 1500, Kansas City, Missouri 64106. Capitalized terms used herein but not defined shall have the meanings given them in the Partnership Agreement.

The Holder, by accepting this Certificate, is deemed to have (i) requested admission as, and agreed to become, a Limited Partner and to have agreed to comply with and be bound by and to have executed the Partnership Agreement, (ii) represented and warranted that the Holder has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (iii) granted the powers of attorney provided for in the Partnership Agreement and (iv) made the waivers and given the consents and approvals contained in the Partnership Agreement.

This Certificate shall not be valid for any purpose unless it has been countersigned and registered by the Transfer Agent and Registrar.

Dated:

Inergy, L.P.

By: Inergy GP, LLC
its Managing General Partner

By: _____
President

By: _____
Secretary

COUNTERSIGNED AND REGISTERED:
[Transfer Agent],

TRANSFER AGENT AND REGISTRAR

By: _____
Authorized Signature

Exhibit 4.2

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as follows according to applicable laws or regulations:

| | | |
|---|---|---|
| TEN COM | - as tenants in common | UNIF GIFT/TRANSFERS MIIN ACT-_____ Custodian_____ |
| TEN ENT | - as tenants by the entireties | (Cust) (Minor) |
| JT TEN | - as joint tenants with right of survivorship and not as tenants in common | under Uniform Gifts/Transfers to CD Minors Act_____ (State) |

Additional abbreviations, though not in the above list, may also be used.

ASSIGNMENT OF JUNIOR SUBORDINATED UNITS
IN
INERGY, L.P.
IMPORTANT NOTICE REGARDING INVESTOR RESPONSIBILITIES
DUE TO TAX SHELTER STATUS OF INERGY, L.P.

You have acquired an interest in Inergy, L.P., 1101 Walnut, Suite 1500, Kansas City, Missouri 64106, whose taxpayer identification number is 43-1918951. The Internal Revenue Service has issued Inergy, L.P. the following tax shelter registration number: [_____].

YOU MUST REPORT THIS REGISTRATION NUMBER TO THE INTERNAL REVENUE SERVICE IF YOU CLAIM ANY DEDUCTION, LOSS, CREDIT OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OF YOUR INVESTMENT IN INERGY, L.P.

You must report the registration number as well as the name and taxpayer identification number of Inergy, L.P. on Form 8271. FORM 8271 MUST BE ATTACHED TO THE RETURN ON WHICH YOU CLAIM THE DEDUCTION, LOSS, CREDIT OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OF YOUR INVESTMENT IN INERGY, L.P.

If you transfer your interest in Inergy, L.P. to another person, you are required by the Internal Revenue Service to keep a list containing (a) that person's name, address and taxpayer identification number, (b) the date on which you transferred the interest and (c) the name, address and tax shelter registration number of Inergy, L.P. If you do not want to keep such a list, you must (1) send the information specified above to the Partnership, which will keep the list for this tax shelter, and (2) give a copy of this notice to the person to whom you transfer your interest. Your failure to comply with any of the above-described responsibilities could result in the imposition of a penalty under Section 6707(b) or 6708(a) of the Internal Revenue Code of 1986, as amended, unless such failure is shown to be due to reasonable cause.

ISSUANCE OF A REGISTRATION NUMBER DOES NOT INDICATE THAT THIS INVESTMENT OR THE CLAIMED TAX BENEFITS HAVE BEEN REVIEWED, EXAMINED OR APPROVED BY THE INTERNAL REVENUE SERVICE.

FOR VALUE RECEIVED,_____ hereby assigns, conveys, sells and transfers unto_____

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

_____

_____

(Please print or typewrite name and address of Assignee)

_____Junior Subordinated Units representing limited partner interests evidenced by this Certificate, subject to the Partnership Agreement, and does hereby irrevocably constitute and appoint _____ as its attorney-in-fact with full power of substitution to transfer the same on the books of Inergy, L.P.

Date:_____

NOTE: The signature to any endorsement hereon must correspond with the name as written upon the face of this Certificate in every particular, without alteration, enlargement or change.

SIGNATURE(S) MUST BE GUARANTEED BY A MEMBER FIRM OF THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. OR BY A COMMERCIAL BANK OR TRUST COMPANY

_____
(Signature)

_____
SIGNATURE(S) GUARANTEED

_____
(Signature)

No transfer of the Junior Subordinated Units evidenced hereby will be registered on the books of the Partnership, unless the Certificate evidencing the Junior Subordinated Units to be transferred is surrendered for registration or transfer and an Application for Transfer of Junior Subordinated Units has been executed by a transferee either (a) on the form set forth below or (b) on a separate application that the Partnership will furnish on request without charge. A transferor of the Junior Subordinated Units shall have no duty to the transferee with respect to execution of the transfer application in order for such transferee to obtain registration of the transfer of the Junior Subordinated Units.

APPLICATION FOR TRANSFER OF JUNIOR SUBORDINATED UNITS

The undersigned ("Assignee") hereby applies for transfer to the name of the Assignee of the Junior Subordinated Units evidenced hereby.

The Assignee (a) requests admission as a Substituted Limited Partner, (b) agrees to comply with and be bound by, and hereby executes, the Amended and Restated Agreement of Limited Partnership of Inergy, L.P. (the "Partnership"), as amended, supplemented or restated to the date hereof (the "Partnership Agreement"), (c) represents and warrants that the Assignee has all right, power and authority and, if an individual, the capacity to enter into the Partnership Agreement, (d) appoints the Managing General Partner of the Partnership and, if a Liquidator shall be appointed, the Liquidator of the Partnership as the Assignee's attorney-in-fact to execute, swear to, acknowledge and file any document, including, without limitation, the Partnership Agreement and any amendment thereto and the Certificate of Limited Partnership of the Partnership and any amendment thereto, necessary or appropriate for the Assignee's admission as a Substituted Limited Partner and as a party to the Partnership Agreement, (e) gives the powers of attorney provided for in the Partnership Agreement, and (f) gives the consents and approvals and makes the waivers contained in the Partnership Agreement. Capitalized terms not defined herein have the meanings assigned to such terms in the Partnership Agreement.

Date:_____

_____
Social Security or other identifying number of Assignee

_____
Signature of Assignee

_____
Purchase Price including commissions, if any

_____
Name and Address of Assignee

Type of Entity (check one):
[ ] Individual [ ] Partnership [ ] Corporation
[ ] Trust [ ] Other (specify)_____

Nationality (check one):
[ ] U.S. Citizen, Resident or Domestic Entity
[ ] Foreign Corporation [ ] Non-resident Alien

If the U.S. Citizen, Resident or Domestic Entity box is checked, the following certification must be completed.

Under Section 1445(e) of the Internal Revenue Code of 1986, as amended (the "Code"), the Partnership must withhold tax with respect to certain transfers of property if a holder of an interest in the Partnership is a foreign person. To inform the Partnership that no withholding is required with respect to the undersigned interestholder's interest in it, the undersigned hereby certifies the following (or, if applicable, certifies the following on behalf of the interestholder).

Complete either A or B:

A. Individual Interestholder

1. I am not a non-resident alien for purposes of U.S. Income taxation.
2. My U.S. taxpayer identification number (social security number) is _____
3. My home address is _____

B. Partnership, Corporation or other Interestholder

1. _____ is not a foreign corporation, foreign partnership,
(Name of Interestholder)
foreign trust or foreign estate (as those terms are defined in the Code and Treasury Regulations).
2. The interestholder's U.S. employer identification number is _____
3. The interestholder's office address and place of incorporation (if applicable is) _____

The interestholder agrees to notify the Partnership within sixty (60) days of the date the interestholder becomes a foreign person.

The interestholder understands that this certificate may be disclosed to the Internal Revenue Service by the Partnership and that any false statement contained herein could be punishable by fine, imprisonment or both.

Under penalties of perjury, I declare that I have examined this certification and to the best of my knowledge and belief it is true, correct and complete and, if applicable, I further declare that I have authority to sign this document on behalf of

_____
Name of Interestholder

_____
Signature and Date

_____
Title (if applicable)

Note: If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee holder or an agent of any of the foregoing, and is holding for the account of any other person, this application should be completed by an officer thereof or, in the case of a broker or dealer, by a registered representative who is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or, in the case of any other nominee holder, a person performing a similar function. If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee owner or an agent of any of the foregoing, the above certification as to any person for whom the Assignee will hold the Junior Subordinated Units shall be made to the best of the Assignee's knowledge.

59443 vl

Exhibit 4.2
SPECIMEN

CERTIFICATE EVIDENCING JUNIOR SUBORDINATED UNITS
CERTIFICATE NO. REPRESENTING LIMITED PARTNERSHIP INTERESTS IN JUNIOR SUBORDINATED UNITS
INERGY, L.P.

In accordance with Section 4.1 of the Amended and Restated Agreement of Limited Partnership of Inergy, L.P., as amended, supplemented or restated from time to time (the "Partnership Agreement"), Inergy, L.P., a Delaware limited partnership (the "Partnership"), hereby certifies that

(the "Holder") is the registered owner of JUNIOR SUBORDINATED UNITS

representing limited partner interests in the Partnership (the "Junior Subordinated Units") transferable on the books of the Partnership, in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed and accompanied by a properly executed application for transfer of the Junior Subordinated Units represented by this Certificate. The rights, preferences and limitations of the Junior Subordinated Units are set forth in, and this Certificate and the Junior Subordinated Units represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Partnership Agreement. Copies of the Partnership Agreement are on file at, and will be furnished without charge on delivery of written request to the Partnership at, the principal office of the Partnership located at 1101 Walnut, Suite 1500, Kansas City, Missouri 64106. Capitalized terms used herein but not defined shall have the meanings given them in the Partnership Agreement.

The Holder, by accepting this Certificate, is deemed to have (i) requested admission as, and agreed to become, a Limited Partner and to have agreed to comply with and be bound by and to have executed the Partnership Agreement, (ii) represented and warranted that the Holder has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (iii) granted the powers of attorney provided for in the Partnership Agreement and (iv) made the waivers and given the consents and approvals contained in the Partnership Agreement.

This Certificate shall not be valid for any purpose unless it has been countersigned and registered by the Transfer Agent and Registrar.

Dated:

Inergy, L.P.

By: Inergy GP, LLC
its Managing General Partner

By:_____
President

By:_____
Secretary

COUNTERSIGNED AND REGISTERED:
[Transfer Agent],

TRANSFER AGENT AND REGISTRAR

By:_____
Authorized Signature

595357 v1

Exhibit 4.3

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as follows according to applicable laws or regulations:

| | | |
|---|---|---|
| TEN COM | - as tenants in common | UNIF GIFT/TRANSFERS MIIN ACT-_____ Custodian_____ |
| TEN ENT | - as tenants by the entireties | (Cust) (Minor) |
| JT TEN | - as joint tenants with right of survivorship and not as tenants in common | under Uniform Gifts/Transfers to CD Minors Act_____ (State) |

Additional abbreviations, though not in the above list, may also be used.

ASSIGNMENT OF COMMON UNITS
IN
INERGY, L.P.
IMPORTANT NOTICE REGARDING INVESTOR RESPONSIBILITIES
DUE TO TAX SHELTER STATUS OF INERGY, L.P.

You have acquired an interest in Inergy, L.P., 1101 Walnut, Suite 1500, Kansas City, Missouri 64106, whose taxpayer identification number is 43-1918951. The Internal Revenue Service has issued Inergy, L.P. the following tax shelter registration number: [_____].

YOU MUST REPORT THIS REGISTRATION NUMBER TO THE INTERNAL REVENUE SERVICE IF YOU CLAIM ANY DEDUCTION, LOSS, CREDIT OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OF YOUR INVESTMENT IN INERGY, L.P.

You must report the registration number as well as the name and taxpayer identification number of Inergy, L.P. on Form 8271. FORM 8271 MUST BE ATTACHED TO THE RETURN ON WHICH YOU CLAIM THE DEDUCTION, LOSS, CREDIT OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OF YOUR INVESTMENT IN INERGY, L.P.

If you transfer your interest in Inergy, L.P. to another person, you are required by the Internal Revenue Service to keep a list containing (a) that person's name, address and taxpayer identification number, (b) the date on which you transferred the interest and (c) the name, address and tax shelter registration number of Inergy, L.P. If you do not want to keep such a list, you must (1) send the information specified above to the Partnership, which will keep the list for this tax shelter, and (2) give a copy of this notice to the person to whom you transfer your interest. Your failure to comply with any of the above-described responsibilities could result in the imposition of a penalty under Section 6707(b) or 6708(a) of the Internal Revenue Code of 1986, as amended, unless such failure is shown to be due to reasonable cause.

ISSUANCE OF A REGISTRATION NUMBER DOES NOT INDICATE THAT THIS INVESTMENT OR THE CLAIMED TAX BENEFITS HAVE BEEN REVIEWED, EXAMINED OR APPROVED BY THE INTERNAL REVENUE SERVICE.

FOR VALUE RECEIVED,_____ hereby assigns, conveys, sells and transfers unto_____

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

_____

_____

(Please print or typewrite name and address of Assignee)

_____Common Units representing limited partner interests evidenced by this Certificate, subject to the Partnership Agreement, and does hereby irrevocably constitute and appoint _____ as its attorney-in-fact with full power of substitution to transfer the same on the books of Inergy, L.P.

Date:_____

NOTE: The signature to any endorsement hereon must correspond with the name as written upon the face of this Certificate in every particular, without alteration, enlargement or change.

SIGNATURE(S) MUST BE GUARANTEED BY A MEMBER FIRM OF THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. OR BY A COMMERCIAL BANK OR TRUST COMPANY

_____
(Signature)

_____
SIGNATURE(S) GUARANTEED

_____
(Signature)

No transfer of the Common Units evidenced hereby will be registered on the books of the Partnership, unless the Certificate evidencing the Common Units to be transferred is surrendered for registration or transfer and an Application for Transfer of Common Units has been executed by a transferee either (a) on the form set forth below or (b) on a separate application that the Partnership will furnish on request without charge. A transferor of the Common Units shall have no duty to the transferee with respect to execution of the transfer application in order for such transferee to obtain registration of the transfer of the Common Units.

APPLICATION FOR TRANSFER OF COMMON UNITS

The undersigned ("Assignee") hereby applies for transfer to the name of the Assignee of the Common Units evidenced hereby.

The Assignee (a) requests admission as a Substituted Limited Partner, (b) agrees to comply with and be bound by, and hereby executes, the Amended and Restated Agreement of Limited Partnership of Inergy, L.P. (the "Partnership"), as amended, supplemented or restated to the date hereof (the "Partnership Agreement"), (c) represents and warrants that the Assignee has all right, power and authority and, if an individual, the capacity to enter into the Partnership Agreement, (d) appoints the Managing General Partner of the Partnership and, if a Liquidator shall be appointed, the Liquidator of the Partnership as the Assignee's attorney-in-fact to execute, swear to, acknowledge and file any document, including, without limitation, the Partnership Agreement and any amendment thereto and the Certificate of Limited Partnership of the Partnership and any amendment thereto, necessary or appropriate for the Assignee's admission as a Substituted Limited Partner and as a party to the Partnership Agreement, (e) gives the powers of attorney provided for in the Partnership Agreement, and (f) gives the consents and approvals and makes the waivers contained in the Partnership Agreement. Capitalized terms not defined herein have the meanings assigned to such terms in the Partnership Agreement.

Date:_____

_____
Social Security or other identifying number of Assignee

_____
Signature of Assignee

_____
Purchase Price including commissions, if any

_____
Name and Address of Assignee

Type of Entity (check one):
[ ] Individual [ ] Partnership [ ] Corporation
[ ] Trust [ ] Other (specify)_____

Nationality (check one):
[ ] U.S. Citizen, Resident or Domestic Entity

[ ] Foreign Corporation [ ] Non-resident Alien

If the U.S. Citizen, Resident or Domestic Entity box is checked, the following certification must be completed.

Under Section 1445(e) of the Internal Revenue Code of 1986, as amended (the "Code"), the Partnership must withhold tax with respect to certain transfers of property if a holder of an interest in the Partnership is a foreign person. To inform the Partnership that no withholding is required with respect to the undersigned interestholder's interest in it, the undersigned hereby certifies the following (or, if applicable, certifies the following on behalf of the interestholder).

Complete either A or B:

A. Individual Interestholder

1. I am not a non-resident alien for purposes of U.S. Income taxation.
2. My U.S. taxpayer identification number (social security number) is _____
3. My home address is _____

B. Partnership, Corporation or other Interestholder

1. _____ is not a foreign corporation, foreign partnership,
(Name of Interestholder)
foreign trust or foreign estate (as those terms are defined in the Code and Treasury Regulations).
2. The interestholder's U.S. employer identification number is _____
3. The interestholder's office address and place of incorporation (if applicable is) _____

The interestholder agrees to notify the Partnership within sixty (60) days of the date the interestholder becomes a foreign person.

The interestholder understands that this certificate may be disclosed to the Internal Revenue Service by the Partnership and that any false statement contained herein could be punishable by fine, imprisonment or both.

Under penalties of perjury, I declare that I have examined this certification and to the best of my knowledge and belief it is true, correct and complete and, if applicable, I further declare that I have authority to sign this document on behalf of

_____

Name of Interestholder

_____

Signature and Date

_____

Title (if applicable)

Note: If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee holder or an agent of any of the foregoing, and is holding for the account of any other person, this application should be completed by an officer thereof or, in the case of a broker or dealer, by a registered representative who is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or, in the case of any other nominee holder, a person performing a similar function. If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee owner or an agent of any of the foregoing, the above certification as to any person for whom the Assignee will hold the Common Units shall be made to the best of the Assignee's knowledge.

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EXHIBIT 4.3
SPECIMEN

CERTIFICATE EVIDENCING COMMON UNITS
CERTIFICATE NO. REPRESENTING LIMITED PARTNERSHIP INTERESTS IN COMMON UNITS
INERGY, L.P.

In accordance with Section 4.1 of the Amended and Restated Agreement of Limited Partnership of Inergy, L.P., as amended, supplemented or restated from time to time (the "Partnership Agreement"), Inergy, L.P., a Delaware limited partnership (the "Partnership"), hereby certifies that

(the "Holder") is the registered owner of COMMON UNITS

representing limited partner interests in the Partnership (the "Common Units") transferable on the books of the Partnership, in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed and accompanied by a properly executed application for transfer of the Common Units represented by this Certificate. The rights, preferences and limitations of the Common Units are set forth in, and this Certificate and the Common Units represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Partnership Agreement. Copies of the Partnership Agreement are on file at, and will be furnished without charge on delivery of written request to the Partnership at, the principal office of the Partnership located at 1101 Walnut, Suite 1500, Kansas City, Missouri 64106. Capitalized terms used herein but not defined shall have the meanings given them in the Partnership Agreement.

The Holder, by accepting this Certificate, is deemed to have (i) requested admission as, and agreed to become, a Limited Partner and to have agreed to comply with and be bound by and to have executed the Partnership Agreement, (ii) represented and warranted that the Holder has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (iii) granted the powers of attorney provided for in the Partnership Agreement and (iv) made the waivers and given the consents and approvals contained in the Partnership Agreement.

This Certificate shall not be valid for any purpose unless it has been countersigned and registered by the Transfer Agent and Registrar.

Dated:

Inergy, L.P.

By: Inergy GP, LLC
its General Partner

By:_____
President

By:_____
Secretary

COUNTERSIGNED AND REGISTERED:
[Transfer Agent],

TRANSFER AGENT AND REGISTRAR

By:_____
Authorized Signature

EXHIBIT 5.1

OPINION OF VINSON & ELKINS

May 4, 2001

Inergy, L.P.
1101 Walnut, Suite 1500
Kansas City, Missouri 64106

Ladies and Gentlemen:

We have acted as counsel to Inergy, L.P., a Delaware limited partnership (the "Partnership"), Inergy GP, LLC, a Delaware limited liability company and the managing general partner of the Partnership (the "Managing General Partner"), and Inergy Holdings, LLC, a Delaware limited liability company and the non-managing general partner of the Partnership (the "Non-Managing General Partner" and collectively with the Managing General Partner, the "General Partners"), in connection with the registration under the Securities Act of 1933, as amended (the "Securities Act") of the offering and sale of up to an aggregate of 1,725,000 common units representing limited partner interests in the Partnership (the "Common Units").

As the basis for the opinion hereinafter expressed, we examined such statutes, including the Delaware Uniform Revised Limited Partnership Act, corporate records and documents, certificates of corporate and public officials, and other instruments and documents as we deemed necessary or advisable for the purposes of this opinion. In such examination, we assumed the authenticity of all documents submitted to me as originals and the conformity with the original documents of all documents submitted to me as copies.

Based on the foregoing and on such legal considerations as we deem relevant, we are of the opinion that:

1. The Partnership has been duly formed and is validly existing as a limited partnership under the Delaware Revised Uniform Limited Partnership Act.

2. The Common Units, when issued and paid for under the Partnership's Registration Statement on Form S-1, as amended, relating to the Common Units, will be duly authorized, validly issued, fully paid and nonassessable, except as such nonassessability may be affected by the matters below:

(a) If a court were to determine that the right or exercise of the right under the Amended and Restated Agreement of Limited Partnership of the Partnership (the "Partnership Agreement") by the holders of Common Units and subordinated units (the "Limited Partners") of the Partnership as a group

(i) to remove or replace the General Partners;

(ii) to approve certain amendments to the Partnership Agreement; or

(iii) to take certain other actions under the Partnership Agreement

constitutes "participation in the control" of the Partnership's business for the purposes of the Delaware Act, then the Limited Partners could be held personally liable for the Partnership's obligations under the laws of Delaware, to the same extent as the General Partners with respect to persons who transact business with the Partnership reasonably believing, based on the conduct of any of the Limited Partners, that such Limited Partner is a general partner.

(b) Section 17-607 of the Delaware Act provides that a limited partner who receives a distribution and knew at the time of the distribution that it was made in violation of the Delaware Act shall be liable to the limited partnership for three years for the amount of the distribution.

We hereby consent to the use of this opinion as an exhibit to the Registration Statement and to the reference to me under the caption "Experts" in the Prospectus.

Very truly yours,

/s/ VINSON & ELKINS L.L.P.

VINSON & ELKINS L.L.P.

EXHIBIT 10.2

# ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT is made and entered into this 20th day of May, 2000 by and among COUNTRY GAS CO., an Illinois corporation (hereinafter referred to as "SELLER"), LEONARD PETERSOHN, ARLENE PETERSOHN, the EUGENE N. GARRISON REVOCABLE TRUST, u/t/d September 9, 1999 and the BETTY J. GARRISON REVOCABLE TRUST, u/t/d September 9, 1999 (hereinafter referred to as the "Shareholders"), EUGENE N. GARRISON and BETTY J. GARRISON, and Inergy Partners, LLC, a Delaware limited liability company (hereinafter referred to as "BUYER").

## RECITALS

A. SELLER desires to sell to BUYER substantially all of the assets of SELLER related to SELLER's business upon the terms and conditions hereinafter set forth; and

B. BUYER desires to acquire such assets from SELLER upon the terms and conditions hereinafter set forth.

## AGREEMENT

In consideration of the above premises, the mutual agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

## ARTICLE 1. DEFINITIONS

In addition to terms defined elsewhere in this Agreement, the following terms shall have the meanings assigned to them herein, unless the context otherwise dictates, both for purposes of this Agreement and all Schedules and Exhibits hereto:

"Accounts Receivable" shall have the meaning set forth in Section 3.1(c).

"Adverse Effect" shall mean a single event, occurrence or fact or related series of events, occurrences or facts having an adverse effect on the Assets, Business, operations, prospects or financial condition of the Business.

"Affiliate" shall mean "affiliate" and "associate" as such terms are defined in Rule 405 of the Securities Act of 1933.

"Agreement" or "this Agreement" shall mean this Asset Purchase Agreement, as amended from time to time by the parties hereto, together with all Schedules and Exhibits hereto.

"Assets" shall mean the entire right, title and interest in and to all of the assets and properties described on Schedule 2.1 hereto, which Schedule 2.1 specifies the assets and properties that are owned by SELLER. It is the parties' intent that BUYER acquire all of the assets and properties owned or used by SELLER in connection with or arising out of the Business of SELLER of every type and description, tangible and intangible, wherever located

and whether or not reflected on the books and records of SELLER, but in no event is BUYER acquiring the Excluded Assets.

"Assumed Contracts" shall mean the Contracts and Other Agreements set forth on Schedules 2.1B, 2.1D and Part A of Schedule 2.1F and those of the type described on Part B of Schedule 2.1F that do not violate any other provisions of this Agreement.

"Balance Sheet" shall mean the balance sheet of Country Gas Co. dated May 31, 1999.

"Balance Sheet Date" shall mean the date of the Balance Sheet.

"Benefit Plans" shall have the meaning set forth in Section 6.18 hereof.

"Business" shall mean the business of (i) marketing and distributing propane gas; and (ii) selling, servicing and installing parts, appliances and supplies related thereto on a retail basis.

"Claim Notice" shall have the meaning set forth in Section 12.4 hereof.

"Closing" shall mean the transfer by SELLER to BUYER of SELLER's Assets and by BUYER to SELLER of the consideration set forth herein and the consummation of the transactions contemplated by this Agreement.

"Closing Date" shall be the time of the Closing established pursuant to Section 4.1 hereof.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Contracts and Other Agreements" shall mean all contracts, agreements, understandings, indentures, notes, bonds, loans, instruments, leases, subleases, mortgages, franchises, licenses, commitments or binding arrangements, express or implied, oral or written, whether or not enforceable.

"Country Enterprises" shall mean Country Enterprises, an Illinois general partnership of which Leonard Petersohn, Arlene Petersohn and the Garrison Revocable Living Trust are the partners.

"Cut-Off Date" shall have the meaning set forth in Section 15.1 hereof.

"Damages" shall have the meaning set forth in Section 12.1 hereof.

"Documents and Other Papers" shall mean and include any document, agreement, instrument, certificate, notice, consent, affidavit, letter, telegram, telex, statement, file, computer disk, microfiche or other document in electronic format, schedule, exhibit or any other paper whatsoever.

"ERISA" shall have the meaning set forth in Section 6.18 hereof.

"Excluded Assets" shall have the meaning set forth in Section 2.2 hereof.

"Facility" shall have the meaning set forth in Section 6.21 hereof.

"GAAP" shall mean generally accepted accounting principles consistently applied.

"Hazardous Substances" shall have the meaning set forth in Section 6.21 hereof.

"HSR Act" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Indemnified Party" shall have the meaning set forth in Section 12.4 hereof.

"Indemnifying Party" shall have the meaning set forth in Section 12.4 hereof.

"Knowledge" shall encompass all facts and information which are either within the actual knowledge of a person or that should have been known to such person in the exercise of reasonable care and after due inquiry.

"Lien" shall mean any lien, pledge, claim, charge, security interest or encumbrance of any nature whatsoever.

"Liabilities" shall have the meaning set forth in Section 4.2(b) hereof.

"Material Adverse Effect" shall mean with respect to the consequences of any fact or circumstance (including the occurrence or non-occurrence of any event) to SELLER, that such fact or circumstance has caused, is causing or will cause, directly, indirectly or consequentially, singly or in the aggregate with other facts and circumstances, any Damages in excess of One Hundred Thousand Dollars ($100,000); provided that the foregoing shall not include the consequences of any fact or circumstance attributable to (i) factors generally affecting the industry in which the Business of SELLER operates, (ii) general national, regional or local economic or financial conditions, or (iii) changes in governmental or legislative laws, rules or regulations.

"Material Contract" shall mean and involve any Contracts and Other Agreements, if it involves, relates to or affects the Business or the Assets or both and if any one or more of the following applies: (i) it involves, or may reasonably be expected to involve, the payment or receipt of Ten Thousand Dollars ($10,000) or more (whether in cash or in goods or services of an equivalent value) over its term, including renewal options, or Five Thousand Dollars ($5,000) during any one year or (ii) it imposes restrictions on the conduct of the Business, or (iii) it was not made in the ordinary and usual course of the Business consistent with past practice, or (iv) it is a continuing contract for the purchase, sale or distribution of materials, supplies, equipment, products or services, or (v) it burdens, benefits, or imposes liabilities upon, or otherwise with respect to, any real property owned or leased by SELLER, or (vi) it is not cancelable on notice of not longer than thirty (30) days and without liability, penalty or premium, or (vii) the present or prospective Business is dependent upon it, or (viii) it involves the future purchase of propane at a fixed price.

"Noncompetition Agreements" shall have the meaning set forth in Section 3.2 hereof.

"Notice Period" shall have the meaning set forth in Section 12.4 hereof.

"Organizational Documents" of an entity shall mean, if a corporation, its articles of incorporation or certificate of incorporation, as the case may be, and Bylaws, and if a limited liability company, its certificate of formation and limited liability company agreement, and any other documents, agreements or instruments relating to the creation, formation, organization, governance or ownership of such entity.

"Parts and Appliances Inventory" shall have the meaning set forth in Section 3.1(b) hereof.

"Permitted Encumbrances" shall have the meaning set forth in Section 6.10 hereof.

"Person" means a natural person, partnership, limited partnership, corporation, limited liability company, trust, government, government agency and any other legal entity.

"Preferred Interest" shall have the meaning set forth in the amendment to the limited liability company agreement of BUYER referred to in Section 11.4 hereof.

"Propane Inventory" shall have the meaning set forth in Section 3.1(a) hereof.

"Purchase Price" shall have the meaning set forth in Section 3.1 hereof.

"Real Property" shall have the meaning set forth in Section 6.10 hereof.

"Release" shall have the meaning set forth in Section 6.22 hereof.

"Retained Liabilities" shall have the meaning set forth in Article 5 hereof.

"Supplemental Information" shall have the meaning set forth in Section 9.11 hereof.

## ARTICLE 2. PURCHASE AND SALE OF ASSETS

2.1 Assets. Subject to the terms and conditions hereof and subject to the representations and warranties made herein and except as otherwise provided in Section 2.2, at the Closing SELLER shall validly sell, assign, transfer, grant, bargain, deliver and convey to BUYER (or to one or more of its designees) the Assets.

2.2 Excluded Assets. Anything in Section 2.1 to the contrary notwithstanding, the assets listed or described on Schedule 2.2 shall not be transferred to BUYER (the "Excluded Assets").

2.3 Non-Assignable Contracts. This Agreement and any document delivered hereunder shall not constitute an assignment or an attempted assignment by SELLER of any right contemplated to be assigned to BUYER hereunder:

(a) Which is not assignable by SELLER without the consent of a third party if such consent has not been obtained and such assignment or attempted assignment would constitute a breach thereof; or

(b) If the remedies for the enforcement or any other particular provisions thereof available to SELLER would not pass to BUYER.

SELLER shall use all efforts to obtain such consents of third parties as may be necessary for the assignment of such right by SELLER. To the extent that such right of SELLER is not assignable or where consents to the assignment thereof cannot be obtained as herein provided, SELLER shall, at the Closing, assign to BUYER the full benefit thereof (which shall be deemed to be Assets) and, at BUYER's option, either (i) grant to BUYER an irrevocable power of attorney to perform SELLER's covenants and obligations under such rights in respect of the period after the Closing Date, and to enforce SELLER's rights thereunder in the name of SELLER but for the benefit of BUYER, or (ii) continue to perform its covenants and obligations under such rights and SELLER shall take or cause to be taken such action in its name or otherwise as BUYER may require so as to provide BUYER with the benefits thereof and to effect collection of money or other consideration to become due and payable under such items and SELLER shall promptly pay over to BUYER money received by SELLER in respect of all of the foregoing items.

## ARTICLE 3. PURCHASE PRICE

3.1 Aggregate Purchase Price. The aggregate purchase price (the "Purchase Price") for the Assets and the Noncompetition Agreements is Seventeen Million Thirty-six Thousand Dollars ($17,036,000), plus an amount equal to the sum of the following:

(a) The inventory of propane gas (i) located in SELLER's bulk storage tanks and bobtails on the Closing Date and useable and saleable in the ordinary course of the Business of SELLER, the amount of such inventory to be based upon a reading from the sight gauge located on such bulk storage tanks and bobtails taken jointly by a representative of BUYER and a representative of SELLER on or as soon after the Closing Date as practicable, but in any event within five (5) days after the Closing Date, and priced based upon the lowest wholesale delivered price at which SELLER could purchase propane on the Closing Date and (ii) owned by SELLER and stored in third party storage facilities, and priced based upon the lower of actual cost or market price at such storage facility (the "Propane Inventory");

(b) The inventory of parts and appliances of SELLER on the Closing Date usable and saleable in the ordinary course of the Business of SELLER, with the amount of such inventory to be based upon a physical inventory taken jointly by a representative of BUYER and a representative of SELLER on or as soon after the Closing Date as practicable, but in any event within thirty (30) days after the Closing

Date, and priced based upon the average cost method for inventory regularly employed by SELLER in its inventory accounting practices (the "Parts and Appliances Inventory");

(c) Accounts receivable arising from the Business of SELLER and owned by SELLER as of the Closing Date that are actually collected within one hundred twenty (120) days following the Closing Date (the "Accounts Receivable");

(d) The capital expenditures set forth in Schedule 3.1(d) at the total amount shown therein (the "Capital Expenditures");

(e) The amount of SELLER's propane deposits on account with suppliers on the Closing Date on all of SELLER's outstanding contracts for the purchase of propane at a fixed price (the "Propane Deposits"); and

the Purchase Price shall be decreased by an amount equal to the following:

(y) An amount equal to the sum of the customer deposits held by SELLER on the Closing Date as determined from the books and records of SELLER on the Closing Date (the "Customer Deposits"); and

(z) An amount equal to the accrued but unused vacation time and sick pay to which employees hired by BUYER will be entitled as of the Closing Date determined in accordance with Section 9.15(a) below, but only with respect to any employee of SELLER who is employed by BUYER but whose employment with BUYER is terminated prior to August 1, 2000 for any reason whatsoever.

3.2 Noncompete Payments. At the Closing on the Closing Date, SELLER, each of the Shareholders, Eugene Garrison and Betty Garrison will enter into a noncompetition agreement with BUYER in the form of Exhibit A attached hereto (the "Noncompetition Agreements"), pursuant to which SELLER, the Shareholders, Eugene Garrison and Betty Garrison will receive a total of $96,000 in consideration for such noncompetition agreements. SELLER, the Shareholders, Eugene Garrison and Betty Garrison each hereby agree that such $96,000 is included in the Purchase Price and will be paid as set forth in such Noncompetition Agreements.

3.3 Allocation of Purchase Price. The parties agree to allocate the Purchase Price to the Assets and the Noncompetition Agreements in the manner provided on Schedule 3.3 hereto.

## ARTICLE 4. CLOSING

4.1 Closing Date. The Closing shall take place at such place and time as established by BUYER upon at least three (3) business days advance notice to SELLER, but in no event later than May 31, 2000, unless the parties agree to a later date (such time of Closing is herein called the "Closing Date").

4.2 Transfer of Assets. At the Closing:

(a) SELLER shall sell, transfer, assign, grant, bargain, deliver and convey to BUYER (or one or more of its designees) all right, title and interest in and to SELLER's Assets, free and clear of any and all Liens. The transactions contemplated by this Section 4.2(a) shall be effected or evidenced by delivery by SELLER to BUYER of bills of sale, assignments and other documents of transfer acceptable in form and substance to BUYER.

(b) BUYER shall assume the liabilities of SELLER under the Assumed Contracts to which SELLER is a party and such other liabilities of SELLER as BUYER may agree in writing to assume prior to the Closing (collectively, the "Liabilities"). Such assumption of the Liabilities shall be effected or evidenced by delivery by BUYER to SELLER of an appropriate written instrument or instruments of assumption and indemnification acceptable in form and substance to SELLER.

4.3 Payment of the Purchase Price. Subject to the terms and conditions of this Agreement, BUYER shall pay the Purchase Price, as determined pursuant to Section 3.1 above, as follows:

(a) At the Closing, delivering to SELLER, cash in the aggregate amount of Seven Million Nine Hundred Forty Thousand Dollars ($7,940,000), plus an amount equal to the Capital Expenditures as determined pursuant to Section 3.1(d) above, and minus an amount equal to the Customer Deposits as determined pursuant to Section 3.1(y) above;

(b) At the Closing, delivering to SELLER, a Preferred Interest in BUYER with an initial capital account balance equal, in the aggregate, to Nine Million Dollars ($9,000,000);

(c) At the Closing, delivering to SELLER, the Shareholders, Eugene Garrison and Betty Garrison cash in an aggregate amount of Sixty Thousand Dollars ($60,000) as set forth in the Noncompetition Agreements, and delivering to Leonard Petersohn the remaining Thirty-six Thousand Dollars ($36,000) in noncompete payments at the times and in the amounts set forth in his Noncompetition Agreement;

(d) At the Closing, assuming the Liabilities and only the Liabilities;

(e) Thirty (30) days after the Closing, delivering to SELLER, a check in an amount equal to the sum of (i) the Accounts Receivable of SELLER actually collected within the thirty (30) days following the Closing Date, (ii) the Propane Inventory of SELLER as determined pursuant to Section 3.1(a) above, (iii) the Parts and Appliances Inventory of SELLER as determined pursuant to Section 3.1(b) above, and (iv) the Propane Deposits as determined pursuant to Section 3.1(e) above, less any amounts paid by BUYER during the thirty (30) days following the Closing Date for amounts owing to employees under Section 3.1(z) hereof;

(f) Sixty (60) days after the Closing, delivering to SELLER, a check in an amount equal to the Accounts Receivable of SELLER actually collected between thirty (30) and sixty (60) days following the Closing Date, less any amounts paid by BUYER between thirty (30) and sixty (60) days following the Closing Date for amounts owing to employees under Section 3.1(z) hereof;

(g) Ninety (90) days after the Closing, delivering to SELLER, a check in an amount equal to the Accounts Receivable of SELLER actually collected between sixty (60) and ninety (90) days following the Closing Date; and

(h) One hundred twenty (120) days after the Closing, delivering to SELLER, a check in an amount equal to the Accounts Receivable of SELLER actually collected between ninety (90) and one hundred twenty (120) days following the Closing Date.

4.4 Sales and Transfer Taxes. SELLER shall be responsible for and agrees to pay when due all sales, use and transfer taxes arising out of the transfer of the Assets by SELLER and the other transactions contemplated hereunder.

## ARTICLE 5. LIABILITIES NOT ASSUMED BY BUYER

Anything in this Agreement to the contrary notwithstanding, SELLER shall be responsible for all of its liabilities and obligations not hereby expressly assumed by BUYER (the "Retained Liabilities"), and BUYER shall not assume, or in any way be liable or responsible for, any liabilities or obligations of SELLER, except the Liabilities. Without limiting the generality of the foregoing, BUYER shall not assume, or in any way be liable or responsible for, the following:

(a) Any liability or obligation of SELLER arising out of or in connection with the negotiation and preparation of this Agreement and the consummation and performance of the transactions contemplated hereby, whether or not such transactions are consummated, including, but not limited to, any tax liability so arising;

(b) Any liability or obligation of SELLER with respect to employment or consulting agreements, pension, profit-sharing, welfare or benefit plans, or amounts owing for commissions or compensation, termination, severance or other payments to present or former employees, officers, directors or shareholders of SELLER;

(c) Any liability or obligation of SELLER, or any consolidated group of which SELLER is a member, for any foreign, federal, state, county or local taxes of any kind or nature, or any interest or penalties thereon, including without limitation any sales or use tax obligations, applicable to the sale and purchase of the Business or the Assets as contemplated by this Agreement, it being hereby agreed by the parties hereto that such obligations shall be paid by SELLER;

(d) Any liability (other than with respect to the Liabilities) to which any of the parties may become subject as a result of the fact that the transactions contemplated by this Agreement are being effected without compliance with the

provisions of any Bulk Transfer Law or any similar statute as enacted in any jurisdiction, domestic or foreign;

(e) Any liability or obligation under the Consolidated Omnibus Budget Reconciliation Act, as amended, and the Tax Reform Act of 1986, with respect to employees of SELLER (whether salary, hourly or otherwise) who are not employed by BUYER in a position and at a base salary substantially equivalent to such employee's present position and base salary;

(f) Any liability with respect to any dispute, claim, complaint or legal action arising between the shareholders of SELLER or between a shareholder of SELLER and SELLER, in any way resulting from or claimed to be resulting from the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby or otherwise; or

(g) any and all amounts for accrued and unused vacation time and sick pay owed to employees for vacation time and sick pay accrued and unused up to and including March 31, 2000, which amounts shall be paid to, and proof of payment submitted to BUYER, no later than ten (10) days following the Closing. All such amounts and any dispute or disputes arising from such accrued and unused vacation time and sick pay shall be treated as Damages, and shall be subject to SELLER's indemnity under Article 12 hereof.

## ARTICLE 6. REPRESENTATIONS AND WARRANTIES OF SELLER AND SHAREHOLDERS

For purposes of this Agreement, any matters within the Knowledge of the officers, directors, employees and shareholders of SELLER shall be imputed and deemed to be within the Knowledge of SELLER. SELLER and each of the Shareholders hereby, jointly and severally, represents and warrants to BUYER and agrees both as of the date hereof and as of the Closing Date as follows:

6.1 Corporate Organization. SELLER is a corporation duly organized, validly existing and in good standing under the laws of the State of Illinois, and has all requisite power and authority to own, operate and lease its Assets and to conduct its Business as and where such Business is now conducted. SELLER does not have any subsidiary and does not hold any equity or other ownership interest in any other entity.

6.2 Due Qualification. SELLER is duly qualified to do business and is in good standing under the laws of each jurisdiction in which the nature of its Business or of the properties owned or leased by it makes such qualification necessary. A list of such jurisdictions is attached hereto as Schedule 6.2.

6.3 Authority; Binding Effect. SELLER and each of the Shareholders have the right, power, authority, and capacity to execute and deliver this Agreement and all other agreements contemplated hereby, to perform the obligations hereunder and thereunder on its part to be performed and to consummate the transactions contemplated hereby and thereby. The execution and delivery by SELLER and each of the Shareholders of this Agreement and all other

agreements and documents contemplated hereby and the performance by SELLER and each of the Shareholders of their respective obligations to be performed hereunder and thereunder have been duly approved by all necessary action, and no further approvals are required by the officers, directors or shareholders of SELLER in connection therewith. This Agreement constitutes, and when duly executed and delivered, all other agreements contemplated hereby will constitute, the legal, valid, and binding obligations of SELLER and each of the Shareholders, enforceable against such parties in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, or other similar laws relating to or affecting creditors' rights generally and to general equity principles (whether such enforceability is considered in a proceeding at law or in equity).

6.4 No Creation of Violation, Default, Breach or Encumbrance. The execution, delivery and performance of this Agreement by SELLER and each of the Shareholders does not, and the consummation by such Person of the transactions contemplated hereby will not (i) violate (A) any statute, rule or regulation to which such Person is subject or (B) any order, writ, injunction, decree, judgment or ruling of any court, administrative agency or governmental body to which such Person is subject, (ii) conflict with or violate any provision of the Organizational Documents of SELLER, or (iii) assuming receipt of the consents set forth in Schedule 6.4 hereto, require the consent of any Person or result in the breach of or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, violate, conflict with, breach or give rise to any right of termination, cancellation or acceleration of, or to a loss of benefit to which SELLER is entitled, under (A) any mortgage, indenture, note or other instrument or obligation for the payment of money or any contract, agreement, lease or license, in each case, to which SELLER is a party, or (B) any governmental licenses, authorizations, permits, consents or approvals required for SELLER to own, license or lease and operate its properties or to conduct its Business as presently conducted by it.

6.5 No Present Default. Except as disclosed in Schedule 6.5 hereto, all contracts, agreements, leases and licenses to which SELLER is a party are valid and in full force and effect and constitute legal, valid and binding obligations of SELLER. Except as disclosed in Schedule 6.5 hereto, SELLER is not in default under or in breach of any mortgage, indenture, note or other instrument or obligation for the payment of money or any contract, agreement, lease or license, and to the Knowledge of SELLER, no other parties to any such mortgage, indenture, note, instrument, obligation, contract, agreement, lease or license is in default thereunder or in breach thereof; no event has occurred which, with the passage of time or the giving of notice, would constitute such a breach or default by SELLER or, to the Knowledge of SELLER, by any such other party; no claim of default thereunder has been asserted or, to the Knowledge of SELLER, threatened; and neither SELLER nor, to the Knowledge of SELLER, any other party thereto, is seeking the renegotiation thereof.

6.6 Approvals, Licenses and Authorizations.

(a) No (i) order, license, consent, waiver, authorization or approval of, or (ii) exemption by, or (iii) giving of notice to, or (iv) registration with or the taking of any other action in respect of, any person not a party to this Agreement (including any federal, state, local, foreign or other governmental department, commission, board, bureau, agency or instrumentality, including, but not limited to, those such entities with

regulatory, oversight or licensing authority in any way dealing with or touching upon trucking or the hauling of propane), and no filing, recording, publication or registration in any public office or any other place, in each case is, necessary on behalf of SELLER (x) to authorize SELLER's execution, delivery and performance of this Agreement or any other agreement, document or instrument contemplated hereby to be executed and delivered by SELLER, (y) to authorize the consummation by SELLER of the transactions contemplated hereby or thereby, or (z) for the legality, validity, binding effect or enforceability with respect to SELLER of any of the foregoing.

(b) All licenses, permits, concessions, warrants, franchises and other governmental authorizations and approvals of all federal, state, local or foreign governmental or regulatory bodies required or necessary for SELLER to carry on its Business (including, but not limited to, the business of trucking or the hauling of propane) as and where presently conducted by it have been duly obtained and are in full force and effect and are set forth truly, correctly and completely on Schedule 6.6 hereto. There are no proceedings pending or, to the
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Knowledge of SELLER, threatened which are likely to result in the revocation, cancellation or suspension or any material modification of any thereof.

6.7 Compliance With Law. To the Knowledge of SELLER or the Shareholders,
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except as set forth on Schedule 6.7 hereto, SELLER is not in violation of any
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statute, law, rule or regulation, or any order, writ, injunction or decree of any court, administrative agency, governmental body or arbitration tribunal, to which it or any of the Assets is subject in connection with the operation of the Business of SELLER.

6.8 Financial Statements and Source of Revenue.
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(a) SELLER has delivered to BUYER the balance sheets of SELLER as of the Balance Sheet Date and as of the date that is one year prior to such Balance Sheet Date and the related statements of income, stockholder's equity and cash flows for the fiscal years then ended, and the notes thereto, together with the report (such report being a review report) of Stampler & Company, P.C., independent certified public accountants, thereon and the balance sheet of SELLER as of November 30, 1999 and the related statements of income, stockholder's equity and cash flows for the six (6)-month period then ended.

(b) The financial statements referred to in Section 6.8(a) above fairly present the financial position, results of operation and cash flows of SELLER as and at the relevant dates thereof and for the periods covered thereby in accordance with GAAP except to the extent variations from GAAP are specifically described on Schedule 6.8(b).
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(c) Except as set forth in the Balance Sheet or in the Schedules hereto, SELLER has no (i) liabilities or obligations, direct or contingent, accrued or otherwise, of a nature customarily reflected in financial statements in accordance with GAAP, except those incurred after the Balance Sheet Date in the ordinary course of business consistent with past practice and except lease and other contract obligations and other obligations or liabilities which are disclosed in this Agreement or the Schedules hereto, and (ii)

liabilities or obligations under any Benefit Plans except those incurred after the Balance Sheet Date in the ordinary course of business consistent with past practice and pursuant to the terms of the Benefit Plans described in Schedule 6.18(a).

(d) Schedule 6.8(d) sets forth the source of all of SELLER's revenue generated by the Assets as a percentage of SELLER's total revenue for the period May 31, 1998 through May 31, 1999 broken down into the following two (2) categories: (i) revenues generated from the distribution of propane gas, and (ii) all other revenues. Except as set forth in Schedule 6.8(d), there have been no decreases in the percentage of SELLER's revenue generated from the distribution of propane gas since the Balance Sheet Date.

6.9 Absence of Certain Events. Since the Balance Sheet Date, the Business of SELLER has been operated only in the ordinary and normal course of Business. Since the Balance Sheet Date:

(a) There has not been any adverse change in the financial condition, Assets, liabilities, results of operations, Business, prospects or condition, financial or otherwise, of SELLER and there has been no occurrence, circumstance or combination thereof which might be expected to result in any such adverse change thereto before or after the Closing Date;

(b) There has not been any damage, destruction or loss, whether covered by insurance or not, adversely affecting the Assets or the Business;

(c) There has not been any significant increase or decrease in the compensation payable to or to become payable by SELLER to any of the officers, key employees or agents of the Business, or change in any insurance, pension or other beneficial plan, payment or arrangement made to, for or with any of such officers, key employees or agents or any commission or bonus paid to any of such officers, key employees or agents other than increases and bonuses in the normal course of business, consistent with past practices and not exceeding in any one (1) case an increase and bonus aggregating more than five percent (5%) of such Person's compensation;

(d) SELLER has not (i) incurred any obligation or liability or assumed, guaranteed, endorsed or otherwise become responsible for the liabilities or obligations of any other person (whether absolute, accrued, contingent or otherwise), except normal trade or business obligations incurred in the ordinary course of business; (ii) discharged or satisfied any Lien or paid any obligation or liability (whether absolute, accrued, contingent or otherwise), other than in the ordinary course of business; (iii) mortgaged, pledged, created or subjected to a Lien any of the Assets; (iv) sold, assigned, transferred, leased or otherwise disposed of any of the Assets, except in the ordinary course of business, or acquired any Assets or any interest therein except in the ordinary course of business; (v) amended, terminated, waived or released any rights or canceled any debt owing to or claim by SELLER; (vi) transferred or granted any rights under any Contracts and Other Agreements, patents, inventions, trademarks, trade names, service marks or copyrights, or registrations or licenses thereof or applications therefor,

or with respect to any know-how or other proprietary or trade rights; (vii) modified or changed any Material Contracts; or (viii) entered into any transaction, contract or commitment which by reason of its size or otherwise was material to the Business of SELLER or financial condition of SELLER or which was not in the ordinary course of SELLER's Business as now conducted;

(e) SELLER has not terminated, discontinued, closed or disposed of any plant, facility or business operation related to the Business of SELLER, except a lawn care business known as "Turf Treat";

(f) SELLER has not made any investment of a capital nature affecting the Business, except as set forth in Schedule 3.1(d); and
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(g) There has not been any other event or condition of any character whatsoever which has had or may have an Adverse Effect on the Business of SELLER.

6.10 Title to and Condition of Properties.

(a) Schedule 2.1A hereto contains a true, correct and complete list of
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all real property related to the operation of the Business in which SELLER has any interest, including an accurate and legally sufficient description thereof and separately identifies all real property SELLER has ever had an interest in. Schedule 2.1B hereto contains a true, correct and complete list of all leases
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and subleases of real and mixed property related to the operation of the Business under which SELLER is a lessor or lessee (true, accurate and complete copies of which have previously been delivered to BUYER). SELLER has good, marketable and indefeasible fee simple title to all of its real properties, including but not limited to the real properties in which it has an interest as described on Schedule 2.1A hereto, and good, marketable and indefeasible title
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to all the leasehold estates created by the leases and subleases described on Schedule 2.1B hereto (such real properties and leasehold estates collectively
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referred to herein as the "Real Property"), all free and clear of Liens, easements, restrictions and reservations except only for those matters set forth on Schedule 6.10A hereto (such matters hereinafter referred to as "Permitted
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Encumbrances"). Without limiting the generality of the foregoing, as to leasehold estates under the leases and subleases of Real Property, SELLER has quiet and peaceable possession of each of the leased properties. All leases and subleases in which SELLER is a lessor or sublessor are in full force and effect, there is no default or event of default thereunder and the rent thereunder has not been prepaid for more than a one-month period. SELLER has and upon the transfer to BUYER as contemplated herein the BUYER has complete rights of ingress and egress to all of its real properties and to all its leasehold estates.

(b) A true, correct and complete list of all propane tanks and cylinders which are owned or serviced by SELLER and all other personal property included in the Assets having a fair market or book value per unit in excess of Two Hundred Fifty Dollars ($250) is included on Schedule 2.1C and a true,
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correct and complete list of all leases of personal property included in the Assets under which SELLER is a lessee or lessor involving any propane tank or cylinder or any other personal property having a fair

market or book value per unit in excess of Two Hundred Fifty Dollars ($250) is included on Schedule 2.1D (true, accurate and complete copies of which have previously been delivered to BUYER). All propane tanks used in the Business which have a capacity of at least one hundred twenty (120) gallons are under contract to customers or are physically located on the plant lot of one of SELLER's retail locations. SELLER has good and indefeasible title to (i) all of the personal property set forth on Schedule 2.1C and indicated as being owned by it, (ii) all of the Assets reflected in the financial statements of SELLER, and (iii) all Assets purported to have been acquired by SELLER after the date of such final statements, free and clear of all Liens, except for such Assets disposed of in the usual and ordinary course of business consistent with past practices, and all of such Assets are in SELLER's possession and control.

(c) The conduct of the Business of SELLER in the ordinary course is not dependent upon the right to use the property of others, except under valid and binding agreements identified on Schedule 6.10B hereto (true, accurate and complete copies of which have previously been delivered to BUYER). The Real Property and the improvements located thereon do not encroach upon the property of others and there are no encroachments onto the Real Property from the property of others. The Assets include all utility connections, and the right to use the same, necessary for the conduct of the Business in the ordinary course and said utilities are available under public rights of way or easements benefiting the Real Property.

(d) SELLER owns or has irrevocable rights to use and is transferring to BUYER hereunder all assets and property necessary for the conduct of SELLER's Business in the ordinary course.

(e) The Assets being transferred by SELLER, including, but not limited to, the machinery, equipment (including automobiles, trucks and heavy machinery), furniture and fixtures are in good operating condition and repair and of an appropriate character suitable for the uses for which intended in the operation of the Business of SELLER in the ordinary course.

(f) All inventories of SELLER are of a quality and quantity usable and salable in the ordinary course of SELLER's Business and in any event are not in excess of projected requirements over the next twelve (12) months, and the values at which such inventories are carried on the books of account fairly represent the value thereof, are not in excess of realizable value, and reflect the normal inventory valuation policy of SELLER.

(g) The accounts receivable of SELLER as shown on its books and records have arisen in the ordinary course of Business, represent valid and enforceable obligations owed to SELLER and are recorded as accounts receivable on the books of SELLER in accordance with GAAP and said accounts receivable (billed and unbilled) of SELLER (net of the reserve amount) will be fully paid in the ordinary course of Business of SELLER.

6.11 Intangible Properties.

(a) Schedule 2.1J hereto contains a list of all patents and applications therefor, trademarks, trademark registrations and applications therefor, trade names, service marks, copyrights, copyright registrations and applications therefor, both foreign and domestic, owned, possessed, used or held by or licensed to SELLER and related to the operation of SELLER's Business and SELLER owns the entire right, title and interest in and to the same, together with the goodwill associated therewith. SELLER has the right to use and is transferring to BUYER the unrestricted right to use trade secrets, know-how, formulae, technical processes and information, manufacturing, testing and operating techniques and procedures, all engineering data and plans and all other data and information used by SELLER in its Business or which is necessary for its Business as now conducted. None of the items in the categories listed in the preceding sentence of this Section 6.11 are subject to any pending or threatened challenge or infringement, and no impediment exists as to SELLER's exclusive ownership and use or validity of any such item. The foregoing constitutes all information necessary to permit the conduct from and after the Closing Date of the Business of SELLER, as such Business is and has normally been conducted. SELLER's trade name and trademark have not been registered with any governmental authority for the purpose of protecting the same. SELLER has no patents or copyrights. All licenses granted to SELLER by others which are essential or useful to any part of SELLER's Business are assignable to BUYER without consent of or notice to any person, without change in the terms or provisions thereof and without premium. SELLER has not infringed any unexpired patent, trademark, trademark registration, trade name, copyright, copyright registration, trade secret or any other proprietary or intellectual property right of any party in connection with the operation of its Business. SELLER has not given any indemnification for patent, trademark, service mark or copyright infringements.

(b) Schedule 2.1K hereto contains a list of SELLER's trade secrets related to the operation of its Business.

6.12 Contracts and Commitments.

(a) To the extent not listed on Schedule 2.1B or Schedule 2.1D, Schedule 2.1F hereto lists and briefly describes all Material Contracts related to the operation of the Business to which SELLER is a party or by which it or any of its assets or properties are bound (true and correct copies of each of which have been previously delivered to BUYER). Each Material Contract (whether disclosed on Schedule 2.1B, Schedule 2.1D, Schedule 2.1F or otherwise) is in full force and effect and embodies the complete understanding between the parties thereto with respect to the subject matter thereof. Except as expressly set forth on Schedule 2.1F, (i) there exists no material default or claim thereof by any party to any Material Contract, (ii) there are no facts or conditions which, if continued or noticed, would result in a default having an Adverse Effect under any Material Contract, (iii) SELLER has not received any notice that any person intends to cancel, modify or terminate any Material Contract, or to exercise or not to exercise any options thereunder, (iv) SELLER has not given any notice of cancellation, modification or termination of any Material Contract or of exercise or non-exercise of any options thereunder, (v) each Material Contract is a valid and binding agreement enforceable in accordance with its terms and (vi) no consent or approval of the other

parties to any Material Contract or any person pursuant to any Material Contract is required for the consummation of the transactions contemplated herein except as set forth on said Schedule, all of which have been obtained and are in full force and effect.

(b) SELLER is not a party to any contract for goods or services or any lease with any officer, director, shareholder, employee or agent of SELLER or any Affiliate of any such person.

(c) No purchase or sale commitments by SELLER are in excess of the normal, ordinary and usual requirements of the Business; SELLER has no outstanding power of attorney to any person, firm or corporation for any purpose whatsoever; SELLER is not restricted by law or agreement from carrying on its Business anywhere in the world; no officer, director, shareholder or Affiliate of SELLER has any financial interest, direct or indirect, in SELLER's suppliers or customers; except as set forth on Schedule 6.12(c) hereto, SELLER grants no discounts or rebates to its customers.

(d) SELLER has not made any other contract or agreement or granted any option to sell or otherwise transfer all or a significant part of the capital stock or Assets of SELLER.

(e) The Customer Deposits (as defined in Section 3.1(e)) are all amounts owed to customers of SELLER as a result of amounts held by SELLER as a customer deposit.

6.13 Insurance. A list of all policies of insurance and bonds of any type presently in force (including without limitation all occurrence based policies which provide coverage for events occurring in any of the five (5) years prior to the date hereof) with respect to the Business of SELLER, including, without limitation, those covering product liability claims and its Assets and operations, are set forth on Schedule 6.13 hereto. Such policies and bonds (a) provide coverage in such amounts, and against such losses and risks, as maintained by comparable businesses exercising prudent business practices to provide for the protection of the Business and Assets of SELLER, and (b) will be maintained in effect up to and including the Closing Date. SELLER will use its best efforts to obtain at BUYER's expense any additional insurance coverage which BUYER reasonably may request SELLER to carry until and including the Closing Date. SELLER will at the written request of BUYER cause the policies of insurance against fire and other casualty to property to be endorsed so as to include BUYER as a party insured thereunder as its interest may appear.

6.14 Tax Returns and Tax Audits.

(a) SELLER has filed with all appropriate governmental agencies all tax or information returns and tax reports required to be filed. All such returns and reports as are based on income have been prepared on the same basis as those of previous years; and all federal, state, foreign and local income, profits, franchise, sales, use, occupation, property, excise, ad valorem, employment or other taxes of SELLER, and all interest, penalties, assessments or deficiencies claimed to be due by any such taxing authority with respect to the foregoing have been fully paid.

(b) SELLER has made adequate accruals for the payment of all income, profits, franchise, property, sales, use, occupation, excise, ad valorem, employment and other taxes payable in respect of the period subsequent to the last period for which such taxes were paid, and, to the Knowledge of SELLER, SELLER has no liability for such taxes in excess of the amounts so paid or accruals so made.

(c) SELLER is not a party to any pending action or proceeding, nor, to the Knowledge of SELLER, is any action or proceeding threatened or contemplated by any governmental authority for assessment or collection of taxes or any other governmental charges, and no claim for assessment or collection of taxes or any other governmental charges has been asserted against SELLER, nor, to the Knowledge of SELLER, is the assertion of any such claim pending or contemplated nor is there any basis for any such claim. To the Knowledge of SELLER, there have been no reports prepared by any agent of the Internal Revenue Service with respect to any tax matter involving SELLER.

(d) SELLER has not and has not been required to file any tax returns with, or pay any taxes to, any foreign countries or political subdivisions thereof. SELLER has no powers of attorney in effect with respect to any tax matters involving it. At no time has a consent been filed by SELLER to have the provisions of section 341(f)(2) of the Code apply, nor has any agreement under section 341(f)(3) been filed by SELLER.

(e) SELLER agrees to provide to BUYER such other tax information with respect to the Business or the Assets of SELLER as BUYER may reasonably request.

(f) There are no taxes, fees or governmental charges (including without limitation sales taxes) payable by SELLER, any Shareholder or BUYER to any state, city or subdivision of either thereof as a result of the sale of the Assets to BUYER, other than state and local income taxes and sales taxes on vehicles transferred pursuant to the terms of this Agreement.

6.15 Books and Records.

(a) The books, records and accounts of SELLER (i) are in all respects true, complete and correct, (ii) have been maintained in accordance with good business practices on a basis consistent with prior years, (iii) stated in reasonable detail and accurately and fairly reflect the transactions and dispositions of the Assets by SELLER, and (iv) accurately and fairly reflect the depreciation associated with such Assets.

(b) SELLER has devised and maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; and (ii) transactions are recorded as necessary (A) to permit preparation of financial statements in conformity with GAAP or any other criteria applicable to such statements, and (B) to maintain accountability for the assets of SELLER.

6.16 Substantial Customers and Suppliers. Schedule 6.16 hereto sets forth a true and complete list of the fifteen (15) largest suppliers to SELLER (on the basis of cost) of goods or services purchased during the twelve months ended May 31, 1998 and 1999, as well as the dollar amounts of such goods or services purchased during such year. Schedule 6.16 hereto also sets forth a true and complete list of the fifteen largest customers of SELLER (in terms of sales) during the twelve months ended May 31, 1998 and 1999, as well as the dollar amounts of such sales during such year. Except to the extent set forth in Schedule 6.16, (i) since May 31, 1999, no such supplier or customer has ceased or reduced its sales to or purchases from SELLER, or given notice of an intention to cease or reduce such sales or purchases and (ii) neither SELLER nor any Shareholder has any reason to believe that any such supplier or customer would likely reduce or cease such sales or purchases as a result of the transactions contemplated herein or the ownership of the Business by BUYER or the MLP.

6.17 No Litigation, Adverse Events or Violations. There is no action, suit, claim or legal, administrative, arbitration, condemnation or other proceeding or governmental investigation or examination or any change in any zoning or building ordinance affecting any of the Assets, pending or, to the Knowledge of SELLER, threatened or injunction or orders entered, pending or threatened against SELLER or any business, properties or assets of SELLER, at law or in equity, before or by any federal, state, municipal or other governmental department, court, commission, board, bureau, agency or instrumentality, domestic or foreign, to restrain or prohibit the consummation of the transactions contemplated hereby or which, if determined adversely, is reasonably likely to result in (i) an Adverse Effect or (ii) materially and adversely affect the consummation of the transactions contemplated by this Agreement and there is no state of facts currently existing on which any of the foregoing might be based. SELLER has not violated and is not currently in violation of, any applicable federal, state, local or foreign law, ordinance (including any zoning or building ordinance), regulation, order, requirement, statute, rule, permit, concession, grant, franchise, license or other governmental authorization relating or applicable to it, to any of the Assets or the Business of SELLER.

6.18 Employee Benefit Plans; Labor Matters.

(a) Schedule 6.18(a) sets forth a true and complete list of any and all pension, retirement, savings, disability, medical, dental, health, life (including any individual life insurance policy as to which SELLER is the owner, beneficiary or both), death benefit, group insurance, profit sharing, deferred compensation, stock options or other stock incentive, bonus incentive, vacation pay, severance or termination pay, employment agreement, "cafeteria" or "flexible benefit" plan under Section 125 of the Code, or other employee or director benefit plan, trust, arrangement, contract, agreement, policy or commitment, whether formal or informal, written or oral, under which employees, former employees, directors or former directors of SELLER are entitled to participate by reason of their current or prior employment, or current or former directorship, with SELLER, including, without limitation, any "employee benefit plan" as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (i) to which SELLER is a party or a sponsor or a fiduciary thereof or (ii) with respect to which SELLER has made payments, contributions or commitments, or may otherwise have any liability (collectively, the "Benefit Plans"). With respect to the Benefit Plans, individually and in the aggregate, SELLER has made available to

BUYER, a true and correct copy of (a) the most recent annual report (Form 5500) filed with the IRS, if any, (b) such Benefit Plan, (c) any summary plan description relating to such Benefit Plan and (d) each trust agreement and group annuity contract, if any, relating to such Benefit Plan.

(b) The Benefit Plans have been operated and administered by SELLER in compliance with all applicable laws relating to employment or labor matters including ERISA and the Code. With respect to the Benefit Plans, no event has occurred which would subject SELLER to liability (except liability for benefits, claims and funding obligations payable in the ordinary course) under ERISA, the Code, or any other applicable statute, order or governmental rule or regulation. With respect to the Benefit Plans, individually and in the aggregate, there has been no prohibited transaction within the meaning of Section 406 of ERISA or Section 4975 of the Code which would result in liability to SELLER, and there has been no action, suit, grievance, arbitration or other claim with respect to the administration or investment of assets of the Benefit Plans (other than routine claims for benefits made in the ordinary course of plan administration) pending, or to the Knowledge of SELLER, threatened.

(c) All contributions to and payments under any Benefit Plan required in respect of periods ending on or before the Closing Date have been made by SELLER before the Closing Date. There is no agreement, contract or understanding between SELLER, on the one hand, and any employee, participant, labor union, collective bargaining unit or other person or entity, on the other hand, that requires or may require any amendment to any of the Benefit Plans.

(d) Each Benefit Plan that is intended to be tax qualified under Section 401(a) of the Code is tax qualified and each such Benefit Plan has received, or application has been made for, a favorable determination letter from the IRS stating that the Plan meets the requirements of the Code and that any trust or trusts associated with the Plan are tax exempt under Section 501(a) of the Code. Each Benefit Plan that is funded with a trust that is intended to be tax-exempt under Section 501(c)(9) of the Code is exempt from taxation and each such trust has received a letter from the IRS stating that the trust meets the requirements of the Code for tax-exempt status, within the immediately preceding three-year period.

(e) Neither SELLER nor any entity which together with SELLER would be deemed to be a "single employer" within the meaning of Section 414(b), (c), (m) or (o) of the Code now maintains or contributes to or, within the immediately preceding three (3) year period, has maintained or contributed to any defined plan that is (i) a benefit plan within the meaning of Section 3(35) of ERISA or (ii) subject to the requirements of Title IV of ERISA.

(f) SELLER is not a party to any collective bargaining or other labor union contract. There is no pending or threatened union organizational effort, labor dispute, strike or work stoppage relating to employees of SELLER and none has occurred within the immediately preceding five (5)-year period. Neither SELLER nor any representative or employee of SELLER has committed any unfair labor practice in

connection with the operation of the Business of SELLER, and there is no pending or threatened charge or complaint against SELLER by the National Labor Relations Board or any comparable state agency. SELLER is in compliance with all applicable laws respecting employment, wages, hours, safety and health and other terms and conditions of employment. SELLER has not experienced a "plant closing" or "mass layoff" within the meaning of the Worker Adjustment and Retraining Notification Act, 29 U.S.C. (S)(S) 2101 et seq. ("WARN") within the immediately preceding three (3)-year period.

(g) There are no written or oral employment agreements, employment contracts or understandings relating to employment (other than ordinary course arrangements for "at-will" employment) to which SELLER is a party (excluding any such agreements, contracts or understandings listed in Schedule 6.18(a) hereto).
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(h) The consummation of the transactions contemplated by this Agreement will not (either alone or upon the occurrence of any additional acts or events) result in any payment (whether of severance pay or increase in compensation, benefits or rights or otherwise) becoming due from SELLER to any of its employees, former employees, directors or former directors, nor accelerate the timing of any payment or the vesting of any rights or increase the amount of any compensation due to any such person. As a direct or indirect result of the consummation of the transactions contemplated hereby, SELLER will not be obligated to make a payment to any person that would not be deductible as a result of the application of Section 280G of the Code.

6.19 Business Names. SELLER does not do business in any state or country
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under any name other than "Country Gas Co.", "Country Gas Company", "Country Gas Company, Inc.", or "Budget Propane."

6.20 Brokers and Finders. No broker or finder has acted for SELLER or any
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of the Shareholders in connection with this Agreement and the transactions contemplated hereby; and no broker or finder is entitled to any brokerage or finder's fee or other commission in respect thereof based in any way on any agreement, arrangement or understanding made by SELLER or any Shareholder.

6.21 Environmental.
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(a) There has not been, as of the date hereof, any "release" (as defined in 42 U.S.C. (S)9601(22)) or threat of a "release" of any "hazardous substances" (as defined in 42 U.S.C. (S)9601(14)) or oil or other petroleum related products on or about any of the Real Property.

(b) SELLER has no contract, agreement or otherwise arranged for disposal or treatment, or arranged with a transporter for transport for disposal or treatment, of hazardous substances at any "facility" (as defined in 42 U.S.C. (S) 9601(9)) owned or operated by another Person, except for a contract with Crystal Lake Leasing for the disposal of vehicle oil.

(c) SELLER has not accepted any hazardous substances for transport to disposal or treatment facilities or sites selected by SELLER.

(d) To the Knowledge of SELLER and the Shareholders, the Real Property and the use thereof is in compliance with and SELLER is in compliance with all applicable laws, statutes, ordinances, rules and regulations of any governmental or quasi-governmental authority (federal, state or local) relating to environmental protection, underground storage tanks, toxic waste, hazardous waste, oil or hazardous substance handling, treatment, storage, disposal or transportation, or arranging therefor, respecting any products or materials previously or now located, delivered to or in transit to or from the Real Property, including without limitation the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, and the Superfund Amendments and Reauthorization Act of 1986.

(e) Schedule 6.21 attached hereto is a true, correct and complete list
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of all hazardous substances and hazardous wastes used or generated by SELLER in the conduct of the Business since January 1, 1970, and a list of the methods used by SELLER and any predecessor (including a list of past and present disposal and reclamation sites) to dispose thereof.

(f) The past disposal practices relating to hazardous substances and hazardous wastes of SELLER (and its predecessors, if any) have been accomplished in accordance with all applicable laws, rules, regulations and ordinances.

(g) SELLER has not been notified of nor is there any basis for any potential liability of SELLER with respect to the clean-up of any waste disposal site or facility. SELLER has no information to the effect that any site at which SELLER has disposed of hazardous substances or oil has been or is under investigation by any local, state or federal governmental body, authority or agency.

(h) SELLER has not received any notification of releases of hazardous substances or oil from any governmental or quasi-governmental agency.

6.22 Disclosure. To the best Knowledge of SELLER and each of the
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Shareholders, none of the financial statements referred to in Section 6.8 above, or any representation or warranty or other provision contained herein, or in any document, schedule or certificate delivered or to be delivered to BUYER in connection with this Agreement or the transactions contemplated hereby, or any written statement, certificate or other document furnished to BUYER in connection with this Agreement or the transactions contemplated hereby, contains or will contain any untrue statement of a fact or omits or will omit to state a fact necessary in order to make the statements contained therein not misleading. There is no fact which has not been disclosed in writing to BUYER by SELLER which would be material to a purchaser of the Assets.

## ARTICLE 7. REPRESENTATIONS AND WARRANTIES OF BUYER

BUYER represents and warrants to SELLER and the Shareholders, both as of the date hereof and as of the Closing Date, as follows:

7.1 Organization; Documentation. BUYER is a limited liability company duly
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organized, validly existing and in good standing under the laws of the State of Delaware,

and has the power and authority and all licenses, authorizations, permits, consents and approvals required to own, license or lease and operate its properties and to conduct its business as presently conducted by it.

7.2 Authority; Binding Effect. BUYER has the power and authority to execute and deliver this Agreement and all other agreements contemplated hereby, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by BUYER of this Agreement and all other agreements and documents contemplated hereby and the performance by BUYER of all obligations on its part to be performed hereunder and thereunder have been duly approved by all necessary action by BUYER, and no further approvals are required by the members of BUYER in connection therewith. This Agreement constitutes, and when duly executed and delivered by BUYER, all other agreements contemplated hereby will constitute, the legal, valid and binding obligation of BUYER, enforceable against BUYER, in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally and to general equity principles (whether such enforceability is considered in a proceeding at law or in equity).

7.3 No Creation of Violation, Default, Breach or Encumbrance. The execution and delivery by BUYER of this Agreement do not, and the consummation by BUYER of the transactions contemplated hereby will not (i) conflict with or violate any provision of the Organizational Documents of BUYER; (ii) assuming receipt of the consents set forth in Schedule 7.3 hereto, require the consent of any person or entity or result in the breach of or constitute a default under any contract, agreement, lease, license, mortgage, indenture, note or other instrument or obligation to which BUYER is a party, which could adversely affect the ability of BUYER to consummate the transactions contemplated by this Agreement; or (iii) violate (A) any statute, rule or regulation to which BUYER is subject or (B) any order, writ, injunction, decree, judgment or ruling of any court, administrative agency or governmental body to which BUYER is subject.

7.4 Brokers and Finders. No broker or finder has acted for BUYER in connection with this Agreement and the transactions contemplated hereby; and no broker or finder is entitled to any brokerage or finder's fee or other commission in respect thereof based in any way on any agreement, arrangement or understanding made by BUYER.

7.5 No Adverse Action. There are no actions, suits, claims or legal, administrative, arbitration or other proceedings or governmental investigations or examinations pending or threatened or injunctions or orders entered, pending or threatened against BUYER or its business, property or assets, at law or in equity, before or by any federal, state, municipal or other governmental department, court, commission, board, bureau, agency or instrumentality, domestic or foreign, to restrain or prohibit the consummation of the transactions contemplated hereby or to obtain damages which if decided adversely would adversely affect the ability of BUYER to consummate the transactions provided for in this Agreement.

7.6 Approvals, Licenses and Authorizations. No (i) order, license, consent, waiver, authorization or approval of, or (ii) exemption by, or (iii) giving of notice to, or (iv) registration with or the taking of any other action in respect of, any person not a party to this

Agreement or any federal, state, local, foreign or other governmental department, commission, board, bureau, agency or instrumentality; and no filing, recording, publication or registration in any public office or any other place in each case is now, or under existing law in the future will be, necessary on behalf of BUYER to authorize either the execution, delivery and performance of this Agreement or any other agreement, document or instrument contemplated hereby to be executed and delivered by them and the consummation by them of the transactions contemplated hereby or thereby, or for the legality, validity, binding effect or enforceability of any thereof.

## ARTICLE 8. ACCESS TO INFORMATION BY BUYER

8.1 Prior to Closing. Until the Closing, SELLER will furnish BUYER, its members, officers, employees, accountants, attorneys, representatives and agents, with all financial, operating, engineering and other data and information concerning the Business and the Assets of SELLER as BUYER shall from time to time request and will accord BUYER or its authorized representatives access to SELLER's Assets, books, records, contracts and documents (including tax returns filed and those in preparation) and will give such persons the opportunity to ask questions of, and receive answers from, appropriate representatives of SELLER with respect to the Business and the Assets of SELLER. No investigations by BUYER, or its members, employees, accountants, attorneys, representatives or agents, shall reduce or otherwise affect the obligation or liability of SELLER with respect to any representations, warranties, covenants or agreements made herein or in any other certificate, instrument, agreement or document executed and delivered in connection with this Agreement.

8.2 Public Information. Except as may be required by law, until the Closing or termination of this Agreement, SELLER and each Shareholder shall consult with BUYER and BUYER shall consult with SELLER and/or any Shareholder with respect to the content of any communications to be made to employees, customers, suppliers and others having dealings with SELLER as well as communications made to the public and to the form and content of any application or report to be made to any judicial or regulatory authority or other governmental authority which relates to the transactions contemplated by this Agreement.

8.3 Confidentiality. All information disclosed by any party to this Agreement to the other party, to the fullest extent reasonably possible, shall be kept confidential by such receiving party and shall not be used by such receiving party other than as herein contemplated or required by court order, except to the extent that such information was known by such receiving party when received or is or hereafter becomes legally obtainable from other sources or to the extent such duty as to confidentiality is waived by the other party. In the event of termination of this Agreement, each party hereto shall use all reasonable efforts to return, upon request, to the other parties, all documents (and reproductions thereof) received from such other parties (and in the case of reproductions, all such reproductions made by the receiving party) that include information not within the exceptions contained in the first sentence of this Section 8.3.

## ARTICLE 9. COVENANTS OF THE PARTIES

9.1 Actions Pending Closing. From the date hereof to the Closing, except as contemplated by this Agreement, SELLER and each Shareholder hereby represents, warrants,

covenants and agrees that, unless the prior written consent of BUYER is obtained, SELLER will not take any action which would result in a violation of any of the following proscriptions:

(a) The Business of SELLER will be carried on diligently and in the usual, regular and ordinary manner and SELLER will use its best efforts to preserve its present business organization intact, keep available the services of its present officers and employees and preserve its present relationships with Persons having business dealings with it, all solely as the same relates to the Business, and shall not make or institute any methods of manufacture, purchase, sale, lease, management, accounting or operation in or affecting the Business which are not usual and customary in the industry and consistent with SELLER's past practices;

(b) SELLER will not increase or decrease the compensation payable or to become payable to any officer or employee, or make any change in any insurance, pension or other employee benefit plan nor pay any commission or bonus to any of such officers or employees other than increases and bonuses in the normal course of business, consistent with past practices and not exceeding in any one (1) case an aggregate increase and bonus of more than five percent (5%) of such Person's compensation;

(c) SELLER will not make any change in its sales, credit or collection terms and conditions insofar as the same relates to its Business;

(d) SELLER will not, with respect to its Business, (i) incur any obligation or liability or assume, guarantee, endorse or otherwise become responsible for the liabilities or obligations of any other person (whether absolute, accrued, contingent or otherwise), except normal trade or business obligations incurred in the ordinary course of business; (ii) discharge or satisfy any Lien or pay any obligation or liability (whether absolute, accrued, contingent or otherwise), other than in the ordinary course of business; (iii) mortgage, pledge, create or subject to a Lien any of its Assets; (iv) sell, assign, transfer, lease or otherwise dispose of any of its Assets, except in the ordinary course of business, or acquire any assets or any interest therein except in the ordinary course of business; (v) amend, terminate, waive or release any rights or cancel any debt owing to or claim by SELLER; (vi) transfer or grant any rights under any Contracts and Other Agreements, patents, inventions, trademarks, trade names, service marks or copyrights, or registrations or licenses thereof or applications therefor, or with respect to any know-how or other proprietary or trade rights; (vii) modify or change any Material Contracts; or (viii) enter into any transaction, contract or commitment which by reason of its size or otherwise is material to its Business or financial condition or which is not in the ordinary course of SELLER's Business as now conducted;

(e) All tangible Assets of SELLER will be used, operated, maintained and repaired in a careful and efficient manner;

(f) SELLER will not do any act or omit to do any act, or permit any act or omission to act, which will cause a breach of any Material Contract;

(g) SELLER will not make any investment of a capital nature affecting its Business without the prior written consent of BUYER;

(h) SELLER will not permit any insurance policy naming it as a beneficiary or a loss payable payee and relating to its Assets or Business to be canceled, terminated or modified or any of the coverage thereunder to lapse unless simultaneously with such termination or cancellation, replacement policies providing substantially the same coverage are in full force and effect;

(i) SELLER will not fail to pay when due any of the following insofar as they relate to its Business: (i) any trade accounts payable, (ii) any payments required by any indentures, mortgages, financing agreements, loan agreements or similar agreements or (iii) taxes of whatever kind or nature or payments related thereto (including, without limitation, estimated payments and withholding remittances);

(j) SELLER will not, insofar as the same relates to its Business, maintain its books, accounts and records in any manner other than the usual, regular and ordinary manner, on a basis consistent with prior years and in a business- like manner in accordance with sound commercial practice, and will not fail to comply with any laws applicable to SELLER and to the conduct of its Business or to its Assets;

(k) SELLER will not enter into any transaction or make any agreement or commitment, and will take all such action or refrain from taking any action, and will not permit any event to occur, in each case which would result in any of its representations, warranties or covenants contained in this Agreement not being true and correct at and as of the Closing Date.

9.2 Information. SELLER and the Shareholders will promptly inform BUYER in writing of any litigation commenced against them or any of them in respect of (a) the transactions contemplated by this Agreement or (b) the Assets or Business of SELLER.

9.3 Further Assurances. SELLER shall execute and deliver or cause to be executed and delivered to BUYER such further instruments of transfer, assignment and conveyance and take such other action as BUYER may reasonably require to more effectively carry out the transfer of the Assets of SELLER and the consummation of the matters contemplated by this Agreement and to place BUYER in a legal position to be assured of the Assets BUYER is acquiring under this Agreement.

9.4 Compliance. SELLER and each Shareholder hereby agrees to and shall:

(a) cause all obligations imposed upon SELLER or any Shareholder in this Agreement to be duly complied with, and cause all conditions precedent to such obligations to be satisfied prior to the Cut-Off Date;

(b) obtain any and all consents, waivers, amendments, modifications, approvals, authorizations, notations and licenses necessary to the consummation of the transactions contemplated by this Agreement; and

(c) immediately notify BUYER of the occurrence of any event or the failure of any event to occur that results in a breach of any representation or warranty made by SELLER or any Shareholder in this Agreement or a failure by SELLER or any Shareholder to comply or be able to comply with any covenant, condition or agreement of such Person contained in this Agreement.

9.5 Delivery of Corporate Documents. At or prior to the Closing, SELLER shall deliver to BUYER all keys to any improvements located on any of the Real Property of SELLER, all Documents and Other Papers related to the operation of the Business or the Assets of SELLER, including without limitation all files relating to the receivables and payables (whether current or past), original certificates of letter patent, trademarks and copyrights, and hard copies of any books or records or Documents and Other Papers or information and data relating to the operation of the Business or the Assets of SELLER stored on any electronic media, including computers.

9.6 U.C.C. Search. Within thirty (30) days after the date hereof Uniform Commercial Code search reports (state and local, personal property and fixture) with respect to SELLER and any name under which SELLER is doing business, for all counties and states in which SELLER has any real or personal property or otherwise maintains a place of business or in which SELLER's Assets are located shall be provided to BUYER by SELLER.

9.7 Bulk Transfer Law. The parties hereto each waives compliance by the others with the provisions of the bulk transfer law of the State of Illinois and the provisions of any statute of any other state or jurisdiction regulating bulk sales or transfers which may be applicable to the sale of the Assets. SELLER agrees that it will, so far as is practicable, apply so much of the Purchase Price it receives under this Agreement as may be necessary to pay SELLER's Retained Liabilities which are then known to exist and to be due. SELLER hereby agrees to indemnify and hold BUYER and its members, officers, employees, agents, representatives, successors and assigns harmless from and against any and all losses, claims, damages, expenses and liabilities (including legal fees and expense) to which BUYER may become subject pursuant to the bulk transfer provisions of the Uniform Commercial Code of the State of Illinois or to any other such bulk transfer or sale statute with regard to the sale of the Assets contemplated by this Agreement.

9.8 Officers' Certificates. Any and all representations, warranties and written statements made by any officer, director, shareholder, representative or agent of SELLER to BUYER at or prior to the Closing in connection with the transactions contemplated by this Agreement (including the certificates to be delivered pursuant to Section 10.3 hereof) shall be deemed to have been made by SELLER. Any and all representations, warranties and written statements made by any member, representative or agent of BUYER to SELLER at or prior to the Closing in connection with the transactions contemplated by this Agreement (including the certificate delivered pursuant to Section 11.3 hereof) shall be deemed to have been made by BUYER.

9.9 Noncompetition Agreements. SELLER, each Shareholder, Eugene Garrison and Betty Garrison agree to and shall, at or prior to the Closing, enter into Noncompetition Agreements pursuant to Section 3.2.

9.10 No Shop. SELLER and each Shareholder agree that, from the date hereof and until the first to occur of the Closing or the termination of this Agreement in accordance with Article 15, neither SELLER, it officers and directors, nor any Shareholder will, and SELLER and each Shareholder will direct and use their best efforts to cause each of their respective representatives not to, initiate, solicit, encourage or respond to, directly or indirectly, any inquiries or the making or implementation of any proposal or offer (including any proposal or offer to the Shareholders) with respect to a merger, acquisition, consolidation or similar transaction involving, or any purchase of all or any significant portion of the assets or any equity securities of, SELLER (any such proposal or offer being an "Acquisition Proposal") or provide any Confidential Information respecting SELLER or BUYER or any affiliate of BUYER to, or engage in any activities or have any discussions or negotiations with, any person relating to an Acquisition Proposal or otherwise facilitate any effort or attempt to make or implement an Acquisition Proposal. SELLER and each Shareholder will: (a) immediately cease and cause to be terminated any existing activities, discussions or negotiations with any persons conducted heretofore with respect to any of the foregoing, and each will take the steps necessary to inform such persons of the obligations undertaken in this Section 9.10; and (b) notify BUYER immediately if any such inquiries or proposals are received by, any such information is requested from, or any such discussions or negotiations are sought to be initiated or continued with, SELLER or any Shareholder.

9.11 Supplemental Information. SELLER and each Shareholder agree that, with respect to the representations and warranties of such party contained in this Agreement, such party will have the continuing obligation until the Closing to promptly provide BUYER with such additional supplemental information (collectively, the "Supplemental Information"), in the form of (a) amendments to then existing Schedules or (b) additional Schedules, as would be necessary, in light of the circumstances, conditions, events and states of fact then known to SELLER or any Shareholder, to make each of those representations and warranties true and correct as of the Closing. For purposes only of determining whether the conditions to the obligations of BUYER have been satisfied, the Schedules to this Agreement as of the Closing Date will be deemed to be the Schedules to this Agreement as of the date hereof as amended or supplemented by the Supplemental Information provided to BUYER prior to the Closing pursuant to this Section 9.11; provided, however, that if the Supplemental Information so provided discloses the existence of circumstances, conditions, events or states of facts which, in any combination thereof, (i) have had a Material Adverse Effect on SELLER or, (ii) in the sole judgment of BUYER are having or will have a Material Adverse Effect on SELLER, BUYER will be entitled to terminate this Agreement by notice to SELLER; and provided, further, that if BUYER is entitled to terminate this Agreement as provided in this Section 9.11, but elects not to do so, BUYER will be entitled to be indemnified for all Damages that are attributable to the circumstances, conditions, events and states of fact first disclosed in the Supplemental Information.

9.12 Additional Financial Statements. SELLER agrees to furnish to BUYER as soon as available and in any event within thirty (30) days after the end of each month prior to the Closing, an unaudited balance sheet of SELLER as of the end of such month and the related statements of income or operations, cash flows and shareholders' or other owners' equity for such month and for the period of SELLER's fiscal year ended with that month, in each case (i) setting forth in comparative form the figures for the corresponding portion of SELLER's previous fiscal

year and (ii) prepared in accordance with GAAP (x) throughout the periods indicated (excepting footnotes) and (y) on the same basis as the financial statements referred to in Section 6.8 were prepared.

9.13 HSR Act. If BUYER determines that filings pursuant to and under the HSR Act are necessary or appropriate in connection with the consummation of the transactions contemplated by this Agreement and advises SELLER in writing of such determination, SELLER promptly will compile and file (or will cause its "ultimate parent entity" (as determined for purposes of the HSR Act) to file) under the HSR Act such information respecting it as the HSR Act requires of an Entity to be acquired.

9.14 Leonard Petersohn Consulting Agreement. Leonard Petersohn and BUYER hereby agree to and shall, at or prior to the Closing, enter into a consulting agreement substantially in the form of Exhibit F attached hereto (the "Consulting Agreement").

9.15 Employee Matters.

(a) Schedule 9.15(a) sets forth a list of all salaried and hourly employees employed by SELLER and such employees' current compensation. Not later than fifteen (15) days prior to the Closing Date, BUYER shall notify SELLER in writing of the identity of each employee of SELLER employed in SELLER's Business to whom BUYER intends to offer employment in a position and at a base salary substantially equivalent to such employee's present position and base salary. BUYER has no obligation to offer employment to any employee, but BUYER shall offer employment to any employee identified in a notice given as provided in the immediately preceding sentence. Except as set forth in the next sentence, BUYER shall have no liability for any salary or benefits accrued prior to the Closing Date. With respect to employees hired by BUYER in substantially equivalent positions at substantially equivalent salaries, BUYER agrees to afford to such employees their accrued but unused vacation time and sick pay as of the Closing Date and an amount equal to such accrued but unused vacation time and sick pay to which such employees will be entitled shall be deducted from the Purchase Price to the extent provided in Section 3.1(z) of this Agreement.

(b) COBRA. SELLER shall be solely responsible for any obligations under the Consolidated Omnibus Budget Reconciliation Act, as amended, and the Tax Reform Act of 1986, with respect to employees of SELLER (whether salary, hourly or otherwise) who are not employed by BUYER in a position and at a base salary substantially equivalent to such employee's present position and base salary.

(c) Employment-Related Claims. SELLER assumes all liability, costs and expenses (including reasonable attorneys' fees) for all existing employment claims which have been filed by any employee or former employee of SELLER prior to the Closing Date relating to arbitrations, unfair labor practice charges, employment discrimination charges, lawsuits, any employment- related tort claim or other claims or charges of or by employees of SELLER or any thereof filed after the Closing Date but arising as a result of actions or events or series of actions or events all or a portion of which occurred prior to the Closing Date. Schedule 9.15(c) sets forth a brief description

of all such claims which have been filed as of the date hereof. SELLER will promptly describe to BUYER in writing a brief description of any of such claims which may be filed after the date hereof but on or before the Closing Date.

9.16 Country Enterprises Leases. The Shareholders agree to cause Country Enterprises to, and BUYER agrees to, at or prior to the Closing, enter into the leases as provided in Exhibit E. The Shareholders hereby represent and warrant that the following are and at the time of the Closing will be the only partners of Country Enterprises: Leonard Petersohn, Arlene Petersohn, and the Garrison Revocable Living Trust. The Shareholders hereby further represent and warrant that they have the legal ability and power to cause Country Enterprises to enter into the leases as provided in Exhibit E.

9.17 Amendment to LLC Agreement. BUYER and SELLER hereby agree to and shall, at or prior to the Closing, enter into an amendment to the limited liability company agreement of BUYER substantially in the form of Exhibit C attached hereto (the "Amendment to LLC Agreement"), and a put agreement in substantially the form of Exhibit G attached hereto (the "Put Agreement").

## ARTICLE 10. CONDITIONS TO BUYER'S OBLIGATION TO CONSUMMATE THE TRANSACTION

Each and every obligation of BUYER to be performed at or before the Closing hereunder is subject, at BUYER's election, to the satisfaction on or prior to the Closing Date of the conditions set forth below. Notwithstanding the failure of any one or more of such conditions, BUYER may nevertheless proceed with Closing without satisfaction, in whole or in part, of any one or more of such conditions, but which action shall not prejudice BUYER's right to recover damages for any such failure.

10.1 Compliance with Agreement. SELLER and each Shareholder shall have performed all of their respective obligations and agreements, and complied with all covenants, warranties and conditions contained in this Agreement which are required to be performed or complied with by such party on or prior to the Closing Date.

10.2 Representations and Warranties. The representations and warranties of SELLER and each Shareholder contained in this Agreement shall be true, complete and correct on and as of the Closing Date with the same force and effect as though such representations and warranties had been made or given on the Closing Date.

10.3 Certificate. SELLER and each Shareholder shall have delivered to BUYER a certificate, dated the Closing Date, in the case of SELLER, signed by its duly authorized officers to the effect stated in Sections 10.1 and 10.2 hereof.

10.4 Corporate Authorization. BUYER shall have received a copy of the resolutions of the directors and shareholders of SELLER, certified as of the Closing Date by the secretary or assistant secretary thereof, duly authorizing the execution, delivery and performance by SELLER of this Agreement and each other agreement and instrument contemplated hereby, together with an incumbency certificate as to the persons authorized to execute and deliver such documents and instruments on its behalf.

10.5 Opinion of Counsel. BUYER shall have been furnished with the opinion of Shaheen, Orr, Griffin & Staat, P.C., counsel to SELLER, dated the Closing Date and addressed to BUYER, substantially in the form set forth in Exhibit B hereto.

10.6 Good Standing. SELLER shall have delivered to BUYER certificates issued by appropriate governmental authorities evidencing the good standing of SELLER as of a date or dates not more than five (5) days prior to the Closing Date as a corporation of the respective states in which it was organized or qualified to do business.

10.7 Noncompetition and Employment Agreements.

(a) SELLER, each Shareholder, Eugene Garrison and Betty Garrison shall have executed and delivered to BUYER a noncompetition agreement in the form attached hereto as Exhibit A as required by Section 9.9.

(b) Gary Komosa and Robert Smith shall have executed and delivered to BUYER employment agreements in form and substance satisfactory to BUYER.

10.8 Tax Certificates. SELLER shall have obtained and delivered to BUYER letters or certificates from the appropriate Illinois state agencies indicating that all sales, use and employment taxes payable by SELLER on or prior to the Closing Date have been paid and that there is no lien for unpaid sales, use or employment taxes on the Assets.

10.9 Receipt. SELLER and each Shareholder shall have duly executed and delivered to BUYER an instrument acknowledging payment of the sums required to be paid on the Closing Date as specified in Section 4.3 above.

10.10 Instruments of Transfer. SELLER shall have executed and delivered to BUYER such bills of sale, assignments (including specifically assignments of the leases identified on Schedules 2.1B and 2.1D hereof) and other instruments of transfer and conveyance (in form and substance reasonably satisfactory to counsel for BUYER) as shall be necessary or desirable to vest in BUYER all the right, title and interest in and to the Assets to be transferred, assigned, conveyed and delivered to BUYER by such Shareholder hereunder.

10.11 No Litigation. No party hereto shall be a party to or be threatened with any litigation or administrative proceeding relating to any of such parties or any of their assets or properties or to this Agreement or the transactions contemplated hereby which in the judgment of BUYER, would affect the desirability of carrying out this Agreement.

10.12 Landlord Consents.

(a) BUYER shall have received consents, executed by the respective landlords of all Real Property leased or subleased by SELLER, to the effect that as of the Closing Date such leases are not in default and are valid and continuing agreements and have not been modified or amended. Each said consent shall also state that the landlord approves of the assignment of such lease as part of this Agreement.

(b) With respect to any sublease by SELLER, BUYER shall have received the agreement of the fee owner and any landlord prior to SELLER that, notwithstanding any default by others it shall be entitled to possession of the leased premises so long as BUYER performs the obligations under the lease and that BUYER may cause any default on the part of prior tenants to be cured and in such event to offset against subsequently accruing rents the amounts so expended.

10.13 Third Party Consents. BUYER shall have received the consents (or in lieu thereof waivers) listed in Schedule 6.4 hereto. All filings with, and approvals by, third parties required to be made or received by BUYER for the consummation of the transactions contemplated hereby shall have been made or obtained.

10.14 No Adverse Event. The Business and the Assets shall not be adversely affected or threatened to be affected in any way as a result of fire, explosion, hurricane, earthquake, disaster, accident or other casualty, shortage of any material supplies, changes in technology, strike or labor disturbance, obsolescence of product or service, any action or threatened action by the United States or any other governmental authority, flood, drought, embargo, riot, civil disturbance, uprising, activity of armed forces, act of God or public enemy.

10.15 Proceedings Satisfactory. All proceedings, corporate or other, to be taken in connection with the transactions contemplated by this Agreement, and all documents incident thereto, shall be satisfactory in form and substance to BUYER.

10.16 Use of Names. SELLER shall have changed its corporate name and adopted a name that does not include the following words or phrases, or any derivatives thereof: "Country Gas", "Country Gas Company", "Country Gas Company, Inc.", "Country Gas Co.", or " Budget Propane".

10.17 Country Enterprises Leases. Country Enterprises shall have executed and delivered to BUYER the leases as provided in Exhibit E.

10.18 Consulting Agreement. Leonard Petersohn shall have executed and delivered to BUYER the Consulting Agreement substantially in the form of Exhibit F attached hereto, as required by Section 9.14 hereof.
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10.19 Financing. BUYER has obtained a commitment letter (the "Commitment Letter") from Firstar Bank, N.A. (the "Bank") with respect to the financing of the purchase of the Assets as herein provided, a copy of which has been provided to SELLER. BUYER shall have entered into a definitive agreement with the Bank providing for such financing on substantially similar terms and conditions as are set forth in the Commitment Letter.

## ARTICLE 11. CONDITIONS TO OBLIGATIONS OF SELLER AND SHAREHOLDERS TO CONSUMMATE THE TRANSACTION

Each and every obligation of SELLER and each Shareholder to be performed at or before the Closing hereunder is subject, at such party's election, to the satisfaction on or prior to the Closing Date of the conditions set forth below. Notwithstanding the failure of any one or more of such conditions, SELLER and the Shareholders may nevertheless proceed with the

Closing without satisfaction, in whole or in part, of any one or more of such conditions, but which action shall not prejudice right of SELLER or any Shareholder to recover damages for any such failure.

11.1 Compliance With Agreement. BUYER shall have performed all of its obligations and agreements and complied with all covenants, warranties and conditions contained in this Agreement which are required to be performed or complied with by BUYER on or prior to the Closing Date.

11.2 Representations and Warranties. The representations and warranties of BUYER contained in this Agreement shall be true, complete and correct on and as of the Closing Date with the same force and effect as though such representations and warranties had been given on the Closing Date.

11.3 Certificate. BUYER shall have delivered to SELLER and Shareholders a certificate dated the Closing Date and signed by one of its duly authorized persons to the effect stated in Sections 11.1 and 11.2 hereof.

11.4 Amendment to LLC Agreement. BUYER shall have executed and delivered to SELLER the Amendment to LLC Agreement in substantially the form attached hereto as Exhibit C and the Put Agreement in substantially the form attached hereto as Exhibit G, as required by Section 9.17 hereof.

11.5 Opinion of Counsel. SELLER shall have been furnished with the opinion of Stinson, Mag & Fizzell, P.C., counsel to BUYER, dated the Closing Date and addressed to SELLER, substantially in the form set forth in Exhibit D hereto.

11.6 Noncompetition Agreements. BUYER shall have executed and delivered to SELLER, each Shareholder, Eugene Garrison and Betty Garrison a noncompetition agreement in the form attached hereto as Exhibit A, as required by Section 9.9.

11.7 Country Enterprises Leases. BUYER shall have executed and delivered to Country Enterprises the leases as provided in Exhibit E.

## ARTICLE 12. INDEMNIFICATION

12.1 SELLER's Indemnity.

(a) Subject to the provisions of this Article 12, SELLER and the Shareholders, from and after the Closing Date jointly and severally agree to, indemnify and hold BUYER and its members, officers, agents, employees, representatives, successors and assigns, harmless from and against any and all damage, loss, cost, obligation, claims, demands, assessments, judgments or liability (whether based on contract, tort, product liability, strict liability or otherwise), including taxes, and all expenses (including interest, penalties and attorneys' and accountants' fees and disbursements) (collectively "Damages") incurred in litigation or otherwise, and any

investigation relating thereto, by any of the above-named persons, directly or indirectly, resulting from or in connection with:

(i) Any misrepresentation, breach of warranty or failure to perform any covenant or agreement made or undertaken by SELLER or Shareholder in this Agreement or in any other agreement, certificate (including the certificate delivered by SELLER in accordance with Section 10.3 hereof), schedule, exhibit or writing delivered to BUYER pursuant to this Agreement;

(ii) The Retained Liabilities;

(iii) All debts, obligations, expenses and liabilities and costs incurred arising out of or in connection with any transaction or series of transactions, any facts or series of facts existing, or any events or series of events all or a portion of which occurred on or prior to the Closing Date; and

(iv) Any action, suit, proceeding or claim incident to any of the foregoing.

(b) SELLER and each Shareholder hereby acknowledges and agrees that should SELLER make any claim or institute any actions, suits or proceedings with respect to the validity or applicability of this indemnification provision, each such party shall be responsible for all Damages incurred by BUYER in connection therewith.

12.2 BUYER's Indemnity. BUYER, from and after the Closing Date, shall indemnify and hold SELLER, its officers, agents, the Shareholders and their respective representatives, successors and assigns harmless from and against any Damages incurred by SELLER and/or Shareholder resulting from or in connection with:

(a) Any misrepresentation, breach of warranty or failure to perform any covenant or agreement made or undertaken by BUYER in this Agreement or in any other agreement or certificates delivered by BUYER to SELLER or any Shareholder pursuant to this Agreement;

(b) The Liabilities; and

(c) Any action, suit, proceeding or claim incident to any of the foregoing.

12.3 Special Hazardous Substances Indemnity. SELLER and each Shareholder hereby covenants and agrees to indemnify, protect and hold harmless BUYER and its members, officers, agents, employees, representatives, successors and assigns from and against any and all Damages (including without limitation reimbursement of clean-up costs) directly or indirectly arising from or as a result of (a) claims, actions or causes of action, including, without limitation, those involving toxic torts and those seeking reimbursement of clean-up costs, which arise out of the handling, treatment, storage, disposal or

transportation or arranging therefor, by SELLER of any pollutant, contaminant or hazardous substance or toxic substance (including, without limitation, any constituent thereof) and which handling, treatment, storage, disposal or transportation or arrangement therefor occurred or began, in whole or in part, on or prior to the Closing Date, even though such claim, action or cause of action may be made or filed after the Closing Date, (b) SELLER, by contract, agreement or otherwise, prior to the Closing, arranging for disposal or treatment, or arranging with a transporter for transport for disposal or treatment of any hazardous substance at any facility owned or operated by another person or entity, (c) SELLER accepting, prior to the Closing, any hazardous substance for transport to disposal or treatment facilities or sites selected by SELLER, (d) any "release" (as defined in 42 U.S.C. (S)9601(22)) or threat of a "release," actual or alleged, of any "hazardous substances" (as defined in 42 U.S.C. (S)9601(14)) or oil upon, about or into the Real Property or respecting any products or materials prior to the Closing located upon, delivered to or in transit to or from the Real Property whether or not such release or threat of a release occurs as the result of the negligence or misconduct of SELLER or any third party or otherwise, or (e) any violation, actual or alleged, of or any other liability under or in connection with any law, statute, ordinance, rule or regulation of any governmental or quasi-governmental authority, specifically including without limitation the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Superfund Amendments and Reauthorization Act of 1986, or any other environmental protection, toxic waste, hazardous waste, oil, underground storage tank, health, safety or hazardous substance handling, treatment, storage, disposal or transportation, or arranging therefor, laws, statutes, ordinances, rules or regulations respecting any products or materials prior to the Closing located upon, delivered to, transported from or in transit to or from the Real Property whether or not such violation or alleged violation occurs as the result of the negligence of misconduct of SELLER or any third party or otherwise. Furthermore, in the event BUYER is required to clean up any Real Property as a result of contamination occurring prior to the Closing, SELLER and each Shareholder hereby agrees to conduct such environmental cleanup to the full extent required by any regulatory authorities having jurisdiction over the subject matter thereof.

12.4 Procedure. All claims for indemnification by a party under this Article 12 (the party claiming indemnification and the party against whom such claims are asserted being hereinafter called the "Indemnified Party" and the "Indemnifying Party," respectively) shall be asserted and resolved as follows:

(a) In the event that any claim or demand for which an Indemnifying Party would be liable to an Indemnified Party hereunder is asserted against or sought to be collected from such Indemnified Party by a third party, such Indemnified Party shall with reasonable promptness give notice (the "Claim Notice") to the Indemnifying Party of such claim or demand, specifying the nature of and specific basis for such claim or demand and the amount or the estimated amount thereof to the extent then feasible (which estimate shall not be conclusive of the final amount of such claim and demand). The Indemnifying Party shall not be obligated to indemnify the Indemnified Party under this Agreement with respect to any such claim or demand if the Indemnified Party fails to notify the Indemnifying Party thereof in accordance with the provisions of this Agreement, and, as a result of such failure, the Indemnifying Party's ability to defend against the claim or demand is materially prejudiced. The Indemnifying Party shall have ten (10) days from the delivery or mailing of the Claim Notice (the "Notice Period") to notify the Indemnified Party (i) whether or not it disputes the liability of the Indemnifying Party to the Indemnified Party hereunder with respect to such claim or

demand, and (ii) whether or not it desires, at the cost and expense of the Indemnifying Party, to defend the Indemnified Party against such claim or demand; provided, however, that any Indemnified Party is hereby authorized, but is not obligated, prior to and during the Notice Period, to file any motion, answer or other pleading that it shall deem necessary or appropriate to protect its interests or those of the Indemnifying Party. If the Indemnifying Party notifies the Indemnified Party within the Notice Period that it desires to defend the Indemnified Party against such claim or demand, the Indemnifying Party shall, subject to the last sentence of this paragraph, have the right to control the defense against the claim by all appropriate proceedings and any settlement negotiations, provided that to the satisfaction of the Indemnified Party, the Indemnifying Party shall secure the Indemnified Party against such contested claims by posting a bond or otherwise. If the Indemnified Party desires to participate in, but not control, any such defense or settlement, it may do so at its sole cost and expense. If the Indemnifying Party fails to respond to the Indemnified Party within the Notice Period, elects not to defend the Indemnified Party, or after electing to defend fails to commence or reasonably pursue such defense, then the Indemnified Party shall have the right, but not the obligation, to undertake or continue the defense of, and to compromise or settle (exercising reasonable business judgment), the claim or other matter all on behalf, for the account and at the risk of the Indemnifying Party. Notwithstanding the foregoing, if the basis of the proceeding relates to a condition of operations which existed or were conducted both prior to and after the Closing Date or if the Indemnified Party would be otherwise adversely affected as a result of any adverse decision of such proceeding, each party shall have the same right to participate at its own expense and at its own risk in the proceeding without either party having the right of control.

(b) If requested by the Indemnifying Party, the Indemnified Party agrees, at the Indemnifying Party's expense, to cooperate with the Indemnifying Party and its counsel in contesting any claim or demand which the Indemnifying Party elects to contest, or, if appropriate and related to the claim in question, in making any counterclaim against the person asserting the third party claim or demand, or any cross-complaint against any person. No claim as to which indemnification is sought under this Agreement may be settled without the consent of the Indemnifying Party.

(c) If any Indemnified Party should have a claim against the Indemnifying Party hereunder which does not involve a claim or demand being asserted against or sought to be collected from it by a third party, the Indemnified Party shall send a Claim Notice with respect to such claim to the Indemnifying Party. If the Indemnifying Party disputes such claim, such dispute shall be resolved by litigation in an appropriate court of competent jurisdiction.

12.5 Costs. If any legal action or other proceeding is brought for the enforcement or interpretation of any of the rights or provisions of this Agreement (including the indemnification provision), or because of an alleged dispute, breach, default or misrepresentation in connection with any of the provisions of this Agreement, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees and all other costs and expenses incurred in that action or proceeding, in addition to any other relief to which it may be entitled.

12.6 Time Limitation. Except for claims for indemnification made pursuant to Section 6.14 or Section 12.3 above, all claims for indemnification pursuant to this Article 12 shall be barred if Claim Notice therefor has not been made within three (3) years after the Closing Date.

12.7 Dollar Threshold. No claim for indemnification pursuant to this Article 12 shall be made unless and until the aggregate amount of all Damages of the claimant exceeds $10,000.00.

12.8 Dollar Limit. The indemnity obligations of SELLER and the Shareholders pursuant to this Article 12 shall be limited to Nine Million Dollars ($9,000,000) in the aggregate.

12.9 Exclusive Remedy. The remedy of indemnification set forth in this Article 12 shall be the exclusive remedy of the parties after the Closing Date for any breach of this Agreement.

## ARTICLE 13. SURVIVAL OF COVENANTS, AGREEMENTS, REPRESENTATIONS AND WARRANTIES; RIGHT OF OFFSET

13.1 Survival. All representations, warranties, covenants and agreements made by the parties each to the other in this Agreement or pursuant hereto in any certificate, instrument or document shall survive the consummation of the transactions contemplated by this Agreement, and may be fully and completely relied upon by BUYER and by SELLER and the Shareholders, as the case may be, notwithstanding any investigation heretofore or hereafter made by such party or on behalf of any of them, and shall not be deemed merged into any instruments or agreements delivered at Closing.

13.2 Right of Offset. SELLER has made certain representations and warranties to BUYER in this Agreement and the Schedules and Exhibits attached hereto in connection with BUYER's acquisition of the Assets of SELLER. As a result of such representations, warranties and agreements, there exists the possibility that SELLER will be liable to BUYER and/or be required to indemnify BUYER in accordance with this Agreement. Any obligation of BUYER to SELLER, or to any Shareholder is subject to any such liability or indemnification, and BUYER may, at its election, offset against any payment required by BUYER pursuant to this Agreement or the Schedules and Exhibits attached hereto an amount equal to or less than the amount that such party may be liable to BUYER or may be required to pay BUYER pursuant to such indemnification.

## ARTICLE 14. EXPENSES

Except as otherwise set forth herein, each party agrees to pay, without right of reimbursement from any other, the costs incurred by such party incident to the preparation and execution of this Agreement and performance of their respective obligations hereunder, whether or not the transactions contemplated by this Agreement shall be consummated, including, without limitation, the fees and disbursements of legal counsel, accountants and consultants employed by the respective parties in connection with the transactions contemplated by this Agreement.

## ARTICLE 15. TERMINATION

15.1 Termination. This Agreement may be terminated at any time prior to the Closing:

(a) By agreement of all of the parties hereto;

(b) By either BUYER or SELLER if the Closing has not taken place on or before May 31, 2000 (the "Cut-Off Date"); provided that the right to terminate this Agreement under this Section 15.1(b) hereof shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or results in, the failure of the Closing to occur within such period;

(c) By BUYER pursuant to Section 9.11 hereof;

(d) By BUYER or SELLER, as the case may be, (i) if any of the conditions precedent to the performance of the obligations of the party giving notice of termination shall not have been fulfilled and cannot be fulfilled on or prior to the Closing and shall not have been waived in writing by such party, or (ii) if a default shall be made by the other party in observance or in the due and timely performance of any of the covenants and agreements herein contained that cannot be cured on or prior to the Closing and shall not have been waived in writing by such party; or (iii) if there exists an inaccuracy, failure or breach of a warranty or representation set forth herein or in any other agreement or instrument executed pursuant hereto which has not been waived in writing by the party for whose benefit such warranty or representation was made or given; and

(e) At the option of BUYER or SELLER, if any action or proceeding shall have been instituted and remain pending before a court or other governmental body by any federal, state or local government or agency thereof to restrain or prohibit the consummation of the transactions contemplated by this Agreement, or if any federal, state or local government or agency thereof shall have threatened to institute any proceeding before a court or other governmental body to restrain the consummation of such transactions or to force divestiture, provided that neither party shall have the option to terminate this Agreement as provided herein after any such action or notice by any federal, state or local government or governmental agency or other person shall be withdrawn or settled.

15.2 No Liability. Except in the event of a termination of this Agreement pursuant to Section 15.1(d) hereof, there shall be no liability on the parties hereto or any of their respective members, managers, officers, directors, shareholders or Affiliates as a result thereof under this Agreement. A termination under Section 15.1(d) hereof shall not prejudice any claim for damages which any party may have hereunder or in law or in equity as a consequence of any matter giving rise to a termination of the Agreement under Section 15.1(d) hereof. BUYER shall have the right to specific performance if the Agreement is not otherwise terminated in accordance with the terms hereof.

15.3 Notice. BUYER may exercise its right of termination of this Agreement only by delivering written notice to that effect to SELLER, provided that such notice is received by SELLER prior to the Closing. SELLER may exercise its right of termination of this Agreement only by delivering written notice to that effect to BUYER, provided that such notice is received by BUYER prior to the Closing.

## ARTICLE 16. MISCELLANEOUS

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

If to SELLER , the Shareholders or the Garrisons:

| Name: | With Copy To: |
|---|---|
| Country Gas Co. | Shaheen, Orr, Griffin & Staat, P.C. |
| 4010 Highway 14 | 20 North Wacker Drive, Suite 2900 |
| Crystal Lake, Illinois 60014 | Chicago, Illinois 60606-3192 |
| Attn: Leonard Petersohn | Attn: Lawrence G. Staat |

If to BUYER:

| Name: | With Copy To: |
|---|---|
| Inergy Partners, LLC | Stinson, Mag & Fizzell, P.C. |
| 1101 Walnut, Suite 1500 | 1201 Walnut, Suite 2800 |
| Kansas City, Missouri 64106 | Kansas City, Missouri 64106 |
| Attn: John J. Sherman | Attn: Paul E. McLaughlin |

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 16.1.

16.2 Parties in Interest and Assignment.

(a) This Agreement is binding upon and is for the benefit of the parties hereto and their respective successors and assigns. Except as expressly provided herein, nothing in this Agreement, express or implied, is intended to confer on any person other than the parties hereto or their respective successors and assigns any rights, remedies or obligations or liabilities under or by reason of this Agreement.

(b) Except as provided in Section 16.2(c) hereof, neither this Agreement nor any of the rights or duties of any party hereto may be transferred or assigned to any person except by a written agreement executed by all of the parties hereto.

(c) Notwithstanding the above, BUYER may transfer and assign all or any portion of its rights under this Agreement for purposes of or in connection with the IPO.

16.3 Modification. This Agreement may not be amended or modified except by a writing signed by an authorized representative of the party against whom enforcement of the change is sought. No waiver of the performance or breach of, or default under, any condition or obligation hereof shall be deemed to be a waiver of any other performance, or breach of, or default under the same or any other condition or obligation of this Agreement.

16.4 Waiver. Each party hereto may, by written notice to the other party hereto: (a) extend the time for the performance of any of the obligations or other actions of such other party under this Agreement; (b) waive any inaccuracies in the representations or warranties of such other party contained in this Agreement or in any document delivered pursuant to this Agreement; (c) waive compliance by such other party with any of the conditions or covenants of the other contained in this Agreement; or (d) waive or modify performance of any of the obligations of such other party under this Agreement. Except as provided in the preceding sentence, no action taken by or on behalf of any party, including without limitation any investigation by or on behalf of such party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants or agreements contained in this Agreement.

16.5 Entire Agreement. This Agreement embodies the entire agreement between the parties hereto and there are no agreements, representations or warranties between the parties other than those set forth or provided herein. All Exhibits and Schedules called for by this Agreement and delivered to the parties shall be considered a part hereof with the same force and effect as if the same had been specifically set forth in this Agreement.

16.6 Execution in Multiple Originals. This Agreement may be executed in multiple originals, each of which shall be deemed an original but all of which together shall constitute but one and the same instrument.

16.7 Headings. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

16.8 Invalid Provisions. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future law, and if the rights or obligations of any party hereto under this Agreement will not be materially and adversely affected thereby, (a) such provision will be fully severable; (b) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof; and (c) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom.

16.9 Governing Law. This Agreement shall be governed by and construed, interpreted and enforced in accordance with the laws of the State of Delaware applicable to agreements made and to be performed entirely within such State, including all matters of enforcement, validity and performance.

16.10 Gender. Masculine pronouns used in this Agreement shall be construed to include feminine and neuter pronouns, and words in the singular shall include the plural, unless the context otherwise requires.

16.11 Exhibits and Schedules. All of the Exhibits and Schedules attached hereto are incorporated herein and made a part of this Agreement by this reference thereto.

IN WITNESS WHEREOF, the parties hereto have duly executed this Asset Purchase Agreement on the date first above written.

COUNTRY GAS CO.

/s/ LEONARD PETERSOHN
- ---------------------------------
LEONARD PETERSOHN

By: /s/ Leonard Petersohn
---------------------------
Name: Leonard Petersohn
Title: President

"SELLER"

/s/ ARLENE PETERSOHN
- ---------------------------------
ARLENE PETERSOHN

/s/ Eugene N. Garrison
- ---------------------------------
Eugene N. Garrison, as Trustee of the
EUGENE N. GARRISON REVOCABLE TRUST,
u/t/d September 9, 1999

/s/ Betty J. Garrison
- ---------------------------------
Betty J. Garrison, as Trustee of the
BETTY J. GARRISON REVOCABLE TRUST,
u/t/d September 9, 1999

"Shareholders"

/s/ EUGENE N. GARRISON
- ---------------------------------
EUGENE N. GARRISON

/s/ BETTY J. GARRISON
- ---------------------------------
BETTY J. GARRISON

INERGY PARTNERS, LLC

By: /s/ John J. Sherman
---------------------------
Name: John J. Sherman
Title: President

"BUYER"

EXHIBIT 10.3

# SECURITIES PURCHASE AGREEMENT

THIS SECURITIES PURCHASE AGREEMENT (the "Agreement") is made as of the 12th day of January, 2001, by and among the Investors that are signatory hereto (each, an "Investor" and collectively the "Investors"), the Warrant Investors that are signatory hereto (each, a "Warrant Investor" and, together, the "Warrant Investors"), and INERGY PARTNERS, LLC, a Delaware limited liability company (the "Company"), with its chief executive office located at 1101 Walnut Street, Suite 1500, Kansas City, Missouri 64106.

PRELIMINARY STATEMENT. Contemporaneously herewith, the Company and its Subsidiaries is acquiring (the "Acquisitions") the assets of the Hoosier Propane group of entities and is contemplating acquiring possibly other regional retail propane companies (collectively, with the Company and its Subsidiaries, the "Founding Companies") and will consider, among other things, a public offering through a master limited partnership structure by the Founding Companies or their Affiliates which meets the requirements of a Qualified MLP Offering (as described further herein). The Investors are making an 11% preferred interest investment in the Company as reflected in Schedule 3.5(a)(ii) hereof to fund the Acquisitions by the Company, to provide for expenses of the Company in the Qualified MLP Offering and to otherwise be used as described below in Section 2.4.

## SECTION 1. DEFINITIONS

For all purposes of this Agreement, the following terms shall have the meanings set forth herein or elsewhere in the provisions hereof:

Accrued Preferred Distributions and Arrearages. Accrued Preferred Distributions and Arrearages shall have the meaning ascribed thereto in the Company's LLC Agreement.

Adjusted EBITDAB. Adjusted EBITDAB means, at any time, an amount, for any Person or consolidated group of Persons (including, as applicable, the financial results of any proposed Target (as defined in and within the meaning of the Loan Agreement) with which the Company and its consolidated Subsidiaries intend to consolidate their financial results), equal to: EBITDAB, plus or minus, as the case may be,

(a) in the case of any proposed Target, adjustments, in each case reasonably acceptable to the Majority Investors, in the EBITDAB of the proposed Target to reflect any decrease or increase in expenses of the Target which are likely to occur after the acquisition, plus

(b) in the case of any Person or consolidated group of Persons (including the Company and its Targets) adjustments, in each case reasonably acceptable to the Majority Investors, in the EBITDAB of the Person

(i) to "normalize" revenues of the Person (up or down) based on weather degree day formulae customarily used in the retail propane industry, and

(ii) to "annualize" revenues of the Person (up or down) based on the most recent customer base of the Person; such annualization to be calculated for any Person in a manner consistent with the calculations presented to the Senior Lender under the Loan Agreement.

Adjusted EBITDAB Multiple. Adjusted EBITDAB Multiple means the number representing the quotient, expressed to one decimal point, of the Total Capitalization of a Person divided by the Adjusted EBITDAB for that Person. The Adjusted EBITDAB Multiple for a Representative MLP or a Person that is proposed to be a Representative MLP shall be derived solely from that Person's most recent quarterly or annual financial statements filed with the Commission and other public information concerning such Representative MLP.

Affiliate. Affiliate means any Person directly or indirectly controlling, controlled by or under direct or indirect common control with the Company (or any other specified Person) and shall include (a) any Person who is an executive officer, director or beneficial holder of at least 5% of the outstanding equity securities of the Company (or such other specified Person), (b) any Person of which the Company (or such other specified Person) or an Affiliate (as defined in clause (a) above) of the Company (or such other specified Person) shall, directly or indirectly, either beneficially own at least 5% of the outstanding equity securities or constitute at least a 5% equity participant, and (c) in the case of a specified Person who is an individual, any Family Members of such Person; provided, however, that none of the Investors or Warrant Investors shall be an Affiliate of the Company or any of its Subsidiaries for the purposes of this Agreement. For purposes hereof, the General Partner shall be deemed to be an Affiliate of each of the Founding Companies.

Agreement. Agreement means this Securities Purchase Agreement.

Agreement Among Members, Investors and the Company. Agreement Among Members, Investors and the Company means the agreement in form and substance as set forth as Exhibit A attached hereto.

Amendment to Company's LLC Agreement. Amendment to Company's LLC Agreement means that certain Amendment No. 8 to the Company's LLC Agreement, in form and substance as set forth in Exhibit B attached hereto, to be executed and delivered at the Closing, whereby the Securities are created in the name of the Investors, with such rights, preferences and designations as set forth therein.

Assets. Assets means all of the assets and properties of the Company, whether real, personal, tangible or intangible and whether presently existing or hereafter acquired.

Base Rate. Base Rate means the annual rate of interest announced from time to time by Commerce Bank of Kansas City, N.A., at its principal office in Kansas City, Missouri, as its "base rate" or "prime rate."

Call Notice. See Section 9.2.

Call Price. See Section 9.6.

Cash Event. Cash Event means any transaction or series of related transactions whereby all or substantially all of the assets of the Company and its Subsidiaries, taken together, are sold or otherwise disposed of (other than a sale contemporaneously with and in contemplation of a Qualified MLP Offering) wherein not less than 85% of the aggregate proceeds actually received by the Company and its Subsidiaries at the closing(s) constitutes cash.

Cash Event Multiplier. For purposes hereof, the Cash Event Multiplier shall be determined as follows:

| If the Cash Event occurs | But no later than | Then the Cash Event Multiplier will be |
|---|---|---|
| From Closing Date | August 31, 2001 | 1.6 |
| From September 1, 2001 | June 30, 2002 | 1.7 |
| From July 1, 2002 | December 31, 2002 | 1.8 |
| After January 1, 2003 | | 2.0 |

Class A Preferred Interests. Class A Preferred Interests shall have the meaning ascribed thereto in the Company's LLC Agreement.

Clawback Excess. Clawback Excess means the difference between (a) the product of (i) the Clawback Sale Price multiplied by (ii) the Clawback Percentage, and (b) the aggregate Call Price paid to all Investors pursuant to Sections 9.2 and 9.6; provided, however, that such difference is greater than zero.

Clawback Party. Clawback Party means (a) in the event of a Clawback Sale that is a Cash Event, the Clawback Party will be the Company and any other Person that receives a portion of the Clawback Sale Price in such Cash Event, (b) in the event of an Equity Event, the Clawback Party will be any Person that receives a portion of the Clawback Sales Price in such Equity Event, and (c) in all other events, the Clawback Party will be the Company or any other Person that receives a portion of the Clawback Sale Price in such event.

Clawback Percentage. Clawback Percentage means a fraction, expressed as a percentage, the numerator of which is the sum of all Preferred Capital Accounts (plus any Accrued Preferred Distributions and Arrearages) for all Investors, adjusted pursuant to Section 4.7(l) or 4.7(m) of the Company's LLC Agreement, as the case may be, (whether or not actually adjusted in fact pursuant to such Section 4.7(l) or 4.7(m)) as if a Cash Event had occurred as of the Put/Call

Closing Date, and the denominator of which is the sum of all Common Capital Accounts (adjusted pursuant to Section 3.5(b) of the Company's LLC Agreement, whether or not actually adjusted in fact pursuant to such Section 3.5(b), as if a Cash Event had occurred as of the Put/Call Closing Date) and all Preferred Capital Accounts (plus any Accrued Preferred Distributions and Arrearages) as of the Put/Call Closing Date (adjusted pursuant to Section 4.7(l) or 4.7(m) of the Company's LLC Agreement, as the case may be, (whether or not actually adjusted in fact pursuant to such Section 4.7(l) or 4.7(m)) as if a Cash Event had occurred as of the Put/Call Closing Date).

Clawback Portion. Clawback Portion means an Investor's pro rata portion of the Clawback Excess, determined by multiplying (a) the Clawback Excess by (b) the applicable Investor Percentage for such Investor as of the Put/Call Closing Date of the call made pursuant to Section 9.2.

Clawback Sale. Clawback Sale will be deemed to have occurred (a) upon the consummation of any Proposed Change of Control or Equity Event, or (b) upon the execution and delivery by the Company of any contract, letter of intent, memorandum of understanding, or similar written agreement, whether binding or non-binding, for a Proposed Change of Control or Equity Event, provided that such transaction is ultimately consummated at a later date.

Clawback Sale Price. Clawback Sale Price means the total consideration that is received by the Company and any other Person in connection with a Clawback Sale,

provided, however, that if the consideration may be increased by payments related to future events, including, without limitation, earnouts, escrowed payments, installment payments, and hold backs (collectively, "Future Payments"), the Future Payments will be calculated and added to the aggregate consideration if, as, and when such Future Payments are made. The Clawback Sale Price shall be increased to include any amounts paid to any Person pursuant to any covenants not to compete, consulting arrangements, and other similar consideration paid to such Persons in connection with the Clawback Sale;

provided, that the Clawback Sale Price shall not include the fair value of amounts paid to any Person (whether as owner, employee or otherwise) or the Company under agreements or similar arrangements entered into pursuant to good faith arms-length negotiations in connection with actual services actually rendered by such Person or Persons and that relate to the ongoing operations of the Company or any successor to the Company; provided, further, that the Clawback Sale Price also shall include the aggregate amount of any extraordinary Distributions declared by the Company with respect to its equity securities in anticipation of or as a result of the Clawback Sale, except that Distributions made pursuant to Section 4.2 of the Company's LLC Agreement shall not be included in the Clawback Sale Price. Any Distributions, other than Distributions made pursuant to Section 4.2 of the Company's LLC Agreement, declared or paid within 180 days of the date of any Clawback Sale shall be conclusively deemed to be part of the Clawback Sale Price.

Close Relative. Close Relative shall have the meaning ascribed thereto in Section 107.50 of Part 107 of Title 13 of the Code of Federal Regulations, as the same shall be amended or supplemented from time to time.

Closing. See Section 2.3.

Closing Date. See Section 2.3.

Code. Code means the Internal Revenue Code of 1986, as amended.

Commission. Commission means the Securities and Exchange Commission.

Common Capital Accounts. Common Capital Accounts shall have the meaning ascribed thereto in the Company's LLC Agreement.

Common Interests. Common Interests shall have the meaning ascribed thereto in the Company's LLC Agreement.

Common Percentage Interests. Common Percentage Interests shall have the meaning ascribed thereto in the Company's LLC Agreement.

Company. Company means Inergy Partners, LLC, a Delaware limited liability company and any predecessor or successor company.

Company's LLC Agreement. Company's LLC Agreement means that certain Amended and Restated Limited Liability Company Agreement of the Company dated as of September 30, 1998, as amended on December 10, 1998, August 4, 1999, September 28, 1999, December 31, 1999, January 1, 2000, May 31, 2000, January 12, 2001, and January 12, 2001.

Consolidated or consolidated. Consolidated or consolidated means, with reference to any term defined herein, that term as applied to the accounts of the Company and all of its Subsidiaries, if any, consolidated in accordance with generally accepted accounting principles, as from time to time in effect, consistently applied.

Co-Sale Agreement. Co-Sale Agreement means the co-sale agreement in form and substance as set forth as Exhibit C attached hereto.

Default. Default means an event or condition that with the passage of time or giving of notice, or both, would become (i) an Event of Default as defined in the Loan Agreement or (ii) any material breach or material default under this Agreement or any of the Related Agreements.

Distribution. Distribution means (a) the declaration or payment by the Company, any of its Subsidiaries, or any specified Person, of any distribution or dividend, either in cash or in property, on or in respect of any shares of any class of equity securities (as defined herein) of the Company, any Subsidiary of the Company that is not directly or indirectly wholly-owned by the Company, or any other specified Person, other than distributions or dividends that, subject to restrictions contained in this Agreement on issuances of equity securities of the Company, are payable solely in equity securities of the payor; (b) the purchase, redemption, or other retirement of any shares of any class of equity securities of the Company, any Subsidiary of the Company that is not wholly-owned directly or indirectly by the Company, or other specified Person, directly or indirectly or otherwise; or (c) any other distribution on or in respect of any class of equity securities of the Company, any Subsidiary of the Company that is not wholly-owned directly or indirectly by the Company, or other specified Person.

EBITDAB. EBITDAB means an amount for any Person for the period of determination equal to

(a) such Person's net earnings on a consolidated basis; plus

(b) an amount equal to the net earnings of any Subsidiary not included in such Person's net earnings multiplied by such Person's percentage ownership of equity securities of such Subsidiary; plus

(c) amounts deducted in the computation of either such amounts for: (i) interest expense, (ii) federal, state and local income taxes, (iii) depreciation, and (iv) amortization of intangibles; plus losses or minus gains, as the case may be

(d) gains or losses from the sale of assets not in the ordinary course of business; plus losses or minus gains, as the case may be

(e) other non-recurring or extraordinary gains or losses for such period; plus

(f) in the case of the Company, all bonus payments to Sherman or his Affiliates accrued or paid during such period, or in the case of a Representative MLP or an entity which is proposed to be a Representative MLP, all bonus payments to the highest ranking officer (e.g., CEO/President) of the Representative MLP.

Equity Event. Equity Event means (1) a Qualified MLP Offering, or (2) any transaction or series of related transactions (including a merger, consolidation or "stock-for-stock" sale) wherein not less than 90% of the Common Percentage Interests held by all Voting Members of the Company are sold or otherwise disposed of in exchange for voting Equity Securities representing the common or residual interest in the purchaser thereof or an Affiliate of such purchaser.

Equity Event Multiplier. For purposes hereof, the Equity Event Multiplier shall be determined as follows:

| If the Cash Event occurs | But no later than | Then the Cash Event Multiplier will be |
|---|---|---|
| From Closing Date | August 31, 2001 | 1.4 |
| From September 1, 2001 | December 31, 2001 | 1.5 |
| From January 1, 2002 | June 30, 2002 | 1.6 |
| From July 1, 2002 | December 31, 2002 | 1.7 |
| From January 1, 2003 | December 31, 2004 | 1.8 |
| At any time from | | 2.0 |

and after January 1, 2005

Equity Securities. Equity Securities means all equity of any Person which is not an individual, including stock, partnership interests, and limited liability company membership interests, whether voting or non-voting, preferred, common or otherwise, and all options, rights or warrants to purchase any security of the Person, and all securities of any type whatsoever which are, or may become, convertible into securities of the Person.

ERISA. ERISA means the Employee Retirement Income Security Act of 1974, any successor statute of similar import, and the rules and regulations thereunder, collectively and as from time to time amended and in effect.

Event of Default. Event of Default means (i) an Event of Default as defined in the Loan Agreement or (ii) any material breach or material default under this Agreement or any of the Related Agreements (after giving effect to any provisions herein or therein expressly regarding the giving of notice, passage of time or both); except that, solely for purposes of Sections 8.2(ii) and 9.1(e)(a) hereof, Event of Default means an Event of Default whereby the Senior Lender has or has been deemed to have accelerated the obligations of the Company under the Loan Agreement.

Event of Default Remedies Limitation Occurrence. Event of Default Remedies Limitation Occurrence means (i) an Event of Default (solely for purposes hereof as defined in the Loan Agreement) has occurred, is continuing and remains unwaived by the Senior Lender; or (ii) after giving effect to the put exercise as provided in Sections 8.2, 9.1 and 9.7 hereof or the exercise of any rights hereunder, an Event of Default (solely for purposes hereof as defined in the Loan Agreement) will occur which has not been waived by the Senior Lender.

Exchange Act. Exchange Act means the Securities Exchange Act of 1934, as amended, or any successor federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at any time.

Family Members. Family Members means, as applied to any individual, a Close Relative or Secondary Relative of such individual, and each trust (including revocable trusts) created for the benefit of one or more of such Persons and each custodian of property of one or more such Persons.

Financial Statements. See Section 3.07(a).

Fiscal Year. Fiscal Year means the Company's accounting year ending on September 30 of each calendar year.

Funded Indebtedness. Funded Indebtedness means all Indebtedness of the Person that matures more than one year from the date of determination or matures within one year of such date but is renewable or extendible, at the option of the Person, to a date more than one year from such date, or that arises under a revolving credit or other similar arrangement that obligates the lender or

lenders to extend credit during a period of more than one year from such date of determination, including, without limitation, all amounts of Funded Indebtedness required to be paid or prepaid within one year from the date of determination, but the term Funded Indebtedness shall exclude any Indebtedness incurred for working capital purposes.

General Partner. General Partner means the general partner of the limited partnership which offers limited partnership units to the public in the Qualified MLP Offering and the general partner of the operating limited partnership in the MLP structure.

Generally Accepted Accounting Principles or generally accepted accounting principles or GAAP. Generally Accepted Accounting Principles or generally accepted accounting principles or GAAP means accounting principles that are (a) consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors and successors that, unless specified herein to the contrary, are in effect from time to time, (b) applied with respect to any Person on a basis consistent with prior periods, and (c) such that a certified public accountant would, insofar as the use of accounting principles is pertinent, be in a position to deliver an unqualified opinion as to financial statements in which such principles have been properly applied.

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

Hoosier Acquisition. Hoosier Acquisition means the acquisition of assets pursuant to the Hoosier Agreement.

Hoosier Agreement. Hoosier Agreement means that certain Asset Purchase Agreement dated September 8, 2000 among Investors 300, Inc., Domex, Inc., L&L Leasing, Inc., Jerry Boman, Wayne Cook, Glen E. Cook, Phillip L. Elbert, and the Company, as amended as of January 12, 2001.

Indebtedness. Indebtedness means all obligations, contingent or otherwise, that in accordance with generally accepted accounting principles should be classified on the obligor's balance sheet as liabilities, including without limitation all contingent liabilities, lease obligations that in accordance with generally accepted accounting principles are required to be capitalized, and all guarantees, endorsements, and contingent obligations in respect of Indebtedness of others.

Investor. Investor means (a) each of the Persons, other than the Company and the Warrant Investors, that are signatory hereto, and (b) upon exercise of the Warrants pursuant to the terms and conditions of the Warrant Agreements, each Warrant Investor that exercises its Warrants.

Investor Percentage. Investor Percentage means a fraction, expressed as a percentage, the numerator of which is the Preferred Capital Account of the Investor in question as adjusted pursuant to Section 4.7(l) or 4.7(m) of the Company's LLC Agreement, as the case may be, at the time of the Put/Call Closing Date at which the Company repurchased such Investor's Securities pursuant to Section 9.2, and the denominator of which is the aggregate Preferred Capital Accounts of all of the Investors, each as adjusted pursuant to Section 4.7(l) or 4.7(m) of the

Company's LLC Agreement, as the case may be, at the time of the Put/Call Closing Date at which the Company repurchased the Investors' Securities pursuant to Section 9.2.

Investors. Investors mean all of the Investors collectively.

Investors Rights Agreement. Investors Rights Agreement means that certain investors rights agreement in form and substance set forth as Exhibit D attached hereto.

Involuntary Bankruptcy Proceeding. Involuntary Bankruptcy Proceeding shall mean any time at which a case or other proceeding shall be commenced any of the Company, Holdings, or any Subsidiary of the Company or Holdings in any court of competent jurisdiction seeking (a) relief under the federal bankruptcy laws (as now or hereafter in effect) or under any other laws, domestic or foreign, relating to bankruptcy, insolvency, reorganization, winding up or adjustment of debts, or (b) the appointment of a trustee, receiver, custodian, liquidator or the like for the Company, Holdings, or any Subsidiary of the Company or Holdings or for all or any substantial part of their respective assets, domestic or foreign, and such case or proceeding shall continue undismissed or unstayed for a period of sixty (60) consecutive days, or an order granting the relief requested in such case or proceeding (including, but not limited to, an order for relief under such federal bankruptcy laws) shall be entered.

Joinder Agreement. Joinder Agreement means the agreement in form and substance as set forth as Exhibit C to the Warrant Agreement, to be executed and delivered by each Warrant Investor upon exercise of such Warrant Investor's Warrant.

KCEP. KCEP means KCEP Ventures II, L.P., a Missouri limited partnership.

KCEP 1999 Agreement. KCEP 1999 Agreement means that certain Securities Purchase Agreement dated December 31, 1999, between the Company and KCEP, as amended on even date herewith.

KCEP 1999 Interests. KCEP 1999 Interests mean the Class A Preferred Interests as purchased by KCEP on December 31, 1999 as reflected on the Amendment No. 4 to the Company's LLC Agreement dated December 31, 1999, as further amended on the Closing Date.

Knowledge. An individual will be deemed to have "Knowledge" of a particular fact or other matter if such individual is actually aware of such fact or other matter. The Company will be deemed to have "Knowledge" of a particular fact or other matter only if any of Sherman, Phillip L. Elbert, or William Gautreaux is actually aware of such fact or other matter.

Leases. Leases means all leases of real and personal property entered into or assumed by the Company, whether capitalized, operating or otherwise.

Lien. Lien means (a) any encumbrance, mortgage, deed of trust, pledge, lien, charge, restriction, hypothecation or other claim or security interest of any kind upon any property or assets of any kind of a Person, or upon the income or profits therefrom, whether voluntary or involuntary, or arising at law or otherwise, (b) any acquisition of or agreement to have an option or other right to acquire any property or assets upon conditional sale or other title retention agreement, device, or

arrangement (including any capitalized lease), or (c) any sale, assignment, pledge, or other transfer for security of any accounts, general intangibles, or chattel paper, with or without recourse, or any agreement or option with respect to any of the foregoing.

Loan Agreement. Loan Agreement means the Second Amended and Restated Credit Agreement dated as of January 12, 2001, among the Company, Inergy Propane, LLC, Rolesville Gas and Oil Company, Inc., Wilson Oil Company of Johnston County, Inc., the Lenders named therein, the Senior Lender, Firstar Bank, N.A., and Bank of Oklahoma, N.A., and the exhibits thereto and all instruments, documents and agreements executed or delivered in connection therewith between the Company (and certain of its Affiliates) and the Senior Lender, including, without limitation, all promissory notes, guarantees, security agreements, pledge agreements, assignments, deeds of trust, mortgages, letters of credit, and other instruments and agreements executed pursuant thereto or in connection therewith, including all amendments, supplements, extensions, renewals, restatements, replacements, or refinancings thereof, or other modifications (in whole or in part, without limitations as to amount, terms, conditions, covenants, or other provisions) thereof from time to time.

Majority Investors. Majority Investors means the holder or holders (excluding the Company and its Subsidiaries) at the relevant time of more than sixty percent (60%) of the Securities, as determined by reference to the Class A Preferred Interests. Unless and until supplanted by a subsequent written notice executed by the Majority Investors, the Company shall with respect to any consent, approval, waiver or other action by Majority Investors, have the right to rely on any previously delivered notice or other instrument signed by or on behalf of those Investors constituting Majority Investors (determined by reference to this Agreement and the Company's books and records regarding ownership of applicable Class A Preferred Interests), notwithstanding any actions or omissions by, or disputes between, any holders of the Securities. Each of the Investors which, at any given time or for any specified purpose herein, is then acting as one of the Majority Investors, shall endeavor in good faith to keep the other Investors reasonably apprised of the actions taken hereunder by the Majority Investors and, if such actions are reduced to writing, to provide prompt written notice thereof to the other Investors.

New Securities. New Securities means any Equity Securities of the Company, including the Securities, whether now authorized or not; provided, however that the term "New Securities" does not include (i) securities offered, converted or exchanged in a Qualified MLP Offering; (ii) securities offered or issued in a Qualified Acquisition; (iii) non-voting membership interests, constituting not more than ten percent (10%) of the total equity of the Company (or such greater percentage or amount as the Majority Investors may approve in writing) issued to employees or consultants of the Company or its Affiliates pursuant to an option plan, employee purchase plan, restricted equity plan or other employee plan or agreement whereby equity interests are to be issued to employees or consultants; (iv) securities identified on Schedule 3.5(a)(ii) hereof; (v) the Warrants and the Securities issuable upon exercise of the Warrants; or (vi) securities issued as a result of a split, distribution or reclassification of equity interests, distributable on a pro rata basis to all holders of securities of the Company.

Non-Investor Interests. Non-Investor Interests means any Equity Securities held by a Person other than the Investors or Warrant Investors, provided, however, that Non-Investor Interests

shall not include any Common Interests beneficially owned (as defined in Rule 13d-3 under the Exchange Act) by any Person if the Common Percentage Interest for all Common Interests beneficially owned by such Person and any of its Affiliates does not exceed, in the aggregate, 3.0% of the total Common Interests.

Organizational Documents. Organizational Documents shall include the articles or certificate of incorporation or organization, operating agreement, limited liability company agreement, joint venture or partnership agreement, bylaws, or articles or other charter documents of any Person other than an individual, each as from time to time amended or modified.

Permitted Debt. Permitted Debt means "Permitted Debt" as defined in and within the meaning of the Loan Agreement.

Permitted Liens. Permitted Liens means "Permitted Liens" as defined in and within the meaning of the Loan Agreement.

Person. Person means an individual, partnership (whether general, limited, limited liability or otherwise), limited liability company, corporation, association, trust, joint venture, unincorporated organization, and any government, governmental department or agency or political subdivision thereof.

Preferred Capital Account. Preferred Capital Account shall have the meaning ascribed thereto in the Company's LLC Agreement.

Pro Forma Balance Sheet. See Section 3.7(a)(ii).

Projections. See Section 3.7(a)(iii).

Proposed Change of Control. Proposed Change of Control means (a) any proposal, offer, resolution or understanding, whether or not reduced to writing, initiated by or received by the Company or any of the Affiliates, members, officers, directors, employees, or agents of the Company, (i) to purchase or lease all or substantially all of the assets and properties of the Company, (ii) to purchase more than 50% of the Equity Securities (calculated based on the total aggregate Common Capital Accounts, adjusted pursuant to Section 3.5(b) of the Company's LLC Agreement, and the Preferred Capital Accounts as of the date of such proposal, offer, resolution or understanding) or voting membership interests of the Company (other than pursuant to a Qualified MLP Offering), (iii) to merge or consolidate the Company with another Person or Persons (whether or not the Company is the surviving or resulting entity thereof, but excluding a Qualified Acquisition, and excluding any merger or consolidation in which the same parties control the surviving entity as control the Company immediately prior to such merger or consolidation), or (iv) to liquidate, dissolve or terminate the Company, (b) the resignation of Sherman as the President or Chief Executive Officer of the Company or any of its Affiliates, (c) Inergy Holdings, LLC shall cease to be an Affiliate of Sherman, or (d) except upon consummation of a Qualified MLP Offering, Inergy Holdings, LLC shall cease to own and control a majority of the voting membership interests of the Company.

Purchase Price. See Section 2.2.
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Put/Call Closing Date. See Section 9.3.
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Put Formula Amount. See Section 9.5(b).
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Put Notice. See Section 9.1.
- ----------

Put Price. See Section 9.5.
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Put Rights. See Section 9.1.
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Qualified Acquisition. Qualified Acquisition means any "Permitted Acquisition"
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(as defined in and within the meaning of the Loan Agreement) which, upon consummation of the Permitted Acquisition, does not cause the Adjusted EBITDAB Multiple of the Company on a consolidated basis to be greater than 7.0.

Qualified MLP Offering. Qualified MLP Offering means an offering and exchange of
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Equity Securities of the Company and/or its Affiliates to be effected by a Form S-1 Registration Statement (and the exhibits and schedules thereto) to be filed with the Commission in connection with the Qualified MLP Offering, and which has the other features for the benefit of the Investors as described herein:

(i) immediately prior to, or at the time of, the Qualified MLP Offering, the capital accounts of the KCEP 1999 Interests in the Company will have the "deemed gain allocation" as described in Section 4.7(l) of the Company's LLC Agreement; and

(ii) immediately prior to, or at the time of, the Qualified MLP Offering, the capital accounts of the Class A Preferred Interests of the Investors in the Company (other than the KCEP 1999 Interests) will have the "deemed gain allocation" as described in Section 4.7(m) of the Company's LLC Agreement; and

(iii) each of the Investors will exchange all of their Class A Preferred Interests in the Company (including the KCEP 1999 Interests) for senior subordinated limited partnership units of the publicly traded master limited partnership; and

(iv) the senior subordinated limited partnership units to held by the Investors after the exchange of all of their Class A Preferred Interests and upon consummation of the Qualified MLP Offering will be ranked (1) during the subordination period (to be defined in the Qualified MLP limited partnership agreement), (A) junior to the common limited partnership units to be issued to the public in the Qualified MLP Offering (B) pari passu to the senior subordinated limited partnership units to be issued to the General Partner or the Founding Companies or their Affiliates in the Qualified MLP Offering, and (C) senior to all junior limited partnership interests, if any, to be issued in the Qualified MLP Offering; and (2) after the subordination period, pari passu with the common limited partnership units issued to the public in the Qualified MLP Offering; and

(v) the subordination period (to be defined in the Qualified MLP limited partnership agreement) allows for release of 25% at the end of Year 3, 25% at the end of Year 4 and 50% at the end of Year 5 of the senior subordinated limited partnership units to held by the Investors after the exchange and upon consummation of the Qualified MLP Offering, except to the extent that certain market-driven performance thresholds (to be determined by the managing underwriter for the Qualified MLP Offering and to be set forth in the Qualified MLP limited partnership agreement) are not met, such releases may be delayed as provided in such partnership agreement; and

(vi) the Company shall have valuation distributable cash flow coverage (as determined by the managing underwriter for the Qualified MLP Offering) on the common units to be issued to the general public in the Qualified MLP Offering of at least 2-to-1;

(vii) at the closing of the Qualified MLP Offering, the junior subordinated limited partnership units issued to Holdings shall represent not less than 10% of the total market capitalization of the master limited partnership; and

(viii) after the Qualified MLP Offering, the Investors shall continue to receive the benefits of Section 3 of the Agreement Among Members, Investors and the Company until such Section is terminated in accordance with the terms of such agreement.

Related Agreements. Related Agreements means the Loan Agreement, the Amendment
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to Company's LLC Agreement, the Company's LLC Agreement, the Co-Sale Agreement, the Agreement Among Members, Investors and the Company, the Warrant Agreement, and the Investors Rights Agreement, and all appendices, schedules and exhibits thereof.

Representative MLP. Representative MLP means each of the three (3) publicly
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traded master limited partnerships which has, at the time of the determination, the highest Adjusted EBITDAB Multiple in the retail propane industry. The Majority Investors and the Company shall mutually agree upon which of the publicly traded master limited partnerships are to be included as a Representative MLP but, in the event they cannot so decide within 10 business days, the Majority Investors shall request the appropriately qualified person or persons at Paine Webber Incorporated (or any successor organization) or other nationally recognized underwriter with substantial experience in lead managing public offerings of master limited partnership units to state which publicly traded master limited partnerships fit the criteria stated herein as a Representative MLP and such decision, which shall be rendered in writing within 5 business days, shall be binding upon the Company and all of the Investors.

Restricted Securities. See Section 11.1.
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SBIA. SBIA means the Small Business Investment Act of 1958, as amended.
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Secondary Relative. Secondary Relative shall have the meaning ascribed thereto
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in Section 107.50 of Part 107 of Title 13 of the Code of Federal Regulations, as the same shall be amended or supplemented from time to time.

Securities. Securities shall mean (a) the Class A Preferred Interests issued to
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the Investors at the Closing, having the rights, preferences and designations, and initial Preferred Capital Account for each Investor, as set forth in

Schedule 3.5(a)(ii) hereto, and (b) the Class A Preferred Interests issued to
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the Warrant Investors upon exercise of the Warrants, having the rights, preferences and designations, and initial Preferred Capital Account, as set forth in the Warrant Investor Amendment to Company's LLC Agreement.

Securities Act. Securities Act means the Securities Act of 1933, as amended, or
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any successor federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

Securities Laws. See Section 6.8.
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Senior Indebtedness. Senior Indebtedness means the Indebtedness of the Company
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in the maximum principal amount of $96,000,000 to the Senior Lender under the Loan Agreement or to any Indebtedness approved by the Majority Investors in substitute of the Indebtedness to the Senior Lender.

Senior Lender. Senior Lender means the syndicate of banks led by First Union
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National Bank, as Agent, or any successor lender.

Sherman. Sherman means John J. Sherman, an individual and the current President
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and Chief Executive Officer of the Company.

Subordination Agreement. Subordination Agreement means that certain
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Subordination Agreement dated as of January 12, 2001, among the Senior Lender and each of the Investors.

Subsidiary. Subsidiary means any Person of which the Company or other specified
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Person now or hereafter shall at the time own directly or indirectly through a Subsidiary at least a majority of the outstanding equity securities (or other shares or forms of beneficial interest) entitled to vote generally and, with respect to the Company shall be deemed to include the assets acquired in the Hoosier Acquisition as if such acquisition had taken place immediately prior to the Closing.

Total Capitalization. Total Capitalization of any Person means the Funded
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Indebtedness of that Person plus either: (1) in the case of a Person which has publicly traded Equity Securities, the total equity market capitalization of such Person, or (2) in the case of the Company, the aggregate capital accounts of all preferred membership interests in the Company which are pari passu or senior to the Securities, including the Class A Preferred Interests, or (3) in the case of any other Person, the total value of all Equity Securities of that Person.

Unfunded Vested Accrued Benefits. Unfunded Vested Accrued Benefits means with
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respect to any employee benefit plan of a Person at any time, the amount (if any) by which the present value of all vested nonforfeitable benefits under such employee benefit plan exceeds the fair market value of all employee benefit plan assets allocable to such benefits, all determined as of the then most recent valuation date for such employee benefit plan.

Voluntary Bankruptcy Proceeding. Voluntary Bankruptcy Proceeding shall mean any time at which any of the Company, Holdings, or any Subsidiary of the Company or Holdings shall (a) commence a voluntary case under the federal bankruptcy laws (as now or hereafter in effect), (b) file a petition seeking to take advantage of any other laws, domestic or foreign, relating to bankruptcy, insolvency, reorganization, winding up or composition for adjustment of debts, (c) consent to or fail to contest in a timely and appropriate manner any petition filed against it in an involuntary case under such bankruptcy laws or other laws, (d) apply for or consent to, or fail to contest in a timely and appropriate manner, the appointment of, or the taking of possession by, a receiver, custodian, trustee, or liquidator of itself or of a substantial part of its property, domestic or foreign, (e) admit in writing its inability to pay its debts as they become due, (vi) make a general assignment for the benefit of creditors, or (f) take any corporate action for the purpose of authorizing any of the foregoing.

Voting Member. Voting Member shall have the meaning ascribed thereto in the Company's LLC Agreement.

Voting Member Majority. Voting Member Majority shall have the meaning ascribed thereto in the Company's LLC Agreement.

Warrant. Warrant means the right to acquire additional Securities granted to the Warrant Investors pursuant to Section 18 of this Agreement.

Warrant Agreement. Warrant Agreement means each of the agreements in form and substance as set forth as Exhibits E-1 and E-2 attached hereto.

Warrant Investor. Warrant Investor means each of the Persons that have executed the signature page hereto solely with respect to Section 18 of this Agreement and the Warrant Agreements.

Warrant Investor Amendment to LLC Agreement. Warrant Investor Amendment to LLC Agreement means the amendment to the Company's LLC Agreement, in form and substance as set forth as Exhibit B to the Warrant Agreement, to be executed and delivered by the Company and each Warrant Investor upon exercise of such Warrant Investor's Warrant.

SECTION 2. SALE AND PURCHASE OF SECURITIES

2.1. Sale and Purchase of Securities. At the Closing and subject to all of the terms and conditions hereof and in reliance on the representations and warranties set forth or referred to herein, the Company agrees to issue and sell to the Investors, and each Investor agrees to purchase from the Company, severally and not jointly, the amount of Securities set forth beside such Investor's name on Schedule 3.5(a)(ii) hereto.

2.2. Purchase Price. The parties hereto agree that the aggregate purchase price for the Securities to be purchased by the Investors is $15,000,000 (the "Purchase Price"), to be paid by wire transfer at the Closing pursuant to written instructions provided by the Company prior to the Closing Date.

2.3. Closing. The closing of the purchases and sales of the Securities (the "Closing") will take place at the offices of Stinson Mag & Fizzell, 1201 Walnut, Suite 2800, Kansas City, Missouri 64106 at 10:00 a.m. local time on January 12, 2001, or such other place and date as the parties hereto may agree upon (the "Closing Date"). The Securities will be issued to the Investors on the Closing Date and registered in the Investors' names and in such amounts as specified on

Schedule 3.5(a)(ii) hereto.

2.4. Use of Proceeds. The Company agrees that it will use the proceeds from the sale of the Securities hereunder solely to (i) fund Qualified Acquisitions, (ii) provide for the expenses of a Qualified MLP Offering, and (iii) provide working capital for use by the Company in the ordinary course of its business.

SECTION 3. REPRESENTATIONS AND WARRANTIES

The Company hereby represents and warrants to each of the Investors that, as of the Closing Date:

3.1. Organization and Good Standing. The Company and each of its Subsidiaries (1) is a limited liability company or corporation duly organized, validly existing and in good standing under the laws of the state of its organization, (2) is in good standing in all other jurisdictions in which it is required to be qualified to do business as a foreign limited liability company or foreign corporation, and (3) has obtained all licenses and permits and has filed all registrations necessary to the operation of its business. The Company and each of its Subsidiaries has the power to own its properties and to carry on its business as now conducted and as proposed to be conducted.

3.2. Authorization. The execution, delivery, and performance by the Company of this Agreement and the Related Agreements to which the Company is a party, and the issuance and sale by the Company of the Securities, (a) are within the Company's power and authority, (b) have been duly authorized by all necessary proceedings under the Company's LLC Agreement or otherwise, (c) do not conflict with or result in any breach of any provision of the Company's LLC Agreement, and (d) do not conflict with or result in any breach of any provision or the creation of any Lien, other than Permitted Liens for the benefit of the Senior Lender, upon any of the property of the Company pursuant to the Company's Organizational Documents or any law, regulation, order, judgment, writ, injunction, license, permit, agreement, indenture, or instrument to which the Company is a party or by which it is bound, the non-compliance with which would materially adversely affect the business, operations, financial or legal condition, or prospects of the Company.

3.3. Enforceability. The execution and delivery of this Agreement and each of the Related Agreements to which the Company is a party and the issuance and sale of the Securities will result in legally binding obligations of the Company enforceable against it in accordance with the respective terms and provisions hereof and thereof, except to the extent (a) such enforceability is limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, or other similar laws relating to or affecting generally the enforcement of creditors rights, (b) the availability of the remedy of specific performance or injunctive or other equitable

relief is subject to the discretion of the court before which any proceeding therefor may be brought, and (c) the enforceability of the indemnities contained in Section 12 of this Agreement may be limited under federal and state securities laws.

3.4. Approvals: No Violations. Except as set forth in Schedule 3.4 hereto, the execution, delivery, and performance by the Company of this Agreement and each of the Related Agreements to which the Company is a party, and the issuance and sale of the Securities hereunder, do not require the approval or consent of, or any filing with, any governmental authority or agency, or any other Person. Neither the Company nor any of its Subsidiaries is in violation, or in default of or in breach of, its Articles or any law, regulation, order, judgment, writ, injunction, license, permit, agreement, indenture, or instrument to which the Company or any of its Subsidiaries is a party or by which it is bound, which violation, default or breach would materially adversely affect the business, operations, financial or legal condition, or prospects of the Company or any of its Subsidiaries.

3.5. Capitalization.

(a) Equity Securities. Schedule 3.5(a)(i) sets forth a list of all of the holders of Equity Securities in Holdings, the Company, and each of the Company's Subsidiaries and the classes, series, amount, percentages and capital accounts of such holders. On the Closing Date, after giving effect to the transactions contemplated hereby and the acquisition of Hoosier Propane, Holdings, the Company, and each of the Company's Subsidiaries will have no outstanding Equity Securities except as set forth in Schedule 3.5(a)(ii) hereto. All such outstanding Equity Securities set forth in Schedule 3.5 (a)(ii) in Holdings, the Company, and each of the Company's Subsidiaries have been and will be duly authorized, fully paid and non-assessable (except for any obligations of Common Members, as defined in the Company's LLC Agreement, to make additional capital contributions as provided in applicable organizational documents).

(b) Options, etc. Other than as created pursuant to this Agreement, or as disclosed on Schedule 3.5(b) hereto, neither Holdings, the Company, nor any of the Company's Subsidiaries has outstanding any agreements, rights (either preemptive or other), or options to subscribe for or requiring the issuance by Holdings, the Company or any of the Company's Subsidiaries of any equity securities or any securities convertible into or exchangeable for its Equity Securities.

(c) No Registration Rights. Except pursuant to the Investors Rights Agreement or as set forth on Schedule 3.5(c) hereto, the Company has not granted to any holder of any of its securities the right to demand or piggyback on any registration of any Equity Securities of the Company with the Commission, or any other registration, co-sale, or similar rights.

3.6. Subsidiaries. Other than those entities listed on Schedule 3.6, neither Holdings nor the Company has any Subsidiaries.

3.7. Reports and Financial Statements.

(a) The Company has previously furnished the Investors with complete and correct copies of the following:

(i) the unaudited balance sheets of the Company as of September 30, 2000 and the audited balance sheets of the Company as of September 30, 1997, September 30, 1998 and September 30, 1999 and unaudited income statements for the twelve months ended September 30, 2000 and audited income statements for the twelve months ended September 30, 1997, September 30, 1998 and September 30, 1999 and other income statements and balance sheets for the interim periods ended prior to the Closing Date, each attached hereto as Schedule 3.7(a)(i) (collectively the "Financial Statements");

(ii) the Company's pro forma balance sheet as of October 31, 2000, giving effect to the transactions subsequent thereto and contemplated hereby, including the Hoosier Acquisition ("Pro Forma Balance Sheet") and attached hereto as Schedule 3.7(a)(ii); and

(iii) the projections of the Company's future performance dated as of the Closing Date, which gives pro forma effect to the Hoosier Acquisition, and attached hereto as Schedule 3.7(a)(iii) (the "Projections").

(b) Each of the Financial Statements delivered under Section 3.7(a)(i) and 3.7(a)(ii) hereof has been prepared from the books and records of the Company and reflect the Hoosier Acquisition, as the case may be, fairly present the financial or legal condition of the Company and the results of operations on the dates or for the periods indicated, and has been prepared in accordance with GAAP.

(c) Each of the Pro Forma Balance Sheet and each of the Projections has been prepared by management of the Company on a reasonable basis consistent with the historical financial statements of the Company and the Hoosier Propane group of entities, and each constitutes a reasonable basis for the assessment of the future performance of the Company during the periods indicated therein; provided, however, that each of the Investors acknowledges that no guarantee is being made by the Company that actual performance will equal the performance contained in the Projections.

3.8. Material Adverse Change. Except as set forth in Schedule 3.8, there has been no material adverse change in the business, assets, properties, prospects, or financial or legal condition of the Company since the date of the October 31, 2000 Balance Sheet. Except as set forth in Schedule 3.8, since the date of the October 31, 2000 Balance Sheet, the Company will not have conducted any business or incurred any liabilities other than those arising in the ordinary course of the Company's business and in connection with the transactions contemplated by this Agreement, the Hoosier Agreement, or the Related Agreements.

3.9. Indebtedness and Liens. The Company does not and, after giving effect to the transactions to be consummated at the Closing will not, have any Indebtedness or Liens upon any of its properties other than Permitted Debt and Permitted Liens.

3.10. Absence of Certain Developments. Except as provided in this Agreement or as disclosed on Schedule 3.10(a), since the date of the Pro Forma Balance Sheet, the Company has not (i) issued any bonds, debentures, notes, equity securities, or other securities; (ii) borrowed any amount or incurred or become subject to any liabilities (absolute or contingent) other than in the ordinary course of business; (iii) discharged or satisfied any Lien or paid any obligation or liability (absolute or contingent) other than in the ordinary course of business; (iv) purchased or redeemed any of its equity securities; (v) mortgaged, pledged, or subjected to Lien, any of its assets, tangible or intangible, except Liens of current taxes not yet due and payable and except for Permitted Liens; (vi) sold, assigned, or transferred any of its tangible assets except inventory in the ordinary course of business, or canceled any debts or claims; (vii) sold, assigned, or transferred any patents, licenses, permits, trademarks, trade names, copyrights, trade secrets, or other intangible assets; (viii) suffered any extraordinary loss or waived any right, whether or not in the ordinary course of business and consistent with past practice; or (ix) entered into any transaction other than in the ordinary course of business. Since October 1, 1999, the Company has not made any Distribution to any Person, other than Distributions to holders of Common Interests and Class A Preferred Interests pursuant to the terms of the Company's LLC Agreement. Schedule 3.10(b) sets forth the amounts of all Distributions to holders of Common Interests and Class A Preferred Interests since October 1, 1999. Schedule 3.10(c) sets forth the dates and other terms with respect to the redemption (whether at the option of the Company or the holders thereof) and/or maturity of all Equity Securities outstanding as of the date of this Agreement.

3.11. Solvency. Now and after giving effect to the transactions contemplated by this Agreement, the Hoosier Agreement, and the Related Agreements, the Company (i) is not and will not be insolvent, (ii) has and will have assets having a fair salable value in excess of the amount required to pay its liabilities on its existing debts as they become absolute and matured, and (iii) is not and will not be left with unreasonably small capital with which to engage in its anticipated business. On both a consolidated and unconsolidated basis, the Company has not, and after giving effect to this Agreement, the Hoosier Agreement, and the Related Agreements will not have, incurred Indebtedness and other obligations of any kind whatsoever beyond its ability to pay such Indebtedness and other obligations as they mature.

3.12. Title to Assets. The Company and each of its Subsidiaries has good and marketable title to all assets and other property purported to be owned by it, subject to no Liens other than Permitted Liens.

3.13. Litigation. There is no litigation, at law or in equity, nor any proceeding or investigation before or by any court, board, or other governmental or administrative agency or any arbitrator pending or, to the Knowledge of the Company, threatened which, individually or in the aggregate, is reasonably likely to result in any final judgment or liability that could result in any material adverse change in the business, assets, properties, prospects or financial or legal condition of the Company or any Subsidiary or that seeks to enjoin the consummation of, or that questions the validity of, any of the transactions contemplated by this Agreement, the Hoosier Agreement, the Securities, or the Related Agreements, except for the matters set forth on Schedule 3.13. No award, judgment, decree, or order of any court, board, or other governmental or administrative agency or arbitrator has been issued or, to the Knowledge of the Company, threatened against the Company that has or may have any material adverse effect on the business,

assets, properties, prospects or financial or legal condition of the Company. To the Knowledge of the Company, there are not any facts or circumstances involved with or resulting from an explosion of the propane products, tanks or canisters of the Company or any of its Subsidiaries which could reasonably be expected to result in a claim or action for damages, property loss or personal injury.

3.14. Taxes. The Company has filed all tax returns and reports that are required to be filed with any foreign, federal, state, or local governmental authority or agency and has paid, or made adequate provision for the payment of, all assessments received and all taxes that have or may become due under applicable foreign, federal, state, or local governmental law or regulations with respect to the periods in respect of which such returns and reports were filed. The Company has no Knowledge of no additional actual or proposed assessments against it since the date of such returns and reports, and there will be no additional assessments for which adequate reserves appearing on the Pro Forma Balance Sheet have not been established. The Company has made adequate provision for all current taxes.

3.15. Defaults. To the Company's Knowledge, (i) neither the Company nor any of its Subsidiaries are in default under any provisions of its Articles and (ii) there is no Default or Event of Default.

3.16. ERISA. No employee benefit plan established, assumed, or maintained by the Company or to which the Company has made contributions, which is subject to Part 3 of Subtitle B of Title I of ERISA or Section 412 of the Code, had an accumulated funding deficiency (as such term is defined in Section 302 of ERISA or Section 412 of the Code), whether or not waived, as of the last day of the most recent fiscal year of such plan heretofore ended. No liability to the Pension Benefit Guaranty Corporation (other than required insurance premiums, all of that have been paid) has been incurred by the Company with respect to any such plan and there has not been any reportable event within the meaning of ERISA and the regulations promulgated thereunder, or any other event or condition, which presents a material risk of termination of any such plan by the Pension Benefit Guaranty Corporation. Neither any such plan nor any trust created thereunder, nor any trustee or administrator thereof, has engaged in a prohibited transaction (as such term is defined in Section 4975 of the Code or Section 406 of ERISA) that could subject any such plan, trust, trustee, or administrator of the Company to any tax or penalty on prohibited transactions imposed under said Section 4975 or ERISA. No material liability has been incurred with respect to any multiemployer plan, within the meaning of Section 4001(a)(3) of ERISA, as a result of the complete or partial withdrawal by the Company from such a multiemployer plan under Section 4201 or 4204 of ERISA; nor has the Company been notified by any such multiemployer plan that such multiemployer plan is in reorganization or insolvency under and within the meaning of Section 4241 or 4245 of ERISA or that such multiemployer plan intends to terminate or has been terminated under Section 4041A of ERISA.

3.17. Governmental Regulations. The Company is not and will not become a "holding company", or a "subsidiary company" of a "holding company" or an "affiliate" of a "holding company", as such terms are defined in the Public Utility Holding Company Act of 1935; nor is it a "registered investment company", or an "affiliated person" or a "principal underwriter" of a

"registered investment company", as such terms are defined in the Investment Company Act of 1940, as amended.

3.18. Environmental Protection. Except as set forth on Schedule 3.18 hereto, to the Company's Knowledge, it has obtained all permits, licenses, and other authorizations which are required under federal, state, and local laws relating to pollution or protection of the environment, including laws relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants or hazardous or toxic materials or wastes, except where the failure to obtain any such permits, licenses, or other authorizations would not materially adversely affect the business, operations, financial or legal conditions, or prospects of the Company. Except as set forth on Schedule 3.18 hereto, to the Company's Knowledge, it is in full compliance with all terms and conditions of the required permits, licenses and authorizations, and is also in full compliance with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in those laws or contained in any regulation, code, plan, order, decree, judgment, notice or demand letter issued, entered, promulgated or approved thereunder. Except as set forth on Schedule 3.18 hereto, the Company is not aware of, and has not received notice of, any past, present or future events, conditions, circumstances, activities, practices, incidents, actions, or plans which may interfere with or prevent continued compliance by the Company with its obligations hereunder, or which may give rise to any common law or legal liability, or otherwise form the basis of any claim, action, suit, proceeding, hearing, or investigation, based on or related to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling, or the emission, discharge, release, or threatened release into the environment, or any pollutant, contaminant, or hazardous or toxic material or waste.

3.19. Contracts and Commitments. Schedule 3.19 lists all potential Targets (as defined in and within the meaning of the Loan Agreement) with which the Company or its Affiliates have entered into an executed letter of intent regarding a possible acquisition since the date of the Pro Forma Balance Sheet. Schedule 3.19 includes all executed letters of intent regarding such acquisitions.

3.20. Compliance with Small Business Investment Act Requirements.

(a) The Company has not engaged in any activities and shall not hereafter engage in any activities or use directly or indirectly the proceeds received from the Investors for any purpose for which a Small Business Investment Company is prohibited from providing funds as provided in Section 107.720 of Title 13, Code of Federal Regulations, Part 107 as promulgated under the SBIA.

(b) To the Company's Knowledge, neither the Company nor any of its officers, directors (excluding David J. Schulte and Richard C. Green, Jr.) members (excluding the Investors) or employees directly or indirectly own or control, or are related to any Person who owns or controls, any interest in, or is an officer, director, employee, member, or agent of, any of the Investors or any entity in any way related to or affiliated with any of the Investors or any other Small Business Investment Company.

(c) The Company has not received, is not receiving, and has no intention to apply for any assistance from the Small Business Administration or any Small Business Investment Company other than the Investors or other than bank loans through the Small Business Administration.

(d) The Company qualifies as a "small business concern" under, and is in full compliance with, the provisions of SBIA, and the aggregate consolidated tangible net worth of the Company and all other business entities affiliated with the Company does not exceed $18,000,000, and the Company's average consolidated net income in its last two Fiscal Years has not exceeded $6,000,000, each calculated in accordance with the SBIA and the regulations thereunder.

3.21. Insurance. All of the insurance policies of the Company and its Subsidiaries are in full force and effect and the premiums therefor, to the extent due and payable, have been paid in full. These insurance policies provide adequate enforceable coverage for all liability and casualty risks of the Company and its Subsidiaries in light of the experience of the Company and its Subsidiaries and the practice and usages of the industry in which the Company and its Subsidiaries are engaged.

3.22. Tax Status. The Company is, and immediately after the Closing will continue to be, taxed as a partnership under the Code.

3.23. Hoosier Agreement. Each of the Investors shall be the beneficiary of, and entitled to rely upon, the representations, warranties and covenants of the parties to the Hoosier Agreement (other than the Company), subject to all exceptions and qualifications expressly contained therein or referred to in an exhibit or schedule appended thereto, as if the Company (instead of such parties other than the Company) on behalf of such other parties had made such representations, warranties, and covenants directly to such Investors (instead of to the Company as the buyer) on and as of the date hereof; it being understood and agreed that such Investors have no liability, responsibility or obligation with regard to any of the Company's representations, warranties or covenants to such parties or any other person or entity under the Hoosier Agreement or any other documents called for therein, and it being further understood that the Company, and not the other parties to the Hoosier Agreement, is making the representations and warranties set forth in this Section 3.23, and the Investors shall have no recourse against any parties to the Hoosier Agreement other than the Company.

SECTION 4. REPRESENTATIONS OF INVESTORS

Each Investor hereby represents and warrants, severally and not jointly, to the Company, as to himself or itself, as follows:

4.1. Investment Intent. Such Investor is acquiring the Securities for investment, and not with a view to selling or otherwise distributing the Securities, other than in a transaction that is exempt from the registration requirements of the Securities Act.

4.2. Approvals. The terms and conditions of this Agreement, the Securities and the Related Agreements and of the transactions contemplated by each have been approved in accordance with such Investor's charter documents, and if the Investor is an SBIC, the SBIA and the regulations promulgated thereunder.

4.3. Accredited Investor. Such Investor is an "accredited investor" as defined in Rule 501(a) under the Securities Act.

4.4. No Commissions. No commission or other remuneration has been paid or will be payable by such Investor, directly or indirectly, in connection with his or its purchase of Securities hereunder.

SECTION 5. CONDITIONS TO PURCHASE

Each Investor's obligation to purchase the Securities pursuant to this Agreement is subject to compliance by the Company with its agreements contained herein, and to the satisfaction, on or before the Closing Date, of the following conditions:

5.1. Articles and Good Standing Certificates. Each Investor shall have received (i) a copy, certified by a duly authorized officer of the Company to be true and complete as of the Closing Date, of the Organizational Documents of the Company and each Subsidiary and the Amendment to the Company's LLC Agreement, including in each case all amendments thereto, and (ii) a certificate, dated not more than thirty (30) days prior to the Closing Date, of the Secretary of State of the State of organization of the Company and each Subsidiary, certifying such entity's good standing in such state.

5.2. Proof of Corporate Action. Each Investor shall have received from the Company copies, certified by a duly authorized officer thereof to be true and complete as of the Closing Date and satisfactory to such Investor and its counsel, of the records of all action taken to authorize the execution, delivery, and performance of this Agreement, the Hoosier Agreement, the Securities, and the Related Agreements to which the Company is a party.

5.3. Incumbency Certificate. Each Investor shall have received from the Company an incumbency certificate, dated the Closing Date, signed by a duly authorized officer of the Company, and giving the name and bearing a specimen signature of each individual who shall be authorized to sign, in the name and on behalf of the Company, this Agreement, and each of the Related Agreements to which the Company is or is to become a party, and to give notices and to take other action on behalf of the Company under each of such documents.

5.4. Legal Opinions. Each Investor and Warrant Investor shall have received from Stinson, Mag & Fizzell, P.C., counsel to the Company, a favorable opinion, substantially in the form of Exhibit F hereto, and covering such other matters with respect to the transactions contemplated by this Agreement, the Securities, and the Related Agreements as such Investor and Warrant Investor may reasonably request.

5.5. Representations and Warranties; Officers' Certificates. The representations and warranties contained or incorporated by reference herein shall be true and correct in all material

respects on and as of the Closing Date with the same force and effect as though made on and as of such Closing Date; no event or condition shall have occurred or would result from the issuance of any of the Securities that would be a Default or Event of Default; the Company shall have performed and complied in all material respects with all conditions and agreements required to be performed or complied with by it prior to the Closing; the purchase of the Securities shall not be prohibited by any law or governmental order or regulation, and shall not subject any of the Investors to any penalty, special tax, or other onerous condition; all necessary consents, approvals, licenses, permits, orders, and authorizations of, or registrations, declarations, and filings with, any governmental or administrative agency or of or with any other Person with respect to issuance of the Securities shall have been duly obtained or made and shall be in full force and effect; and each Investor shall have received on the Closing Date a certificate to the effect of each of the foregoing matters and the matters in Section 5.15, signed by, and based upon the Knowledge of, the President and the Chief Accounting Officer of the Company.

5.6. [INTENTIONALLY OMITTED.]

5.7. Securities. Each Investor shall have received the Amendment to Company's LLC Agreement executed by the Company evidencing the Investors' rights in the Securities and, upon such receipt and satisfaction of all of the other conditions set forth in this Section 5, the Investors shall deliver to the Company the Purchase Price for the Securities.

5.8. General. All instruments and legal, governmental, administrative, and corporate proceedings in connection with the transactions contemplated by this Agreement that are to be consummated on the Closing Date, the Securities, and the Related Agreements shall be satisfactory in form and substance to the Investors in their sole discretion, and the Investors shall have received copies of all documents, agreements, and instruments, including without limitation records of corporate or other proceedings and opinions of counsel, that the Investors may have requested in connection therewith.

5.9. SBIC Documentation. The Company shall have executed and delivered to each Investor all documents required by such Investor in connection with the investment contemplated hereby under the rules and regulations applicable to such Investor by virtue of its status as a small business investment company, including SBA Forms 480, 652, and 1031.

5.10. Fees and Expenses. The Investors shall have been reimbursed for all of their expenses as provided in Section 12(a)(i) and (ii) hereof (unless the Company exercises its election right under Section 12(a)(ii)).

5.11. Related Agreements. Each of the Related Agreements shall have been executed and delivered by each of the parties thereto in a form satisfactory to each Investor or Warrant Investor, as the case may be, in its sole discretion, and each of the Related Agreements shall be in full force and effect and no term or condition thereof shall have been amended, modified or waived except with each Investor's prior written consent. All covenants, agreements, and conditions contained in the Related Agreements that are to be performed or complied with on or prior to the Closing Date shall have been performed or satisfied in all material respects to the sole discretion of such Investor.

5.12. Due Diligence. Each Investor and Warrant Investor shall have completed its due diligence investigation of the Company and its plans, books, records, financial statements, assets, liabilities, contracts, commitments, and all other information about the Company, and the results of such investigation shall have been satisfactory to each such Investor and Warrant Investor in its sole discretion.

5.13. Material Adverse Change. Other than as reflected in the Pro Forma Balance Sheet, there shall have occurred no material adverse change in the business, assets, properties, prospects or financial or legal condition of the Company since the date of the October 31, 2000 Balance Sheet.

5.14. Adequate Working Capital. Each Investor shall be satisfied that, after giving effect to the use of the proceeds from the purchase of the Securities hereunder as described in Section 2.4 hereof, the Company shall have sufficient working capital to continue to conduct its business in the ordinary course without incurring additional Indebtedness or issuing additional equity securities.

5.15. Hoosier Acquisition. Written evidence satisfactory to the Investors and their counsel in their sole discretion shall be provided to the Investors evidencing that the Hoosier Acquisition has been closed.

5.16. Other Actions. The Company and its members and manager shall have taken all other actions that the Investors and other Warrant Investors deem necessary or proper with respect to issuance of the Securities.

SECTION 6. COVENANTS

The Company covenants that, as long as the Investors or their assigns have an interest in the Class A Preferred Interests, the Company will comply with the following provisions:

6.1. Loan Agreement Covenants. For purposes of this Agreement, no amendment, extension or waiver by the Senior Lender of the financial covenant in the Loan Agreement as currently in effect that requires the Company to maintain, as of the last day of each fiscal quarter, the Consolidated Leverage Ratio (as defined in the Loan Agreement) to be no more than: (a) 5.00 to 1.00, for any fiscal quarter ending on or before December 31, 2001; and (b) 4.50 to 1.00, for any fiscal quarter ending thereafter (as each of such capitalized terms is defined in the Loan Agreement) shall be effective hereunder without the prior written consent of the Majority Investors, except that a temporary waiver by the Senior Lender of such covenant for no more than one fiscal quarter in any twelve (12) month period shall constitute a waiver by the Majority Investors of this covenant for such time period.

6.2. Life Insurance. The Company will maintain life insurance on the life of Sherman for as long as he is employed by, or is an equity holder of, the Company, in an amount not less than the greater of (a) the amount required under the Loan Agreement or (b) $2,000,000.

6.3. Inspection of Properties and Books. The Company shall permit any of the Investors or any of the Investors' officers or representatives to visit and inspect any of the properties of the Company or its Subsidiaries, to examine the books of account of the Company and its Subsidiaries (and to make copies thereof and extracts therefrom), and to discuss the affairs, finances, prospects and accounts of the Company and its Subsidiaries with, and to be advised as to the same by, its respective officers, lenders, advisors, vendors, employees, suppliers and customers, all at such reasonable times and intervals as any of the Investors may reasonably request.

6.4. Further Assurances. The Company will cooperate with each Investor and execute such further instruments and documents as such Investor shall reasonably request to carry out to the Investor's satisfaction the transactions contemplated by this Agreement and the Related Agreements. Without limiting the foregoing sentence, the Company shall make such amendments to the Company's LLC Agreement as the Majority Investors may from time to time request to permit the implementation of the Investors' rights under this Agreement and any of the Related Agreements.

6.5. Notices. The Company shall promptly give the Investors copies of all notices given pursuant to any Related Agreement that it receives from or gives to any other party to such Related Agreement.

6.6. No Additional Registration Rights. Except pursuant to the Investors Rights Agreement, the Company shall not, without the prior written consent of the Majority Investors, grant to any holder or future holder of any of its securities the right to demand registration of or to piggyback on any registration of Equity Securities of the Company with the Commission, or any other registration, co-sale, or similar rights.

6.7. Additional Covenants.

(a) Pre-Emptive Rights.

(i) The Company hereby grants to the Investors a right of first refusal to purchase any New Securities included in an offering (or series of offerings which would be integrated under the Securities Laws) to financing sources, subject to the terms and conditions of this Section 6.7.

(ii) If the Company intends to issue New Securities that are subject to the right of first refusal provided for in Section 6.7(a)(i), it shall give the Investors written notice of such intention, describing the type of New Securities to be issued, the price thereof and the terms upon which the Company proposes to effect such issuance. Each Investor shall have 30 days from the date of receipt of any such notice to agree to purchase all or part of its pro rata share, as defined in the next sentence, of such New Securities (including the right to oversubscribe for New Securities not purchased by other Investors) for the price and upon the general terms and conditions specified in the Company's notice by giving written notice to the Company stating the amount of New Securities to be so purchased.

For purposes of this Section 6.7(a)(ii), an Investor's pro rata share of such New Securities shall be the product of (A) the total number of such New Securities multiplied by (B) a fraction, the numerator of which shall be such Investor's Preferred Capital Account (plus any Accrued Preferred Distributions and Arrearages) immediately prior to the issuance of such New Securities, adjusted pursuant to Section 4.7(l) or 4.7(m) of the Company's LLC Agreement, as the case may be, whether or not actually adjusted in fact pursuant to such Section 4.7(l) or 4.7(m), and the denominator of which shall be the sum of all Common Capital Accounts (adjusted pursuant to Section 3.5(b) of the Company's LLC Agreement, whether or not actually adjusted in fact pursuant to such Section 3.5(b) and all Preferred Capital Accounts (plus any Accrued Preferred Distributions and Arrearages) immediately prior to the issuance of such New Securities, adjusted pursuant to Section 4.7(l) or 4.7(m) of the Company's LLC Agreement, as the case may be, whether or not actually adjusted in fact pursuant to such Section 4.7(l) or 4.7(m).

(iii) In the event that one or more investors that are entitled to purchase New Securities do not do so and do not otherwise agree as to the purchase of the New Securities, those Investors that agreed to purchase New Securities shall have a period of 10 additional days to purchase the remaining New Securities, and each such Investor that wishes to purchase additional New Securities may do so, in the manner and at the price set forth in the Company's notice, with respect to any number of New Securities that such Investor wishes to purchase by giving written notice to the Company stating the amount of additional New Securities that such Investor wishes to purchase. In the event that the Investors that agree to purchase additional New Securities indicate that they wish to purchase an amount of New Securities that is greater than the amount of New Securities remaining, the New Securities to be purchased pursuant to this Section 6.7(a)(iii) shall be determined by allocating successively to each Investor desiring to purchase such remaining New Securities in accordance with this Section 6.7(a)(iii) a number of the remaining New Securities equal to the lesser of (A) the number of remaining New Securities that such Investor desires to purchase and (B) the number of remaining New Securities that bears the same ratio as the Preferred Capital Account of such Investor bears to the aggregate Preferred Capital Accounts of all Investors who wish to purchase the remaining New Securities.

(iv) If any such Investor fails to exercise the foregoing right of first refusal with respect to any applicable New Securities within such 30-day period, the Company may within 20 days thereafter sell any or all of such New Securities not agreed to be purchased by any such Investor, at a price and upon general terms no more favorable to the purchasers thereof than specified in the notice given to the Investors pursuant to Section 6.7(a)(ii) above. In the event the Company has not sold such New Securities within such 20 day period, the Company shall not thereafter issue or sell any New Securities without first offering such New Securities to the Investors in the manner provided in Section 6.7(a)(ii).

(b) The Company agrees to perform and observe all obligations set forth in its Organizational Documents (all terms of which are hereby incorporated in this Section 6.7(b) by this reference), to the extent that the failure to perform and observe such obligations would adversely affect the Investors' Class A Preferred Interests in the Company.

(c) Irrespective of whether any of the Investors exercises its pre-emptive rights under Section 6.7(a), the Company will not authorize any New Securities with rights, preferences or designations superior in any respect to the Class A Preferred Interests.

6.8. Securities Laws Requirements. The Company shall file with the Commission and every state securities agency in which such a filing is or may be required (and deliver a copy of each such filing to the Investors), all reports and other documents, instruments, and exhibits required to be filed by it under the Securities Act, the Exchange Act, the Trust Indenture Act of 1939, any successor laws to any of the foregoing, and any state securities law (collectively, "Securities Laws") or any other applicable law. If the Company becomes subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act, the Company shall use commercially reasonable efforts to satisfy the requirement of paragraph (c) of Rule 144 under the Securities Act.

6.9. Prohibited Agreements. The Company shall not enter into any agreement having the effect of limiting or restricting its obligation to perform any obligation imposed on it by this Agreement, the Company's LLC Agreement, or the Related Agreements, except as provided in the Loan Agreement as in effect on the date hereof or any successor agreement approved in writing by the Majority Investors.

6.10. Qualified MLP Offering. Except as and to the extent that the Majority Investors may in their sole and absolute discretion otherwise consent in writing, the Company agrees that neither it nor any of its Affiliates shall effect a public offering of its or their Equity Securities (whether or not using the master limited partnership structure) unless the Majority Investors are satisfied in their reasonable discretion that the senior subordinated limited partnership units that all Investors will receive in such offering have the rights, designations and preferences of a Qualified MLP Offering (as such term is used and defined herein). The Company shall provide prompt prior written notice to the Investors of its intent to file a registration statement with the Commission in connection with a Qualified MLP Offering, and shall contemporaneously send to the Investors each letter, notice or filing from or with the Commission in connection with a Qualified MLP Offering.

6.11. Redemption of Other Interests. Except (a) pursuant to contractual obligations existing as of the date of this Agreement and that have been disclosed to the Investors in writing, or (b) as and to the extent that the Majority Investors may otherwise consent in writing, which consent may be withheld in the absolute discretion of the Majority Investors, the Company shall not (i) redeem or repurchase or enter into any agreement that would require the Company to redeem or repurchase any Equity Securities from any Person other than the Investors prior to the earlier to occur of either the Put/Call Closing Date or the closing of the Qualified MLP Offering,

or (ii) accelerate any contractual obligations existing as of the date of this Agreement so as to require the Company to redeem any Equity Securities from any Person other than the Investors prior to the earlier to occur of either the Put/Call Closing Date or the closing of the Qualified MLP Offering, except upon the occurrence of an event of default pursuant to contractual terms existing as of the date of this Agreement, which contractual terms have been disclosed herein or in a schedule hereto; provided, that the redemption or repurchase of any Equity Securities pursuant to contractual terms existing as of the date of this Agreement without the written consent of the Majority Investors shall give rise to the Put Rights set forth in Section 9.7(b) hereof.

6.12. Use of Proceeds. The Company shall use the proceeds from the purchase of the Securities hereunder for the purposes described in Section 2.4 hereof.

6.13 Sherman Successor. Sherman is the current President and Chief Executive Officer of the Company and its Affiliates. In the event that Sherman shall cease to be or to fulfill the duties of either the President or Chief Executive Officer or both of the Company or any of its Affiliates, whether by termination or cessation of his employment, with or without cause, or by constructive discharge, resignation, death or disability, the Company (on behalf of itself and its Affiliates) hereby agrees that (a) each of the KCEP Director and the Investor Director (as such terms are defined in the Company's LLC Agreement) to the Board of Directors of the Company shall be appointed to any executive search committee of the Board of Directors established, formally or informally, to find such successor, and (ii) any successor President or Chief Executive Officer selected by the Company's Board of Directors shall be reasonably acceptable to each of the KCEP Director and Investor Director. The Company shall promptly notify the Investors of any such termination or cessation of Sherman's employment, or any proposal thereof, and shall keep the Investors reasonably and promptly advised regarding the search for the successor.

## SECTION 7. INFORMATION AND REPORTS

The Company hereby agrees that so long as the Investors have an interest in the Class A Preferred Interests:

7.1. Annual Statements. As soon as available and in any event within 90 days after the close of each Fiscal Year, the Company will deliver to each Investor its audited consolidated and unaudited consolidating balance sheets and statements of income, retained earnings, and cash flow of the Company and its Subsidiaries, which shall be (a) audited by an independent certified public accounting firm selected by the Company and acceptable to the Majority Investors showing the financial condition of the Company and its Subsidiaries as of the close of such Fiscal Year and the results of the Company's operations during such Fiscal Year (except that the consolidating balance sheets need not be audited), and (b) be certified by such firm to have been prepared in accordance with generally accepted accounting principles consistently applied. Such financial statements shall be accompanied by (i) the written statement of such firm to the effect that such firm does not have any knowledge of the existence of any Default or Event of Default by reason of the Company's failure to comply with any financial covenant contained in the Loan

Agreement, and (ii) a copy of such accounting firm's "letter to management" (and all prior drafts thereof) or similar communications to the Company.

7.2. Monthly Statements. As soon as available and in any event within 30 days after the end of each fiscal month, commencing with the first month ending after the date of this Agreement, the Company will deliver to each Investor internal unaudited consolidated and consolidating balance sheets, income statements, and statements of cash flows, of the Company and each of its Subsidiaries as of the end of each such month and year to date, personally verified and attested by the Chief Financial Officer of the Company to be true and correct. Together with such financial statements, within 30 days of the end of each fiscal quarter the Company will deliver to each Investor a reconciliation of the items in financial statements for such quarter against the budget for such period and comparable periods for the immediately previous year delivered to Investors pursuant to Section 7.3 hereof, and a brief narrative of the results of operations.

7.3. Budget and Projections. The Company will deliver to each Investor, not less than 30 days prior to the beginning of each Fiscal Year of the Company, a preliminary budget for such Fiscal Year and each fiscal quarter, including a balance sheet, income statement, and statement of cash flows. Such preliminary budget shall be accompanied by an annual projection including income statements, balance sheets, and statements of cash flows covering such Fiscal Year and the succeeding three Fiscal Years.

7.4. Officers' Certificates. Together with delivery of financial statements of the Company and its Subsidiaries pursuant to Sections 7.1 and 7.2 above, the Company will deliver to each Investor a certificate of the Chief Financial Officer of the Company, (a) that the annual statements have been prepared in accordance with generally accepted accounting principles consistently applied and the annual and quarterly statements present fairly the financial position of the Company and its Subsidiaries as of the dates specified and the results of its operations and changes in financial position with respect to the periods specified (subject in the case of interim financial statements only to normal year-end audit adjustments), (b) setting forth computations demonstrating compliance with each of the financial covenants in the Loan Agreement, and (c) to the effect that such officer has caused the provisions of this Agreement, the Securities, and the Related Agreements to be reviewed and has no knowledge of any Default or Event of Default hereunder or thereunder, or if such officer has such knowledge, specifying such Default or Event of Default and the nature thereof, and what action the Company has taken, is taking or proposes to take with respect thereto.

7.5. Notice of Litigation or Defaults. The Company will promptly give written notice to each Investor of any threatened or pending litigation, investigations, or any administrative proceeding to which the Company or any of its Subsidiaries may hereafter become a party or to which any of them are or may become subject that may result in any material adverse change in the business, assets, properties, prospects or financial or legal condition of the Company and its Subsidiaries. Promptly upon any officer of the Company obtaining knowledge of any Default or Event of Default or any material adverse change in the Company's or any Subsidiary's business, properties, prospects, assets, or condition, financial or otherwise, the Company will furnish a written notice to each Investor specifying the nature and period of existence thereof and what

action the Company has taken, is taking or proposes to take with respect thereto. Promptly after the receipt thereof, the Company will provide each Investor with copies of any reports upon adequacies and inadequacies in accounting controls submitted to the Company by its independent accountants.

7.6. Other Information. From time to time upon the request of any Investor, the Company will furnish to any authorized officer or representative of such Investor such information regarding the business, assets, properties, prospects, and financial and legal condition of the Company and its Subsidiaries as such officer or representative may reasonably request. Each such officer or representative shall have the right during normal business hours to examine the books and records of the Company and its Subsidiaries, to make copies, notes and abstracts therefrom, and to make an independent examination of the books and records of the Company and its Subsidiaries.

SECTION 8. EVENTS OF DEFAULT

8.1. Event of Default. The Majority Investors and each Investor, as the case may be in Section 8.2, will be entitled to exercise the remedies provided by Section 8.2 hereof in accordance with the terms thereof if any one or more of the Events of Default shall occur.

8.2. Remedies. Upon the occurrence of any Event of Default and (subject to the penultimate sentence of this Section 8.2) failure by the Company to cure such Event of Default within five (5) days following written notice by the Majority Investors (if prior to the seventh anniversary of the Closing Date) or by any Investor (if on or after the seventh anniversary of the Closing Date) to the Company of any Event of Default arising from the failure to make any monetary payments or within thirty (30) days following written notice by the Majority Investors (if prior to the seventh anniversary of the Closing Date) or by any Investor (if on or after the seventh anniversary of the Closing Date) to the Company of any other Event of Default, in each and every such case the Majority Investor or such Investor, as the case may be, may: (i) proceed to protect and enforce its rights by suit in equity, action at law, and/or other appropriate proceeding either for specific performance of any covenant, provision, or condition contained or incorporated by reference in this Agreement or in the Company's Organizational Documents, and, immediately in the case of an Event of Default as a result of a Voluntary Bankruptcy Proceeding or an Involuntary Bankruptcy Proceeding, and (ii) at any time after the giving of a Put Notice to the Company pursuant to Section 9 hereof in all other cases, the theretofore unexercised Put Rights set forth in Section 9 hereof shall, to the extent not already exercisable, be deemed to have become immediately exercisable and the Majority Investors or such Investor, as the case may be, may in such Put Notice to the Company declare all or part of such theretofore unexercised Put Rights to be forthwith exercised and due and payable (unless there shall have occurred an Event of Default as a result of a Voluntary Bankruptcy Proceeding or an Involuntary Bankruptcy Proceeding, in which case such Put Rights shall be automatically exercised and due and payable, whereupon the Put Price for the Securities subject thereto shall become so due and payable without presentation, presentment, protest or further demand or notice of any kind, all of which are expressly waived), and any such holder or holders may proceed to enforce payment of such amount or part thereof in such manner as it or they may elect, subject, in any event, to Section 9.9. Notwithstanding the foregoing, the Company shall not have such an opportunity to

cure an Event of Default that has resulted in the Senior Lender declaring due and payable all of the Company's obligations under the Loan Agreement, or an Event of Default as a result of a Voluntary Bankruptcy Proceeding or an Involuntary Bankruptcy Proceeding, in which cases the Majority Investor or any Investor, as the case may be, may immediately exercise its remedies under this Section 8.2, subject, in any event, to Section 9.9. The Company shall provide prompt written notice to each Investor of events, facts or circumstances giving rise to the Investor's right to exercise its Put Rights hereunder.

8.3. Waivers. In connection with the occurrence of any Default or Event of Default or the exercise of any remedy available to the Investor in the event of the occurrence of any Default or Event of Default, the Company hereby waives, to the extent not prohibited by applicable law, (a) all presentments, demands for performance, notices of nonperformance (except to the extent specifically required by the provisions hereof), (b) any requirement of diligence or promptness on the part of any holder of Securities in the enforcement of its rights under the provisions of this Agreement or the Company's Organizational Documents, and (c) any and all notices of every kind and description that may be required to be given by any statute or rule of law.

8.4. Course of Dealing. No course of dealing between the Company and any Investor shall operate as a waiver of any of the Investors' rights under this Agreement or in connection with the Securities. No delay in exercising any right under this Agreement or in connection with the Securities shall operate as a waiver of such right or any other right. A waiver on any one occasion shall not be construed as a bar to or waiver of any right or remedy on any other occasion.

8.5. Remedies Not Exclusive. Each of the remedies hereunder that are available to the Investors are cumulative and not exclusive, and any Investor may exercise any or all such remedies at such time and in such manner as such Investor may determine in its sole discretion.

SECTION 9. REPURCHASE OF securities

9.1. Right to Put Securities. Subject to Section 9.9 hereof, the Investors shall have the right to cause the Company to repurchase all or a portion of their Securities and the Company shall have the obligation to repurchase such Securities on the following terms and conditions (the "Put Rights").

(a) Puts Before the Seventh Anniversary of the Closing Date. Except as the Investors may be entitled to exercise their Put Rights prior to the fifth anniversary of the Closing Date pursuant to Section 8.2 or 9.7 (but subject to Section 9.9 hereof), effective on the fifth anniversary of the Closing Date and on the last day of each calendar quarter (March 31, June 30, September 30, and December 31) thereafter until the seventh anniversary of the Closing Date, the Majority Investors may, in their sole discretion, exercise the Put Rights on behalf of all Investors by giving written notice setting forth the matters specified in Section 9.1(c) (the "Put Notice") to the Company and to all other Investors at least 120 calendar days prior to the effective date of such exercise. Notwithstanding the foregoing, however, no exercise of Put Rights pursuant to this

Section 9.1(a) shall be effective unless such exercise is for Securities having an aggregate Put Price of at least $1,000,000; provided, however, that in the event of a Put Right arising under Sections 8.2 or 9.7 hereof, it shall not be necessary (i) for the amounts subject to the Put Price for Securities subject to such Put Rights to aggregate $1,000,000, or (ii) for the Majority Investors to provide 120 days written notice, but instead such Put Rights shall become effective immediately pursuant to Section 9.7(d).

(b) Puts after the Seventh Anniversary of the Closing Date. Effective on the seventh anniversary of the Closing Date and on the last day of each calendar quarter (March 31, June 30, September 30, and December 31) thereafter, each Investor may, in its sole discretion, exercise its Put Rights by giving written notice setting forth the matters specified in Section 9.1(c) (which shall also be considered a "Put Notice") to the Company and to all other Investors at least 120 calendar days prior to the effective date of such exercise. Notwithstanding the forgoing, however, no exercise of Put Rights pursuant to this Section 9.1(b) shall be effective unless such exercise is for Securities having an aggregate Put Price of at least the lesser of (i) $250,000, or (ii) the amount that constitutes 100% of such Investor's Securities; provided, however, that in the event of a Put Right arising under Sections 8.2 or 9.7 hereof, it shall not be necessary (i) for the amounts subject to the Put Price for Securities subject to such Put Rights to aggregate at least $250,000 or 100% of such Investor's Securities, or (ii) for such Investor to provide 120 days written notice, but instead such Put Rights shall become effective immediately pursuant to Section 9.7(d).

(c) Content and Delivery of Put Notices. The Majority Investors shall notify each other Investor prior to exercising the Put Rights pursuant to Section 9.1(a), and each Investor desiring to participate in the exercise a Put Right under Section 9.1(a) shall provide proper prior notice to the Majority Investors and to each other Investor of its intent to sell and the amount of Securities to be included in the Put Notice. Each Put Notice delivered pursuant to this Section 9.1 shall set forth (i) the identity the selling Investor(s), (ii) the amount of Securities that each Investor is selling, (iii) the Put Price for such Securities, as specified in Section 9.5 hereof, (iv) the effective date for such exercise, (v) the Put/Call Closing Date, and (vi) such other information as is reasonably pertinent. All Put Notices properly sent with respect to any specified effective date shall be deemed to have been sent, received and effective on the same date, such that no Investor shall be favored or have prior rights to repurchase over or against any other Investor that has properly sent a Put Notice.

(d) Acceleration of Put Rights. In the event of the exercise of a Put Right arising under Sections 8.2, 9.7 or 9.9 hereof, it shall not be necessary for the Majority Investors or an Investor, as the case may be, to deliver the Put Notice 120 days prior to the effective date of such exercise, but instead the Majority Investors (if the Put Right arises under Sections 8.2, 9.7 or 9.9 hereof prior to the seventh anniversary of the Closing Date) or any Investor (if the Put Right arises under Sections 8.2, 9.7 or 9.9 hereof on or after the seventh anniversary of the Closing Date), in its sole discretion, may elect to have the exercise of the Put Rights and the corresponding obligation of the Company to repurchase the Securities to be effective immediately or on any subsequent date (i) if the

Put Right arises under Section 8.2 or 9.9 (and it shall be deemed to be effective immediately for all Investor Securities without the sending of the Put Notice in the case of an Event of Default triggered by a Voluntary Bankruptcy Proceeding or an Involuntary Bankruptcy Proceeding), (ii) upon the consummation or effectiveness of the Proposed Change of Control if the Put Right arises under Section 9.7(a), or (iii) upon the consummation or effectiveness of the proposed redemption or repurchase of Non-Investor Interest if the Put Right arises under Section 9.7(b).

(e) Limitations on Put Rights. Notwithstanding any other provision in Section 9.1(a) or 9.1(b), any Put Notice must be given before the filing of a Form S-1 Registration Statement by the Company with respect to the Qualified MLP Offering. Notwithstanding the foregoing sentence, (a) the provisions of Section 8.2 of this Agreement shall apply at all times upon the occurrence of any Event of Default, whether before or after the filing of a Form S-1 Registration Statement with respect to the Qualified MLP Offering, (b) the provisions of Section 9.7 shall apply at all times, whether before or after the filing of the Form S-1 Registration Statement with respect to the Qualified MLP Offering, and (c) in the event that the Form S-1 Registration Statement with respect to the Qualified MLP Offering is not declared effective by the Commission within one hundred eighty (180) days after the filing date, then each Investor shall have the right to sell to the Company (and the Company agrees to repurchase from each Investor) such Investor's Securities upon the terms and conditions set forth in Sections 9.1, 9.3, 9.4, and 9.5, and such right shall remain in effect until the earlier of (a) the effective date of such Form S-1 Registration Statement or (b) the Company files any subsequent Form S-1 Registration Statement with respect to a Qualified MLP Offering; provided, that if any subsequent Form S-1 is not declared effective by the Commission within one hundred eight (180) days after the filing date, then each Investor shall again have the right to sell to the Company (and the Company agrees to repurchase from each Investor) such Investor's Securities upon the terms and conditions set forth in Sections 9.1, 9.3, 9.4, and 9.5.

9.2. Right to Call Securities. At any time on or before the consummation of the Qualified MLP Offering, the Company may by written notice to the Investors (the "Call Notice") elect to purchase all but not less than all of the Investors' Securities from the Investors, and the Investors hereby agree to resell such Securities to the Company at the Call Price specified in Section 9.6 hereof. The Call Notice shall set forth (i) the Call Price for the Securities to be repurchased, as specified in Section 9.6 hereof, (ii) the effective date for such repurchase, (iii) the Put/Call Closing Date, and (iv) such other information as is reasonably pertinent.

9.3. Closing. The closing required by a Put Notice or a Call Notice shall take place at the Company's principal place of business at 10:00 a.m. local time on the effective date of the Put Notice or Call Notice (as specified therein), or at such other time, date, and place as such Investor and the Company may agree (the "Put/Call Closing Date"), at which time the Company shall pay the Put Price or the Call Price, as specified in the Put Notice or Call Notice, as the case may be. Prior to any Put/Call Closing Date, the Company will, upon an Investor's reasonable request to assist the Investor in making its decision regarding whether or not to send a Put Notice, provide such Investor (and each other Investor) with its inspection and other rights under

Section 6.3 and such additional information that may be material to the exercise of such Investor's put rights under this Section 9.

9.4. Payment. The Company shall pay the Put Price or Call Price, as the case may be, out of funds legally available therefor at any closing under Section 9.3 hereof in cash or immediately available funds. If any portion of the Put Price is not paid as a result of any insufficiency of legally available funds or otherwise, such portion shall remain an obligation of the Company, evidenced by a demand promissory note, and shall become due and payable, in cash or immediately available funds, as soon as there are funds legally available therefor, with interest to accrue thereon at 3.75% per quarter. To facilitate payment of the Put Price, the Company will take such action as may be possible to revalue its assets in accordance with generally accepted accounting principles. In such event the Company, if it lacks funds or has insufficient funds, will use commercially reasonable efforts in good faith to pay the full Put Price or Call Price promptly, subject to the terms of the Loan Agreement. If more than one Securities holder is entitled to payment of the Put Price or Call Price on any Put/Call Closing Date, and insufficient funds are available to permit payment in full to all such holders, then such payment as can legally be made on such date and on any later date when the balance of such payment shall be made shall be made pro rata to all such holders based on the Put Price or Call Price due each of them. If any portion of the Call Price is not immediately available to be paid for any reason at the Put/Call Closing Date scheduled therefor under Section 9.3, then at the Put/Call Closing Date, the Company shall pay such cash portion as is immediately available (pro rata, based on the Call Price due each of them) and the Call Notice for the unpaid Securities shall be null and void as if such Call Notice had never been sent in the first place and such unpaid Securities shall no longer be subject to any future Call Notice.

9.5. Put Price for Securities. The put price (the "Put Price") for any Investor's Securities shall be:

(a) an amount equal to the sum of (i) all or, if the Investor is exercising its Put Rights for only a portion of such Investor's Securities, then the specified portion of the greater of (A) the then current Preferred Capital Account attributable to the Securities being repurchased (prorated for any specified portion if the Investor is exercising its Put Rights for less than all of its securities), or (B) the initial Preferred Capital Account attributable to the Securities being repurchased plus any Accrued Preferred Distributions and Arrearages attributable to such Preferred Capital Account (prorated for any specified portion if the Investor is exercising its Put Rights for less than all of its securities), plus (ii) the Put Formula Amount, as defined in Section 9.5(b) (prorated for any specified portion if the Investor is exercising its Put Rights for less than all of its Securities).

(b) "Put Formula Amount" shall mean the lesser of either

(i) the Cash Event Multiplier, minus one (1), multiplied by the amount referred to in Section 9.5(a)(i), or

(ii) the total of (A) the Company's Adjusted EBITDAB, multiplied by the average of the Adjusted EBITDAB Multiple of the three (3) Representative

MLPs, (B) less Funded Indebtedness of the Company, (C) less the aggregate total of all capital accounts attributable to preferred membership interests in the Company (including the Investors' Securities), plus (D) the amount of cash and cash equivalents. The information in clauses (A), (B), (C) and (D) is to be derived from the Company's most recent monthly financial statements, adjusted to take into account all Qualified Acquisitions which are either not reflected in or subsequent to such financial statements, all determined in accordance with Generally Accepted Accounting Principles.

9.6. Call Price. For purposes hereof, the call under Section 9.2 shall be treated as a Cash Event. The price (the "Call Price") paid by the Company for each Investor's Securities shall be an amount equal to the Cash Event Multiplier multiplied by the amount referred to in Section 9.5(a)(i). Notwithstanding the foregoing, in the event that (a) a Clawback Sale occurs within 18 months after the Put/Call Closing Date for any call under Section 9.2, and (b) as a result of such Clawback Sale there is Clawback Excess, then the Company shall remit to each Investor, and/or shall cause each Clawback Party other than the Company to remit to each Investor, such Investor's Clawback Portion immediately upon receipt thereof by the Clawback Parties, in the form received by the Clawback Parties and duly endorsed for transfer if so requested by the Investors. Under no circumstances shall the Investors be obligated to the Clawback Parties or any other Person for any amounts by which the aggregate Call Price paid to all Investors exceeds the Clawback Sale Price.

9.7. Repurchase Rights upon Certain Transactions. Subject to Section 9.9 hereof:

(a) The Company will give each Investor at least 60 days' prior written notice of a Proposed Change of Control. At any time before the consummation or effectiveness of a Proposed Change of Control, the Majority Investors (if the consummation or effectiveness of the Proposed Change of Control occurs prior to the seventh anniversary of the Closing Date) or each Investor (if the consummation or effectiveness of the Proposed Change of Control occurs on or after the seventh anniversary of the Closing Date) may elect to exercise the Put Rights (in whole or in part) under Section 9.1 hereof and receive (and the Company agrees to pay) the Put Price; provided that if an Investor exercises the Investor's Put Rights under this Section 9.7 in anticipation of a Proposed Change of Control, notwithstanding any other provision of this Section 9, the closing of the resulting repurchase of Securities shall occur simultaneously with the closing of such transaction in the event such transaction is one described in subpart (a) of the definition of Proposed Change of Control or upon the occurrence of any event described in subpart (c) or (d) of the definition of Proposed Change of Control; and provided further that if the Proposed Change of Control is one described in subpart (b) of the definition of Proposed Change of Control, the Investors shall not exercise their Put Rights until the earlier of the following: (1) the employment by the Company or its Affiliate, as the case may be, of a President or Chief Executive Officer, as the case may be, who is a successor to Sherman following his resignation and who is not reasonably acceptable to the KCEP Director and the Investor Director (as provided in Section 6.13 hereof), or (2) if the Company does not employ a successor President or Chief Executive Officer, as the case may be, within 180 days after notice of Sherman's resignation was given to the Company.

(b) The Company shall give each Investor at least 60 days' prior written notice of a proposed redemption or repurchase by the Company of any Non-Investor Interests (whether or not such obligation to redeem or repurchase existed as of the date of this Agreement). At any time that the Company repurchases or redeems any Non-Investor Interests, the Majority Investors or each Investor, as the case may be, may elect to exercise such Investor's rights under Section 9.1(a) or 9.1(b) hereof and receive (and the Company agrees to pay) the Put Price with respect to a percentage of such Investor's Securities determined by multiplying such Investor's Preferred Capital Account (as adjusted as though a Cash Event had occurred pursuant to Section 4.7(l) or 4.7(m) of the Company's LLC Agreement, as the case may be, whether or not actually adjusted pursuant to such Section 4.7(l) or 4.7(m)) by a fraction, the numerator of which shall be the total amount of Common Capital Account (as adjusted pursuant to Section 3.5(b) of the Company's LLC Agreement, whether or not actually adjusted pursuant to such Section 3.5(b)) and Preferred Capital Account of the Non-Investor Interests being redeemed or repurchased from a Person, and the denominator of which shall be the total of such Person's Common Capital Account (as adjusted pursuant to Section 3.5(b) of the Company's LLC Agreement, whether or not actually adjusted pursuant to such Section 3.5(b)) and Preferred Capital Account prior to such redemption or repurchase. (By way of example only, if the Company redeems Non-Investor Interests from a Person and such Non-Investor Interests represent 25% of such Person's total Equity Securities of the Company, then each Investor may exercise its Put Rights for 25% of such Investor's Securities.) If the Company redeems or repurchases Non-Investor Interests from more than one Person on the same date, each Investor shall be entitled to exercise its Put Rights pursuant to this Section 9.7(b) for a percentage of its Securities equal to the highest percentage of Non-Investor Interests redeemed or repurchased from any other Person on that date. (By way of example only, if on the same day the Company redeems Non-Investor Interests from one Person representing 25% of such Person's Equity Securities of the Company and redeems Non-Investor Interests from another Person representing 20% of such Person's Equity Securities of the Company, then each Investor may exercise its Put Rights for 25% of such Investor's Securities.) Notwithstanding the foregoing, the provisions of this Section 9.7(b) shall not apply to repurchases of Interests from any employees of the Company or any Subsidiary of the Company, other than Sherman, Phillip L. Elbert and William Gautreax pursuant to Sections 7.10 through 7.14 of the Company's LLC Agreement.

9.8. Amendment of KCEP 1999 Agreement. Each of the Company and each Investor agrees that (a) the KCEP 1999 Agreement is hereby amended by adding Sections 6.10 through 6.13 of this Agreement, and (b) Sections 6.1, 6.7, 6.9, 8.1 through 8.5, and 9.1 through 9.7 of the KCEP 1999 Agreement are hereby amended and restated in their entirety by deleting such sections and replacing them with Sections 6.1, 6.7, 8.1 through 8.5, 9.1 through 9.7, and 9.9 of this Agreement. Each of the Company and each Investor also agrees that to the extent that Sections 6.1, 6.7, 6.9, 6.10 through 6.13, 8.1 through 8.5, 9.1 through 9.7 and 9.9 of this Agreement include any terms that are defined in Section 1 of this Agreement, such defined terms are hereby incorporated into and made a part of Sections 6.1, 6.7, 6.9, 6.10 through 6.13, 8.1 through 8.5, and 9 of the KCEP 1999 Agreement, as amended and restated hereby, except that,

for all purposes of the KCEP 1999 Agreement, as amended hereby, the term "Cash Event Multiplier" and "Equity Event Multiplier" shall at all times and for all periods equal 2.25.

9.9. Limitations on Puts. The Majority Investors and each Investor agrees that they shall not exercise their Put Rights under Section 8.2, 9.1 or 9.7 if there occurs an Event of Default Remedies Limitation Occurrence; provided that, for the sole purpose of fixing the amount due to them in respect of their Put Rights set forth in Section 8.2, 9.1 or 9.7, but not for the purposes of collecting such amount, unless and until the obligations of the Company to the Senior Lender under the Loan Agreement are paid in full in cash and all commitments thereunder have been terminated, they may send a Put Notice to the Company pursuant to Section 8.2, 9.1 or 9.7, as the case may be; and provided further that, notwithstanding the foregoing, the Majority Investors or the Investor, as the case may be, shall be allowed to exercise its Put Rights to the extent that, in case of Section 9.7(a), other members of the Company or their Affiliates are permitted by the Senior Lender to receive proceeds from the Proposed Change of Control, and, in the case of Section 9.7(b), Non-Investor Interests are permitted by the Senior Lender to be redeemed or repurchased. The Company agrees that in the case of a Put Notice sent to it in accordance with the first proviso of the immediately foregoing sentence, the amount due the Investors shall in fact be fixed for all purposes as set forth in the Put Notice, and upon payment in full of the obligations of the Company to the Senior Lender under the Loan Agreement and the termination of the commitments thereunder, all such amounts as so fixed shall be paid to the Investors, with interest to accrue thereon at 3.75% per quarter. The Company and each of the Investors hereby acknowledge and agree that the rights of the Investors under this Section 9 are limited by the terms and conditions of the Subordination Agreement.

SECTION 10. SUBSEQUENT HOLDERS OF SECURITIES

Whether or not any express assignment has been made in this Agreement, the provisions of this Agreement that are for each Investor's benefit as the holder of any Securities are also for the benefit of, and enforceable by, all subsequent holders of Securities, except any holder of Securities that have been sold in a Qualified MLP Offering or pursuant to an effective registration statement under the Securities Act, and except as otherwise expressly provided herein. Likewise, any and all restrictions applicable to an Investor contained in this Agreement shall apply to any subsequent holder of any Securities.

SECTION 11. RESTRICTIONS ON TRANSFER

11.1. General Restriction. The Securities, and all securities issued in exchange therefor or upon conversion or exercise thereof (the "Restricted Securities"), shall be transferable only upon satisfaction of the conditions set forth in this Section 11 and in the Company's LLC Agreement. Unless the restrictions of this Section 11 shall have terminated in accordance with Section 11.4, Holders of the Restricted Securities shall not sell, transfer or dispose of same, nor attempt to do so, without the consent of the Company (which consent may be withheld in the Company's sole discretion; provided that, so long as the other applicable provisions of Article 7 of the Company's LLC Agreement are satisfied, the Company and its Voting Member Majority

shall be deemed to have consented to a distribution by any Investor of the Restricted Securities to the equity owners of such Investor.

11.2. Notice of Transfer. Before any holder of Restricted Securities accepts an offer to sell any Restricted Securities to a third party (other than another holder of Restricted Securities or an Affiliate or successor of any such holder) such holder shall provide to the Company (i) an opinion of counsel reasonably acceptable to the Company, that such transfer may be effected without registration of such Restricted Securities under the Securities Laws, (ii) the written agreement of the proposed transferee to be bound by all of the provisions of this Agreement, and (iii) the Company's consent, if required by Section 11.1.

11.3. Restrictive Legends. Except as otherwise permitted by this Section 11, the Securities (to the extent certificated) shall bear the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND SHALL NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SUCH ACT OR ANY APPLICABLE STATE SECURITIES LAWS. FURTHERMORE, THIS CERTIFICATE SHALL NOT BE SOLD OR OTHERWISE TRANSFERRED EXCEPT IN COMPLIANCE WITH THE CONDITIONS SPECIFIED IN SECTION 11 OF THAT CERTAIN SECURITIES PURCHASE AGREEMENT DATED AS OF JANUARY 12, 2001, A COMPLETE AND CORRECT COPY OF WHICH IS AVAILABLE FOR INSPECTION AT THE PRINCIPAL OFFICE OF THE COMPANY, AND WILL BE FURNISHED WITHOUT CHARGE TO THE HOLDER OF THIS CERTIFICATE UPON WRITTEN REQUEST.

11.4. Termination of Restrictions. The restrictions imposed by this Section 11 upon the transferability of Restricted Securities shall terminate as to any particular Restricted Securities when (a) such Restricted Securities shall have been effectively sold in a Qualified MLP Offering or under the Securities Laws, or (b) such Restricted Securities have been sold pursuant to Rule 144 under the Securities Act. Whenever any of such restrictions shall terminate as to any Restricted Securities, the holder thereof shall be entitled to receive from the Company, at the Company's expense, new certificates evidencing Securities without such legends.

SECTION 12. EXPENSES; INDEMNITY AND LIMITATION OF LIABILITY

(a) Expenses to be paid at Closing or Upon Exercise of the Warrants.

(i) If the transactions contemplated by this Agreement are consummated, the Company hereby agrees to pay on demand or, if no demand is made, then at Closing, all fees and expenses incurred by all of the Investors in connection with such transactions hereunder, including without limitation (1) the cost and expenses of negotiating, preparing, and duplicating this Agreement, the Related Agreements, and the Securities (including attorneys' fees and expenses); (2) the cost of delivering to the Investors' respective principal offices, insured to the Investors' satisfaction, the Securities sold to the respective Investors

hereunder; (3) the Investors' reasonable travel, food, and lodging expenses incurred in connection with due diligence; and (4) all taxes (other than taxes determined with respect to income), including any recording fees and filings fees and documentary stamp and similar taxes at any time payable in respect of this Agreement, the Related Agreements, or the issuance of any of the Securities; provided, ---------- however, that fees and expenses paid pursuant to this Section shall ------- not exceed $175,000.

(ii) At Closing, the Company will pay to each Investor an aggregate due diligence fee equal to $300,000 in cash representing 2% of the face amount of the Securities purchased by such Investor; provided, however, that, in lieu of paying such fee in cash, the Company may elect within five (5) days before the Closing to pay such fee by increasing the initial Class A Preferred Interests to be issued to each Investor at Closing to an aggregate of 102% of the amount set forth beside such Investor's name on Schedule 3.5(a)(ii), in which ---------- event the term "Securities," as used herein, shall include the additional Securities issued at Closing.

(iii) Upon exercise of the Warrants, the Company will pay to each Warrant Investor that exercises a Warrant, a due diligence fee equal to 2.0% of the face amount of the Securities purchased by such Warrant Investor upon such exercise.

(b) [INTENTIONALLY OMITTED]

(c) Post Closing Expenses. After the Closing, the Company hereby ---------- agrees to pay on demand all fees and expenses incurred by any Investor in connection with any amendments or waivers (whether or not the same become effective) of this Agreement or the Related Agreements and all fees and expenses incurred by any holder of any Security issued hereunder in connection with the enforcement of any rights hereunder, under the Company's Organizational Documents or with respect to any Security, including without limitation (i) the cost of delivering to each Investor's principal office, insured to such Investor's satisfaction, the Securities sold to such Investor hereunder and any Securities delivered to an Investor in exchange therefor or upon any exercise, conversion or substitution thereof; (ii) all taxes (other than taxes determined with respect to income), including any recording fees and filings fees and documentary stamp and similar taxes at any time payable in respect of this Agreement, or the issuance of any of the Securities; and (iii) the reasonable fees and disbursements of counsel for any holder of Restricted Securities in connection with all opinions rendered by such counsel pursuant to Section 11 hereof and for any holder of any interest in the Class A Preferred Interests which is converted or exchanged in the Qualified MLP Offering or any similar public offering.

(a) Indemnification. ---------- (i) The Company hereby agrees to indemnify, exonerate and hold each of the Investors and each of the Investor's members, partners, officers, directors,

employees and agents free and harmless from and against any and all actions, causes of action, suits, losses, liabilities, damages and expenses, including, without limitation, reasonable attorneys' fees and disbursements, incurred in any capacity by any of the indemnitees as a result of or relating to (i) any transaction financed or to be financed in whole or in part directly or indirectly with proceeds from the sale of any of the Securities, or (ii) the execution, delivery, performance, or enforcement of this Agreement (including, without limitation, any failure by the Company to comply with any of its covenants hereunder), or any instrument contemplated hereby or thereby, except for any such indemnified liabilities arising from any indemnitee's gross negligence or fraud.

(ii) The Company hereby indemnifies each of the Investors against and agrees that it will hold such Investor harmless from any claim, demand, or liability for any broker's, finder's or placement fees or incentive fees alleged to have been incurred by it in connection with the transactions contemplated by this Agreement or the Related Agreements.

(b) Non-payment. Except to the extent otherwise expressly provided herein, or in Section 4.2 of the Company's LLC Agreement, the Company shall pay on demand interest at a rate per annum equal to 500 basis points above the Base Rate on all overdue amounts payable under this Agreement until such amounts shall be paid in full.

(c) Survival. The obligations of the Company under this Section 12 shall survive the put, call, sale or transfer of the Securities.

SECTION 13. NOTICES

Any notice of other communication in connection with this Agreement or the Securities shall be deemed to be delivered if in writing (or in the form of a telecopy) addressed as provided below and if either (a) actually delivered or telecopied to said address or (b) in the case of a letter, three business days shall have elapsed after the same shall have been deposited in the United States mails, postage prepaid and registered or certified:

If to the Company, to the attention of the Company's President (and with a copy to Paul McLaughlin, Stinson, Mag & Fizzell, P.C., 1201 Walnut, Suite 2800, Kansas City, Missouri 64106) or at such other address as such Person shall have specified by notice actually received by the addresser; or

If to an Investor, then to the Investor's address set forth on the signature page hereof, to the attention of its President or General Partner, or at such other address as the Investor shall have specified by notice actually received by the addresser; or

If to any other holder of record of any Security, to it at its address set forth in the Company's LLC Agreement.

SECTION 14. SURVIVAL AND TERMINATION

All covenants, agreements, representations and warranties made herein or in any other document referred to herein or delivered to the Investors pursuant hereto shall be deemed to have been relied on by the Investors, notwithstanding any investigation made by any of the Investors or on any of the Investor's behalf, and shall survive the execution and delivery of this Agreement, the Related Agreements, and the issuance of Securities to the Investors. Notwithstanding any provision hereof to the contrary, any claims under this Agreement or otherwise that are based upon a breach of any representation or warranty under Section 3 hereof or breach of any covenant under Section 6 hereof (a) must be asserted by written notice thereof from the Majority Investors to the Company on or before March 31, 2003, (b) may not be asserted until such claims reasonably relate to damages exceeding $100,000 in the aggregate, and (c) may not result in any liability of the Company for all such claims exceeding the aggregate of the greater of (i) the Purchase Price (plus all reasonable attorney fees and out-of-pocket costs and expenses of Investor incurred in collecting, settling or compromising such claims) or (ii) the Put Price for all of the Securities, calculated as if all of the Investors had exercised their rights under Section 9.1 as of the date on which any such breaches arose that result in the highest Put Price (plus all reasonable out-of-pocket costs and expenses of Investor incurred in collecting, settling or compromising such claims).

SECTION 15. AMENDMENTS AND WAIVERS

Any term of this Agreement, the Related Agreements, or the Securities may be amended and the observance of any term of this Agreement, the Related Agreements or the Securities may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company and the Investors. Any amendment or waiver effected in accordance with this Section 15 shall be binding upon the Company and each holder of any Securities sold pursuant to this Agreement.

SECTION 16. MISCELLANEOUS

(a) Integration. This Agreement sets forth the entire understanding of the parties hereto with respect to the transactions contemplated hereby and supersedes any prior written or oral understandings with respect thereto.

(b) Severability. The invalidity or unenforceability of any term or provision hereof shall not affect the validity or enforceability of any other term or provision hereof.

(c) Headings. The headings in this Agreement are for convenience of reference only and shall not alter or otherwise affect the meaning hereof.

(d) Counterparts; Facsimile Signatures. This Agreement and the Related Agreements may be executed in any number of counterparts which together shall constitute one instrument. Signatures to this Agreement or any of the Related Agreements may be given by facsimile or other electronic transmission, and such signatures shall be fully binding on the party sending the same.

(e) Governing Law. This Agreement shall be governed by and construed in accordance with the domestic substantive laws of the State of Missouri without giving effect to any choice or conflict of law provision or rule that would cause the application of the domestic substantive laws of any other State.

(f) Binding Effect. This Agreement shall bind and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

(g) Publicity. Following its purchase of the Securities each of the Investors, at its sole expense, may, with the prior written consent of the Company, place in such publications as they may select such "tombstone" or other informational announcements, advertisements, or articles as it may deem appropriate describing the transactions concluded hereunder.

(h) Consents. Except as otherwise expressly provided herein, any consents or approvals required of the Company or the Investors hereunder or under any of the Related Agreements shall not be unreasonably withheld, delayed or conditioned.

(i) Gender. Unless the context clearly requires otherwise, as used herein, the masculine pronoun shall include the feminine and the neuter, and the neuter shall include the masculine and the feminine.

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SECTION 17. WAIVER OF JURY TRIAL

TO THE FULLEST EXTENT PERMITTED BY LAW, AND AS SEPARATELY BARGAINED-FOR CONSIDERATION, EACH PARTY HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT, PROCEEDING OR COUNTERCLAIM OF ANY KIND ARISING OUT OF OR RELATING TO ANY PROVISION OF THIS AGREEMENT, THE RELATED AGREEMENTS, THE SECURITIES OR SUCH PARTY'S CONDUCT IN RESPECT OF ANY OF THE FOREGOING. EACH PARTY HERETO HEREBY EXPRESSLY ACKNOWLEDGE THE INCLUSION OF THIS JURY TRIAL WAIVER THROUGH THE INITIALS OF ITS DULY AUTHORIZED REPRESENTATIVES:

Company:

INERGY PARTNERS, LLC /s/ _____

Investors:

KCEP VENTURES II, L.P. /s/ _____

MORAMERICA CAPITAL CORPORATION /s/ _____

NDSBIC, L.P. /s/ _____

KANSAS VENTURE CAPITAL, INC. /s/ _____

MIDSTATES CAPITAL, L.P. /s/ _____

DIAMOND STATE VENTURES, L.P. /s/ _____

ROCKY MOUNTAIN MEZZANINE FUND II, LP /s/ _____

FIRSTAR CAPITAL CORPORATION /s/ _____

EAGLE FUND I, LP /s/ _____

RNG INVESTMENTS, L.P. /s/ _____

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SECTION 18. GRANT OF WARRANTS

18.1. Grant of Warrants. At the Closing, the Company shall execute and deliver to each of the Warrant Investors a Warrant Agreement in the form attached as Exhibit E-1 or E-2 hereto, as the case may be. The Warrants represented by the Warrant Agreements shall entitle each Warrant Investor the right to acquire additional Securities, pursuant to the terms and conditions set forth in the Warrant Agreement.

18.2. Effect of Exercise of Warrants and Joinder of Warrant Investors. Upon the closing of the exercise of the Warrants, including the execution and delivery of the Warrant Investor Amendment to LLC Agreement and the Joinder Agreement by the Company and a Warrant Investor, such Warrant Investor shall be deemed to be an "Investor" for purposes of each of this Agreement and each of the Related Agreements (other than the Joinder Agreement) and the Subordination Agreement and all appendices, schedules, and exhibits hereof and thereof, shall be entitled to all of the rights and privileges hereof and thereof, and shall be bound by all of the obligations hereof and thereof.

18.3. Consent of Investors. Each of the Investors hereby consents and agrees to (a) the grant of Warrants to the Warrant Investors pursuant to this Section 18, and (b) the inclusion of each Warrant Investor as an "Investor" for purposes of this Agreement and each of the Related Agreements (other than the Joinder Agreement) and the Subordination Agreement and all appendices, schedules, and exhibits hereof and thereof upon the closing of the exercise by such Warrant Investor of its Warrants, including the execution and delivery of the Warrant Investor Amendment to LLC Agreement and the Joinder Agreement by the Company and such Warrant Investor.

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[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, this Securities Purchase Agreement has been duly executed as of the day and year specified at the beginning hereof.

INERGY PARTNERS, LLC

By: /s/ John J. Sherman
---
John J. Sherman, President and
Managing Member
1101 Walnut Street, Suite 1500
Kansas City, MO 64106

KCEP VENTURES II, L.P., a Missouri limited partnership
By: KCEP II, L.C., its general partner

By: /s/ David J. Schulte
---
David J. Schulte, Managing
Director of KCEP II, L.C
233 W. 47th Street
Kansas City, MO 64112

MORAMERICA CAPITAL CORPORATION
By: InvestAmerica Investment
Advisors, Inc., Agent

By: /s/ Kevin F. Mullane
---
Kevin F. Mullane, Vice President
911 Main Street, Suite 2424
Kansas City, MO 64105

NDSBIC, L.P.
By: InvestAmerica ND, L.L.C., General Partner
By: InvestAmerica ND Management, Inc.

By: /s/ Kevin F. Mullane
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Kevin F. Mullane, Vice President
911 Main Street, Suite 2424
Kansas City, MO 64105

KANSAS VENTURE CAPITAL, INC.,
a Kansas corporation

By: /s/ John S. Dalton
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John S. Dalton, President
6700 Antioch Plaza, Suite 460
Overland Park, KS 66204

MIDSTATES CAPITAL, L.P., a Kansas limited partnership
By: MidStates Partners, L.L.C., its general partner

By: /s/ Bart S. Bergman
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Bart S. Bergman, Principal
7300 West 110th Street, 7th Floor
Overland Park, KS 66210

DIAMOND STATE VENTURES, L.P.,
By: DSV Management LLC, its general partner

By: /s/ Joe T. Hays
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Joe T. Hays, President
225 S. Pulaski
Little Rock, AR 77201

ROCKY MOUNTAIN MEZZANINE FUND, II LP
By: Rocky Mountain Capital Partners, LLP, as general partner

By: /s/ Paul A. Lyons
---
Paul A. Lyons, Jr., Partner
1125 Seventeenth Street, Suite 2260
Denver, CO 80202

FIRSTAR CAPITAL CORPORATION, an Ohio corporation

By: /s/ Rick Cropper
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Rick Cropper
425 Walnut Street
Mail Location CN-WN-09AD
Cincinnati, OH 45202

EAGLE FUND I, LP
By: Eagle Fund, LLC, its general partner
By: Mississippi Valley Capital Company, its sole member

By: /s/ Scott D. Fesler
---
Scott D. Fesler, President
2301 South Kingshighway
St. Louis, MO 63110

RNG INVESTMENTS, L.P.

/s/ Richard C. Green, Jr.
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Richard C. Green, Jr.,
Managing General Partner
20 W. 9th Street, Mail Stop 2-283
Kansas City, MO 64105

The undersigned hereby execute this signature page solely for the purposes of and with respect to Section 18 of this Agreement and to become "Warrant Investors" pursuant to this Agreement and beneficiaries of the representations, warranties and covenants of the Company upon exercise of the Warrants and execution and delivery of the Joinder Agreement by the parties thereto:

KCEP VENTURES, III, L.P. a Delaware limited partnership
By: KCEP III, L.C., its General Partner

By: /s/ David J. Schulte
---
David J. Schulte, Manager of
KCEP III, L.C.
233 West 47th Street
Kansas City, MO 64112

CLAYTON-HAMILTON LLC

By: /s/ Warren H. Gfeller
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Warren H. Gfeller, Manager
24311 West 51st Street
Shawnee, KS 66226

# INVESTORS RIGHTS AGREEMENT

THIS INVESTORS RIGHTS AGREEMENT ("Agreement") is made as of January 12, 2001, by and among Inergy Partners, LLC, a Delaware limited liability company, (the "Company") and the persons and entities listed on the signature pages hereof (each, an "Investor" and, collectively, the "Investors").

WHEREAS, KCEP VENTURES II, L.P. ("KCEP") made a 10% preferred interest investment (the "KCEP 1999 Interests") in the Company pursuant to a Securities Purchase Agreement dated December 31, 1999, between the Company and KCEP.

WHEREAS, the Investors are making an 11% preferred interest investment in the Company pursuant to a Securities Purchase Agreement dated January 12, 2001, by and among the Company, the Investors, and the Warrant Investors that are signatory thereto (the "Securities Purchase Agreement").

WHEREAS, the KCEP 1999 Interests are, and the Class A Preferred Interests (as defined in Securities Purchase Agreement) to be acquired by the Investors under the Securities Purchase Agreement, as well as any securities into which or for which the KCEP 1999 Interests and the Class A Preferred Interests may be converted or exchanged in the future, will be "restricted securities" as defined in Rule 144 under the Securities Act of 1933, as amended. As a result, there will be significant restrictions on the ability of the holders of such securities to resell those securities in the absence of registration under applicable federal and state securities laws.

WHEREAS, the Company may in the future conduct a public offering of common units (the "Common Units") representing limited partner units in a master limited partnership (the "Qualified IPO"), and upon successful completion of the Qualified IPO, the KCEP 1999 Interests and the Class A Preferred Interests will be converted into senior subordinated units of the master limited partnership (the "Senior Subordinated Units").

WHEREAS, pursuant to the terms of the master limited partnership agreement, the Senior Subordinated Units from time to time will be released from subordination such that they may be converted into common units of the master limited partnership (the "Common Units").

WHEREAS, the execution and delivery of this Agreement by the parties hereto is a condition precedent to the Investors' obligation to purchase the Class A Preferred Interests under the Securities Purchase Agreement.

NOW THEREFORE, in consideration of the premises and the mutual agreements set forth herein, the parties hereby agree as follows:

1. Definitions. All capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Securities Purchase Agreement. As used in this Agreement, the following terms shall have the following meanings:

(a) "Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

(b) "Blackout Period" means any period

(A) beginning on the date on which the Company notifies the Holders (as defined below) that (i) the Board of Directors of the Company, in its good faith judgment, has determined that there are material developments with respect to the Company such that it would be seriously detrimental to the Company and its unitholders to utilize a registration statement pursuant to this Agreement; or (ii) the Board of Directors of the Company, in its good faith judgment, has determined that financial statements with respect to the Company, which may be required to utilize a registration statement pursuant to this Agreement, are unavailable; and

(B) ending on the date (1) with respect to clause (i) above, as soon as practicable but not more than 30 days after the date on which the Company notifies the Holders of the Board of Directors' determination; and (2) with respect to clause (ii) above, as soon as financial statements sufficient to permit the Company to file or permit the utilization of a registration statement under the Act have become available.

(c) "Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(d) "Final Subordination Release Date" shall mean the Subordination Release Date on which all Senior Subordinated Units that remain outstanding and that have not previously been released from subordination are released from subordination pursuant to the master limited partnership agreement, such that they may be converted into Common Units.

(e) "Holder" or "Holders" shall mean any holder of outstanding Registrable Securities (as defined below) or anyone who holds outstanding Registrable Securities to whom the registration rights conferred by this Agreement have been transferred in compliance with this Agreement.

(f) "Initiating Holders" shall mean any Holder or Holders of at least fifty percent (50%) of the then-outstanding Registrable Securities.

(g) "Maximum Includable Securities" shall mean the maximum number of each type or class of the Company's securities that the managing underwriter, in its good faith judgment, deems practicable to offer and sell at that time in a firm commitment underwritten offering without materially and adversely affecting the marketability or price of the securities of the Company to be offered. When more than one type or class of the Company's securities are to be included in a registration, the managing underwriter of the offering shall designate the maximum number of each such type or class of securities that is included in the Maximum Includable Securities.

(h) "Minimum Demand Amount" shall mean

(i) following the first Subordination Release Date and prior to the second Subordination Release Date, the Minimum Demand Amount shall be $5,000,000;

(ii) following the second Subordination Release Date (if such a Subordination Release Date occurs) and prior to the third Subordination Release Date, the Minimum Demand Amount shall be $10,000,000; and

(iii) at all times following the third Subordination Release Date (if such a Subordination Release Date occurs) the Minimum Demand Amount shall be $15,000,000.

(i) "Register," "registered," and "registration" refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the Act, and the declaration or ordering of effectiveness of such registration statement or document.

(j) "Registrable Securities" shall mean

(i) Common Units held by the Investors that were issued (A) upon conversion of the Senior Subordinated Units or (B) as a result of a stock split or dividend or recapitalization with respect to such Common Units or (C) as a result of any merger, consolidation or reorganization with respect to such Common Units; and

(ii) any other successor securities received in respect of any of the securities described in Section 1(j)(i).

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As to any particular Registrable Securities, such securities will cease to be Registrable Securities (y) when they have been distributed to the public pursuant to an offering registered under the Act, or (z) when they have been sold to the public through a broker, dealer, or market-maker in compliance with Rule 144 under the Act.

(k) "SEC" means the Securities and Exchange Commission.

(l) "Subordination Release Date" shall mean each date on which Senior Subordinated Units are released from subordination pursuant to the master limited partnership agreement, such that they may be converted into Common Units.

(m) "Violation" means any of the following statements, omissions, or violations: (i) any untrue statement or alleged untrue statement of a material fact contained in any registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any violation by the Company of any rule or regulation promulgated under the Act or any state securities law applicable to the Company and relating to action or inaction required of the Company in connection with any such registration.

2. Demand Registration Rights.

(a) If, at any time after the expiration of any lock-up agreements between the Holders and the managing underwriter of a Qualified IPO, the Company shall receive a written request from the Initiating Holders requesting the registration of at least fifty percent (50%) of the Registrable Securities then outstanding (or a lesser percentage if the anticipated aggregate offering price, net of underwriting discounts and commissions, would exceed the then-current

Minimum Demand Amount), then the Company shall, within 10 days of the receipt thereof, give written notice of such request to all Holders in accordance with the notice provisions of Section 14(b) hereof. Subject to the limitations of Section 2(b), the Company shall effect as soon as practicable, and in any event within 150 days of the receipt of such request, the registration under the Act of all Registrable Securities that the Holders request to be registered within 20 days of the mailing of such notice by the Company.

(b) Notwithstanding the foregoing, if the Company shall furnish to Holders requesting registration of the Registrable Securities pursuant to this Section 2 a certificate signed by the President of the Company stating that a Blackout Period is in effect, the Company shall have the right to defer such filing during the term of such Blackout Period; provided, that the Company may not file a registration statement for securities to be issued and sold for its own account or for the account of any other person during any Blackout Period and further provided that the Company may not utilize this right more than twice in any 12-month period or in a manner that results in Blackout Periods pursuant to any and all provisions of this Agreement aggregating more than 180 days during any 12-month period.

(c) If the Initiating Holders give written notice requesting registration of their Registrable Securities pursuant to this Section 2, and if the Company at that time is not eligible to register its securities on Form S-3, the Company shall prepare and file a registration statement on such other form for the general registration of securities as may be appropriate in accordance with the terms and conditions set forth in this Section 2.

(d) The Company may propose to include additional Common Units or other securities ("Additional Units") to be sold by the Company and/or by other holders of Common Units or other securities in any registration statement to be filed pursuant to this Section 2. The Initiating Holders shall have the right to reduce the number of Additional Units requested to be registered by other securityholders pursuant to this Section 2(d) (including, if necessary, to zero) if, in the good faith opinion of the underwriter or underwriters of such offering, the inclusion of such Additional Units would materially and adversely affect the marketability or price of the Registrable Securities to be offered by the Holders in such registration.

(e) The Company shall be obligated to effect one registration pursuant to this Section 2 for each Subordination Release Date that occurs, provided that the Company shall not be obligated to effect more than one registration pursuant to this Section 2 in any 12-month period.

(f) The Initiating Holders shall have the right to select the managing underwriter or underwriters, subject to the approval of the Company, which approval shall not be unreasonably withheld, that will undertake the sale and distribution of the Shares to be included in a registration statement filed under the provisions of this Section 2. If the managing underwriter advises the Company in writing that marketing factors require a limitation of the number of Registrable Securities to be underwritten, then the Company shall furnish all Holders of Registrable Securities that would otherwise be underwritten with a written statement of the managing underwriter as to the Maximum Includable Securities. In such event, the number of Registrable Securities that may be included in the underwriting shall be allocated among all Holders requesting registration on a pro rata basis, with the number of Registrable Securities of

each Holder thereof included in the registration to be that number determined by multiplying the total number of such type or class of security included in the Maximum Includable Securities by a fraction, the numerator of which shall be the total number of such type or class of security that such Holder owns, and the denominator of which shall be the total number of such type or class of security owned by all Holders that have requested inclusion of such type or class of security in the registration. Any reduction of more than 50% of the Registrable Securities sought to be registered will not be considered a registration under this Section 2.

3. Registration on Form S-3.

(a) In addition to the registration rights provided pursuant to Section 2 of this Agreement, if at any time that the Company is eligible to register its securities on Form S-3 (or any successor to Form S-3) the Company shall receive a written request from the Initiating Holders that the Company file a registration statement under the Act on Form S-3 to register for resale at least thirty-three and one-third percent (33 1/3%) of the Registrable Securities then outstanding (or a lessor percentage if the anticipated aggregate offering price, net of underwriting discounts and commissions, would exceed $3,000,000), then the Company shall, within 10 days of receipt thereof, give written notice of such request to all Holders in accordance with the notice provisions of Section 14(b) hereof. The Company shall effect as soon as practicable, and in any event within 120 days of the receipt of such request, the registration on Form S-3 under the Act of all Registrable Securities that the Holders request to be registered within 20 days of the mailing of such notice by the Company.

(b) The Company shall be obligated to effect only one such registration pursuant to this Section 3 in each 12-month period; provided further, the Company shall not be obligated to effect any registrations pursuant to this Section 3 during any 12-month period following the effective date of a registration under Section 2.

(c) Notwithstanding the foregoing, if the Company shall furnish to Holders requesting a registration statement pursuant to this Section 3 a certificate signed by the President of the Company stating that a Blackout Period is in effect, the Company shall have the right to defer such filing during the term of such Blackout Period; provided, that the Company may not file a registration statement for securities to be issued and sold for its own account or for the account of any other person during any Blackout Period and further provided, that the Company may not utilize this right more than twice in any 12-month period or in a manner that results in Blackout Periods pursuant to any and all provisions of this Agreement aggregating more than 180 days during any 12-month period.

(d) If the Company shall furnish to Holders whose Registrable Securities have been registered pursuant to this Section 3 a certificate signed by the President of the Company stating that a Blackout Period is in effect, the Holders shall not sell any Registrable Securities during such Blackout Period, notwithstanding the fact that such Registrable Securities may otherwise be sold pursuant to the effective registration statement or otherwise.

(e) If any proposed registration pursuant to this Section 3 is to be an underwritten offering, the provisions of Sections 2(d) and 2(f) shall apply.

4. Piggy-Back Registration Rights.

(a) If, following the effective date of the first registration statement for a qualified IPO (but without any obligation to do so), the Company proposes to file on its behalf and/or on behalf of any of its securityholders a registration statement under the Act with respect to any of its securities, the Company shall give each Holder written notice at least 20 days before the filing with the SEC of such registration statement. If any Holder desires to have Registrable Securities registered pursuant to this Section 4, such Holder shall so advise the Company in writing within 15 days after the date of delivery of such notice. The Company shall thereupon include in such filing the number of Registrable Securities for which registration is so requested, subject to its right to reduce the number of Registrable Securities as hereinafter provided, and shall use its best efforts to effect registration under the Act of such Registrable Securities. Notwithstanding the foregoing, the Company shall not be required to provide notice of filing of a registration statement and to include therein any Registrable Securities if the proposed registration is

(i) a registration on Form S-8, or other comparable form then in effect, of stock options, compensatory stock purchases, compensation or incentive plans, or of securities issued or issuable pursuant to any such plan, or a dividend reinvestment plan; or

(ii) a registration of securities proposed to be issued in exchange for securities or assets of, or in connection with, a merger or consolidation with another corporation.

(b) In the event the offering in which any Holder's Registrable Securities are to be included pursuant to this Section 4 is to be underwritten, the Company shall furnish the Holders with a written statement of the managing underwriter as to the Maximum Includable Securities as soon as practicable after the expiration of the 15-day period provided for in Section 4(a). The managing underwriter may exclude Registrable Securities entirely from such registration, provided that the managing underwriter also excludes from such registration and underwriting all securities held by any other person. If the total number of securities proposed to be included in such registration statement is in excess of the Maximum Includable Securities, the number of securities to be included within the coverage of such registration statement shall be reduced to the Maximum Includable Securities as follows:

(i) no reduction shall be made in the number of securities to be registered for the account of the Company or for the benefit of any of the Company's securityholders that have the right to require the Company to initiate the registration of such securities; and

(ii) the number of Registrable Securities and other securities that may be included in the registration, if any, shall be allocated among the Holders of Registrable Securities and holders of other securities (the "Other Holders") requesting inclusion on a pro rata basis, with the number of each type or class of securities of each Holder and Other Holder thereof included in the registration to be that number determined by multiplying (A) the total number of such type or class of security included in the Maximum Includable Securities less (B) the number of such type or class of security to be registered for the account of the Company or other securityholders that have the right to require the Company to initiate the registration, by a

fraction, the numerator of which will be the total number of such type or class of security that such Holder or Other Holder owns, and the denominator of which will be the total number of such type or class of security owned by all Holders and Other Holders that have requested inclusion of such type or class of security in the registration.

(c) The Company or securityholders having the right to require the Company to register their shares, as the case may be, shall, in its or their sole discretion, select the managing underwriter or underwriters, if any, that are to undertake the sale and distribution of the Registrable Securities to be included in a registration statement filed under the provisions of this Section 3.

(d) The right to registration provided in this Section 4 is in addition to and not in lieu of the registration rights provided in Sections 2 and 3.

5. Obligations of the Company. Whenever required to effect the registration of any Registrable Securities under this Agreement, the Company shall, as expeditiously as reasonably possible:

(a) Prepare and file with the SEC a registration statement on such form as the Company deems appropriate with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective. With respect to registration statements filed pursuant to Sections 2 or 4 of this Agreement, upon the request of the Holders of a majority of the Registrable Securities registered thereunder the Company shall keep such registration statement effective for up to 180 days, or such shorter period as is reasonably required to dispose of all securities covered by such registration statement; provided that the Company shall keep a registration statement filed pursuant to Section 2 effective for an additional 90 days if reasonably required to dispose of all securities covered by such registration statement. With respect to any registration statement filed pursuant to Section 3 hereof, which Registrable Securities are intended to be offered on a continuous or delayed basis, such 180-day period shall be extended, if necessary, to keep the registration statement effective until all such Registrable Securities are sold, provided that Rule 415, or any successor rule under the Act, permits an offering on a continuous or delayed basis, and provided further that applicable rules under the Act governing the obligation to file a post-effective amendment permit, in lieu of filing a post-effective amendment which (i) includes any prospectus required by Section 10(a)(3) of the Act, or (ii) reflects facts or events representing a material or fundamental change in the information set forth in the registration statement, the incorporation by reference of information required to be included in (i) and (ii) above to be contained in periodic reports filed pursuant to Section 13 or 15(d) of the 1934 Act in the registration statement.

(b) Permit the Holders to participate through counsel reasonably acceptable to the Company in the preparation of such registration statement and, if specifically requested by such counsel, in discussions between the Company and the SEC or its staff with respect to such registration statement, and to include in such registration statement material, furnished to the Company in writing, that such counsel reasonably deems necessary to include in order to avoid potential liability for the Holders;

(c) Make available for inspection by any selling Holder of Registrable Securities, any managing underwriter participating in any disposition pursuant to such registration statement, and any attorney, accountant or other agent retained by the Company or managing underwriter, all financial and other records and pertinent corporate documents and properties of the Company, and cause the Company's officers, directors, employees and independent accountants to supply all information reasonably requested by any such selling Holder, underwriter, attorney, accountant or agent in connection with such registration statement;

(d) Notify the Holders promptly of any request by the SEC for the amending or supplementing of such registration statement or prospectus or of additional information;

(e) Prepare and file with the SEC, and promptly notify the Holders of the filing of, such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Act with respect to the disposition of all securities covered by such registration statement and as may be necessary to keep such registration statement effective for that period of time specified in Section 5(a) of this Agreement.

(f) Prepare and file with the SEC promptly upon the request of any such Holders, any amendments or supplements to such registration statement or prospectus which, in the reasonable opinion of counsel for such Holders, is required under the Act or the rules and regulations thereunder in connection with the distribution of the Registrable Securities by such Holders.

(g) Not file any amendment or supplement to the registration statement or prospectus to which any Holders shall reasonably object after having been furnished a copy a reasonable time prior to the filing thereof.

(h) Notify the Holders promptly after it has received notice of the time when such registration statement has become effective or any supplement to any prospectus forming a part of such registration statement has been filed.

(i) Advise each Holder promptly after it has received notice or obtained knowledge thereof of the issuance of any stop order by the SEC suspending the effectiveness of any such registration statement or the initiation or threatening of any proceeding for that purpose and promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal if such stop order should be issued.

(j) Furnish to the Holders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(k) Use its best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business, to file a general consent

to service of process, or to become subject to tax liability in any such states or jurisdictions, or to agree to any restrictions as to the conduct of its business in the ordinary course thereof.

(l) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering, together with each Holder participating in such underwritten offering, as provided in Section 6(c).

(m) Notify each Holder of Registrable Securities covered by such registration statement, at any time when a prospectus relating thereto covered by such registration statement is required to be delivered under the Act, of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(n) Prepare and promptly file with the SEC, and promptly notify such Holders or their counsel of the filing of, any amendment or supplement to such registration statement or prospectus as may be necessary to correct any statements or omissions if, at the time when a prospectus relating to such securities is required to be delivered under the Act, any event has occurred as the result of which any such prospectus must be amended in order that it does not make any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading.

(o) In case any of such Holders or any underwriter for any such Holders is required to deliver a prospectus at a time when the prospectus then in effect may no longer be used under the Act, prepare promptly upon request such amendment or amendments to such registration statement and such prospectus as may be necessary to permit compliance with the requirements of the Act.

(p) If any of the Registrable Securities are then listed on any securities exchange, approved for quotation on The Nasdaq Stock Market, Inc. or other trading market, the Company will cause all such Registrable Securities covered by such registration statement to be listed or approved for quotation on such exchange, The Nasdaq Stock Market, Inc. or other trading market.

(q) Furnish, at the request of any Holder requesting registration of Registrable Securities pursuant to this Agreement, on the date that such Registrable Securities are delivered to the underwriters for sale in connection with a registration pursuant to this Agreement, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the registration statement with respect to such securities becomes effective, (i) an opinion of the counsel representing the Company for the purposes of such registration, addressed to the underwriters and in form and substance as is customarily given to underwriters in an underwritten public offering, and (ii) a letter from the independent certified public accountants of the Company addressed to the underwriters, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering.

6. Obligations of Holders. It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Agreement that each of the selling Holders shall:

(a) Furnish to the Company such information regarding themselves, the Registrable Securities held by them, the intended method of sale or other disposition of such securities, the identity of and compensation to be paid to any underwriters proposed to be employed in connection with such sale or other disposition if the registration is pursuant to Section 2 or 3, and such other information as may reasonably be required to effect the registration of their Registrable Securities.

(b) Notify the Company, at any time when a prospectus relating to Registrable Securities covered by a registration statement is required to be delivered under the Act, of the happening of any event with respect to such selling Holder as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(c) In the event of any underwritten public offering, the right of any Holder to include his, her, or its Registrable Securities in such registration shall be conditioned upon such Holder participating in such underwriting, and each participating Holder shall enter into and perform its obligations under the underwriting agreement for such offering, and if requested to do so by the underwriters managing such offering, each Holder shall enter into a customary holdback agreement.

7. Registration Expenses. The Company shall bear and pay all expenses incurred in connection with registrations, filings, or qualifications pursuant to this Agreement (other than underwriting discounts and commissions with respect to Registrable Securities included in such registration and any fees and costs of the Holders' legal counsel or other advisors), including (without limitation) all registration, filing, and qualification fees, Blue Sky fees and expenses, printers' and accounting fees, costs of approval of quotation on The Nasdaq Stock Market, Inc. or listing on other securities exchange or trading market, costs of furnishing such copies of each preliminary prospectus, final prospectus, and amendments thereto as each Holder may reasonably request, and fees and disbursements of counsel for the Company; provided, however, that the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 2 or 3 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (in which case the Holders participating in such offering and favoring such withdrawal shall bear such expenses); provided further, however, that if such registration request has been withdrawn by virtue of a material adverse change in the condition, business, or prospects of the Company from that known to the Holders at the time of their request, then the Holders shall not be required to pay any of such expenses and shall retain their rights pursuant Section 2 or 3.

8. Indemnification and Contribution. In the event any Registrable Securities are included in a registration statement under this Agreement:

(a) The Company will indemnify and hold harmless each Holder, the officers and directors of each Holder, any underwriter (as defined in the Act) for such Holder, and each

person, if any, who controls such Holder or underwriter within the meaning of the Act or the Exchange Act, for, from, and against any losses, claims, damages, or liabilities (joint or several) to which such person or persons may become subject under the Act, the Exchange Act, or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any Violation, and the Company will reimburse each such Holder, officer or director, underwriter, or controlling person for any legal or other expenses reasonably incurred by such person or persons in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the Company shall not be liable in any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon a Violation that occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by such Holder, underwriter, or controlling person.

(b) Each selling Holder will indemnify and hold harmless the Company, each of its officers and directors, and each person, if any, who controls the Company within the meaning of the Act, any underwriter, and any other Holder selling securities in such registration statement or any of its directors or officers or any person who controls such other Holder, for, from, and against any losses, claims, damages, or liabilities (joint or several) to which the Company or any such officer, director, controlling person, or underwriter or controlling person or other Holder may become subject, under the Act, the Exchange Act, or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly for use in connection with such registration; and each such Holder will reimburse any legal or other expenses reasonably incurred by the Company or any such officer, director, controlling person, underwriter or controlling person, other Holder, officer, director, or controlling person in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this Section 8(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the consent of the Holder (such consent not to be unreasonably withheld). Notwithstanding anything to the contrary herein contained, a Holder's indemnity obligation, in such person's capacity as a Holder, shall be limited to the net proceeds received by such Holder from the offering out of which the indemnity obligation arises.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 8, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnified party, except that such fees and expenses shall be paid by the indemnifying party if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the

commencement of any such action, if prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 8, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 8.

(d) To the extent the indemnification from the indemnifying party provided for in this Section 8 is unavailable to an indemnified party hereunder in respect of any losses, claims, damages, liabilities or expenses referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities and expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and indemnified party on the other hand in connection with the statements, omissions, or actions which resulted in such losses, claims, damages, liabilities, or expenses, as well as any other relevant equitable considerations. The relative fault of the such indemnifying party and the indemnified party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, such indemnifying party or indemnified party, and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities, and expenses referred to above shall be deemed to include, subject to the limitations set forth in Section 8(c), any legal and other fees and expenses reasonably incurred by such indemnified party in connection with any investigation or proceedings. The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 8(d) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in this Section 8(d). Notwithstanding the provisions of this Section 8(d), no Holder of Registrable Securities shall be required to contribute any amount in excess of the amount by which the total proceeds from the sale of Registrable Securities by such Holder (net of all underwriting discounts and commissions) pursuant to the registration statement that gives rise to such obligation to contribute exceeds the amount of any damages which such Holder has otherwise been required to pay by reason of such untrue statement or omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. To the extent indemnification is available under this Section 8, the indemnifying parties shall indemnify each indemnified party to the full extent provided in Section 8(a) or (b), as the case may be, without regard to the relative fault of said indemnifying parties or indemnified party or any other equitable consideration provided for in this Section 8(d).

(e) The provisions of this Section 8 shall be applicable to each registration pursuant to this Agreement, shall be in addition to any liability that any party may have to any other party, and shall be a continuing right and shall survive the registration and sale of any of the Registrable Securities hereunder and the expiration or termination of this Agreement.

9. Reports Under the 1934 Act. With a view to making available to the Holders the benefits of Form S-3 and Rule 144 promulgated under the Act, the Company agrees at all times after ninety (90) days after the effective date of the first registration filed by the Company for an offering of its securities to the general public to use its best efforts to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144;

(b) file with the SEC in a timely manner all reports and other documents required of the Company under the Act and the Exchange Act; and

(c) furnish to any Holder, as long as the Holder owns any Registrable Securities, forthwith upon request (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144, the Act, and the Exchange Act, (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the SEC that permits the selling of any such securities without registration or pursuant to such form.

10. Limitation on Subsequent Registration Rights. From and after the date hereof, the Company shall not, without the prior written consent of the Holders of a majority of the outstanding Registrable Securities, enter into any agreement with any holder or prospective holder of any securities of the Company that would allow such holder or prospective holder to require the Company to include shares or securities in any registration initiated under this Agreement, unless under the terms of such agreement such holder or prospective holder may include such securities in any such registration only to the extent that the inclusion of such securities will not reduce the amount of Registrable Securities that is included in such registration.

11. Amendment and Waiver. This Agreement may not be modified or amended other than by an agreement in writing. Any amendment or waiver of any provision under this Agreement may be effected only with the written consent of the Company and the Holders of at least a majority of the Registrable Securities then outstanding.

12. Remedies.

(a) The Company agrees that time is of the essence of each of the covenants contained herein and that, in the event of a dispute hereunder, this Agreement is to be interpreted and construed in a manner that will enable the Holders to sell their Registrable Securities as quickly as possible after such Holders have indicated to the Company that they desire to have their Registrable Securities registered. Any delay on the part of the Company not expressly permitted under this agreement or waived by the Holders, whether material or not, shall be deemed a material breach of this Agreement.

(b) The parties hereto acknowledge and agree that the breach of any part of this Agreement may cause irreparable harm and that monetary damages alone may be inadequate. The parties therefore agree that any party shall be entitled to injunctive relief or such other applicable remedy as a court of competent jurisdiction may provide. Nothing contained herein will be construed to limit any party's right to any remedies at law, including recovery of damages for breach of any part of this Agreement.

13. Joinder of Warrant Investors. Upon execution and delivery by a Warrant Investor of a Joinder Agreement and Warrant Investor Amendment to LLC Agreement upon

exercise of such Warrant Investor's Warrant, such Warrant Investor shall be deemed to be an "Investor" under this Agreement, shall be entitled to all of the rights and privileges, and shall be bound by all of the obligations, of an Investor under this Agreement, as though such Warrant Investor had executed this Agreement as of the date hereof.

14. Miscellaneous.

(a) Controlling Law. This Agreement and all questions relating to its validity, interpretation, performance and enforcement, shall be governed by and construed in accordance with the laws of the state of Missouri, notwithstanding any Missouri or other conflict-of-law provisions to the contrary.

(b) Notices. All notices, requests, demands, and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given, made, and received when delivered against receipt, upon receipt of a facsimile transmission, or upon actual receipt of registered or certified mail, postage prepaid, return receipt requested, addressed to the Company at its principal corporate offices, and addressed to any Holder at the address of such Holder as it appears in the stock or other securities ledger of the Company. Any party may alter the address to which communications or copies are to be sent by giving notice of such change to each of the other parties hereto in conformity with the provisions of this paragraph for the giving of notice.

(c) Binding Nature of Agreement; Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective partners, shareholders, heirs, personal representatives, successors, and assigns, including without limitation and without the need for an express assignment, subsequent Holders of Registrable Securities; provided, however, that any subsequent Holders of Registrable Securities shall receive such assigned rights subject to all of the terms and conditions of this Agreement and no assignment of rights hereunder shall increase the obligations of the Company hereunder.

(d) Entire Agreement. This Agreement contains the entire agreement and understanding among the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements and understandings, inducements or conditions, express or implied, oral or written, except as herein contained. The express terms hereof control and supersede any course of performance and/or usage of the trade inconsistent with any of the terms hereof.

(e) Section Headings. The section headings in this Agreement are for convenience only; they form no part of this Agreement and shall not affect its interpretation.

(f) Gender. Words used herein, regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

(g) Indulgences, Not Waivers. Neither the failure nor any delay on the part of a party to exercise any right, remedy, power, or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power, or privilege

preclude any other or further exercise of the same or any other right, remedy, power, or privilege, nor shall any waiver of any right, remedy, power, or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power, or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

(h) Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories. Any facsimile, photographic or xerographic copy of this Agreement, with all signatures reproduced on one or more sets of signature pages, shall be considered for all purposes as of it were an executed counterpart of this Agreement.

(i) Provisions Separable. The provisions of this Agreement are independent and separable from each other, and no provision shall be affected or rendered invalid or unenforceable by virtue of the fact that for any reason any other or others of them may be invalid or unenforceable in whole or in part.

(j) Termination. The rights granted pursuant to Sections 2 and 3 of this Agreement shall terminate upon the third anniversary of the Final Subordination Release Date, and the rights granted pursuant to Section 4 shall expire upon the fifth anniversary of the Final Subordination Release Date.

[THE REMAINDER OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, this Investors Rights Agreement has been duly executed as of the day and year specified at the beginning hereof.

INERGY PARTNERS, LLC

/s/ JOHN J. SHERMAN
By:_____
John J. Sherman, President and
Managing Member

KCEP VENTURES II, L.P.
By: KCEP II, L.C., its general partner

/s/ DAVID J. SCHULTE
By:_____
David J. Schulte
Managing Director of KCEP II, L.C.

MORAMERICA CAPITAL CORPORATION
By: InvestAmerica Investment Advisors, Inc.,
Agent

/s/ KEVIN F. MULLANE
By:_____
Kevin F. Mullane, Vice President

NDSBIC, L.P.
By: InvestAmerica ND, L.L.C., General Partner
By: InvestAmerica ND Management, Inc.

/s/ KEVIN F. MULLANE
By:_____
Kevin F. Mullane, Vice President

KANSAS VENTURE CAPITAL, INC., a Kansas corporation

/s/ JOHN S. DALTON
By:_____
John S. Dalton, President

MIDSTATES CAPITAL, L.P., a Kansas limited partnership
By: Midstates Partners, L.L.C., its general partner

/s/ BART S. BERGMAN
By:_____
Bart S. Bergman, Principal

DIAMOND STATE VENTURES, L.P.
By: DSV Management LLC, its general partner

/s/ JOE T. HAYS
By:_____
Joe T. Hays, President

ROCKY MOUNTAIN MEZZANINE FUND, II LP
By: Rocky Mountain Capital Partners, LLP, as general partner

/s/ PAUL A. LYONS, JR.
By:_____
Paul A. Lyons, Jr., Partner

FIRSTAR CAPITAL CORPORATION, an Ohio corporation

/s/ RICK CROPPER
By:_____
Rick Cropper

EAGLE FUND I, LP
By: Eagle Fund, LLC, its general partner
By: Mississippi Valley Capital Company, its sole member

/s/ SCOTT D. FESLER
By: _____
Scott D. Fesler, President

RNG INVESTMENTS, L.P., a Delaware Limited Partnership

/s/ RICHARD C. GREEN, JR.
By: _____
Richard C. Green, Jr., Managing General Partner

Exhibit 10.5

# ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT is made and entered into this 8th day of September, 2000 by and among INVESTORS 300, INC., DOMEX, INC. and L&L LEASING, INC., all Indiana corporations (hereinafter referred to individually as "SELLER" and collectively as "SELLERS"), JERRY BOMAN, WAYNE COOK, GLEN E. COOK and PHILLIP L. ELBERT (hereinafter referred to as the "Shareholders"), and INERGY PARTNERS, LLC, a Delaware limited liability company (hereinafter referred to as "BUYER").

## RECITALS

A. Each SELLER desires to sell to BUYER substantially all of the assets of such SELLER related to such SELLER's business upon the terms and conditions hereinafter set forth; and

B. BUYER desires to acquire such assets from SELLERS upon the terms and conditions hereinafter set forth.

## AGREEMENT

In consideration of the above premises, the mutual agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

## ARTICLE 1. DEFINITIONS

In addition to terms defined elsewhere in this Agreement, the following terms shall have the meanings assigned to them herein, unless the context otherwise dictates, both for purposes of this Agreement and all Schedules and Exhibits hereto:

"Accounts Receivable" shall have the meaning set forth in Section 3.1(c) hereof.

"Accounts Receivable Date" shall have the meaning set forth in Section 3.1(c) hereof.

"Adverse Effect" shall mean a single event, occurrence or fact or related series of events, occurrences or facts having an adverse effect on the Assets, Business, operations, prospects or financial condition of any SELLER.

"Affiliate" shall mean "affiliate" and "associate" as such terms are defined in Rule 405 of the Securities Act of 1933.

"Agreement" or "this Agreement" shall mean this Asset Purchase Agreement, as amended from time to time by the parties hereto, together with all Schedules and Exhibits hereto.

"Acquisition Proposal" shall have the meaning set forth in Section 9.10 hereof.

"Assets" shall mean all of the assets and properties used by each SELLER in its Business (except the Excluded Assets as defined herein) including, without limitation, the entire

right, title and interest in and to all of the assets and properties described on Schedules 2.1A, 2.1B, 2.1C, 2.1D, 2.1F, 2.1J and 2.1K.

"Assumed Contracts" shall mean the Contracts and Other Agreements set forth on Schedules 2.1B, 2.1D and Part A of Schedule 2.1F and those of the type described on Part B of Schedule 2.1F that do not violate any other provisions of this Agreement.

"Balance Sheet" shall mean the balance sheet of Domex, Inc., dated October 31, 1999, the balance sheet of Investors 300, Inc., dated September 30, 1999 and the balance sheet of L&L Leasing, dated December 31, 1999.

"Balance Sheet Date" shall mean, with respect to each SELLER, the date of the Balance Sheet of such SELLER.

"Benefit Plans" shall have the meaning set forth in Section 6.18(a) hereof.

"Business" shall mean, in the case of Investors 300, Inc., the business of marketing and distributing propane gas and selling, servicing and installing parts, appliances and supplies related thereto on a retail basis; in the case of Domex, Inc., the wholesale distribution of propane gas; and in the case of L&L, Leasing, Inc., the business of truck transportation of propane gas, natural gas liquids and other products and truck fabrication and refabrication.

"Carrier Permits" shall mean the licenses, permits and the like that are required by Federal or state regulations to operate the truck transportation business of L&L Leasing, Inc.

"Claim Notice" shall have the meaning set forth in Section 12.4 hereof.

"Closing" shall mean the transfer by each SELLER to BUYER of such SELLER's Assets and by BUYER to such SELLER of the consideration set forth herein and the consummation of the transactions contemplated by this Agreement.

"Closing Date" shall be the date of the Closing established pursuant to Section 4.1 hereof.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Contracts and Other Agreements" shall mean all contracts, agreements, understandings, indentures, notes, bonds, loans, instruments, leases, subleases, mortgages, franchises, licenses, commitments or binding arrangements, express or implied, oral or written.

"Covered Person" shall have the meaning set forth in Section 9.16(b) hereof.

"Customer Deposits" shall have the meaning set forth in Section 3.1(x) hereof.

"Cut-Off Date" shall have the meaning set forth in Section 15.1(b) hereof.

"Damages" shall have the meaning set forth in Section 12.1B hereof.

"Documents and Other Papers" shall mean and include any document, agreement, instrument, certificate, notice, consent, affidavit, letter, telegram, telex, statement, file, computer

disk, microfiche or other document in electronic format, schedule, exhibit or any other paper whatsoever.

"Environmental Escrow" shall have the meaning set forth in Section 4.5 hereof.

"ERISA" shall have the meaning set forth in Section 6.18(a) hereof.

"Excluded Assets" shall have the meaning set forth in Section 2.2 hereof.

"Facility" shall have the meaning set forth in Section 6.21 hereof.

"Fixed Purchase Contracts" shall have the meaning set forth in Section 3.2 hereof.

"Fixed Sales Contracts" shall have the meaning set forth in Section 3.2 hereof.

"GAAP" shall mean generally accepted accounting principles consistently applied.

"Growth Capital Expenditures" shall mean capital expenditures that are incurred to increase the amount of Business of a SELLER and that are approved in writing by BUYER in advance of such incurrence; it being (i) agreed that the expenditures for tractors, trailers, vehicles, land, buildings and other items listed on Schedule 3.1(d) hereto are Growth Capital Expenditures, (ii) agreed that expenditures for retail customer propane tanks are not Growth Capital Expenditures but are covered in Section 3.1(h) below, and (iii) recognized that not all capital expenditures increase the amount of Business of a SELLER and therefore are not Growth Capital Expenditures hereunder, including, without limitation, capital expenditures (a) made to maintain and serve existing revenues of the Business, (b) made to replace equipment, or (c) made for extraordinary maintenance.

"Hazardous Substances" shall have the meaning set forth in Section 6.21(a) hereof.

"HSR Act" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Indemnified Party" shall have the meaning set forth in Section 12.4 hereof.

"Indemnifying Party" shall have the meaning set forth in Section 12.4 hereof.

"IPO" shall have the meaning set forth in Section 9.12(a) hereof.

"Kendallville and Waterloo Properties" shall have the meaning set forth in Section 9.19(a) hereof.

"Kendallville and Waterloo Environmental Claims" shall have the meaning set forth in Section 12.1A(a) hereof.

"Knowledge" with respect to a SELLER shall encompass all facts and information which are within the actual knowledge of any of the Shareholders and any of the

following officers or employees of a SELLER: Brian Albright, Joe H. Donnell, Bradley A. Griffith, Janet Misener and Daniel E. Manson.

"Lien" shall mean any lien, pledge, claim, charge, security interest or encumbrance of any nature whatsoever.

"Liabilities" shall have the meaning set forth in Section 4.2(b) hereof.

"Material Adverse Effect" shall mean with respect to the consequences of any fact or circumstance (including the occurrence or non-occurrence of any event) to any SELLER, that such fact or circumstance has caused, is causing or will cause directly, indirectly or consequentially, any Damages in excess of One Hundred Thousand Dollars ($100,000); provided that the foregoing shall not include the consequences of any fact or circumstance attributable to (i) factors generally affecting the industry in which the Business of such SELLER operates, (ii) general national, regional or local economic or financial conditions, or (iii) changes in governmental or legislative laws, rules or regulations.

"Material Contract" shall mean and involve any Contracts and Other Agreements, if it involves, relates to or affects the Business or the Assets or both and if any one or more of the following applies: (i) it involves, or may reasonably be expected to involve, the payment or receipt of Ten Thousand Dollars ($10,000) or more (whether in cash or in goods or services of an equivalent value) over its term, including renewal options, or Five Thousand Dollars ($5,000) during any one year, (ii) it imposes restrictions on the conduct of the Business, (iii) it was not made in the ordinary and usual course of the Business consistent with past practice, (iv) it is a continuing contract for the purchase, sale or distribution of materials, supplies, equipment, products or services, (v) it burdens, benefits, or imposes liabilities upon, or otherwise with respect to, any real property owned or leased by a SELLER, (vi) it is not cancelable on notice of not longer than thirty (30) days and without liability, penalty or premium, (vii) the present or prospective Business is dependent upon it, or (viii) it involves the future purchase or sales of propane at a fixed price.

"MLP" shall have the meaning set forth in Section 9.12(a) hereof.

"Noncompetition Agreements" shall have the meaning set forth in Section 3.4 hereof.

"Notice Period" shall have the meaning set forth in Section 12.4 hereof.

"Organizational Documents" of an entity shall mean, if a corporation, its articles of incorporation or certificate of incorporation, as the case may be, and Bylaws, and if a limited liability company, its certificate of formation and limited liability company agreement, and any other documents, agreements or instruments relating to the creation, formation, organization, governance or ownership of such entity.

"Operating Loss Adjustment" shall have the meaning set forth in Section 3.1(i) hereof.

"Other Properties" shall have the meaning set forth in Section 9.19(b) hereof.

"Other Properties Environmental Claims" shall have the meaning set forth in Section 12.1A(d) hereof.

"Parts and Appliances Inventory" shall have the meaning set forth in Section 3.1(b) hereof.

"Permitted Encumbrances" shall have the meaning set forth in Section 9.15 hereof.

"Person" means a natural person, partnership, limited partnership, corporation, limited liability company, trust, government, government agency and any other legal entity.

"Preferred Interest" shall have the meaning set forth in the amendment to the limited liability company agreement of Inergy Partners, LLC pursuant to Section 3.7 hereof.

"Propane Inventory" shall have the meaning set forth in Section 3.1(a) hereof.

"Propane Supply Contracts" shall mean contracts between a SELLER and a third party whereby the third party agrees to supply such SELLER with propane, at daily-posted prices, but such term does not include Fixed Purchase Contracts.

"Purchase Price" shall have the meaning set forth in Section 3.1 hereof.

"Purchase Price Increase" shall have the meaning set forth in Section 3.1(j) hereof.

"Real Property" shall have the meaning set forth in Section 6.10(a) hereof.

"Registration Statement" shall have the meaning set forth in Section 9.12(e) hereof.

"Release" shall have the meaning set forth in Section 6.21(a) hereof.

"Retained Liabilities" shall have the meaning set forth in Article 5 hereof.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Senior Subordinated Units" are those senior subordinated units described in Exhibit C hereto.

"Supplemental Information" shall have the meaning set forth in Section 9.11 hereof.

"Survey" shall have the meaning set forth in Section 9.15 hereof.

"Title Commitment" shall have the meaning set forth in Section 9.15 hereof.

"Title Company" shall have the meaning set forth in Section 9.15 hereof.

"Title Policy" shall have the meaning set forth in Section 9.15 hereof.

"Vehicle Transfer Taxes" shall have the meaning set forth in Section 4.4 hereof.

## ARTICLE 2. PURCHASE AND SALE OF ASSETS

2.1 Assets. Subject to the terms and conditions hereof and subject to the representations and warranties made herein and except as otherwise provided in Section 2.2, at the Closing each SELLER shall validly sell, assign, transfer, grant, bargain, deliver and convey to BUYER (or to one or more of its designees) the Assets.

2.2 Excluded Assets. Anything in Section 2.1 to the contrary notwithstanding, the assets listed or described on Schedule 2.2 shall not be transferred to BUYER (the "Excluded Assets").

2.3 Non-Assignable Contracts. This Agreement and any document delivered hereunder shall not constitute an assignment or an attempted assignment by a SELLER of any right contemplated to be assigned to BUYER hereunder:

(a) That is not assignable by such SELLER without the consent of a third party if such consent has not been obtained and such assignment or attempted assignment would constitute a breach thereof; or

(b) If the remedies for the enforcement or any other particular provisions thereof available to such SELLER would not pass to BUYER.

Each SELLER shall use reasonable commercial efforts (but with no requirement to make any out-of-pocket expenditures) to obtain such consents of third parties as may be necessary for the assignment of such right by such SELLER. To the extent that such right of a SELLER is not assignable or where consents to the assignment thereof cannot be obtained as herein provided, such SELLER shall, at the Closing, assign to BUYER the full benefit thereof (which shall be deemed to be Assets) and grant to BUYER, to the extent permitted by applicable law, an irrevocable power of attorney to perform such SELLER's covenants and obligations under such rights in respect of the period after the Closing Date, and to enforce such SELLER's rights thereunder in the name of such SELLER but for the benefit of BUYER.

## ARTICLE 3. PURCHASE PRICE

3.1 Aggregate Purchase Price. The aggregate purchase price (the "Purchase Price") for the Assets and the Noncompetition Agreements is Sixty-Six Million Dollars ($66,000,000), plus an amount equal to the sum of the following:

(a) The inventory of propane gas (i) located in each SELLER's bulk storage tanks and bobtails on the Closing Date and useable and saleable in the ordinary course of the Business of such SELLER, the amount of such inventory to be based upon a reading from the sight gauge located on such bulk storage tanks and bobtails (adjusted to 60 degrees Fahrenheit) taken jointly by a representative of BUYER and a representative of such SELLER on the Closing Date and priced based upon the lowest wholesale delivered price at which such SELLER could purchase propane on the Closing Date, and (ii) owned by any SELLER and stored in third party storage facilities, and priced based upon (x) the actual cost of (1) up to Two Million (2,000,000) gallons of such inventory that is located

at the Marysville, Michigan underground storage facility on the Closing Date and (2) any additional such inventory held by such SELLER to meet the obligations of such SELLER pursuant to long-term contracts described in Section 3.2 hereof, and (y) for all other such inventory, the lower of actual cost or market price at such storage facility on the Closing Date (the "Propane Inventory"). (The Parties recognize that BUYER will be assuming certain Fixed Purchase Contracts for the purchase of propane pursuant to Section 3.2 hereof.);

(b) The inventory of gasoline and diesel fuels owned by each SELLER and priced at the lower of actual cost or market price at each facility, and the inventory of parts, equipment held for resale, work in progress and appliances of each SELLER on the Closing Date usable and saleable in the ordinary course of the Business of such SELLER, with the amount of such inventory to be based upon a physical inventory taken jointly by a representative of BUYER and a representative of such SELLER on the Closing Date and priced based upon the average cost method for inventory regularly employed by such SELLER in its inventory accounting practices; provided, however, that no amount shall be paid under this Section 3.1(b) for new or used retail customer propane tanks (the "Parts and Appliances Inventory");

(c) Accounts receivable (the "Accounts Receivable") arising from the Business of each SELLER and owned by such SELLER as of the Closing Date that are actually collected within one hundred eighty (180) days after the Closing (the "Accounts Receivable Date");

(d) An amount equal to the sum of the Growth Capital Expenditures incurred by all SELLERS on or after August 1, 1999 and prior to the Closing Date (an itemized list of all Growth Capital Expenditures including the amount of each item from August 1, 1999 to July 31, 2000 is attached hereto as Schedule 3.1(d)), which are hereby approved by BUYER;

(e) An amount equal to the pre-paid expenses (such as, for example, customer promotions and deposits for future expenditures) as reflected on the books and records of each SELLER as of the Closing Date to the extent such expenses have been approved in advance and in writing by BUYER to be included for purposes of this Section 3.1(e), including the pre-paid expenses incurred to date as set forth in Schedule 3.1(e) attached hereto;

(f) An amount equal to the outstanding balance owed by River Valley Cooperative on the Closing Date under that certain Promissory Note dated January 25, 2000, executed by River Valley Cooperative, less $25,000;

(g) An amount equal to the amount calculated in this Section 3.1(g). First, a physical inventory of the number of new (not used) retail customer propane tanks owned by each SELLER on the Closing Date usable and saleable in the ordinary course of the Business of such SELLER shall be taken jointly by a representative of BUYER and a representative of such SELLER on the Closing Date. The cost per tank used to value this physical inventory will be the most recent net price per tank paid for by such SELLER. The total value of physical inventory of new tanks on the Closing Date determined above shall be adjusted by the following number "x" to arrive at the total

amount paid under this Section 3.1(g). The number "x" shall be equal to Net Purchases minus Net Sets; where, "Net Purchases" is equal to the number of all new (not used) retail customer propane tanks purchased by SELLERS from August 1, 1999 to the Closing Date, minus the number of new tanks sold during such period, in both cases in the ordinary course of business of such SELLER consistent with past practices of such SELLER and consistent with industry practices, and "Net Sets" is equal to the number of retail customer propane tanks installed by SELLERS from August 1, 1999 to the Closing Date, in the ordinary course of business of such SELLER consistent with past practices of such SELLER and consistent with industry practices, minus the number of used tanks picked up from retail customers during such period. If the number of tanks calculated in "x" is negative, then 90% of that number "x" shall be added to the value of the physical inventory of new tanks on the Closing Date to arrive at the total net dollar amount paid for under this Section 3.1(g). If the number of tanks calculated in "x" is positive, then 90% of that number "x" shall be deducted from the value of the physical inventory of new tanks on the Closing Date to arrive at the total net dollar amount paid for under this Section 3.1(g). If the number of tanks calculated in "x" is zero, then the actual physical inventory of new tanks on Closing Date shall be paid with no adjustments. The value per tank to be used in any adjustment for "x" shall be the most recent price paid by SELLER for such tanks.

(h) An amount equal to the number of Net Sets (as defined in Section 3.1(g) above) multiplied by the sum of $125, plus an amount equal to the actual cost of all new (not used) tanks purchased by SELLERS, minus the number of new tanks sold by SELLERS during such period, in both cases since August 1, 1999 to the Closing Date. (An itemized calculation of the sum payable pursuant to this Section 3.1(h) through July 31, 2000 is set forth in Schedule 3.1(h) and is hereby approved by SELLERS and BUYER);

(i) An amount equal to $1,700 per day for each day between June 30, 2000 and the Closing Date (the "Operating Loss Adjustment");

(j) An amount equal to the sum of (A) plus (B), where (A) equals nine percent (9%) of Six Million Dollars ($6,000,000) multiplied by a fraction the numerator of which is the number of days between June 30, 2000 and the Closing Date and the denominator of which is 365, and (B) equals five percent (5%) of Sixty Million Dollars ($60,000,000) multiplied by a fraction the numerator of which is the number of days between June 30, 2000 and the Closing Date and the denominator of which is 365 (the "Purchase Price Increase");

(k) In the event that (A) a SELLER at the time of the Closing has in effect any property or casualty insurance covering the Assets or the Business, and such insurance covers periods subsequent to the Closing, (B) such SELLER cancels such insurance within ten (10) days following the Closing, and (C) the policy does not provide for a pro rata refund of such premiums paid by such SELLER, the purchase price shall be increased by an amount equal to (i) minus (ii), where (i) equals the number of days from the Closing Date to the end of the insurance policy period divided by 365 multiplied by the yearly premium paid, and (ii) equals the amount of the insurance premium refunded or to be refunded to such SELLER with respect to such policy;

(l) An amount equal to the sum of the deposits referred to in Section 3.2(d) below; and

(m) An amount equal to the replacement capital expenditures incurred by SELLERS between June 30, 2000 and the date hereof (and other replacement capital expenditures incurred prior to June 30, 2000) as set forth on Schedule 3.1(m) hereof and hereby approved by BUYER, plus those replacement capital expenditures incurred after the date hereof and prior to the Closing that have been approved in writing by BUYER in advance of the incurrence; and

the Purchase Price shall be decreased by an amount equal to the sum of the following:

(w) An amount equal to the loss, if any, calculated pursuant to Section 3.2(c) below; and

(x) An amount equal to the sum of the customer deposits held by all SELLERS on the Closing Date as determined from the books and records of SELLERS on the Closing Date (the "Customer Deposits"); and

(y) An amount equal to the sum of (i) bonuses assumed by BUYER pursuant to Section 3.3 below and (ii) accrued expenses as of the Closing Date, if any, that BUYER and SELLERS agree in writing shall be assumed by BUYER, including the accrued expenses set forth in Schedule 3.1(y), but excluding any unused vacation days; and

(z) (i) In the event that the promissory note negotiated as part of that certain Covenant Not to Compete, dated August 11, 1998 by and among Investors 300, Inc., Candace J. Heller and Ronald Heller (see Section 9.18 below) is assumed by BUYER, an amount equal to the unpaid principal and accrued interest under such promissory note as of the Closing Date; and (ii) In the event BUYER exercises its right to reject certain real estate pursuant to Section 9.15 of this Agreement, the fair market value of any real estate which is excluded from this sale as determined by the average of the values established by two certified real estate appraisers, with one appraiser designated by SELLER and one appraiser designated by BUYER.

3.2 Long-Term Contracts. The parties acknowledge that in the ordinary course of the Business of SELLER(s), SELLER(s) enter into contracts with third parties providing for the sale of propane to such third parties over an extended period of time and at a fixed per unit sales price ("Fixed Sales Contracts"), and SELLER(s) enter into contracts with third parties providing for the purchase of propane from third parties over an extended period of time at a fixed per unit sales price ("Fixed Purchase Contracts"). BUYER agrees that at the Closing it will assume all such Fixed Sales Contracts and Fixed Purchase Contracts, subject to the following:

(a) With respect to such contracts entered into after the date hereof, such contracts shall have been entered into by SELLER(s) in the ordinary course of business consistent with past practices.

(b) BUYER shall assume all Fixed Sales Contracts that have been entered into by SELLERS prior to or following the date hereof with the third parties set forth in Schedule 3.2(b), and the Fixed Sales Contracts entered into by SELLERS with any other third parties that, in addition to satisfying the provisions of clause (a) above, satisfy the creditworthiness standards applied by BUYER in the ordinary course of its business.

(c) Any such Fixed Sales Contract shall be subject to BUYER having offsetting Fixed Purchase Contracts (either assumed hereunder or otherwise) and/or long positions of propane inventory that would result in BUYER having no worse than a breakeven economic position upon BUYER's assumption of such Fixed Sales Contract, and if BUYER would not be in such economic position, then BUYER shall nevertheless assume such Fixed Sales Contract but the Purchase Price shall be reduced by an amount equal to BUYER's reasonably anticipated loss from such Fixed Sales Contract. In determining such "reasonably anticipated loss," there shall be taken into account the terms of such contracts, the transportation costs, the carrying costs of any such propane inventory and the amount payable by BUYER under Section 3.2(e) below for the offsetting Fixed Purchase Contract.

(d) No amount shall be payable by BUYER in connection with the assumption by BUYER of any Fixed Sales Contract or any Fixed Purchase Contract; provided, however, in the event a SELLER has made any deposit with a counterparty to any Fixed Purchase Contract, any unapplied portion of such deposit as of the time of Closing shall be paid by BUYER to such SELLER as part of the Purchase Price; and provided, further, that with respect to any Fixed Purchase Contract, BUYER agrees (i) to pay such SELLER's amortized cost thereof that is traceable to the volume to be taken under any such contract that is offset against volumes to be sold under any Fixed Sales Contract assumed by BUYER under (c) above, and (ii) as to the balance of such contract, to pay to such SELLER an amount equal to the lower of such SELLER's amortized cost or the market value of such Fixed Purchase Contract as of the Closing. Amortized cost of a Fixed Purchase Contract shall be based upon industry accounting practice and in accordance with GAAP. By way of example of the foregoing proviso, if there is a Fixed Sales Contract for 1 million gallons of propane at $.50 per gallon and a Fixed Purchase Contract for 1.5 million gallons of propane at $.45 per gallon, then the purchase price for such Fixed Purchase Contract would be (i) at such SELLER's cost for 1 million gallons, plus (ii) the lower of such cost or the current market value for the remaining .5 million gallons.

(e) BUYER's agreement to assume any Fixed Sales Contract and any Fixed Purchase Contract shall be subject to such SELLER obtaining any consent of the third party to such contract that would be required to permit the assignment of such contract to BUYER.

3.3 Employee Bonuses. SELLERS have in place a bonus program for certain employees of SELLERS. At the time of the Closing, it is anticipated that there will be bonuses that will have accrued but will not be payable or vested under such program until a date subsequent to the Closing. Subject to the provisions hereof, BUYER agrees to assume such bonus liability of SELLERS as identified to BUYER prior the Closing. The Purchase Price shall be decreased under Section 3.1(y) above by an amount equal to the sum of the projected bonuses

for all employees. In determining the projected bonus for an employee, the parties shall meet to discuss the anticipated earnings, revenue or other bonus measurements for the entire bonus period and calculate the bonus based on such anticipated amounts. Such bonus amount for each employee shall then be multiplied by a fraction, the numerator of which is the number of days between the beginning of the bonus period for such employee and the Closing Date and the denominator of which is 365. By way of example, if (a) an employee is to receive 5% of profits as a bonus for a particular business segment, (b) the profits to the Closing Date for such segment were $75,000, (c) the number of days between the beginning of the bonus period and the Closing Date were 300 and (d) the expected profits (as agreed to by the parties) for such segment for the entire twelve-month bonus period were $60,000 (i.e., a projected loss of $15,000 for the remaining 65 days), the bonus amount under this provision would be 300/365 times 5% of $60,000, or $2,465. In addition to BUYER assuming SELLERS' liability to pay such bonuses under the terms of such SELLER's bonus program, BUYER agrees that in the event an employee is terminated without cause subsequent to the Closing Date and the Purchase Price has been decreased pursuant to Section 3.1(y) above with respect to such employee, BUYER agrees to pay to such employee such credited amount, even though such bonus would not be payable under the bonus program.

3.4 Noncompete Payments. At the Closing on the Closing Date, each SELLER and each Shareholder (other than Phillip L. Elbert) will enter into a noncompetition agreement with BUYER in the form of Exhibit A attached hereto (the "Noncompetition Agreements"), pursuant to which SELLERS and the Shareholders will receive a total of $465,000 (allocated pursuant to Section 3.5) in consideration for the Noncompetition Agreements. SELLERS and the Shareholders each hereby agree that such $465,000 is included in the Purchase Price and will be paid as set forth in the Noncompetition Agreements.

3.5 Allocation of Purchase Price. The parties agree to allocate the Purchase Price to the Assets and the Noncompetition Agreements in the manner provided in Schedule 3.5.

3.6 Earnest Money Deposit. Within 14 days after the date hereof, BUYER agrees to make an earnest money deposit of Seventy-Five Thousand Dollars ($75,000). Such deposit will be placed in escrow with Bank One, Indiana, N.A., Fort Wayne, Indiana and under an escrow agreement in the form attached as Exhibit H. At the time of the Closing the deposit and interest thereon shall be returned to BUYER. If the Closing does not occur on or before October 31, 2000 as a result of a breach of this Agreement by any SELLER or any Shareholder, promptly thereafter BUYER shall be entitled to be paid the deposit and all interest thereon. If the Closing does not occur on or before October 31, 2000 for any other reason, then SELLERS jointly shall be entitled to be paid $75,000, and BUYER shall be entitled to be paid the interest thereon.

3.7 LLC Agreement Amendment and Put Agreement. At the Closing, SELLERS and BUYER agree to execute and deliver to each other the amendment to limited liability company agreement in the form attached hereto as Exhibit E and the Put Agreement in the form attached hereto as Exhibit F.

## ARTICLE 4. CLOSING

4.1 Closing Date. The Closing shall take place at such place and time as established by BUYER upon at least five (5) business days advance notice to SELLERS, but in

no event later than October 31, 2000, unless the parties agree to a later date (such time of Closing is herein called the "Closing Date"). To the extent practicable, BUYER agrees that the Closing will be held at the law offices of Burt, Blee, Dixon & Sutton, LLP, 200 East Main Street, Fort Wayne, Indiana.

4.2 Transfer of Assets. At the Closing:

(a) Each SELLER shall sell, transfer, assign, grant, bargain, deliver and convey to BUYER (or one or more of its designees) all right, title and interest in and to such SELLER's Assets, free and clear of any and all Liens, subject to the Permitted Encumbrances. The transactions contemplated by this Section 4.2(a) shall be effected or evidenced by delivery by each SELLER to BUYER of bills of sale, assignments and other documents of transfer acceptable in form and substance to BUYER.

(b) BUYER shall assume the liabilities for those accrued expenses agreed to be assumed by BUYER as provided in Section 3.1(y) and Schedule 3.1(y), the liabilities of SELLERS with respect to vacation pay owing to SELLERS' employees, the liabilities under SELLERS' bonus program as provided in Section 3.3, the liabilities of each SELLER under the Assumed Contracts to which such SELLER is a party and such other liabilities of a SELLER as BUYER may agree in writing to assume prior to the Closing (collectively, the "Liabilities"). Such assumption of the Liabilities shall be effected or evidenced by delivery by BUYER to the appropriate SELLER of an appropriate written instrument or instruments of assumption acceptable in form and substance to such SELLER.

4.3 Payment of the Purchase Price. Subject to the terms and conditions of this Agreement, BUYER shall pay the Purchase Price, as determined pursuant to Section 3.1 above, as follows:

(a) At the Closing (subject to the provisions of Section 4.5 below), delivering to SELLERS, cash in the aggregate amount of Sixty Million Dollars ($60,000,000) plus an amount equal to the sum of any amounts payable under Sections 3.1(d), 3.1(e), 3.1(f), 3.1(g), 3.1(h), 3.1(l) and 3.1(m), minus an amount equal to the sum of the amounts calculated under Sections 3.1(w), 3.1(x), 3.1(y) and 3.1(z) above and minus the amount in Section 4.3(c) below; provided, however, in the event any of the foregoing amounts cannot be calculated at the time of the Closing, such amounts shall be calculated by BUYER and SELLERS and paid to SELLERS by BUYER or paid to BUYER by SELLERS, as the case may be, within thirty (30) days after the Closing.

(b) At the Closing, delivering to SELLERS in proportion to their respective fair market value, as agreed upon by BUYER and SELLERS, Senior Subordinated Units in the MLP or a Preferred Interest in BUYER (bearing an annual preferred distribution percentage of nine percent (9%)) with an initial capital account balance equal to the sum of (i) Six Million Dollars ($6,000,000), (ii) an amount equal to the Operating Loss Adjustment under Section 3.1(i), and (iii) an amount equal to the Purchase Price Increase under Section 3.1(j);

(c) At the Closing, delivering to SELLERS and to the Shareholders, cash in an aggregate amount of Four Hundred Sixty-Five Thousand Dollars ($465,000), as set forth in the Noncompetition Agreements;

(d) At the Closing, assuming the Liabilities and only the Liabilities;

(e) Fifteen (15) days after the Closing, delivering to each SELLER, a check in an amount equal to the Propane Inventory of such SELLER as determined pursuant to Section 3.1(a) above;

(f) Thirty (30) days after the Closing, delivering to each SELLER, a check in an amount equal to (i) the Parts and Appliances Inventory of such SELLER as determined pursuant to Section 3.1(b) above, and (ii) any amounts owed pursuant to Section 3.1(k); and

(g) BUYER shall remit all amounts actually received by BUYER as payment of Accounts Receivable after the Closing and prior to the Accounts Receivable Date, such remittances to be no less frequent than every thirty (30) days and shall be accompanied by information as to the Accounts Receivable to which such remittance relates. Any monies received from a customer after the Closing Date shall be applied first to the oldest Accounts Receivable due from such customer. With regard to any such Accounts Receivable not collected prior to the Accounts Receivable Date, BUYER shall, at its sole election and promptly thereafter, either (i) pay to SELLERS the amount of such Accounts Receivable or (ii) assign such Accounts Receivable to SELLERS.

4.4 Sales and Transfer Taxes. Each SELLER shall be responsible for and agrees to pay when due all sales, use and transfer taxes arising out of the transfer of the Assets by such SELLER and the other transactions contemplated hereunder; provided, however, BUYER agrees to be responsible for all sales and transfer taxes with respect to any vehicles to be transferred to BUYER hereunder (the "Vehicle Transfer Taxes").

4.5 Environmental Escrow. At the Closing, Three Hundred Thousand Dollars ($300,000) of the cash otherwise payable to SELLERS under Section 4.3(a) shall instead be placed in escrow pursuant to the Environmental Escrow Agreement with Bank One, Indiana, N.A., Fort Wayne, Indiana in the form attached hereto as Exhibit I (the "Environmental Escrow"). The parties agree that the Environmental Escrow shall be to reimburse BUYER pursuant to the provisions of Section 12.1A of this Agreement.

## ARTICLE 5. LIABILITIES NOT ASSUMED BY BUYER

Anything in this Agreement to the contrary notwithstanding, each SELLER shall be responsible for all of its liabilities and obligations not hereby expressly assumed by BUYER (the "Retained Liabilities"), and BUYER shall not assume, or in any way be liable or responsible for, any liabilities or obligations of any SELLER, except the Liabilities. Without limiting the generality of the foregoing, BUYER shall not assume, or in any way be liable or responsible for, the following:

(a) Any liability or obligation of any SELLER arising out of or in connection with the negotiation and preparation of this Agreement and the consummation

and performance of the transactions contemplated hereby, whether or not such transactions are consummated, including, but not limited to, any tax liability so arising;

(b) Any liability or obligation of any SELLER with respect to employment or consulting agreements, pension, profit-sharing, welfare or benefit plans, or amounts owing for commissions or compensation, termination, severance or other payments to present or former employees, officers, directors or shareholders of any SELLER, except bonuses, accrued vacation and other accrued expenses, assumed pursuant to Section 4.2(b) of this Agreement and except as provided in Section 9.16;

(c) Any liability or obligation of any SELLER, or any consolidated group of which any SELLER is a member, for any foreign, federal, state, county or local taxes of any kind or nature, or any interest or penalties thereon, including without limitation any sales or use tax obligations, applicable to the sale and purchase of the Business or the Assets as contemplated by this Agreement, it being hereby agreed by the parties hereto that such obligations shall be paid by any SELLER; provided, however, BUYER agrees to be responsible for all Vehicle Transfer Taxes;

(d) Any liability (other than with respect to the Liabilities) to which any of the parties may become subject as a result of the fact that the transactions contemplated by this Agreement are being effected without compliance with the provisions of any Bulk Transfer Law or any similar statute as enacted in any jurisdiction, domestic or foreign; or

(e) Any liability with respect to any dispute, claim, complaint or legal action arising between the shareholders of any SELLER or between a shareholder of any SELLER and any SELLER, in any way resulting from or claimed to be resulting from the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby or otherwise.

## ARTICLE 6. REPRESENTATIONS AND WARRANTIES OF SELLERS AND SHAREHOLDERS

SELLERS and each of the Shareholders hereby, jointly and severally, represent and warrant to BUYER and agree as of the date hereof as follows:

6.1 Corporate Organization. Each SELLER is a corporation duly organized, validly existing and in good standing under the laws of the State of Indiana, and has all requisite power and authority to own, operate and lease its Assets and to conduct its Business as and where such Business is now conducted. Except as set forth in Schedule 6.1, no SELLER has any subsidiary and does not hold any equity or other ownership interest in any other entity. Except as set forth in Schedule 6.1, no subsidiary of any SELLER has any assets of any nature whatsoever.

6.2 Due Qualification. Each SELLER is duly qualified to do business and is in good standing under the laws of each jurisdiction in which the nature of its Business or of the properties owned or leased by it makes such qualification necessary. A list of such jurisdictions is attached hereto as Schedule 6.2.

6.3 Authority; Binding Effect. Each SELLER and each Shareholder has the right, power, authority, and capacity to execute and deliver this Agreement and all other agreements contemplated hereby, to perform the obligations hereunder and thereunder on its part to be performed and to consummate the transactions contemplated hereby and thereby. The execution and delivery by each SELLER and each Shareholder of this Agreement and all other agreements and documents contemplated hereby and the performance by each SELLER and each Shareholder of their respective obligations to be performed hereunder and thereunder have been duly approved by all necessary action, and no further approvals are required by the officers, directors or shareholders of any SELLER in connection therewith. This Agreement constitutes, and when duly executed and delivered, the agreements described in Schedule 6.3 hereto will constitute, the legal, valid, and binding obligations of each SELLER and each Shareholder, enforceable against such parties in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, or other similar laws relating to or affecting creditors' rights generally and to general equity principles (whether such enforceability is considered in a proceeding at law or in equity).

6.4 No Creation of Violation, Default, Breach or Encumbrance. The execution, delivery and performance of this Agreement by each SELLER and each of the Shareholders does not, and the consummation by such Person of the transactions contemplated hereby will not (i) violate (A) any statute, rule or regulation to which such Person is subject or (B) any order, writ, injunction, decree, judgment or ruling of any court, administrative agency or governmental body to which such Person is subject, (ii) conflict with or violate any provision of the Organizational Documents of any SELLER, or (iii) assuming receipt of the consents set forth in Schedule 6.4, require the consent of any Person or result in the breach of or constitute a default (or an event that, with notice or lapse of time or both, would constitute a default) under, violate, conflict with, breach or give rise to any right of termination, cancellation or acceleration of, or to a loss of benefit to which any SELLER is entitled, under (A) any Material Contracts (not including Propane Supply Contracts), or (B) any governmental licenses, authorizations, permits, consents or approvals required for any SELLER to own, license or lease and operate its properties or to conduct its Business as presently conducted by it, but not including any Carrier Permits.

6.5 No Present Default. Except as disclosed in Schedule 6.5, all contracts, agreements, leases and licenses to which any SELLER is a party are valid and in full force and effect and constitute legal, valid and binding obligations of such SELLER. Except as disclosed in Schedule 6.5 hereto, no SELLER is in default under or in breach of any mortgage, indenture, note or other instrument or obligation for the payment of money or any contract, agreement, lease or license, and to the Knowledge of SELLERS, no other parties to any such mortgage, indenture, note, instrument, obligation, contract, agreement, lease or license is in default thereunder or in breach thereof; no event has occurred that, with the passage of time or the giving of notice, would constitute such a breach or default by any SELLER or, to the Knowledge of any SELLER, by any such other party; no claim of default thereunder has been asserted or, to the Knowledge of any SELLER, threatened; and neither the any SELLER nor, to the Knowledge of any SELLER, any other party thereto, is seeking the renegotiation thereof.

6.6 Approvals, Licenses and Authorizations.

(a) Except with respect to the HSR Act, the Carrier Permits and the items set forth in Schedule 6.6(a), no (i) order, license, consent, waiver, authorization or

approval of, or (ii) exemption by, or (iii) giving of notice to, or (iv) registration with or the taking of any other action in respect of, any Person not a party to this Agreement (including any federal, state, local, foreign or other governmental department, commission, board, bureau, agency or instrumentality), and no filing, recording, publication or registration in any public office or any other place, in each case is, necessary on behalf of any SELLER (x) to authorize any SELLER's execution, delivery and performance of this Agreement or any other agreement, document or instrument contemplated hereby to be executed and delivered by any SELLER, (y) to authorize the consummation by any SELLER of the transactions contemplated hereby or thereby, or (z) for the legality, validity, binding effect or enforceability with respect to any SELLER of any of the foregoing.

(b) All licenses, permits, concessions, warrants, franchises and other governmental authorizations and approvals of all federal, state, local or foreign governmental or regulatory bodies required or necessary for any SELLER to carry on its Business as and where presently conducted by it have been duly obtained and are in full force and effect and are set forth truly, correctly and completely on Schedule 6.6(b). There are no proceedings pending or, to the Knowledge of any SELLER, threatened which are likely to result in the revocation, cancellation or suspension or any material modification of any thereof.

6.7 Compliance With Law. To the Knowledge of SELLERS and the Shareholders and except as set forth on Schedule 6.7, no SELLER is in violation of any statute, law, rule or regulation, or any order, writ, injunction or decree of any court, administrative agency, governmental body or arbitration tribunal, to which it or any of the Assets is subject in connection with the operation of the Business of such SELLER.

6.8 Financial Statements and Source of Revenue.

(a) Each SELLER has delivered to BUYER the balance sheets of such SELLER as of the Balance Sheet Date applicable to such SELLER and as of the date that is one year prior to such Balance Sheet Date and the related statements of income, stockholder's equity and cash flows for the fiscal years then ended, and the July 31, 2000 balance sheet of such SELLER and the related statements of income, stockholder's equity and cash flows for the period from the Balance Sheet Date to July 31, 2000.

(b) The financial statements referred to in Section 6.8(a) above fairly present the financial position, results of operation and cash flows of each SELLER as and at the relevant dates thereof and for the periods covered thereby in accordance with GAAP.

(c) Except as set forth in the Balance Sheet or in the Schedules hereto, no SELLER has (i) any liabilities or obligations, direct or contingent, accrued or otherwise, of a nature customarily reflected in financial statements in accordance with GAAP, except those incurred after the Balance Sheet Date in the ordinary course of business consistent with past practice and except lease and other contract obligations and other obligations or liabilities that are disclosed in this Agreement or the Schedules hereto, and (ii) any liabilities or obligations under any Benefit Plans except those incurred

after the Balance Sheet Date in the ordinary course of business consistent with past practice and pursuant to the terms of the Benefit Plans described in Schedule 6.18(a).

(d) Schedule 6.8(d) sets forth the source of all of each SELLER's revenue generated by the Assets as a percentage of such SELLER's total revenue for the period beginning one (1) year prior to such SELLER's Balance Sheet Date through the Balance Sheet Date and the subsequent period ending July 31, 2000 broken down into the following two (2) categories: (i) revenues generated from the distribution of propane gas, and (ii) all other revenues.

6.9 Absence of Certain Events. Except as set forth in Schedule 6.9, since the Balance Sheet Date, the Business of each SELLER has been operated only in the ordinary and normal course of Business and since the Balance Sheet Date:

(a) There has not been any Material Adverse Effect in the financial condition, Assets, liabilities, results of operations, Business, prospects or condition, financial or otherwise, of any SELLER and there has been no occurrence, circumstance or combination thereof which might be expected to result in any Material Adverse Effect thereto before or after the Closing Date;

(b) There has not been any damage, destruction or loss, whether covered by insurance or not, resulting in a Material Adverse Effect on the Assets or the Business of any SELLER;

(c) There has not been any increase or decrease in the compensation payable to or to become payable by any SELLER to any of the salaried officers, key employees or agents of the Business, or change in any insurance, pension or other beneficial plan, payment or arrangement made to, for or with any of such salaried officers, key employees or agents or any commission or bonus paid to any of such officers, key employees or agents other than increases and bonuses in the normal course of business, consistent with past practices and not exceeding in any one (1) case an increase and bonus aggregating more than ten percent (10%) of such Person's compensation;

(d) Except in the ordinary course of business, no SELLER has (i) incurred any obligation or liability or assumed, guaranteed, endorsed or otherwise become responsible for the liabilities or obligations of any other Person (whether absolute, accrued, contingent or otherwise); (ii) discharged or satisfied any Lien or paid any obligation or liability (whether absolute, accrued, contingent or otherwise); (iii) mortgaged, pledged, created or subjected to a Lien any of the Assets; (iv) sold, assigned, transferred, leased or otherwise disposed of any of the Assets or acquired any Assets or any interest therein; (v) amended, terminated, waived or released any rights or canceled any debt owing to or claim by any SELLER; (vi) transferred or granted any rights under any Contracts and Other Agreements, patents, inventions, trademarks, trade names, service marks or copyrights, or registrations or licenses thereof or applications therefor, or with respect to any know-how or other proprietary or trade rights; (vii) modified or changed any Material Contracts; or (viii) entered into any transaction, contract or commitment which by reason of its size or otherwise was material to the Business of any SELLER or financial condition of any SELLER;

(e) No SELLER has terminated, discontinued, closed or disposed of any plant, facility or business operation related to the Business of such SELLER;

(f) There has not been any other event or condition of any character whatsoever that has had or may reasonably be expected to have a Material Adverse Effect on the Business of any SELLER.

6.10 Title to and Condition of Properties.

(a) Schedule 2.1A contains a true, correct and complete list of all real property related to the operation of the Business in which any SELLER has any interest. Schedule 2.1B contains a true, correct and complete list of all leases and subleases of real and mixed property related to the operation of the Business under which any SELLER is a lessor or lessee (true, accurate and complete copies of which have previously been delivered to BUYER). Each SELLER has good, marketable and indefeasible fee simple title to all of its real properties, including but not limited to the real properties in which it has an interest as described on Schedule 2.1A, but not including any leased property, and good, marketable and indefeasible title to all the leasehold estates created by the leases and subleases described on Schedule 2.1B (such real properties and leasehold estates collectively referred to herein as the "Real Property"). Without limiting the generality of the foregoing, as to leasehold estates under the leases and subleases of Real Property, each SELLER has quiet and peaceable possession of each of the leased properties. All leases and subleases in which a SELLER is a lessor or sublessor are in full force and effect, there is no default or event of default thereunder and the rent thereunder has not been prepaid for more than a one (1)-month period. Each SELLER has and upon the transfer to BUYER as contemplated herein BUYER has rights of ingress and egress to all of its real properties and to all its leasehold estates, subject to the local zoning and development restrictions.

(b) A true, correct and complete list of all propane tanks which are owned or serviced by any SELLER and all other personal property included in the Assets having a fair market or book value per unit in excess of Two Hundred Fifty Dollars ($250) is included in Schedule 2.1C and a true, correct and complete list of all leases of personal property included in the Assets under which any SELLER is a lessee or lessor involving any propane tank or any other personal property having a fair market or book value per unit in excess of Two Hundred Fifty Dollars ($250) is included in Schedule 2.1D (true, accurate and complete copies of which have previously been delivered to BUYER). Notwithstanding any other provision of this Agreement, SELLERS and the Shareholders shall have liability for the inaccuracy of the representations made in the first sentence of this Section 6.10(b) only to the extent such inaccuracy exceeds One Hundred Thousand Dollars ($100,000) in propane tank value (as measured by the replacement cost of any such propane tank) and then only if the claim for such inaccuracy is made by notice to SELLERS and the Shareholders given by BUYER prior to the Accounts Receivable Date. All propane tanks used in the Business which have a capacity of at least one hundred twenty (120) gallons are under contract to customers or are physically located on the plant lot of one of such SELLER's retail locations. Each SELLER has good and indefeasible title to (i) all of the personal property set forth on Schedule 2.1C and indicated as being owned by it, (ii) all of the Assets reflected in the financial statements of each SELLER, and (iii) all Assets purported to have been acquired by such

SELLER after the date of such financial statements, free and clear of all Liens (except for Permitted Encumbrances), except for such Assets disposed of in the usual and ordinary course of business consistent with past practices, and all of such Assets are in such SELLER's possession and control.

(c) The conduct of the Business of each SELLER in the ordinary course is not dependent upon the right to use the property of others, except under valid and binding agreements identified on Schedule 6.10(c) hereto (true, accurate and complete copies of which have previously been delivered to BUYER). To the Knowledge of any SELLER, the Real Property and the improvements located thereon do not encroach upon the property of others and there are no encroachments onto the Real Property from the property of others. SELLERS have had access to all utility connections, and the right to use the same, necessary for the conduct of the Business in the ordinary course.

(d) Except as set forth in Schedule 6.10(d), each SELLER owns or has irrevocable rights to use and is transferring to BUYER hereunder all assets and property necessary for the conduct of such SELLER's Business in the ordinary course.

(e) The Assets being transferred by each SELLER, including, but not limited to, the machinery, equipment (including automobiles, trucks and heavy machinery), furniture and fixtures are in good operating condition and repair and of an appropriate character suitable for the uses for which intended in the operation of the Business of such SELLER in the ordinary course, except that at any given time approximately three (3) to five (5) percent of the automobiles, trucks and heavy machinery being transferred hereunder will be in the process of being repaired or refurbished.

(f) All inventories of each SELLER are of a quality and quantity usable and salable in the ordinary course of such SELLER's Business and in any event are not in excess of projected requirements over the next twelve (12) months, and the values at which such inventories are carried on the books of account fairly represent the value thereof, are not in excess of realizable value, and reflect the normal inventory valuation policy of such SELLER.

(g) The accounts receivable of each SELLER as shown on its books and records have arisen in the ordinary course of Business, represent valid and enforceable obligations owed to such SELLER and are recorded as accounts receivable on the books of such SELLER in accordance with GAAP.

6.11 Intangible Properties.
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(a) Schedule 2.1J hereto contains a list of all patents and applications therefor, trademarks, trademark registrations and applications therefor, trade names, service marks, copyrights, copyright registrations and applications therefor, both foreign and domestic, owned, possessed, used or held by or licensed to any SELLER and related to the operation of such SELLER's Business and such SELLER owns the entire right, title and interest in and to the same, together with the goodwill associated therewith. Each SELLER has the right to use and is transferring to BUYER the unrestricted right to use

trade secrets, know-how, formulae, technical processes and information, manufacturing, testing and operating techniques and procedures, all engineering data and plans and all other data and information used by such SELLER in its Business or which is necessary for its Business as now conducted. None of the items in the categories listed in the preceding sentence of this Section 6.11 are subject to any pending or threatened challenge or infringement, and no impediment exists as to such SELLER's exclusive ownership and use or validity of any such item, except as set forth in Schedule 2.1J. The foregoing constitutes all information necessary to permit the conduct from and after the Closing Date of the Business of each SELLER, as such Business is and has normally been conducted. All acts necessary under all provisions of applicable law to protect the items listed on Schedule 2.1J, including, without limitation, the filing of required affidavits of use and incontestability, applications for renewals of registrations and notice of registration, have been taken by each SELLER. All licenses granted to each SELLER by others which are essential or useful to any part of such SELLER's Business are assignable to BUYER without consent of or notice to any Person, without change in the terms or provisions thereof and without premium, except as set forth in Schedule 2.1J. With respect to each SELLER, such SELLER has not infringed any unexpired patent, trademark, trademark registration, trade name, copyright, copyright registration, trade secret or any other proprietary or intellectual property right of any party in connection with the operation of its Business. No SELLER has given any indemnification for patent, trademark, service mark or copyright infringements.

(b) Schedule 2.1K hereto contains a list, of each SELLER's trade secrets related to the operation of its Business.

6.12 Contracts and Commitments.

(a) To the extent not listed on Schedule 2.1B or Schedule 2.1D, Schedule 2.1F lists and briefly describes all Material Contracts related to the operation of the Business to which any SELLER is a party or by which it or any of its assets or properties are bound (true and correct copies of each of which have been previously delivered to BUYER). Each Material Contract (whether disclosed on Schedule 2.1B, Schedule 2.1D, Schedule 2.1F or otherwise) is in full force and effect and embodies the complete understanding between the parties thereto with respect to the subject matter thereof. Except as expressly set forth on Schedule 2.1F, (i) there exists no material default or claim thereof by any party to any Material Contract, (ii) there are no facts or conditions that, if continued or noticed, would result in a default having a Material Adverse Effect under any Material Contract, (iii) no SELLER has received any notice that any Person intends to cancel, modify or terminate any Material Contract, or to exercise or not to exercise any options thereunder, (iv) no SELLER has given any notice of cancellation, modification or termination of any Material Contract or of exercise or non- exercise of any options thereunder, (v) each Material Contract is a valid and binding agreement enforceable in accordance with its terms and (vi) no consent or approval of the other parties to any Material Contract or any Person pursuant to any Material Contract is required for the consummation of the transactions contemplated herein, except for Propane Supply Contracts and Fixed Purchase Contracts that are not assignable, and except for those contracts described on said Schedule.

(b) Except as set forth in Schedule 6.12(b), no SELLER is a party to any contract for goods or services or any lease with any officer, director, shareholder, employee or agent of SELLER or any Affiliate of any such Person.

(c) No purchase or sale commitments by any SELLER are in excess of the normal, ordinary and usual requirements of the Business; no SELLER has any outstanding power of attorney to any Person for any purpose whatsoever; no SELLER is restricted by law or agreement from carrying on its Business anywhere in the world; no officer, director, shareholder or Affiliate of any SELLER has any financial interest, direct or indirect, in any SELLER's suppliers or customers; except as set forth in Schedule 6.12(c) hereto, no SELLER grants discounts or rebates to its customers.

(d) No SELLER has made any other contract or agreement or granted any option to sell or otherwise transfer all or a significant part of the capital stock or Assets of a SELLER.

(e) The Customer Deposits are all amounts owed to customers of SELLERS as a result of amounts held by a SELLER as a customer deposit.

6.13 Insurance. A list of all policies of insurance and bonds of any type presently in force (including without limitation all occurrence-based policies that provide coverage for events occurring in any of the five (5) years prior to the date hereof) with respect to the Business of any SELLER, including, without limitation, those covering product liability claims and its Assets and operations, are set forth in Schedule 6.13. Such policies and bonds (a) provide coverage in such amounts, and against such losses and risks, as maintained by SELLERS consistent with past practices and in the ordinary course of business to provide for the protection of the Business and Assets of SELLERS, and (b) will be maintained in effect up to and including the Closing Date. Each SELLER will, at the request of BUYER, use its best efforts to cause the policies of insurance against fire and other casualty to property to be endorsed so as to include BUYER as a party insured thereunder as its interest may appear, provided any and all costs associated with such an endorsement are paid by BUYER.

6.14 Tax Returns and Tax Audits.

(a) Each SELLER has filed with all appropriate governmental agencies all tax or information returns and tax reports required to be filed. All such returns and reports as are based on income have been prepared on the same basis as those of previous years; and all federal, state, foreign and local income, profits, franchise, sales, use, occupation, property, excise, ad valorem, employment or other taxes of each SELLER, and all interest, penalties, assessments or deficiencies claimed to be due by any such taxing authority with respect to the foregoing have been fully paid.

(b) Each SELLER has made adequate accruals for the payment of all income, profits, franchise, property, sales, use, occupation, excise, ad valorem, employment and other taxes payable in respect of the period subsequent to the last period for which such taxes were paid, and, to the Knowledge of SELLERS, no SELLER has any liability for such taxes (including Federal Excise Tax) in excess of the amounts so paid or accruals so made.

(c) No SELLER is a party to any pending action or proceeding, nor, to the Knowledge of SELLERS, is any action or proceeding threatened or contemplated by any governmental authority for assessment or collection of taxes or any other governmental charges, and no claim for assessment or collection of taxes or any other governmental charges has been asserted against any SELLER, nor, to the Knowledge of SELLERS, is the assertion of any such claim pending or contemplated nor is there any basis for any such claim. To the Knowledge of SELLERS, there have been no reports prepared by any agent of the Internal Revenue Service with respect to any tax matter involving any SELLER.

(d) No SELLER is or has been required to file any tax returns with, or pay any taxes to, any foreign countries or political subdivisions thereof. No SELLER has in effect any powers of attorney with respect to any tax matters involving it. At no time has a consent been filed by any SELLER to have the provisions of Section 341(f)(2) of the Code apply, nor has any agreement under Section 341(f)(3) of the Code been filed by any SELLER.

(e) Each SELLER agrees to provide to BUYER such other tax information with respect to the Business or the Assets of such SELLER as BUYER may reasonably request.

(f) There are no taxes, fees or governmental charges (including without limitation sales taxes) payable by any SELLER, any Shareholder or BUYER to any state, city or subdivision of either thereof as a result of the sale of the Assets to BUYER, other than state and local income taxes and Vehicle Transfer Taxes.

6.15 Books and Records.
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(a) The books, records and accounts of each SELLER (i) are in all respects true, complete and correct, (ii) have been maintained in accordance with good business practices on a basis consistent with prior years, and (iii) are stated in reasonable detail and accurately and fairly reflect the transactions and dispositions of the Assets by such SELLER.

(b) Each SELLER has devised and maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; and (ii) transactions are recorded as necessary (A) to permit preparation of financial statements in conformity with GAAP or any other criteria applicable to such statements, and (B) to maintain accountability for the assets of such SELLER.

6.16 Substantial Customers and Suppliers. Schedule 6.16 sets
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forth a true and complete list of the fifteen (15) largest suppliers to Domex, Inc. (on the basis of cost or, in the case of propane suppliers, on the basis of volume) of goods or services purchased during the twelve (12) months ended October 31, 1999, as well as the dollar amounts or volume taken of such goods or services purchased during such year. Schedule 6.16 also sets forth a true and complete list of the fifteen largest customers of each SELLER (in terms of sales) during the twelve months ended September 30, 1999 for Investors 300, Inc., October 31, 1999 for Domex, Inc. and December 31, 1999 for L&L Leasing, Inc., as well as the dollar amounts of such sales

during such twelve-month period and from the respective fiscal years end through July 31, 2000. Except to the extent set forth in Schedule 6.16, (i) since the end of such twelve-month period, no such customer has ceased or reduced by more than fifteen percent (15%) (by comparing each month with the same month of the prior Period) its purchases from such SELLER, or given notice of an intention to cease or reduce such sales or purchases, and (ii) no SELLER and no Shareholder has any reason to believe that any such supplier or customer would likely reduce or cease such sales or purchases as a result of the transactions contemplated herein or the ownership of the Business by BUYER or the MLP. BUYER acknowledges that SELLERS are not responsible for any reduction in customer purchases following the Closing unless such reduction relates to a breach of a representation made by SELLERS and the Shareholders under this Agreement.

6.17 No Litigation, Adverse Events or Violations. Except as set forth in Schedule 6.17, there is no action, suit, claim or legal, administrative, arbitration, condemnation or other proceeding or, to the Knowledge of any SELLER or the Shareholders, governmental investigation or examination or, to the Knowledge of any SELLER or the Shareholders, any change in any zoning or building ordinance affecting any of the Assets, pending or, to the Knowledge of any SELLER, threatened or injunction or orders entered, pending or threatened against any SELLER or any business, properties or assets of any SELLER, at law or in equity, before or by any federal, state, municipal or other governmental department, court, commission, board, bureau, agency or instrumentality, domestic or foreign, to restrain or prohibit the consummation of the transactions contemplated hereby or which, if determined adversely, is reasonably likely to result in (i) an Adverse Effect, or (ii) materially and adversely affect the consummation of the transactions contemplated by this Agreement and there is no state of facts currently existing on which any of the foregoing might be based. No SELLER has violated, or is currently in violation of, any applicable federal, state, local or foreign law, ordinance (including any zoning or building ordinance), regulation, order, requirement, statute, rule, permit, concession, grant, franchise, license or other governmental authorization relating or applicable to it, to any of the Assets or the Business of such SELLER. In addition to the information required under the first sentence of this Section 6.17, Schedule 6.17 also includes the status of all such claims. Each SELLER and each Shareholder hereby represent and warrant that adequate insurance coverage exists covering all such claims set forth in Schedule 6.17 and that any adverse result or settlement relating to such claims shall not exceed the insurance limitation applicable to such claim.

6.18 Employee Benefit Plans; Labor Matters.

(a) Schedule 6.18(a) sets forth a true and complete list of any and all pension, retirement, savings, disability, medical, dental, health, life (including any individual life insurance policy as to which each SELLER is the owner, beneficiary or both), death benefit, group insurance, profit sharing, deferred compensation, stock options or other stock incentive, bonus incentive, vacation pay, severance or termination pay, employment agreement, "cafeteria" or "flexible benefit" plan under Section 125 of the Code, or other employee or director benefit plan, trust, arrangement, contract, agreement, policy or commitment, whether formal or informal, written or oral, under which employees, former employees, directors or former directors of such SELLER are entitled to participate by reason of their current or prior employment, or current or former directorship, with such SELLER, including, without limitation, any "employee benefit

plan" as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (i) to which such SELLER is a party or a sponsor or a fiduciary thereof, or (ii) with respect to which such SELLER has made payments, contributions or commitments, or may otherwise have any liability (collectively, the "Benefit Plans"). With respect to the Benefit Plans, individually and in the aggregate, each SELLER has made available to BUYER, a true and correct copy of (a) the most recent annual report (Form 5500) filed with the IRS, if any, (b) such Benefit Plan, (c) any summary plan description relating to such Benefit Plan, and (d) each trust agreement and group annuity contract, if any, relating to such Benefit Plan.

(b) The Benefit Plans have been operated and administered by each SELLER in compliance with all applicable laws relating to employment or labor matters including ERISA and the Code. With respect to the Benefit Plans, no event has occurred that would subject any SELLER to liability (except liability for benefits, claims and funding obligations payable in the ordinary course) under ERISA, the Code, or any other applicable statute, order or governmental rule or regulation. With respect to the Benefit Plans, individually and in the aggregate, there has been no prohibited transaction within the meaning of Section 406 of ERISA or Section 4975 of the Code that would result in liability to any SELLER, and there has been no action, suit, grievance, arbitration or other claim with respect to the administration or investment of assets of the Benefit Plans (other than routine claims for benefits made in the ordinary course of plan administration) pending, or to the Knowledge of any SELLER, threatened.

(c) All contributions to and payments under any Benefit Plan required in respect of periods ending on or before the Closing Date shall be made by each SELLER on or within thirty (30) days after the Closing Date. There is no agreement, contract or understanding between any SELLER, on the one hand, and any employee, participant, labor union, collective bargaining unit or other Person, on the other hand, that requires or may require any amendment to any of the Benefit Plans.

(d) Each Benefit Plan that is intended to be tax qualified under Section 401(a) of the Code is tax qualified and each such Benefit Plan has received, or application has been made for, a favorable determination letter from the IRS stating that the Plan meets the requirements of the Code and that any trust or trusts associated with the Plan are tax exempt under Section 501(a) of the Code. Each Benefit Plan that is funded with a trust that is intended to be tax-exempt under Section 501(c)(9) of the Code is exempt from taxation and each such trust has received a letter from the IRS stating that the trust meets the requirements of the Code for tax-exempt status, within the immediately preceding three (3)-year period.

(e) No SELLER and no entity that together with any SELLER would be deemed to be a "single employer" within the meaning of Section 414(b), (c), (m) or (o) of the Code now maintains or contributes to or, within the immediately preceding three (3)-year period, has maintained or contributed to any defined plan that is (i) a benefit plan within the meaning of Section 3(35) of ERISA, or (ii) subject to the requirements of Title IV of ERISA.

(f) No SELLER is a party to any collective bargaining or other labor union contract. There is no pending or threatened union organizational effort, labor

dispute, strike or work stoppage relating to employees of any SELLER and none has occurred within the immediately preceding five (5)-year period. No SELLER and no representative or employee of any SELLER has committed any unfair labor practice in connection with the operation of the Business of any SELLER, and there is no pending or threatened charge or complaint against any SELLER by the National Labor Relations Board or any comparable state agency. Each SELLER is in compliance with all applicable laws respecting employment, wages, hours, safety and health and other terms and conditions of employment. No SELLER has experienced a "plant closing" or "mass layoff" within the meaning of the Worker Adjustment and Retraining Notification Act, 29 U.S.C. (S)(S) 2101 et seq. ("WARN") within the immediately preceding three (3)-year period.

(g) There are no written or oral employment agreements, employment contracts or understandings relating to employment (other than ordinary course arrangements for "at-will" employment) to which any SELLER is a party (excluding any such agreements, contracts or understandings listed in Schedule 6.18(a)).

(h) The consummation of the transactions contemplated by this Agreement will not (either alone or upon the occurrence of any additional acts or events) result in any payment (whether of severance pay or increase in compensation, benefits or rights or otherwise) becoming due from any SELLER to any of its employees, former employees, directors or former directors, nor accelerate the timing of any payment or the vesting of any rights or increase the amount of any compensation due to any such person. As a direct or indirect result of the consummation of the transactions contemplated hereby, no SELLER will be obligated to make a payment to any person that would not be deductible as a result of the application of Section 280G of the Code.

6.19 Business Names. No SELLER does business in any state or country under any name other than "Hoosier Propane" or "Domex" or "Investors 300" or "L&L Leasing" or "L&L Repair & Testing" or "L&L Transportation" or "L&L Transportation & Brokerage". The information on Schedule 9.6 attached hereto (see Section 9.6) is accurate and complete.

6.20 Brokers and Finders. No broker or finder has acted for any SELLER or Shareholder in connection with this Agreement and the transactions contemplated hereby; and no broker or finder is entitled to any brokerage or finder's fee or other commission in respect thereof based in any way on any agreement, arrangement or understanding made by any SELLER or Shareholder.

6.21 Environmental.

(a) Except as set forth in Schedule 6.21, to SELLERS' and the Shareholders' Knowledge, there has not been, as of the date hereof, any "release" (as defined in 42 U.S.C. (S)9601(22)) or threat of a "release" of any "hazardous substances" (as defined in 42 U.S.C. (S)9601(14)) or oil or other petroleum-related products on or about any of the Real Property.

(b) Except as set forth in Schedule 6.21, no SELLER has any contract, agreement or otherwise arranged for disposal or treatment, or arranged with a transporter

for transport for disposal or treatment, of hazardous substances at any "facility" (as defined in 42 U.S.C. (S) 9601(9)) owned or operated by another Person.

(c) Except as set forth in Schedule 6.21, no SELLER has accepted any hazardous substances for transport to disposal or treatment facilities or sites selected by a SELLER.

(d) Except as set forth in Schedule 6.21, to SELLERS' and the Shareholders' Knowledge, the Real Property and the use thereof is in compliance with and each SELLER is in compliance with all applicable laws, statutes, ordinances, rules and regulations of any governmental or quasi-governmental authority (federal, state or local) relating to environmental protection, underground storage tanks, toxic waste, hazardous waste, oil or hazardous substance handling, treatment, storage, disposal or transportation, or arranging therefor, respecting any products or materials previously or now located, delivered to or in transit to or from the Real Property, including without limitation the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, and the Superfund Amendments and Reauthorization Act of 1986.

(e) To SELLERS' and the Shareholders' Knowledge, the past disposal practices relating to hazardous substances and hazardous wastes of each SELLER have been accomplished in accordance with all applicable laws, rules, regulations and ordinances.

(f) Except as set forth in Schedule 6.21, no SELLER has been notified that it has potential liability with respect to the cleanup of any waste or disposal facility. No SELLER has any information to the effect that any site at which a SELLER has disposed of hazardous substances or oil has been or is under investigation by any local, state or federal governmental body, authority or agency.

(g) No SELLER has received any notification of releases of hazardous substances or oil from any governmental or quasi-governmental agency.

6.22 Disclosure. To the best Knowledge of each SELLER and each Shareholder, none of the financial statements referred to in Section 6.8 above, or any representation or warranty or other provision contained herein, or in any document, schedule or certificate delivered or to be delivered to BUYER in connection with this Agreement or the transactions contemplated hereby, or any written statement, certificate or other document furnished to BUYER in connection with this Agreement or the transactions contemplated hereby, contains or will contain any untrue statement of a fact or omits or will omit to state a fact necessary in order to make the statements contained therein not misleading. To the best knowledge of each SELLER and each Shareholder, there is no fact which has not been disclosed in writing to BUYER by SELLERS which would be material to the purchase of the Assets.

## ARTICLE 7. REPRESENTATIONS AND WARRANTIES OF BUYER

BUYER represents and warrants to SELLERS and the Shareholders, both as of the date hereof and as of the Closing Date, as follows:

7.1 Organization; Documentation. BUYER is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware, and has the power and authority and all licenses, authorizations, permits, consents and approvals required to own, license or lease and operate its properties and to conduct its business as presently conducted by it.

7.2 Authority; Binding Effect. BUYER has the power and authority to execute and deliver this Agreement and all other agreements contemplated hereby, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by BUYER of this Agreement and all other agreements and documents contemplated hereby and the performance by BUYER of all obligations on its part to be performed hereunder and thereunder have been duly approved by all necessary action by BUYER, and no further approvals are required by the members of BUYER in connection therewith. This Agreement constitutes, and when duly executed and delivered by BUYER, all other agreements contemplated hereby will constitute, the legal, valid and binding obligation of BUYER, enforceable against BUYER, in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally and to general equity principles (whether such enforceability is considered in a proceeding at law or in equity).

7.3 No Creation of Violation, Default, Breach or Encumbrance. The execution and delivery by BUYER of this Agreement do not, and the consummation by BUYER of the transactions contemplated hereby will not (i) conflict with or violate any provision of the Organizational Documents of BUYER; (ii) assuming receipt of the consents set forth in Schedule 7.3, require the consent of any Person or result in the breach of or constitute a default under any contract, agreement, lease, license, mortgage, indenture, note or other instrument or obligation to which BUYER is a party, that could adversely affect the ability of BUYER to consummate the transactions contemplated by this Agreement; or (iii) violate (A) any statute, rule or regulation to which BUYER is subject, or (B) any order, writ, injunction, decree, judgment or ruling of any court, administrative agency or governmental body to which BUYER is subject.

7.4 Brokers and Finders. No broker or finder has acted for BUYER in connection with this Agreement and the transactions contemplated hereby; and no broker or finder is entitled to any brokerage or finder's fee or other commission in respect thereof based in any way on any agreement, arrangement or understanding made by BUYER.

7.5 No Adverse Action. There are no actions, suits, claims or legal, administrative, arbitration or other proceedings or governmental investigations or examinations pending or threatened or injunctions or orders entered, pending or threatened against BUYER or its business, property or assets, at law or in equity, before or by any federal, state, municipal or other governmental department, court, commission, board, bureau, agency or instrumentality, domestic or foreign, to restrain or prohibit the consummation of the transactions contemplated hereby or to obtain damages that if decided adversely would adversely affect the ability of BUYER to consummate the transactions provided for in this Agreement.

7.6 Approvals, Licenses and Authorizations. No (i) order, license, consent, waiver, authorization or approval of, (ii) exemption by, (iii) giving of notice to, or (iv) registration with or the taking of any other action in respect of, any Person not a party to this Agreement or any federal, state, local, foreign or other governmental department, commission,

board, bureau, agency or instrumentality; and no filing, recording, publication or registration in any public office or any other place in each case is now, or under existing law in the future will be, necessary on behalf of BUYER to authorize either the execution, delivery and performance of this Agreement or any other agreement, document or instrument contemplated hereby to be executed and delivered by them and the consummation by them of the transactions contemplated hereby or thereby, or for the legality, validity, binding effect or enforceability of any thereof.

7.7 Financial Statements of Buyer.

(a) BUYER has delivered to SELLER the balance sheets of BUYER as of September 30, 1999 and September 30, 1998 and the related statements of income, member's equity and cash flows for the fiscal years then ended, and the March 31, 2000 balance sheet of BUYER and the related statements of income, member's equity and cash flows for the period from September 30, 1999 to March 31, 2000.

(b) The financial statements referred to in Section 7.7(a) above fairly present the financial position, results of operation and cash flows of BUYER as and at the relevant dates thereof and for the periods covered thereby in accordance with GAAP.

(c) Except as set forth in the March 31, 2000 balance sheet or in the Schedules hereto, BUYER has no liabilities or obligations, direct or contingent, accrued or otherwise, of a nature customarily reflected in financial statements in accordance with GAAP, except those incurred after March 31, 2000 in the ordinary course of business consistent with past practice.

7.8 Absence of Certain Events. Except as set forth in Schedule 7.8, since March 31, 2000 the business of BUYER has been operated only in the ordinary and normal course of business. Since March 31, 2000:

(a) There has not been any material adverse effect in the financial condition, assets, liabilities, results of operations, business or condition, financial or otherwise, of BUYER, and to BUYER's knowledge there has been no occurrence, circumstance or combination thereof that might be expected to result in any material adverse effect thereto before or after the Closing Date; and

(b) There has not been any damage, destruction or loss, whether covered by insurance or not, resulting in a material adverse effect on the assets or the business of BUYER.

## ARTICLE 8. ACCESS TO INFORMATION BY BUYER

8.1 Prior to Closing. Until the Closing, each SELLER will furnish BUYER, its members, officers, employees, accountants, attorneys, representatives and agents, with all financial, operating, engineering and other data and information concerning the Business and the Assets of such SELLER as BUYER shall from time to time request and will accord BUYER or its authorized representatives access to such SELLER's Assets, books, records, contracts and documents (including tax returns filed and those in preparation) and will give such persons the opportunity to ask questions of, and receive answers from, appropriate representatives of such SELLER with respect to the Business and the Assets of such SELLER, provided such inquiries

are made with reasonable notice to SELLER and are specifically authorized in advance by one or more of the Shareholders, which authorization shall not be unreasonably withheld. No investigations by BUYER, or its members, officers, employees, accountants, attorneys, representatives or agents, shall reduce or otherwise affect the obligation or liability of any SELLER with respect to any representations, warranties, covenants or agreements made herein or in any other certificate, instrument, agreement or document described in Schedule 6.3.

8.2 Public Information. Except as may be required by law, until the Closing or termination of this Agreement, each SELLER and each Shareholder shall consult with BUYER and BUYER shall consult with such SELLER and/or Shareholder with respect to the content of any communications to be made to employees, customers, suppliers or others having dealings with such SELLER as well as communications made to the public and to the form and content of any application or report to be made to any judicial or regulatory authority or other governmental authority that relates to the transactions contemplated by this Agreement.

8.3 Confidentiality. All information disclosed by any party to this Agreement to any other party, shall be kept confidential by such receiving party and shall not be used by such receiving party to compete with the other party or in any manner other than as herein contemplated or required by court order, except to the extent that such information was known by such receiving party when received or is or hereafter becomes legally obtainable from other sources. In the event of termination of this Agreement, each party hereto shall return, upon request, to the other parties, all documents (and reproductions thereof) received from such other parties (and in the case of reproductions, all such reproductions made by the receiving party) that include information not within the exceptions contained in the first sentence of this Section 8.3.

## ARTICLE 9. COVENANTS OF THE PARTIES

9.1 Actions Pending Closing. From the date hereof to the Closing, except as contemplated by this Agreement, each SELLER and each Shareholder hereby represents, warrants, covenants and agrees that, unless the prior written consent of BUYER is obtained, each SELLER will not take any action that would result in a violation of any of the following proscriptions:

(a) The Business of each SELLER will be carried on in the usual, regular and ordinary manner and each SELLER will use its reasonable commercial efforts to preserve its present business organization intact, keep available the services of its present officers and employees and preserve its present relationships with Persons having business dealings with it, all solely as the same relates to the Business, and shall not make or institute any methods of manufacture, purchase, sale, lease, management, accounting or operation in or affecting the Business that are not consistent with SELLER's past practices;

(b) No SELLER will increase or decrease the compensation payable or to become payable to any salaried officer or employee, or make any change in any insurance, pension or other employee benefit plan nor pay any commission or bonus to any of such officers or employees other than increases and bonuses in the normal course of business, consistent with past practices and not exceeding in any one (1) case an aggregate increase and bonus of more than ten percent (10%) of such Person's compensation;

(c) No SELLER will make any change in its practices regarding sales, credit or collection terms and conditions insofar as the same relates to its Business;

(d) No SELLER will, with respect to its Business, (i) incur any obligation or liability or assume, guarantee, endorse or otherwise become responsible for the liabilities or obligations of any other Person (whether absolute, accrued, contingent or otherwise), except normal trade or business obligations incurred in the ordinary course of business; (ii) discharge or satisfy any Lien or pay any obligation or liability (whether absolute, accrued, contingent or otherwise), other than in the ordinary course of business; (iii) except in the ordinary course of business, mortgage, pledge, create or subject to a Lien any of its Assets; (iv) sell, assign, transfer, lease or otherwise dispose of any of its Assets except in the ordinary course of business, or acquire any assets or any interest therein except in the ordinary course of business; (v) except in the ordinary course of business, amend, terminate, waive or release any rights or cancel any debt owing to or claim by such SELLER; (vi) except in the ordinary course of business, transfer or grant any rights under any Contracts and Other Agreements, patents, inventions, trademarks, trade names, service marks or copyrights, or registrations or licenses thereof or applications therefor, or with respect to any know-how or other proprietary or trade rights; (vii) modify or change any Material Contracts; or (viii) enter into any transaction, contract or commitment that by reason of its size or otherwise is material to its Business or financial condition or that is not in the ordinary course of such SELLER's Business as now conducted;

(e) All tangible Assets of each SELLER will be used, operated, maintained and repaired in a manner consistent with past practices;

(f) No SELLER will do any act or omit to do any act, or permit any act or omission to act, that will cause a breach of any Material Contract;

(g) No SELLER will make any investment of a capital nature affecting its Business (except Growth Capital Expenditures as provided for herein) without the prior written consent of BUYER;

(h) No SELLER will permit any insurance policy naming it as a beneficiary or a loss payable payee and relating to its Assets or Business to be canceled, terminated or modified or any of the coverage thereunder to lapse unless simultaneously with such termination or cancellation, replacement policies providing substantially the same coverage are in full force and effect;

(i) No SELLER will fail to pay when due any of the following insofar as they relate to its Business: (i) any trade accounts payable, (ii) any payments required by any indentures, mortgages, financing agreements, loan agreements or similar agreements, or (iii) taxes of whatever kind or nature or payments related thereto (including, without limitation, estimated payments and withholding remittances);

(j) No SELLER will, insofar as the same relates to its Business, maintain its books, accounts and records in any manner other than the usual, regular and ordinary manner, on a basis consistent with prior years and will not knowingly fail to

comply with any laws applicable to such SELLER and to the conduct of its Business or to its Assets;

(k) No SELLER will knowingly enter into any transaction or make any agreement or commitment or take any other action, in each case which would result in any of its representations, warranties or covenants contained in this Agreement not being true and correct at and as of the Closing Date.

9.2 Information. SELLERS and the Shareholders will promptly inform BUYER in writing of any litigation commenced against them or any of them in respect of (a) the transactions contemplated by this Agreement, or (b) the Assets or Business of any SELLER.

9.3 Further Assurances. Each SELLER shall execute and deliver or cause to be executed and delivered to BUYER such further instruments of transfer, assignment and conveyance and take such other action as BUYER may reasonably require to more effectively carry out the transfer of the Assets of such SELLER and the consummation of the matters contemplated by this Agreement.

9.4 Compliance. Each SELLER and each Shareholder hereby agrees to and shall:

(a) cause all obligations imposed upon any SELLER or any Shareholder in this Agreement to be duly complied with, and use their respective best efforts to cause all conditions precedent to such obligations to be satisfied prior to the Cut-Off Date;

(b) use its reasonable commercial efforts to obtain any and all consents, waivers, amendments, modifications, approvals, authorizations, notations and licenses necessary to the consummation of the transactions contemplated by this Agreement, it being understood and agreed that the foregoing does not apply to consents to assignments of Propane Supply Contracts or action with respect to obtaining Carrier Permits for BUYER; and

(c) immediately notify BUYER of the occurrence of any event or the failure of any event to occur of which a SELLER has Knowledge that results in a breach of any representation or warranty made by any SELLER or any Shareholder in this Agreement or a failure by any SELLER or any Shareholder to comply with any covenant, condition or agreement of such Person contained in this Agreement.

9.5 Delivery of Corporate Documents. At or prior to the Closing, each SELLER shall deliver to BUYER all keys to any improvements located on any of the Real Property of such SELLER, all Documents and other papers related to the operation of the Business or the Assets of such SELLER, including without limitation all files relating to the receivables and payables (whether current or past), original certificates of letter patent, trademarks and copyrights, and hard copies of any books or records or Documents and other papers or information and data relating to the operation of the Business or the Assets of such SELLER stored on any electronic media, including computers.

9.6 U.C.C. Search. At BUYER's expense, BUYER may seek Uniform Commercial Code search reports. Schedule 9.6 sets forth a list of the following: (i) the name of each SELLER, (ii) any name under which such SELLER is doing business, and (iii) all counties and states in which such SELLER has any real or personal property or otherwise maintains a place of business or in which such SELLER's Assets are located.

9.7 Bulk Transfer Law. The parties hereto each waives compliance by the others with the provisions of the bulk transfer law of the State of Indiana and the provisions of any statute of any other state or jurisdiction regulating bulk sales or transfers which may be applicable to the sale of the Assets. Each SELLER agrees that it will, so far as is practicable, apply so much of the Purchase Price it receives under this Agreement as may be necessary to pay such SELLER's Retained Liabilities that are then known to exist and to be due. Each SELLER hereby agrees to indemnify and hold BUYER and its members, officers, employees, agents, representatives, successors and assigns harmless from and against any and all losses, claims, damages, expenses and liabilities (including legal fees and expenses) to which BUYER may become subject pursuant to the bulk transfer provisions of the Uniform Commercial Code of the State of Indiana or to any other such bulk transfer or sale statute with regard to the sale of the Assets contemplated by this Agreement.

9.8 BUYER's Insurance Endorsements. For a period of three (3) years following the Closing Date, BUYER will cause (at BUYER's cost) SELLERS and the Shareholders to be named insureds on BUYER's liability insurance policies and will provide SELLERS with copies of documents indicating that such action has been taken.

9.9 Noncompetition and Employment Agreements.

(a) Each of the Persons that are to enter into a Noncompetition Agreement pursuant to Section 3.4 agree to and shall, at or prior to the Closing, enter into such Noncompetition Agreement.

(b) Phillip L. Elbert and BUYER agree to and shall at or prior to the Closing enter into an Employment Agreement in the form attached hereto as Exhibit K.

9.10 No Shop. Each SELLER and each Shareholder agrees that, from the date hereof and until the first to occur of the Closing or the termination of this Agreement in accordance with Article 15, no SELLER, none of such SELLER's respective officers or directors and no Shareholder will, and each SELLER and each Shareholder will direct and use their best efforts to cause each of their respective representatives not to, initiate, solicit, encourage or respond to, directly or indirectly, any inquiries or the making or implementation of any proposal or offer (including any proposal or offer to the Shareholders) with respect to a merger, acquisition, consolidation or similar transaction involving, or any purchase of all or any significant portion of the assets or any equity securities of, a SELLER (any such proposal or offer being an "Acquisition Proposal") or provide any Confidential Information respecting any SELLER or BUYER or any affiliate of BUYER to, or engage in any activities or have any discussions or negotiations with, any Person relating to an Acquisition Proposal or otherwise facilitate any effort or attempt to make or implement an Acquisition Proposal. Each SELLER and each Shareholder will: (a) immediately cease and cause to be terminated any existing activities, discussions or negotiations with any Persons conducted heretofore with respect to any of the foregoing, and each will take the steps necessary to inform such Persons of the obligations

undertaken in this Section 9.10, and (b) notify BUYER immediately if any such inquiries or proposals are received by, any such information is requested from, or any such discussions or negotiations are sought to be initiated or continued with, any SELLER or any Shareholder.

9.11 Supplemental Information.

(a) SELLERS, the Shareholders and BUYER each agree that, with respect to the representations and warranties of such party contained in this Agreement, such party will have the continuing obligation until the Closing to promptly provide the other party with such additional supplemental information (collectively, the "Supplemental Information"), in the form of (i) amendments to then existing Schedules (ii) Additional Schedules, as would be necessary, in light of the circumstances, conditions, events and states of fact then known, to make each of those representations and warranties true and correct as of the Closing, or (iii) for purposes only of determining whether the conditions to the obligations of BUYER have been satisfied, the Schedules to this Agreement as of the Closing Date will be deemed to be the Schedules to this Agreement as of the date hereof as amended or supplemented by the Supplemental Information provided to BUYER prior to the Closing pursuant to this Section 9.11; provided, however, that if the Supplemental Information so provided discloses the existence of circumstances, conditions, events or states of facts that, in any combination thereof, (i) have had a Material Adverse Effect on any SELLER, (ii) in the sole judgment of BUYER are having or will have a Material Adverse Effect on any SELLER or (iii) represent a breach of Section 9.1 above, BUYER will be entitled to terminate this Agreement by notice to SELLERS; and provided, further, that if the facts first disclosed in the Supplemental Information were required to be disclosed at the time of signing of this Agreement but were not, and BUYER does not terminate the Agreement and proceeds to Closing, then BUYER will be entitled to be indemnified for all Damages that are attributable to such failure to disclose by SELLER(s) or the Shareholders.

(b) Additionally, notwithstanding any other provision herein to the contrary, no SELLER and no Shareholder shall have any liability to BUYER for the breach of any covenant contained in Section 9.1 above if (i) such breach was not the result of conduct knowingly intended to result in such a breach and (ii) such breach is disclosed to BUYER in the Supplemental Information.

9.12 Concerning the IPO.

(a) The parties recognize that a condition to BUYER's obligation to purchase the Assets and consummate the transactions contemplated herein is the securing by BUYER of the necessary financing for the cash portion of the Purchase Price (see Section 10.16). It is BUYER's intention to arrange for the organization of a master limited partnership (the "MLP") that would acquire the Business and Assets of SELLERS and other businesses and assets that are similar to such Business and Assets from third parties and concurrently effect a public offering of units of the MLP (the "IPO") in a manner similar to public offerings made by publicly traded master limited partnerships that are engaged in the distribution and sale of propane. Accordingly, BUYER agrees to proceed in good faith to make appropriate arrangements to make such acquisitions, secure an underwriter for the IPO and proceed with the IPO.

(b) SELLERS and the Shareholders recognize that there are many matters that must be completed before the IPO can be accomplished and accordingly, there will be several months of work by BUYER on such matters. In addition, it is recognized that, due to the nature of such matters, the IPO may not be able to be completed at all, whether for legal, business or other reasons, including unfavorable market conditions, prices or rates.

(c) It is agreed that BUYER shall have full control over the manner, timing and other matters related to the IPO, subject only to the specific agreements herein contained.

(d) While the parties recognize that the proceeds of the IPO are anticipated to provide the funds necessary for the purchase from SELLERS of the Assets, BUYER may have other funding sources and completion of the IPO is not a condition to any SELLER's or any Shareholder's obligations to consummate the purchase and sale of the Assets and Business.

(e) As used herein, "Registration Statement" means the registration statement filed with the Federal Securities and Exchange Commission to register the sale of MLP units in connection with the IPO. If BUYER (or the MLP or other appropriate entity) shall not have filed a Registration Statement on or prior to October 31, 2000, then any SELLER may terminate this Agreement by notice thereof to BUYER.

(f) Each SELLER will provide BUYER with all the information concerning such SELLER that is reasonably requested by BUYER, from time to time in connection with the IPO; provided, however, in connection with the foregoing or in connection with SELLERS' agreement contained in Section 9.13 below, SELLERS shall not be required to incur out-of-pocket costs in excess of Fifteen Thousand Dollars ($15,000). Each SELLER hereby represents and warrants that any financial statements of such SELLER provided for inclusion in the Registration Statement have been prepared in accordance with GAAP.

(g) BUYER agrees that from time to time it will advise SELLERS as to the status of BUYER's efforts regarding the IPO.

(h) Notwithstanding any other provision of this Agreement to the contrary, BUYER shall have the right to disclose such information concerning SELLERS, the Shareholders, the Assets, the Business and this Agreement as BUYER and its counsel deem necessary or appropriate in connection with the IPO without obtaining any prior consent of SELLERS or the Shareholders, provided that any SELLER or Shareholder will be provided with copies of all such disclosures upon request.

9.13 Additional Financial Statements. Each SELLER agrees to furnish to BUYER:

(a) as soon as available and in any event within thirty (30) days after the end of each SELLER's fiscal quarters that ends prior to the IPO, an unaudited balance sheet of such SELLER as of the end of such fiscal quarter and the related statements of income or operations, cash flows and shareholders' equity for such fiscal quarter and for

the period of such SELLER's fiscal year ended with that quarter, in each case (i) setting forth in comparative form the figures for the corresponding portion of the such SELLER's previous fiscal year, and (ii) prepared in accordance with GAAP (x) throughout the periods indicated (excepting footnotes) and (y) on the same basis as the financial statements referred to in Section 6.8 were prepared; and

(b) if requested by BUYER in connection with any amendment of the Registration Statement and promptly following any such request, a balance sheet, statements of income or operations, cash flows and shareholders' equity of such SELLER as of the end of either the first or second fiscal month in any of such SELLER's fiscal quarters as BUYER may request.

9.14 HSR Act.

(a) If filings pursuant to and under the HSR Act are required in connection with the consummation of the transactions contemplated by this Agreement, BUYER and each SELLER promptly will compile and file (or will cause its "ultimate parent entity" (as determined for purposes of the HSR Act) to file) under the HSR Act such information respecting such party as the HSR Act requires of an entity to be acquired. HSR filing fees will be paid by BUYER, but each SELLER shall pay all other expenses incurred in connection with the preparation of any of the reports and other information that it is required to file.

(b) If BUYER determines that a filing under the HSR Act is not required and the failure to file causes any Shareholder or any SELLER to incur Damages (as defined in Section 12.1B), then BUYER agrees to indemnify such SELLER and such Shareholder as provided in Section 12.2.

9.15 Title Insurance. Subject to the provisions of this Section 9.15, on the Closing Date, each SELLER shall, at such SELLER's expense, cause to be issued and delivered to BUYER a policy of title insurance (the "Title Policy") respecting the Real Property and conforming to the following specifications:

(a) The form of the policy will be ALTA Owner's Policy Form B 1970 (amended 10/17/70), or as to leasehold estates, ALTA Leasehold Owner's Policy - 1975, or the approved form, for the jurisdiction in which the Real Property is located, that is the substantial equivalent thereof;

(b) The policy will be issued by a mutually acceptable insurance company (the "Title Company");

(c) The insured will be BUYER;

(d) The policy will be in an amount reflecting the value thereof as agreed to by BUYER and SELLERS;

(e) The policy will be dated concurrent with or subsequent to the Closing;

(f) There will be no exceptions to coverage other than the Permitted Encumbrances. Without limiting the generality of the foregoing provisions hereof, the Title Policy shall not contain any exceptions with respect to:

(A) Rights or claims of parties in possession;

(B) Encroachments, overlaps, boundary line disputes or any other matters that would be disclosed by an accurate survey and inspection (provided that the Survey is sufficient to enable the title insurance company to delete such exceptions pursuant to the title company's standard underwriting requirements);

(C) Easements or claims of easements not shown by the public records (provided that the Survey is sufficient to enable the title insurance company to delete such exceptions pursuant to the title company's standard underwriting requirements);

(D) Any lien, or right to a lien, for services, labor or materials heretofore or hereafter furnished; and

(E) Any other exceptions that may be designated or included as standard exceptions in the area where the Real Property is located.

(g) The policy shall contain such additional coverages and endorsements as BUYER may request or require, provided, however, any additional expense for such additional coverages or endorsements shall be paid by BUYER.

Within thirty (30) days after the date hereof, each SELLER shall deliver to BUYER (i) a current commitment from the Title Company setting forth the basis upon which the Title Company is willing to insure title to the Real Property (the "Title Commitment"), and (ii) a current boundary survey of the Real Property, prepared at such SELLER's expense (the "Survey"). The Survey shall be prepared and certified to BUYER by a registered land surveyor or licensed civil engineer (registered or licensed in the state where the Real Property is located) showing (i) the boundaries and legal descriptions of such Real Property, (ii) the location of all roadways and other accessways upon, across or adjacent to such premises, and (iii) such other matters and items as BUYER may request, provided that BUYER shall pay any additional expense charged by the surveyor for such additional items. The surveyor shall locate or set bars at all corners of the surveyed property and shall reflect the same on the Survey. If the Title Commitment or the Survey disclose any liens, easements, restrictions, reservations or other defects or any other matters objectionable to BUYER, BUYER shall advise the appropriate SELLER of the same in writing within ten (10) days after receipt by BUYER of the Title Commitment and the Survey. Matters not objected to by BUYER within said period shall be deemed to be Permitted Encumbrances. As to any matters to which BUYER objects, such SELLER shall use reasonable commercial efforts to resolve the objections (but with no requirement to make any out-of-pocket expenditures except to satisfy mortgages or liens) and shall, within ten (10) days after BUYER gives such SELLER notice of objection to such matters, have delivered to BUYER a revised Title Commitment and/or Survey reflecting that such remedy has been effected. In the event such SELLER is unable to deliver the Title Policy or the Survey in accordance with the foregoing requirements, BUYER's sole remedy therefor shall be either of the following options:

(x) consummating the transaction contemplated hereby and accepting such title as such SELLER holds, without change in or to the terms hereof, unless such matters are encumbrances or liens for an ascertainable amount, in which case such SELLER shall pay the amount thereof to BUYER in cash at the Closing and thereby waive any claims under Section 12.1 of this Agreement with respect to such objections, or (y) rejecting and excluding the subject property from the transaction contemplated by this Agreement, exercising its rights under Section 3.1(z)(ii) to have the purchase price reduced and entering into a lease agreement respecting such property in the form of the Lease Agreement attached hereto as Exhibit J. If Buyer elects option (y), then BUYER and such SELLER owning such property agree to enter into the aforementioned Lease Agreement.

9.16 Employee Matters.

(a) Schedule 9.16(a) sets forth a list of all salaried and hourly employees employed by each SELLER and such employees' current compensation. All of such employees are employed at the will of such SELLER and may be terminated without notice and without cause except as set forth in Schedule 9.16(a). On the Closing Date, BUYER shall offer employment to all persons who were employed by each SELLER on the Closing Date (other than any Shareholder so employed) in a position and at a base salary substantially equivalent to such employee's present position and base salary. Except as set forth in Schedule 3.1(y), Section 4.2(b) and 9.16(b), BUYER shall have no liability for any salary or benefits accrued prior to the Closing Date.

(b) COBRA. Except as otherwise provided in Schedule 9.16(b), no person is currently covered under any SELLER's health plan as a result of an election under the Consolidated Omnibus Budget Reconciliation Act, as amended, and the Tax Reform Act of 1986 ("COBRA"). BUYER agrees to offer group health plan coverage in a manner that will satisfy SELLERS' obligation to offer COBRA coverage with respect to the following persons: (i) those persons whose employment with a SELLER has terminated prior to the date hereof and who have elected COBRA coverage under any SELLER's health plan after the date hereof, and (ii) any person whose employment with a SELLER has terminated after the date hereof and prior to the Closing Date (including those that did not accept BUYER's offer of employment) and who has elected COBRA coverage under any SELLER's health plan; provided, however, the foregoing agreement of BUYER shall not apply to any of the Shareholders or their family members. Any person included within the above clauses (i) or (ii) and that accepts such offer of COBRA coverage by BUYER is referred to herein as a "Covered Person." In the event that, in any plan year of BUYER's group health plan, a Covered Person shall incur medical costs that are reimbursed or paid for under BUYER's group health plan in excess of Two Thousand Five Hundred Dollars ($2,500), then SELLERS agree to pay to BUYER the amount by which such medical costs exceed such amount up to a maximum liability of SELLERS to BUYER in any such plan year for any such person of Twenty-Seven Thousand Five Hundred Dollars ($27,500), provided that SELLERS shall not be obligated to reimburse BUYER for expenses incurred by any such individual after BUYER reaches the aggregate attachment point for BUYER's plan year in question. Notwithstanding the foregoing, SELLERS shall be responsible for all COBRA obligations of those individuals listed in Schedule 9.16(b) and SELLERS shall purchase at their own expense an insurance policy to cover such listed individuals.

(c) Health Care for Employees Hired by Buyer. BUYER agrees to offer group health plan coverage on the same terms and conditions as apply to BUYER's existing employees to employees of SELLER who accept employment immediately after Closing with BUYER, except that each such employee shall (i) be eligible for such coverage on their date of hire by BUYER, and (ii) receive credit, for purposes of BUYER's group health plan for its plan year ending December 31, 2000, for any deductibles under SELLER's health plan during 2000.

(d) Employment-Related Claims. Subject to the provisions of Sections 9.16(a), (b) and (c), each SELLER assumes all liability, costs and expenses (including reasonable attorneys' fees) for all existing employment claims that have been filed by any employee or former employee of such SELLER prior to the Closing Date relating to arbitrations, unfair labor practice charges, employment discrimination charges, lawsuits, any employment- related tort claim or other claims or charges of or by employees of such SELLER or any thereof filed after the Closing Date but arising as a result of actions or events or series of actions or events that occurred prior to the Closing Date. Schedule 9.16(d) sets forth a brief description of all such claims that have been filed as of the date hereof. Each SELLER shall promptly describe to BUYER in writing a brief description of any of such claims that may be filed after the date hereof but on or before the Closing Date.

(e) 401(k) Plan. SELLERS shall, prior to the Closing Date, adopt any and all resolutions that are necessary or appropriate to (i) fund the 401(k) Profit Sharing Plan, as referenced in Schedule 6.18(a), (the "401(k) Plan"), with any profit sharing and/or matching contributions that have accrued as of the Closing Date or that otherwise customarily and historically would have been made by the SELLERS prior to the 401(k) Plan year end; (ii) except as provided immediately above, cease all other contributions to the 401(k) Plan immediately before the Closing Date; (iii) terminate the 401(k) Plan; (iv) fully vest all participant account balances in the 401(k) Plan immediately before the Closing Date; and (v) provide for distribution of the assets of the 401(k) Plan following receipt of a favorable determination letter (which shall be obtained by SELLERS, at their expense) from the Internal Revenue Service with respect to the termination and distribution of the assets of the 401(k) Plan.

9.17 SELLERS' and Shareholders' Access to Records. For a period of at least six (6) years from the Closing Date, BUYER shall retain all books, records and accounts of each SELLER. In the interests of facilitating each SELLER and the Shareholders in the completion of their respective tax forms, BUYER shall make available to copy at such SELLER's or Shareholder's expense such books, records and accounts during normal business hours, and BUYER shall not destroy any of such SELLER's books and records without reasonable advance notice to such SELLER and without granting a reasonable opportunity for such SELLER to take and retain possession of any and all such books and records at such SELLER's expense.

9.18 Heller Agreement. Investors 300, Inc. and BUYER agree to work toward an amendment of that certain Covenant Not to Compete dated August 11, 1998, by and among Investors 300, Inc., Candace J. Heller and Ronald Heller to (i) permit the assignment of the rights of Investors 300, Inc. to BUYER, (ii) permit BUYER to assume the promissory note without such promissory note being payable in full on the Closing Date, and (iii) relieve Investors 300, Inc. from any liability under the promissory note.

9.19 Environmental Studies.

(a) Prior to the Closing, BUYER shall have the right, at BUYER's expense, to undertake such environmental studies on real estate to be acquired or leased pursuant to this Agreement as BUYER deems, in its sole discretion, appropriate. Prior to the execution of this Agreement, BUYER, at its expense, has been provided with an environmental audit of SELLERS' properties at Kendallville and Waterloo, Indiana ("Kendallville and Waterloo Properties"). The remaining provisions of this Section 9.19 do not apply to the Kendallville and Waterloo Properties.

(b) With respect to the real estate owned or leased by SELLERS, save for and excluding the Kendallville and Waterloo Properties (the "Other Properties"), in the event any such environmental study reveals, prior to Closing, any situation such that remediation or other corrective action is, in BUYER's judgment, required by law, then BUYER shall notify SELLERS of such fact, and SELLERS shall have ten (10) days to object to such proposed remediation. If SELLERS object to such remediation within said ten (10) day period by notice in writing to BUYER given within said ten (10) day period, then the parties will meet to discuss and resolve their differences, and if no agreement is reached, then a firm that is a recognized expert in environmental remediation matters selected by SELLERS' and BUYER's environmental firms that performed such studies shall meet to reach agreement, and if they cannot reach agreement, then a third firm that is a recognized expert in environmental matters shall be selected by such two firms, and the third firm shall decide if remediation is required by law, and if yes, provide an estimate as to how much it will cost to perform such remediation, and the decision by such third firm shall be binding upon the parties.

(c) If remediation of any parcel of the Other Properties is to be effected or other action is to be taken, SELLERS shall cooperate and assist BUYER in taking such action as to remediate such property.

(d) At the Closing, SELLERS agree to reimburse BUYER for up to One Hundred Thousand Dollars ($100,000) per parcel of the Other Properties for the out- of-pocket amounts spent by BUYER prior to the Closing with respect to such remediation in accordance with the provisions of this Section 9.19. SELLERS' obligation to reimburse BUYER is contingent upon the occurrence of the Closing on all the transactions contemplated by this Agreement. The obligations of SELLERS under this Section 9.19 shall not affect the liability of SELLERS with respect to the environmental condition of the Other Properties under any other representation, warranty or provision of this Agreement. For purposes of this Section 9.19(d), the term "out-of- pocket amounts" shall not include any attorneys' fees or consultants' fees incurred prior to the commencement of a remediation.

## ARTICLE 10. CONDITIONS TO BUYER'S OBLIGATION TO CONSUMMATE THE TRANSACTION

Each and every obligation of BUYER to be performed at or before the Closing hereunder is subject, at BUYER's election, to the satisfaction on or prior to the Closing Date of the conditions set forth below. Notwithstanding the failure of any one or more of such conditions, BUYER may nevertheless proceed with Closing without satisfaction, in whole or in

part, of any one or more of such conditions, but which action shall not prejudice BUYER's right to recover Damages for any such failure.

10.1 Compliance with Agreement. Each SELLER and each Shareholder shall have performed all of their respective obligations and agreements, and complied with all covenants, warranties and conditions contained in this Agreement that are required to be performed or complied with by such party on or prior to the Closing Date.

10.2 Representations and Warranties. The representations and warranties of each SELLER and each Shareholder contained in this Agreement (as supplemented pursuant to Section 9.11) shall be true, complete and correct on and as of the Closing Date with the same force and effect as though such representations and warranties had been made or given on the Closing Date.

10.3 Certificate. Each SELLER and each Shareholder shall have delivered to BUYER a certificate, dated the Closing Date (in the case of each SELLER, signed by such SELLER's duly authorized officers) to the effect stated in Sections 10.1 and 10.2.

10.4 Corporate Authorization. BUYER shall have received a copy of the resolutions of the directors and shareholders of each SELLER, certified as of the Closing Date by the secretary or assistant secretary of such SELLER, duly authorizing the execution, delivery and performance by such SELLER of this Agreement and each other agreement and instrument contemplated hereby, together with an incumbency certificate as to the persons authorized to execute and deliver such documents and instruments on its behalf.

10.5 Opinion of Counsel. BUYER shall have been furnished with the opinion of Burt, Blee, Dixon & Sutton, LLP, counsel to SELLERS and the Shareholders, dated the Closing Date and addressed to BUYER, in a form acceptable to BUYER.

10.6 Good Standing. Each SELLER shall have delivered to BUYER certificates issued by appropriate governmental authorities evidencing the good standing of such SELLER as of a date or dates not more than fifteen (15) days prior to the Closing Date as a corporation of the respective states in which it was organized or qualified to do business.

10.7 Noncompetition and Employment Agreements.

(a) Each SELLER and each Shareholder (that is required to do so hereunder) shall have executed and delivered to BUYER a Noncompetition Agreement in the form attached hereto as Exhibit A as required by Section 9.9.

(b) Phillip L. Elbert shall have executed and delivered to BUYER an Employment Agreement with BUYER as contemplated in Section 9.9.

10.8 Tax Certificates. Each SELLER shall have obtained and delivered to BUYER letters or certificates from the appropriate state agencies of Indiana, Ohio, Michigan, Florida, Pennsylvania, Texas, Kentucky, Illinois, West Virginia, New York, Georgia, South Carolina and Alabama indicating that all sales, use and employment taxes payable by such SELLER on or prior to the Closing Date in such states have been paid and that there is no lien for unpaid sales, use or employment taxes on the Assets, provided that if such states do not, as

matters of procedure, provide such letters or certificates, then the same shall not be required from such state.

10.9 Receipt. Each SELLER and each Shareholder shall have duly executed and delivered to BUYER an instrument acknowledging payment of the sums required to be paid by BUYER on the Closing Date as specified in Section 4.3.

10.10 Instruments of Transfer. Each SELLER shall have executed and delivered to BUYER such bills of sale, assignments (including specifically assignments of the leases identified in Schedules 2.1B and 2.1D) and other instruments of transfer and conveyance (in form and substance reasonably satisfactory to counsel for BUYER) as shall be necessary or desirable to vest in BUYER all the right, title and interest in and to the Assets to be transferred, assigned, conveyed and delivered to BUYER by such SELLER hereunder.

10.11 No Litigation. No party hereto shall be a party to or be threatened with any litigation or administrative proceeding relating to any of such parties or any of their assets or properties or to this Agreement or the transactions contemplated hereby that in the judgment of BUYER, would affect the desirability of carrying out this Agreement.

10.12 Landlord Consents.

(a) BUYER shall have received consents, executed by the respective landlords of all Real Property leased or subleased by any SELLER, to the effect that as of the Closing Date such leases are not in default and are valid and continuing agreements and have not been modified or amended. Each said consent shall also state that the landlord approves of the assignment of such lease as part of this Agreement.

(b) With respect to any sublease by any SELLER, BUYER shall have received the agreement of the fee owner and any landlord prior to any SELLER that, notwithstanding any default by others it shall be entitled to possession of the leased premises so long as BUYER performs the obligations under the lease and that BUYER may cause any default on the part of prior tenants to be cured and in such event to offset against subsequently accruing rents the amounts so expended.

10.13 Third Party Consents. BUYER shall have received the consents (or in lieu thereof waivers) listed in Schedule 6.4. All filings with, and approvals by, third parties required to be made or received by BUYER for the consummation of the transactions contemplated hereby shall have been made or obtained.

10.14 No Adverse Event. The Business and the Assets shall not be adversely affected or threatened to be affected in any way as a result of fire, explosion, hurricane, earthquake, disaster, accident or other casualty, shortage of any material supplies, changes in technology, strike or labor disturbance, obsolescence of product or service, any action or threatened action by the United States or any other governmental authority, flood, drought, embargo, riot, civil disturbance, uprising, activity of armed forces, act of God or public enemy.

10.15 Proceedings Satisfactory. All proceedings, corporate or other, to be taken in connection with the transactions contemplated by this Agreement, and all documents incident thereto, shall be satisfactory in form and substance to BUYER.

10.16 Financing. BUYER shall have (i) satisfactory assurance that the IPO will be completed simultaneously with or immediately following the Closing, or (ii) obtained other financing for the purchase of the Assets as herein provided in such amount, at such rate of interest, with such lenders and on such terms and conditions as are acceptable to BUYER.

10.17 Use of Names. Each SELLER shall have changed its corporate name and the name of each SELLER's subsidiary, if any, and adopted a name that does not include any of the following words or phrases, or any derivatives thereof: "Domex," "L&L Leasing," "Investors 300," "300", "Hoosier Propane", "L&L", "L&L. Repair & Testing", "L&L Transportation" or "L&L Transportation & Brokerage".

10.18 Amendment to LLC Agreement and Put Agreement. Each SELLER shall have entered into the amendment to limited liability company agreement in the form attached hereto as Exhibit E and the Put Agreement in the form attached hereto as Exhibit F.

## ARTICLE 11. CONDITIONS TO OBLIGATIONS OF SELLERS AND SHAREHOLDERS TO CONSUMMATE THE TRANSACTION

Each and every obligation of each SELLER and each Shareholder to be performed at or before the Closing hereunder is subject, at such party's election, to the satisfaction on or prior to the Closing Date of the conditions set forth below. Notwithstanding the failure of any one or more of such conditions, SELLERS and the Shareholders may nevertheless proceed with the Closing without satisfaction, in whole or in part, of any one or more of such conditions, but which action shall not prejudice the rights of any SELLER or any Shareholder to recover damages for any such failure.

11.1 Compliance With Agreement. BUYER shall have performed all of its obligations and agreements and complied with all covenants, warranties and conditions contained in this Agreement that are required to be performed or complied with by BUYER on or prior to the Closing Date.

11.2 Representations and Warranties. The representations and warranties of BUYER contained in this Agreement shall be true, complete and correct on and as of the Closing Date with the same force and effect as though such representations and warranties had been given on the Closing Date.

11.3 Certificate. BUYER shall have delivered to SELLERS and the Shareholders a certificate dated the Closing Date and signed by one of BUYER's duly authorized officers to the effect stated in Sections 11.1 and 11.2 hereof.

11.4 Amendment to LLC Agreement and Put Agreement. BUYER shall have executed and delivered to SELLERS the amendment to limited liability company agreement in the form attached hereto as Exhibit E and the Put Agreement in the form attached hereto as Exhibit F.

11.5 Opinion of Counsel. SELLERS shall have been furnished with the opinion of Stinson, Mag & Fizzell, P.C., counsel to BUYER, dated the Closing Date and addressed to SELLER, substantially in the form set forth in Exhibit F hereto.

11.6 Noncompetition, Employment and Consulting Agreements.

(a) BUYER shall have executed and delivered to each SELLER and each Shareholder (that is required to do so) a Noncompetition Agreement in the form attached hereto as Exhibit A as required by Section 9.9.

(b) BUYER shall have executed and delivered to Phillip L. Elbert an Employment Agreement in the form attached hereto as Exhibit K as required by Section 9.9.

11.7 BUYER Authorization. SELLERS shall have received a copy of the resolutions of the sole voting member of BUYER, certified as of the Closing Date, duly authorizing the execution, delivery and performance of BUYER of this Agreement and each other agreement and instrument contemplated hereby, together with an incumbency certificate as to the persons authorized to execute and deliver such documents and instruments on its behalf.

11.8 Consent. All filings with, and approvals by, third parties (including, without limitation, the Federal Trade Commission and U. S. Justice Department pursuant to the HSR Act) required to be made or received by BUYER for the consummation of the transactions contemplated hereby shall have been made or obtained.

## ARTICLE 12. INDEMNIFICATION

12.1 A. SELLERS' Indemnity with Respect to Environmental Matters Associated with the Kendallville and Waterloo Properties and the Other Properties.

(a) BUYER shall have the right to make claims ("Kendallville and Waterloo Environmental Claims") against SELLERS or the Shareholders relating to:

(A) Environmental contamination or other environmental problems associated with the Kendallville and Waterloo Properties (including without limitation, rights to or claims for contribution or indemnification or otherwise under applicable environmental laws now existing or hereafter amended or enacted), or

(B) A breach of any of the representations or warranties set forth in Section 6.21 with respect to the Kendallville and Waterloo Properties; provided, however, that BUYER's sole and exclusive remedy with respect to such claims is as set forth in this Section 12.1A.

(b) As for all Kendallville and Waterloo Environmental Claims, BUYER's sole and exclusive remedy is to obtain from the Environmental Escrow reimbursement for all out-of-pocket amounts spent by BUYER to correct the condition of such properties that gave rise to the claim of BUYER under Section 12.1A(a) above. For purposes of this Section 12.1A(b), the term "out-of-pocket amounts" shall not include any attorneys' fees or consultants' fees incurred prior to the commencement of a remediation.

(c) As set forth in the Environmental Escrow Agreement, all Kendallville and Waterloo Environmental Claims against the Environmental Escrow

must be made on or before three (3) years after the Closing Date (it being understood and agreed that the resolution of any such claim may extend beyond such three (3) year period) and if made within such three-year period, claims hereunder for reimbursement of out-of-pocket amounts spent shall be resolved within five (5) years after the Closing Date.

(d) BUYER shall have the right to make claims (the "Other Properties Environmental Claims") against SELLERS or the Shareholders relating to:

(A) Environmental contamination or other environmental problems associated with the Other Properties (including, without limitation, rights to or claims for contribution or indemnification otherwise under applicable environmental laws now existing or hereafter amended or enacted), or

(B) A breach of any of the representations or warranties set forth in Section 6.21 with respect to the Other Properties; provided, however, that BUYER's sole and exclusive remedy with respect to such claims is as set forth in this Section 12.1A.

(e) As for the Other Properties Environmental Claims, claims for indemnification hereunder shall be limited as follows: (i) BUYER shall be able to claim and be reimbursed only for all out-of-pocket amounts spent by BUYER to correct the condition of such Other Property that gave rise to the claim of BUYER under Section 12.1A(d) above, (ii) with respect to each parcel of real estate included in the Other Properties, once SELLERS and the Shareholders have paid to BUYER a total of $100,000 with respect to Other Properties Environmental Claims relating to such parcel of real estate, then SELLERS shall have no further liability under Section 12.1A(d) with respect to such parcel of real estate, and (iii) claims made under Section 12.1A(d) shall be made within two years after the Closing Date, and if made within such two-year period, claims hereunder for reimbursement of out-of-pocket amounts spent shall be resolved within five years after the Closing Date. For purposes of this Section 12.1A(e), the term "out-of-pocket amounts" shall not include any attorneys' fees or consultants' fees incurred prior to the commencement of a remediation.

(f) Except for the rights granted to BUYER in this Section 12.1A, as for the environmental condition of the Kendallville and Waterloo Properties and the Other Properties, BUYER hereby releases and gives up all claims, causes of action, or rights, known or unknown, including without limitation rights to or claims for contribution or indemnification under applicable environmental laws now existing or hereafter amended or enacted, that BUYER may have against SELLERS and/or the Shareholders arising from or relating to the Kendallville and Waterloo Properties or the Other Properties or the transfer of the Kendallville and Waterloo Properties or the Other Properties to BUYER hereunder.

12.1 B. SELLERS' General Indemnity. Subject to the provisions of this Article 12 and Article 13, SELLERS and the Shareholders, from and after the Closing Date, jointly and severally agree to indemnify and hold BUYER and its members, officers, agents, employees, representatives, successors and assigns, harmless from and against any and all

damage, loss, cost, obligation, claims, demands, assessments, judgments or liabilities (whether based on contract, tort, product liability, strict liability or otherwise), including taxes, and all expenses (including interest, penalties and attorneys' and accountants' fees and disbursements) (collectively "Damages") incurred in litigation or otherwise, and any investigation relating thereto, by any of the above-named persons, directly or indirectly, resulting from or in connection with:

(a) Any misrepresentation, breach of warranty or failure to perform any covenant or agreement made or undertaken by any SELLER or any Shareholder in this Agreement or in any agreement, certificate or other document listed in Schedule 6.3;

(b) The Retained Liabilities;

(c) All debts, obligations, expenses and liabilities and costs incurred arising out of or in connection with any transaction or series of transactions, any facts or series of facts existing, or any events or series of events relating to the Business on or prior to the Closing Date; and

(d) Any action, suit, proceeding or claim incident to any of the foregoing;

it being understood and agreed that the foregoing provisions of this Section 12.1B do not apply to Kendallville and Waterloo Environmental Claims.

12.2 BUYER's Indemnity. BUYER, and the MLP if the IPO is consummated, from and after the Closing Date, shall indemnify and hold each SELLER and each Shareholder and their assigns harmless from and against any Damages incurred by such SELLER and/or Shareholder resulting from or in connection with:

(a) Any misrepresentation, breach of warranty or failure to perform any covenant or agreement made or undertaken by BUYER in this Agreement or in any other agreement or certificates delivered by BUYER to any SELLER or any Shareholder pursuant to this Agreement;

(b) The Liabilities;

(c) All debts, obligations, expenses and liabilities and costs incurred by BUYER arising out of or in connection with any transaction or series of transactions, any facts or series of facts existing, or any events or series of events relating to the Business after the Closing Date;

(d) To the extent provided in Section 9.14 hereof, the failure to file under the HSR Act; and

(e) Any action, suit, proceeding or claim incident to any of the foregoing.

12.3 Limitations on Liability of SELLERS and the Shareholders. Notwithstanding anything to the contrary in this Article 12 or any of the other terms and

conditions of this Agreement, SELLERS' and Shareholders' liability and BUYER's claims under this Article 12 shall be limited as follows:

(a) SELLERS and the Shareholders shall have no liability or obligation to indemnify under this Article 12 arising from a breach by the other Shareholders or SELLERS under the Noncompetition Agreements (the rights and remedies of the parties under the Noncompetition Agreements are as set forth in the Noncompetition Agreements);

(b) With respect to a claim for indemnification based on a breach of a representation or warranty as set forth in Section 6.21 of this Agreement (i) with respect to the Kendallville and Waterloo Properties, the sole and exclusive remedy of BUYER is to make a claim against the Environmental Escrow pursuant to Section 12.1A above and (ii) with respect to the Other Properties, the liability of SELLERS shall be limited as set forth in Section 12.1A; and

(c) All such claims shall be subject to the time limitation (if applicable) set forth in Section 13.1 of this Agreement.

12.4 Procedure. All claims for indemnification by a party under this Article 12 (the party claiming indemnification and the party against whom such claims are asserted being hereinafter called the "Indemnified Party" and the "Indemnifying Party," respectively) shall be asserted and resolved as follows:

(a) In the event that any claim or demand for which an Indemnifying Party would be liable to an Indemnified Party hereunder is asserted against or sought to be collected from such Indemnified Party by a third party, such Indemnified Party shall with reasonable promptness give notice (the "Claim Notice") to the Indemnifying Party of such claim or demand, specifying the nature of and specific basis for such claim or demand and the amount or the estimated amount thereof to the extent then feasible (which estimate shall not be conclusive of the final amount of such claim and demand). The Indemnifying Party shall not be obligated to indemnify the Indemnified Party under this Agreement with respect to any such claim or demand if the Indemnified Party fails to notify the Indemnifying Party thereof in accordance with the provisions of this Agreement, and, as a result of such failure, the Indemnifying Party's ability to defend against the claim or demand is materially prejudiced. The Indemnifying Party shall have twenty (20) days from the delivery or mailing of the Claim Notice (the "Notice Period") to notify the Indemnified Party (i) whether or not it disputes the liability of the Indemnifying Party to the Indemnified Party hereunder with respect to such claim or demand, and (ii) whether or not it desires, at the cost and expense of the Indemnifying Party, to defend the Indemnified Party against such claim or demand; provided, however, that any Indemnified Party is hereby authorized, but is not obligated, prior to and during the Notice Period, to file any motion, answer or other pleading that it shall deem necessary or appropriate to protect its interests or those of the Indemnifying Party. If the Indemnifying Party notifies the Indemnified Party within the Notice Period that it desires to defend the Indemnified Party against such claim or demand, the Indemnifying Party shall, subject to the last sentence of this paragraph, have the right to control the defense against the claim by all appropriate proceedings and any settlement negotiations, provided that to the satisfaction of the Indemnified Party, the Indemnifying Party shall

secure the Indemnified Party against such contested claims by posting a bond or otherwise. If the Indemnified Party desires to participate in, but not control, any such defense or settlement, it may do so at its sole cost and expense. If the Indemnifying Party fails to respond to the Indemnified Party within the Notice Period, elects not to defend the Indemnified Party, or after electing to defend fails to commence or reasonably pursue such defense, then the Indemnified Party shall have the right, but not the obligation, to undertake or continue the defense of, and to compromise or settle (exercising reasonable business judgment), the claim or other matter all on behalf, for the account and at the risk of the Indemnifying Party. Notwithstanding the foregoing, if the basis of the proceeding relates to a condition of operations that existed or were conducted both prior to and after the Closing Date or if the Indemnified Party would be otherwise adversely affected as a result of any adverse decision of such proceeding, each party shall have the same right to participate at its own expense and at its own risk (but without waiving any right to indemnification hereunder) in the proceeding without either party having the right of control.

(b) If requested by the Indemnifying Party, the Indemnified Party agrees, at the Indemnifying Party's expense, to cooperate with the Indemnifying Party and its counsel in contesting any claim or demand that the Indemnifying Party elects to contest, or, if appropriate and related to the claim in question, in making any counterclaim against the Person asserting the third party claim or demand, or any cross-complaint against any Person. No claim as to which indemnification is sought under this Agreement may be settled without the consent of the Indemnifying Party, except as provided in Section 12.4(a).

(c) If any Indemnified Party should have a claim against the Indemnifying Party hereunder that does not involve a claim or demand being asserted against or sought to be collected from it by a third party, the Indemnified Party shall send a Claim Notice with respect to such claim to the Indemnifying Party. If the Indemnifying Party disputes such claim, such dispute shall be resolved by litigation in a state or federal court in Indiana, in accordance with the terms of Section 16.9.

12.5 Costs. If any legal action or other proceeding is brought for the enforcement or interpretation of any of the rights or provisions of this Agreement (including the indemnification provision), or because of an alleged dispute, breach, default or misrepresentation in connection with any of the provisions of this Agreement, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees and all other costs and expenses incurred in that action or proceeding, in addition to any other relief to which it may be entitled.

## ARTICLE 13. SURVIVAL OF COVENANTS, AGREEMENTS, REPRESENTATIONS AND WARRANTIES; RIGHT OF OFFSET

13.1 Survival. All representations, warranties, covenants and agreements made by the parties each to the other in this Agreement or pursuant hereto in any certificate, instrument or document shall survive the consummation of the transactions contemplated by this Agreement, and may be fully and completely relied upon by BUYER and by SELLERS and the Shareholders, as the case may be, notwithstanding any investigation heretofore or hereafter made by such party or on behalf of any of them for a period of two (2) years from the Closing Date; provided, however, that with respect to any demand or claim as to which notice has been given

within said period, the representations, warranties, covenants and agreements with respect thereto shall survive until finally resolved by agreement or in the courts; and provided, further, that the foregoing shall not apply to any agreement that is to be entered into at Closing pursuant to the terms hereof, the terms of which shall survive until fully performed in accordance with such agreement.

13.2 Right of Offset. BUYER shall have the right to set off any obligation it has under this Agreement, the Put Agreement (Exhibit F), the LLC Agreement (Exhibit E) or otherwise to any SELLER or any Shareholder against any obligation any SELLER or any Shareholder has to BUYER under this Agreement or otherwise; provided, however, BUYER shall have no right of set off with respect to amounts to be paid under Section 4.3 hereof; and provided further, any such obligation of a SELLER or a Shareholder that is not represented by a final judgment or as to which such SELLER or Shareholder has agreed to an offset, such right of offset shall be limited to the preferred interest distribution payable with respect to the Preferred Interest (or any interest substituted therefor) issued pursuant to Section 4.3(b) above. In the event any offset (or any part thereof) is ultimately determined to have been in excess of amounts owing by the SELLERS or the Shareholders to BUYER, then the SELLERS and the Shareholders shall be entitled to recover from BUYER (i) interest on such excess from the date of the offset computed at the then prevailing prime interest rate as published in The Wall Street Journal from time to time and (ii) reasonable attorneys' fees. BUYER further agrees that in the event that any claim BUYER has against SELLERS or any Shareholder that is represented by a final judgment or as to which such SELLER or Shareholder has agreed to offset, then BUYER shall first offset the amount of such claim against the capital account of such SELLER or Shareholder before seeking payment of such claim.

## ARTICLE 14. EXPENSES

Except as otherwise set forth herein, each party agrees to pay, without right of reimbursement from any other, the costs incurred by such party incident to the preparation and execution of this Agreement and performance of their respective obligations hereunder, whether or not the transactions contemplated by this Agreement shall be consummated, including, without limitation, the fees and disbursements of legal counsel, accountants and consultants employed by the respective parties in connection with the transactions contemplated by this Agreement.

## ARTICLE 15. TERMINATION

15.1 Termination. This Agreement may be terminated at any time prior to the Closing:

(a) By agreement of all of the parties hereto;

(b) By either BUYER or any SELLER if the Closing has not taken place on or before October 31, 2000 (the "Cut-Off Date"); provided that the right to terminate this Agreement under this Section 15.1(b) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or results in, the failure of the Closing to occur within such period;

(c) By BUYER pursuant to Section 9.11 hereof;

(d) By BUYER or any SELLER, as the case may be, (i) if any of the conditions precedent to the performance of the obligations of the party giving notice of termination shall not have been fulfilled and cannot be fulfilled on or prior to the Cut-Off Date and shall not have been waived in writing by such party, or (ii) if a default shall be made by the other party in observance or in the due and timely performance of any of the covenants and agreements herein contained that cannot be cured on or prior to the Cut-Off Date and shall not have been waived in writing by such party; or (iii) if there exists an inaccuracy, failure or breach of a warranty or representation set forth herein or in any other agreement or instrument executed pursuant hereto that has not been waived in writing by the party for whose benefit such warranty or representation was made or given; and

(e) At the option of BUYER or any SELLER, if any action or proceeding shall have been instituted and remain pending before a court or other governmental body by any federal, state or local government or agency thereof to restrain or prohibit the consummation of the transactions contemplated by this Agreement, or if any federal, state or local government or agency thereof shall have threatened to institute any proceeding before a court or other governmental body to restrain the consummation of such transactions or to force divestiture, provided that neither party shall have the option to terminate this Agreement as provided herein after any such action or notice by any federal, state or local government or governmental agency or other Person shall be withdrawn or settled.

15.2 No Liability. Except in the event of a termination of this Agreement pursuant to Section 15.1(d)(ii) or (iii), there shall be no liability on the parties hereto or any of their respective members, managers, officers, directors, shareholders or Affiliates as a result thereof under this Agreement. A termination under Section 15.1(d)(ii) or (iii) hereof shall not prejudice any claim for damages which any party may have hereunder or in law or in equity as a consequence of any matter giving rise to a termination of the Agreement under Section 15.1(d)(ii) or (iii) hereof. BUYER and SELLERS shall have the right to specific performance if the Agreement is not otherwise terminated in accordance with the terms hereof.

15.3 Notice. BUYER may exercise its right of termination of this Agreement only by delivering written notice to that effect to SELLERS, provided that such notice is received by SELLERS prior to the Closing. Any SELLER may exercise its right of termination of this Agreement only by delivering written notice to that effect to BUYER, provided that such notice is received by BUYER prior to the Closing.

## ARTICLE 16. MISCELLANEOUS

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

If to SELLERS and/or the Shareholders, at the address beneath their respective signatures hereto, with a copy to:

Burt, Blee, Dixon & Sutton, LLP

P.O. Box 10810
Fort Wayne, Indiana 46854-0810
Attn: Dennis D. Sutton

If to BUYER to:

Inergy Partners, LLC
1101 Walnut, Suite 1500
Kansas City, Missouri 64106
Attn: John J. Sherman

with a copy to:

Stinson, Mag & Fizzell, P.C.
1201 Walnut, Suite 2800
Kansas City, Missouri 64106
Attention: Paul E. McLaughlin

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 16.1.

16.2 Parties in Interest and Assignment.

(a) This Agreement is binding upon and is for the benefit of the parties hereto and their respective successors and assigns. Except as expressly provided herein, nothing in this Agreement, express or implied, is intended to confer on any Person other than the parties hereto or their respective successors and assigns any rights, remedies or obligations or liabilities under or by reason of this Agreement.

(b) Except as provided in Section 16.2(c) below, neither this Agreement nor any of the rights or duties of any party hereto may be transferred or assigned to any Person except by a written agreement executed by all of the parties hereto.

(c) Notwithstanding the above, BUYER may transfer and assign all or any portion of its rights under this Agreement for purposes of or in connection with the IPO, but any such assignment shall not relieve BUYER from any of its obligations hereunder. Notwithstanding the above, each SELLER may assign its rights under this Agreement to the Shareholders in the event such SELLER is liquidated and/or dissolved in accordance with applicable law. Any assignee hereunder shall assume all of the assignor's obligations hereunder, including obligations under Article 12.

16.3 Modification. This Agreement may not be amended or modified except by a writing signed by an authorized representative of the party against whom enforcement of the change is sought. No waiver of the performance or breach of, or default under, any condition or obligation hereof shall be deemed to be a waiver of any other performance, or breach of, or default under the same or any other condition or obligation of this Agreement.

16.4 Waiver. Each party hereto may, by written notice to the other party hereto: (a) extend the time for the performance of any of the obligations or other actions of such other party under this Agreement; (b) waive any inaccuracies in the representations or warranties of such other party contained in this Agreement or in any document delivered pursuant to this Agreement; (c) waive compliance by such other party with any of the conditions or covenants of the other contained in this Agreement; or (d) waive or modify performance of any of the obligations of such other party under this Agreement. Except as provided in the preceding sentence, no action taken by or on behalf of any party, including, without limitation, any investigation by or on behalf of such party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants or agreements contained in this Agreement.

16.5 Entire Agreement. This Agreement embodies the entire agreement between the parties hereto and there are no agreements, representations or warranties between the parties other than those set forth or provided herein. All Exhibits and Schedules called for by this Agreement and delivered to the parties shall be considered a part hereof with the same force and effect as if the same had been specifically set forth in this Agreement. BUYER acknowledges that it has had an opportunity to ask questions of SELLERS and to request information and documents from SELLERS, in each case with respect to the Business and Assets of SELLERS.

16.6 Execution in Multiple Originals. This Agreement may be executed in multiple originals, each of which shall be deemed an original but all of which together shall constitute but one and the same instrument.

16.7 Headings. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

16.8 Invalid Provisions. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future law, and if the rights or obligations of any party hereto under this Agreement will not be materially and adversely affected thereby, (a) such provision will be fully severable; (b) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof; and (c) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom.

16.9 Governing Law; Forum. This Agreement shall be governed by and construed, interpreted and enforced in accordance with the laws of the State of Delaware applicable to agreements made and to be performed entirely within such State, including all matters of enforcement, validity and performance. Each party hereby irrevocably:

(a) agrees that any suit, action or proceeding with respect to this Agreement shall be exclusively brought in the State of Indiana or in a United States District Court located in the Northern District of the State of Indiana;

(b) waives to the fullest extent permitted by law governing this Agreement, any objection that it might have now or hereafter to the setting of the venue of any such suit, action or proceeding under this Section 16.9 in such Indiana courts and

any claim that any such suit, action or proceedings under Section 16.9(a) hereof has been brought in an inconvenient forum; and

(c) acknowledges the competence of any such Indiana courts, submits to the jurisdiction of any such court in any such suit, action or proceeding and agrees that the final judgment in any such suit, action or proceeding brought in such court shall be conclusive and binding upon such party and may be enforced in the courts of the jurisdiction in which such party's principal office or principal residence is located.

16.10 Gender. Masculine pronouns used in this Agreement shall be construed to include feminine and neuter pronouns, and words in the singular shall include the plural, unless the context otherwise requires.

16.11 Exhibits and Schedules. All of the Exhibits and Schedules attached hereto are incorporated herein and made a part of this Agreement by this reference thereto.

[The remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have duly executed this Asset Purchase Agreement on the date first above written.

/s/ JERRY BOWMAN
_____
Jerry Bowman

/s/ WAYNE COOK
_____
Wayne Cook

/s/ GLEN E. COOK
_____
Glen E. Cook

/s/ PHILLIP L. ELBERT
_____
Phillip L. Elbert

"Shareholders"

INVESTORS 300, INC.

/s/ GLEN E. COOK
By:_____
Name: Glen E. Cook
Title: Treasurer

DOMEX, INC.

/s/ GLEN E. COOK
By:_____
Name: Glen E. Cook
Title: Treasurer

L & L LEASING, INC.

/s/ GLEN E. COOK
By:_____
Name: Glen E. Cook
Title: Treasurer

"SELLERS"

INERGY PARTNERS, LLC

/s/ JOHN W. SHERMAN
By:_____
Name: John W. Sherman
Title: President

"BUYER"

Exhibit 10.9

# EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into this 12th day of January, 2001, by and between Inergy Partners, LLC, a Delaware limited liability company (the "Company"), and Phillip L. Elbert, an individual (the "Employee").

WHEREAS, all of the shareholders (including the Employee) of Investors 300, Inc., Domex, Inc. and L&L Leasing, Inc., all Indiana corporations (the "Domex Companies"), have entered into that certain Asset Purchase Agreement, dated as of September 8, 2000 by and among the Domex Companies, Jerry Boman, Wayne Cook, Glen E. Cook, the Employee and the Company, as amended (the "Asset Purchase Agreement"), whereby the Company will purchase all of the assets of the Domex Companies specified in the Asset Purchase Agreement; and

WHEREAS, the entering into of this Agreement is a condition to the closing of the Asset Purchase Agreement;

NOW, THEREFORE, in consideration of the employment of the Employee by the Company and the payments to be made to the Employee pursuant to the Asset Purchase Agreement and other good and valuable consideration the adequacy of which is hereby acknowledged by the Employee and in addition to the other terms and conditions of the Employee's employment, it is hereby agreed as follows:

1. Employment. The Company agrees to employ the Employee and the Employee agrees to be employed by the Company as the Executive Vice President - Retail Operations of the Company upon the terms and conditions of this Agreement, commencing on the date hereof and continuing until terminated as provided in Section 11 below. The Employee shall report to the President of the Company. The Employee shall be appointed to the Company's Senior Management Team which sets the strategic direction of the Company. In the event the IPO (as defined below) is effected, the Employee shall be elected to the Board of Directors of the Company.

2. Compensation.

(a) For all services rendered by the Employee to the Company, the Company shall pay the Employee a salary at the annual rate of One Hundred Fifty Thousand Dollars ($150,000) (the "Salary") payable bi-monthly in arrears.

(b) In the event that the Company arranges for the organization of a master limited partnership (the "MLP") and effects a public offering of units of the MLP (the "IPO") in a manner similar to public offerings made by publicy traded master limited partnerships that are engaged in the distribution and sale of propane, effective immediately upon such IPO, the Employee's Salary shall be increased to Two Hundred Thousand Dollars ($200,000) per annum payable bi-monthly, in arrears.

3. Expenses. The Company shall reimburse the Employee for all ordinary and necessary expenses incurred and paid by the Employee in the course of the performance of the Employee's duties pursuant to this Agreement and consistent with the Company's policies in effect from time to time with respect to travel, entertainment and other business expenses, and

subject to the Company's requirements with respect to the manner of approval and reporting of such expenses.

4. Additional Benefits.

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

(b) In the event that the Company effects the IPO (or at such earlier time as the Company may elect), effective immediately upon the IPO (or at such earlier time), the Company will have in place a key employee equity plan that the Employee will participate in, such that, assuming (i) the value of the units (or other securities pursuant to such key employee equity plan) grows at a fifteen percent (15%) annual rate (compounded annually) from the date of the IPO, and (ii) the Employee is employed by the Company continuously for a five (5)-year period from the date of the IPO (subject to the proviso below), the Employee would have equity value (computed as the difference between the value of the units (or other securities pursuant to the key employee equity plan) and the strike price) under such key employee equity plan equal to One Million Dollars ($1,000,000) on the fifth anniversary date of the date of the IPO. The Employee will vest in full (with no partial vesting) on the fifth anniversary date of the IPO; provided, however, if Employee ceases to be employed by the Company by reason of his death or disability or by reason of the Company terminating his employment without cause, he or his legal representative shall have the right to exercise that portion of such option that is equal to the number of full years he was continuously employed since the IPO divided by five, so that by way of example, if Employee were continuously employed by the Company for two and one-half years after the IPO but at that time became disabled, he (or his legal representative) would have the right to exercise 40% of such option at any time prior to its expiration. Such option will expire ten years after the date of the IPO.

(c) Subject to Section 4(d) below, the Company agrees to pay the Employee certain performance bonuses based on targeted Operating Cash Flow (as defined below) for each fiscal year, beginning with the fiscal year beginning October 1, 2000. For each fiscal year during the term hereof the Company shall establish a targeted Operating Cash Flow for such fiscal year, and the Employee will receive a cash bonus to be paid within three months after the end of such fiscal year in the amount of: (i) $75,000, if the Company has Operating Cash Flow equal to or greater than targeted Operating Cash Flow for such fiscal year but less than 110% of such targeted Operating Cash Flow; or (ii) $100,000, if the Operating Cash Flow is equal to or greater than 110% of targeted Operating Cash Flow for such fiscal year but less than 120% of such targeted Operating Cash Flow for such year; or (iii) $150,000, if the Company has Operating Cash Flow of equal to or greater than 120% of targeted Operating Cash Flow for such fiscal year; provided, however, that for fiscal year beginning October 1, 2000, the $75,000, $100,000 and $150,000 amounts shall be reduced to $56,250, $75,000 and $112,500 respectively (with such amounts representing 9/12ths of the original amounts because of the

Employee's start date occurring three months after the beginning of the Company's fiscal year). For purposes of this Section 4(c), "Operating Cash Flow" means net income in accordance with generally accepted accounting principals plus (i) income taxes, (ii) interest, (iii) depreciation, and (iv) amortization of intangibles, to the extent used in computing such net income, and minus capital expenditures made to maintain and service existing business expended by the Company during the fiscal year in question. Notwithstanding the foregoing, in order to receive a bonus pursuant to this Section 4(c), the Employee must have been continuously employed by the Company from the date hereof until the end of the relevant fiscal year.

(d) In the event that the Company effects the IPO, effective at the beginning of the fiscal year of the Company next succeeding such IPO, in lieu of any payments under Section 4(c) above, the Company agrees to pay the Employee certain performance bonuses based on targeted Distributable Cash Flow ("DCF") (as defined below) for each fiscal year. For each fiscal year as to which there is to be a bonus under this Section 4(d), the Company shall establish a targeted DCF, and the Employee will receive a cash bonus to be paid within three months after the end of such fiscal year in the amount of: (i) $100,000, if the Company has DCF equal to or greater than targeted DCF for such fiscal year but less than 110% of targeted DCF for such fiscal year; (ii) $150,000, if the Company has DCF equal to or greater than 110% of targeted DCF but less than 120% of targeted DCF during such fiscal year; or (iii) $200,000, if the Company has DCF equal to or greater than 120% of targeted DCF during such fiscal year. For purposes of this Section 4(d), Distributable Cash Flow shall have the same meaning as such term (or any comparable term, such as "Available Cash") is defined in the documents relating the MLP. Notwithstanding the foregoing, in order to receive a bonus pursuant to this Section 4(d), the Employee must have been continuously employed by the Company from the date hereof until the end of the relevant fiscal year.

(e) It is anticipated by the parties hereto that in the event that the Company effects the IPO:

(i) The Company will receive Subordinated Units (as described in Exhibit B hereto) in the MLP that will have a yield equal to (but subordinated to) the yield on the publicly-traded common units;

(ii) At the expiration of the subordination period, the Subordinated Units will convert to common units of the MLP on a one-for-one basis and will receive distributions pro rata with all other common units;

(iii) The subordination period will terminate based on the performance of the MLP in achieving certain earnings and distribution levels.

The Employee shall receive cash bonuses totaling $500,000 as the subordination period of the Subordinated Units terminates, such bonus to be paid within sixty (60) days after the date of such termination on a proportional basis, so that by way of example, if the subordination period terminates with respect to 25% of the Subordinated Units on December 31, 2004, the Employee will receive a cash bonus in the amount of One

Hundred Twenty-Five Thousand Dollars ($125,000) on or before March 2, 2005. Notwithstanding the foregoing, in order to receive a bonus with respect to the termination of the subordination period for any Subordinated Units, the Employee must have been continuously employed by the Company from the date hereof until the date of termination.

(f) The parties hereto acknowledge that the Employee and Inergy Holdings are concurrently herewith entering into an option agreement attached hereto as Exhibit A whereby the Employee will have the option to purchase 7.1% of the member interests in Inergy Holdings on the terms and conditions set forth in such option agreement.

(g) Notwithstanding anything in this Section 4 to the contrary and for the avoidance of doubt, the Employee must have been continuously employed by the Company from the date hereof up to and including the applicable date set forth in the relevant subsection of Section 4 in order to receive any amounts set forth in such subsection.

5. Duties. The Employee agrees that so long as he is employed under this Agreement he will (i) to the satisfaction of the Company devote his best efforts and his entire business time to further properly the interests of the Company, (ii) at all times be subject to the Company's direction and control with respect to his activities on behalf of the Company, (iii) comply with all rules, orders and regulations of the Company, (iv) truthfully and accurately maintain and preserve such records and make all reports as the Company may require, and (v) fully account for all monies and other property of the Company of which he may from time to time have custody and deliver the same to the Company whenever and however directed to do so.

6. Disclosure and Assignment of Inventions.

(a) The Employee agrees that any Inventions (as hereinafter defined) that he, alone or with others, may conceive, develop, make or perfect, in whole or in part, during his employment by the Company which relate or pertain in any way to the existing or reasonably anticipated scope of the Company's or any subsidiary, parent or affiliate of the Company's business, or that he, alone or with others, may conceive, make or perfect in whole or in part, in the performance of the duties of his employment by the Company, shall be promptly and fully disclosed in writing immediately by the Employee to the Company (but to no other person or persons prior to procuring patents therefor). All of the right, title and interest in and to any Invention shall be and hereby is assigned exclusively to the Company or its nominee regardless of whether or not the conception, development, making or perfection of such Inventions involved the use of the Company's time, facilities or materials and regardless of where such Inventions may be conceived, made or perfected and shall become the sole property of the Company or its nominee. For purposes hereof, the term "Inventions" shall mean inventions, discoveries, ideas, concepts, systems, works, trade secrets, know-how, intellectual property, products, processes or improvements or modifications of current products, processes or designs, or methods of manufacture, distribution, management or otherwise (whether or not covered by or able to be covered by a patent or copyright).

(b) The Employee agrees to execute and deliver all documents and do all acts which the Company shall deem necessary or desirable to secure to the Company or its nominee the entire right, title and interest in and to said Inventions, including, without limitation, applications for any United States and/or Foreign Letters Patent or Certificates of Copyright Registration in the name of or for the benefit of the Company or, in the discretion of the Company, in the Employee's name, which patents and copyrights shall then be assigned by the Employee to the Company. Any document described above prepared and filed pursuant to this subsection shall be so prepared and filed at the Company's expense. The Employee hereby irrevocably appoints the President of the Company as his attorney-in-fact with authority to execute for him and on his behalf any and all assignments, patent or copyright applications, or other instruments and documents required to be executed by the Employee pursuant to this subsection, if the Employee is unwilling or unable to execute same.

(c) The Company shall have no obligation to use, attempt to protect by application for Letters Patent or Certificates of Copyright Registration or promote any of said Inventions; provided, however, that the Company, in its sole discretion, may reward the Employee for any especially meritorious contributions in any manner it deems appropriate or may provide the Employee with full or partial releases as to any subject matter contributed by the Employee in which the Company is not interested.

7. Covenant Not to Disclose Confidential Information. The Employee acknowledges that during the course of his employment with the Company he has or will have access to and knowledge of certain information and data which 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 would be extremely detrimental to the Company. As a consequence, the Employee hereby agrees and acknowledges that he owes a duty to the Company not to disclose, and agrees that, during or after the term of his employment, without the prior written consent of the Company, he will not communicate, publish or disclose, to any person anywhere or use any Confidential Information (as hereinafter defined) for any purpose other than carrying out his duties as contemplated by this Agreement. The Employee will use his best efforts at all times to hold in confidence and to safeguard any Confidential Information from falling into the hands of any unauthorized person and, in particular, will not permit any Confidential Information to be read, duplicated or copied. The Employee will return to the Company all Confidential Information in the Employee's possession or under the Employee's control when the duties of the Employee no longer require the Employee's possession thereof, or whenever the Company shall so request, and in any event will promptly return all such Confidential Information if the Employee's relationship with the Company is terminated for any or no reason and will not retain any copies thereof. For purposes hereof the term "Confidential Information" shall mean any information or data used by or belonging or relating to the Company or any subsidiary, parent or affiliate of the Company that is not known generally to the industry in which the Company or any subsidiary, parent or affiliate of the Company is or may be engaged, including without limitation, any and all trade secrets, proprietary data and information relating to the Company's or any subsidiary, parent or affiliate of the Company's past, present or future business and products, price lists, customer lists, processes, procedures or standards, know-how, manuals, business strategies, records, drawings, specifications, designs, financial information, whether or not reduced to writing, or information or data which the

Company or any subsidiary, parent or affiliate of the Company advises the Employee should be treated as confidential information.

8. Covenant Not to Compete. The Employee acknowledges that during his employment with the Company he, at the expense of the Company, has been and will 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 will have access to Inventions, trade secrets and Confidential Information of the Company or any subsidiary, parent or affiliate of the Company. Therefore, in consideration of (i) such training and relations, (ii) his employment with the Company, and (iii) the payments made to the Employee pursuant to the Asset Purchase Agreement, and to further protect the Inventions, trade secrets and Confidential Information of the Company or any subsidiary, parent or affiliate of the Company, the Employee agrees that for a period commencing on the date hereof and ending on the later of (i) one year from and after the date of the voluntary or involuntary termination of the Employee's employment by the Company for any reason or no reason (including, without limitation, a termination due to the fulfillment of the term of this Agreement pursuant to Section 11(a) hereof), provided, however, that in the event that the date of the voluntary or involuntary termination of the Employee's employment by the Company for any or no reason occurs on or after the second anniversary of the date hereof, the Company shall have the option to extend such one year period of time by an additional one year period by electing to continue to pay the Employee's salary at the time of termination, payable bi-monthly in arrears, for the period of one year following the date of the voluntary or involuntary termination of the Employee's employment by the Company for any or no reason, (ii) the third anniversary of the date hereof, and (iii) in the event the Company makes any payments under Section 11(f) hereof, the later of (x) the fifth anniversary of the date hereof, and (y) one year from and after the date of the termination of the Employee's employment by the Company, he will not, directly or indirectly, without the express written consent of the Company, except when and as requested to do in and about the performing of his duties under this Agreement:

(a) own, manage, operate, control or participate in the ownership, management, operation or control of, or have any interest, financial or otherwise, in or act as an officer, director, partner, member, principal, employee, agent, representative, consultant or independent contractor of, or in any way assist any individual or entity in the conduct of, any business located in or doing business within a fifty (50) mile radius of any current or future business location of the Company or any subsidiary, parent or affiliate of the Company which is engaged or may become engaged in any business competitive to any business now or at any time during the period hereof engaged in by the Company or any subsidiary, parent or affiliate of the Company, including, but not limited to, any business which markets or distributes propane gas and other petroleum-related products or sells, services and installs parts, appliances or supplies related thereto;

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

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

Notwithstanding the foregoing provisions, the Employee may own not more than five percent (5%) of the outstanding equity securities in any corporation or entity (including, but not limited to, units in a master limited partnership) that is listed upon a national stock exchange or actively traded in the over-the-counter market. Notwithstanding the foregoing provisions, the Employee shall not, directly or indirectly, without the express written consent of the Company, except when and as requested to do in and about the performing of his duties under this Agreement, engage in any actions under subsections (a), (b) or (c) above, at any time the Company is making payments to the Employee pursuant to this Agreement.

9. Specific Performance. Recognizing that irreparable damage will result to the Company in the event of the breach or threatened breach of any of the foregoing covenants and assurances by the Employee contained in Sections 6, 7 or 8 hereof, and that the Company's remedies at law for any such breach or threatened breach will be inadequate, the Company and its successors and assigns, in addition to such other remedies which may be available to them, shall be entitled to an injunction, including a mandatory injunction, to be issued by any court of competent jurisdiction ordering compliance with this Agreement or enjoining and restraining the Employee, and each and every person, firm or company acting in concert or participation with him, from the continuation of such breach and, in addition thereto, he shall pay to the Company all ascertainable damages, including costs and reasonable attorneys' fees sustained by the Company by reason of the breach or threatened breach of said covenants and assurances; provided, however, that in the event such court of competent jurisdiction finds that a breach or threatened breach of the covenants and assurances of the Employee has not occurred, then the Company shall pay the Employee the costs and reasonable attorneys' fees sustained by the Employee in connection with such proceeding. The obligations of the Employee and the rights of the Company, its successors and assigns under Sections 6, 7, 8, 9, 10, 12, 16 and 18 of this Agreement shall survive the termination of this Agreement. The covenants and obligations of the Employee set forth in Sections 6, 7 and 8 hereof are in addition to and not in lieu of or exclusive of any other obligations and duties of the Employee to the Company, whether express or implied in fact or in law.

10. Potential Unenforceability of Any Provision. If a final judicial determination is made that any provision of this Agreement is an unenforceable restriction against the Employee, the provisions hereof shall be rendered void only to the extent that such judicial determination finds such provisions unenforceable, and such unenforceable provisions shall automatically be reconstituted and become a part of this Agreement, effective as of the date first written above, to the maximum extent in favor of the Company that is lawfully enforceable. A judicial determination that any provision of this Agreement is unenforceable shall in no instance render the entire Agreement unenforceable, but rather the Agreement will continue in full force and effect absent any unenforceable provision to the maximum extent permitted by law.

11. Term and Termination.

(a) Subject to Sections 11(b), 11(c) and 11(d) below, the term of the Employee's employment under this Agreement shall be five (5) years from the date hereof.

(b) Notwithstanding Section 11(a) above, this Agreement shall terminate immediately upon the death, disability or adjudication of legal incompetence of the Employee, or upon the Company's ceasing to carry on its business or becoming bankrupt. For purposes of this Agreement, the Employee shall be deemed to be disabled when the Employee has become unable, by reason of physical or mental disability, to satisfactorily perform his essential job duties and there is no reasonable accommodation that can be provided to enable him to be a qualified individual with a disability under applicable law. Such matters shall be determined by, or to the reasonable satisfaction of, the Company.

(c) Notwithstanding Section 11(a) above, the Company may terminate the Employee's employment at any time for Cause or without Cause. "Cause" means (i) the Employee has failed to devote reasonable attention and time to the business and affairs of the Company or the Employee has repeatedly failed to perform the duties assigned to him and the Company has previously notified the Employee of such failure, (ii) the Employee has been convicted of a felony or misdemeanor involving moral turpitude, (iii) the Employee has engaged in acts or omissions against the Company constituting dishonesty, breach of fiduciary obligation, or intentional wrongdoing or misfeasance, (iv) the Employee has acted intentionally or in bad faith in a manner which results in a material detriment to the assets, business or prospects of the Company, (v) the Employee has been guilty of habitual absenteeism, chronic alcoholism or other form of addiction, or (vi) the Employee has breached any obligation under this Agreement.

(d) Notwithstanding Section 11(a) above, the Employee may terminate the Employee's 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 the Employee's employment, that the 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 thirty-five (35) miles from the location where Employee was employed immediately preceding the date of the voluntary or involuntary termination of the Employee's employment.

(e) In the event (x) the Company elects to terminate the Employee's employment with the Company for Cause or as a result of the death, disability, adjudication of legal incompetence of the Employee or the Company's ceasing to carry on its business or becoming bankrupt, or (y) the Employee terminates his employment with the Company without Good Reason, the Company shall pay or provide to the Employee:

(i) such Salary as the Employee shall have earned up to the date of his termination;

(ii) such earned but unpaid performance bonus, if any, pursuant to either Section 4(c) or 4(d) hereof, as applicable;

(iii) such earned but unpaid subordination bonus, if any, pursuant to Section 4(e) hereof; and

(iv) such other fringe benefits normally provided to employees of the Company as the Employee shall have earned up to the date of his termination.

(f) In the event (x) the Company elects to terminate the Employee's employment with the Company during the five (5)-year period referred to in Section 11(a) above and such termination is without Cause, or (y) the Employee terminates his employment with the Company with Good Reason, the Company shall pay to the Employee:

(i) the unpaid amount of the Employee's Salary for the remainder of the term of this Agreement, with such amount to be paid bi-monthly in arrears;

(ii) such earned but unpaid performance bonus, if any, pursuant to either Section 4(c) or 4(d) hereof, as applicable;

(iii) such earned but unpaid subordination bonus, if any, pursuant to Section 4(e) hereof; and

(iv) such other fringe benefits (other than any bonus, severance pay benefit or participation in the Company's 401(k) employee benefit plan) normally provided to employees of the Company as the Employee shall have earned up to the date of his termination.

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

13. No Breach. The Employee represents and warrants to the Company that neither the execution nor delivery of this Agreement, nor the performance of the Employee's obligations hereunder will conflict with, or result in a breach of, any term, condition, or provision of, or constitute a default under, any obligation, contract, agreement, covenant or instrument to which the Employee is a party or under which the Employee is bound, including without limitation, the breach by the Employee of a fiduciary duty to any former employers.

14. Entire Agreement; Amendment. This Agreement cancels and supersedes all previous agreements relating to the subject matter of this Agreement, written or oral, between the parties hereto and contains the entire understanding of the parties hereto 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.

15. Headings. The headings of the sections of this Agreement have been inserted for convenience of reference only and shall in no way restrict or otherwise modify any of the terms or provisions hereof.

16. Governing Law. This Agreement and all rights and obligations of the parties hereunder shall be governed by, and construed and interpreted in accordance with, the laws of the State of Indiana applicable to agreements made and to be performed entirely within the State, including all matters of enforcement, validity and performance; provided, however, that to the extent any provision herein is deemed unenforceable in the State of Indiana, then this Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Delaware.

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

If to the Company:

| Name: | With Copy To: |
|---|---|
| Inergy Partners, LLC | Stinson, Mag & Fizzell, P.C. |
| 1101 Walnut, Suite 1500 | 1201 Walnut, Suite 2800 |
| Kansas City, Missouri 64106 | Kansas City, Missouri 64106 |
| Attn: John J. Sherman | Attn: Paul E. McLaughlin |

If to the Employee:

Phillip L. Elbert
1525 Thornapple Dr.
Fort Wayne, Indiana 46845

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 17.

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

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

IN WITNESS WHEREOF, the Company has caused this Employment Agreement to be duly executed, and the Employee has hereunto set his hand, on the day and year first above written.

INERGY PARTNERS, LLC

By: /s/ JOHN J. SHERMAN
John J. Sherman, President

/s/ PHILLIP L. ELBERT
PHILLIP L. ELBERT

Exhibit 10.10

# EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into as of the 4th day of December, 2000, by and between Inergy Partners, LLC, a Delaware limited liability company (the "Company"), and R. Brooks Sherman Jr., an individual (the "Employee").

1. Employment. The Company agrees to employ the Employee and the Employee agrees to be employed by the Company as the Vice President - Chief Financial Officer of the Company upon the terms and conditions of this Agreement, commencing on the date hereof and continuing until terminated as provided in Section 11 below. The Employee shall report to the President of the Company. The Employee shall be appointed to the Company's Senior Management Team which sets the strategic direction of the Company.

2. Compensation.

(a) For all services rendered by the Employee to the Company, the Company shall pay the Employee a salary at the annual rate of One Hundred Twenty-Five Thousand Dollars ($125,000) (the "Salary") payable bi-monthly in arrears.

(b) In the event that the Company (i) arranges for the organization of a master limited partnership (the "MLP") and effects a public offering of units of the MLP (the "IPO") in a manner similar to public offerings made by publicy traded master limited partnerships that are engaged in the distribution and sale of propane, or (ii) arranges for any other public equity offering registered by the Company with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, within 30 days after the date of the closing of the IPO or such other public equity offering, as applicable, the Company shall pay the Employee a bonus equal to Fifty Thousand Dollars ($50,000).

3. Expenses. The Company shall reimburse the Employee for all ordinary and necessary expenses incurred and paid by the Employee in the course of the performance of the Employee's duties pursuant to this Agreement and consistent with the Company's policies in effect from time to time with respect to travel, entertainment and other business expenses (including, without limitation, relocation expenses), and subject to the Company's requirements with respect to the manner of approval and reporting of such expenses.

4. Additional Benefits.

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

(b) It is expected that during fiscal year 2001, the Company will have in place a key employee equity plan that the Employee will participate in, such that, assuming (i)

the value of the units (or other securities pursuant to such key employee equity plan) grows at a fifteen percent (15%) annual rate (compounded annually) from the date of their issuance, and (ii) the Employee is employed by the Company continuously for a five (5)-year period from the date of such issuance, the Employee would have equity value (computed as the difference between the value of the units (or other securities pursuant to the key employee equity plan) and the strike price) under such key employee equity plan equal to Five Hundred Thousand Dollars ($500,000) on the fifth anniversary date of such issuance. The Employee will vest in accordance with the provisions of such plan.

(c) Subject to Section 4(d) below, the Company agrees to pay the Employee certain performance bonuses based on targeted Operating Cash Flow (as defined below) for each fiscal year, beginning with the fiscal year beginning October 1, 2000. For each fiscal year during the term hereof the Company shall establish a targeted Operating Cash Flow for such fiscal year, and the Employee will receive a cash bonus to be paid within three months after the end of such fiscal year in the amount of: (i) $50,000, if the Company has Operating Cash Flow equal to or greater than targeted Operating Cash Flow for such fiscal year but less than 110% of such targeted Operating Cash Flow; or (ii) $75,000, if the Operating Cash Flow is equal to or greater than 110% of targeted Operating Cash Flow for such fiscal year but less than 120% of such targeted Operating Cash Flow for such year; or (iii) $100,000, if the Company has Operating Cash Flow of equal to or greater than 120% of targeted Operating Cash Flow for such fiscal year; provided, however, for the fiscal year beginning October 1, 2000, the Employee shall receive a bonus under this Section 4(c) equal to $25,000 in the event that the Company has Operating Cash Flow less than targeted Operating Cash Flow for such fiscal year and the Employee is continuously employed by the Company from the date hereof until December 31, 2001, with such bonus to be paid in January of 2002; provided, further that for fiscal year beginning October 1, 2000, the $50,000, $75,000 and $100,000 amounts shall be reduced to $41,667, $62,500 and $83,333 respectively (with such amounts representing 10/12ths of the original amounts because of the Employee's start date occurring two months after the beginning of the Company's fiscal year). For purposes of this Section 4(c), "Operating Cash Flow" means net income in accordance with generally accepted accounting principals plus (i) income taxes, (ii) interest, (iii) depreciation, and (iv) amortization of intangibles, to the extent used in computing such net income, and minus capital expenditures made to maintain and service existing business expended by the Company during the fiscal year in question. Notwithstanding the foregoing, in order to receive a bonus pursuant to this Section 4(c), the Employee must have been continuously employed by the Company from the date hereof until the end of the relevant fiscal year.

(d) In the event that the Company effects the IPO, effective at the beginning of the fiscal year of the Company next succeeding such IPO, in lieu of any payments under Section 4(c) above, the Company agrees to pay the Employee certain performance bonuses based on targeted Distributable Cash Flow ("DCF") (as defined below) for each fiscal year. For each fiscal year as to which there is to be a bonus under this Section 4(d), the Company shall establish a targeted DCF, and the Employee will receive a cash bonus to be paid within three months after the end of such fiscal year in the amount of: (i) $50,000, if the Company has DCF equal to or greater than targeted DCF for such fiscal

year but less than 110% of targeted DCF for such fiscal year; (ii) $75,000, if the Company has DCF equal to or greater than 110% of targeted DCF but less than 120% of targeted DCF during such fiscal year; or (iii) $100,000, if the Company has DCF equal to or greater than 120% of targeted DCF during such fiscal year. For purposes of this Section 4(d), Distributable Cash Flow shall have the same meaning as such term (or any comparable term, such as "Available Cash") is defined in the documents relating the MLP. Notwithstanding the foregoing, in order to receive a bonus pursuant to this Section 4(d), the Employee must have been continuously employed by the Company from the date hereof until the end of the relevant fiscal year.

(e) It is anticipated by the parties hereto that in the event that the Company effects the IPO:

(i) The Company will receive Subordinated Units in the MLP that will have a yield equal to (but subordinated to) the yield on the publicly-traded common units;

(ii) At the expiration of the subordination period, the Subordinated Units will convert to common units of the MLP on a one-for-one basis and will receive distributions pro rata with all other common units;

(iii) The subordination period will terminate based on the performance of the MLP in achieving certain earnings and distribution levels.

The Employee shall receive cash bonuses totaling $200,000 as the subordination period of the Subordinated Units terminates, such bonuses to be paid within sixty (60) days after the date of such termination on a proportional basis, so that by way of example, if the subordination period terminates with respect to 25% of the Subordinated Units on December 31, 2004, the Employee will receive a cash bonus in the amount of Fifty Thousand Dollars ($50,000) on or before March 2, 2005. Notwithstanding the foregoing, in order to receive a bonus with respect to the termination of the subordination period for any Subordinated Units, the Employee must have been continuously employed by the Company from the date hereof until the date of such termination.

5. Duties. The Employee agrees that so long as he is employed under this Agreement he will (i) to the satisfaction of the Company devote his best efforts and his entire business time to further properly the interests of the Company, (ii) at all times be subject to the Company's direction and control with respect to his activities on behalf of the Company, (iii) comply with all rules, orders and regulations of the Company, (iv) truthfully and accurately maintain and preserve such records and make all reports as the Company may require, and (v) fully account for all monies and other property of the Company of which he may from time to time have custody and deliver the same to the Company whenever and however directed to do so.

6. Disclosure and Assignment of Inventions.

(a) The Employee agrees that any Inventions (as hereinafter defined) that he, alone or with others, may conceive, develop, make or perfect, in whole or in part, during his employment by the Company which relate or pertain in any way to the existing or reasonably anticipated scope of the Company's or any subsidiary, parent or affiliate of the Company's business, or that he, alone or with others, may conceive, make or perfect in whole or in part, in the performance of the duties of his employment by the Company, shall be promptly and fully disclosed in writing immediately by the Employee to the Company (but to no other person or persons prior to procuring patents therefor). All of the right, title and interest in and to any Invention shall be and hereby is assigned exclusively to the Company or its nominee regardless of whether or not the conception, development, making or perfection of such Inventions involved the use of the Company's time, facilities or materials and regardless of where such Inventions may be conceived, made or perfected and shall become the sole property of the Company or its nominee. For purposes hereof, the term "Inventions" shall mean inventions, discoveries, ideas, concepts, systems, works, trade secrets, know-how, intellectual property, products, processes or improvements or modifications of current products, processes or designs, or methods of manufacture, distribution, management or otherwise (whether or not covered by or able to be covered by a patent or copyright).

(b) The Employee agrees to execute and deliver all documents and do all acts which the Company shall deem necessary or desirable to secure to the Company or its nominee the entire right, title and interest in and to said Inventions, including, without limitation, applications for any United States and/or Foreign Letters Patent or Certificates of Copyright Registration in the name of or for the benefit of the Company or, in the discretion of the Company, in the Employee's name, which patents and copyrights shall then be assigned by the Employee to the Company. Any document described above prepared and filed pursuant to this subsection shall be so prepared and filed at the Company's expense. The Employee hereby irrevocably appoints the President of the Company as his attorney-in-fact with authority to execute for him and on his behalf any and all assignments, patent or copyright applications, or other instruments and documents required to be executed by the Employee pursuant to this subsection, if the Employee is unwilling or unable to execute same.

(c) The Company shall have no obligation to use, attempt to protect by application for Letters Patent or Certificates of Copyright Registration or promote any of said Inventions; provided, however, that the Company, in its sole discretion, may reward the Employee for any especially meritorious contributions in any manner it deems appropriate or may provide the Employee with full or partial releases as to any subject matter contributed by the Employee in which the Company is not interested.

7. Covenant Not to Disclose Confidential Information. The Employee acknowledges that during the course of his employment with the Company he has or will have access to and knowledge of certain information and data which 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 would be extremely detrimental to the Company. As a

consequence, the Employee hereby agrees and acknowledges that he owes a duty to the Company not to disclose, and agrees that, during or after the term of his employment, without the prior written consent of the Company, he will not communicate, publish or disclose, to any person anywhere or use any Confidential Information (as hereinafter defined) for any purpose other than carrying out his duties as contemplated by this Agreement. The Employee will use his best efforts at all times to hold in confidence and to safeguard any Confidential Information from falling into the hands of any unauthorized person and, in particular, will not permit any Confidential Information to be read, duplicated or copied. The Employee will return to the Company all Confidential Information in the Employee's possession or under the Employee's control when the duties of the Employee no longer require the Employee's possession thereof, or whenever the Company shall so request, and in any event will promptly return all such Confidential Information if the Employee's relationship with the Company is terminated for any or no reason and will not retain any copies thereof. For purposes hereof the term "Confidential Information" shall mean any information or data used by or belonging or relating to the Company or any subsidiary, parent or affiliate of the Company that is not known generally to the industry in which the Company or any subsidiary, parent or affiliate of the Company is or may be engaged, including without limitation, any and all trade secrets, proprietary data and information relating to the Company's or any subsidiary, parent or affiliate of the Company's past, present or future business and products, price lists, customer lists, processes, procedures or standards, know-how, manuals, business strategies, records, drawings, specifications, designs, financial information, whether or not reduced to writing, or information or data which the Company or any subsidiary, parent or affiliate of the Company advises the Employee should be treated as confidential information.

8. Covenant Not to Compete. The Employee acknowledges that during his employment with the Company he, at the expense of the Company, has been and will be specially trained in the business of the Company, has established and will continue to establish favorable relations with the customers, clients, accounts and lenders of the Company or any subsidiary, parent or affiliate of the Company and will have access to Inventions, 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, his employment with the Company, and to further protect the Inventions, trade secrets and Confidential Information of the Company or any subsidiary, parent or affiliate of the Company, the Employee agrees that for a period commencing on the date hereof and ending on the later of (i) the third anniversary of the date hereof, or (ii) the date of termination of the Employee's employment with the Company; provided, however, that the Company shall have the option to extend such period of time by an additional one year period by electing to continue to pay the Employee's salary at the time of termination (including, without limitation, a termination due to the fulfillment of the term of this Agreement pursuant to Section 11(a) hereof), payable bi-monthly in arrears, he will not, directly or indirectly, without the express written consent of the Company, except when and as requested to do in and about the performing of his duties under this Agreement:

(a) own, manage, operate, control or participate in the ownership, management, operation or control of, or have any interest, financial or otherwise, in or act as an officer, director, partner, member, principal, employee, agent, representative, consultant or independent contractor of, or in any way assist any individual or entity in the conduct of, any business located in or doing business within a fifty (50) mile radius of

any current or future business location of the Company or any subsidiary, parent or affiliate of the Company which is engaged or may become engaged in any business competitive to any business now or at any time during the period hereof engaged in by the Company or any subsidiary, parent or affiliate of the Company, including, but not limited to, any business which markets or distributes propane gas and other petroleum-related products or sells, services and installs parts, appliances or supplies related thereto;

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

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

Notwithstanding the foregoing provisions, the Employee may own not more than five percent (5%) of the outstanding equity securities in any corporation or entity (including, but not limited to, units in a master limited partnership) that is listed upon a national stock exchange or actively traded in the over-the-counter market. Notwithstanding the foregoing provisions, the Employee shall not, directly or indirectly, without the express written consent of the Company, except when and as requested to do in and about the performing of his duties under this Agreement, engage in any actions under subsections (a), (b) or (c) above, at any time the Company is making payments to the Employee pursuant to this Agreement.

9. Specific Performance. Recognizing that irreparable damage will result to the Company in the event of the breach or threatened breach of any of the foregoing covenants and assurances by the Employee contained in Sections 6, 7 or 8 hereof, and that the Company's remedies at law for any such breach or threatened breach will be inadequate, the Company and its successors and assigns, in addition to such other remedies which may be available to them, shall be entitled to an injunction, including a mandatory injunction, to be issued by any court of competent jurisdiction ordering compliance with this Agreement or enjoining and restraining the Employee, and each and every person, firm or company acting in concert or participation with him, from the continuation of such breach and, in addition thereto, he shall pay to the Company all ascertainable damages, including costs and reasonable attorneys' fees sustained by the Company by reason of the breach or threatened breach of said covenants and assurances. The obligations of the Employee and the rights of the Company, its successors and assigns under Sections 6, 7, 8, 9, 10, 12, 16 and 18 of this Agreement shall survive the termination of this Agreement. The covenants and obligations of the Employee set forth in Sections 6, 7 and 8 hereof are in addition to and not in lieu of or exclusive of any other obligations and duties of the Employee to the Company, whether express or implied in fact or in law.

10. Potential Unenforceability of Any Provision. If a final judicial determination is made that any provision of this Agreement is an unenforceable restriction against the Employee, the provisions hereof shall be rendered void only to the extent that such

judicial determination finds such provisions unenforceable, and such unenforceable provisions shall automatically be reconstituted and become a part of this Agreement, effective as of the date first written above, to the maximum extent in favor of the Company that is lawfully enforceable. A judicial determination that any provision of this Agreement is unenforceable shall in no instance render the entire Agreement unenforceable, but rather the Agreement will continue in full force and effect absent any unenforceable provision to the maximum extent permitted by law.

11. Term and Termination.

(a) Subject to Sections 11(b) and 11(c) below, the term of the Employee's employment under this Agreement shall be three (3) years from the date hereof.

(b) Notwithstanding Section 11(a) above, this Agreement shall terminate immediately upon the death, disability or adjudication of legal incompetence of the Employee, or upon the Company's ceasing to carry on its business or becoming bankrupt. For purposes of this Agreement, the Employee shall be deemed to be disabled when the Employee has become unable, by reason of physical or mental disability, to satisfactorily perform his essential job duties and there is no reasonable accommodation that can be provided to enable him to be a qualified individual with a disability under applicable law. Such matters shall be determined by, or to the reasonable satisfaction of, the Company.

(c) Notwithstanding Section 11(a) above, the Company may terminate the Employee's employment at any time for Cause or without Cause. "Cause" means (i) the Employee has repeatedly failed to perform the duties assigned to him, (ii) the Employee has been convicted of a felony or misdemeanor involving moral turpitude, (iii) the Employee has engaged in acts or omissions against the Company constituting dishonesty, breach of fiduciary obligation, or intentional wrongdoing or misfeasance, (iv) the Employee has acted intentionally or in bad faith in a manner which results in a material detriment to the assets, business or prospects of the Company, (v) the Employee has been guilty of habitual absenteeism, chronic alcoholism or other form of addiction, or (vi) the Employee has breached any obligation under this Agreement.

(d) In the event (x) the Company elects to terminate the Employee's employment with the Company for Cause or as a result of the death, disability, adjudication of legal incompetence of the Employee or the Company's ceasing to carry on its business or becoming bankrupt, or (y) the Employee terminates his employment with the Company for any reason or no reason, the Company shall pay or provide to the Employee:

(i) such Salary as the Employee shall have earned up to the date of his termination;

(ii) such earned but unpaid performance bonus, if any, pursuant to either Section 4(c) or 4(d) hereof, as applicable;

(iii) such earned but unpaid subordination bonus, if any, pursuant to Section 4(e) hereof; and

(iv) such other fringe benefits normally provided to employees of the Company as the Employee shall have earned up to the date of his termination.

(e) In the event the Company elects to terminate the Employee's employment with the Company during the three (3)-year period referred to in Section 11(a) above and such termination is without Cause, the Company shall pay to the Employee:

(i) the unpaid amount of the Employee's Salary for the remainder of the term of this Agreement, with such amount to be paid bi-monthly in arrears;

(ii) such earned but unpaid performance bonus, if any, pursuant to either Section 4(c) or 4(d) hereof, as applicable;

(iii) such earned but unpaid subordination bonus, if any, pursuant to Section 4(e) hereof; and

(iv) such other fringe benefits (other than any bonus, severance pay benefit or participation in the Company's 401(k) employee benefit plan) normally provided to employees of the Company as the Employee shall have earned up to the date of his termination.

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

13. No Breach. The Employee represents and warrants to the Company that neither the execution nor delivery of this Agreement, nor the performance of the Employee's obligations hereunder will conflict with, or result in a breach of, any term, condition, or provision of, or constitute a default under, any obligation, contract, agreement, covenant or instrument to which the Employee is a party or under which the Employee is bound, including without limitation, the breach by the Employee of a fiduciary duty to any former employers.

14. Entire Agreement; Amendment. This Agreement cancels and supersedes all previous agreements relating to the subject matter of this Agreement, written or oral, between the parties hereto and contains the entire understanding of the parties hereto 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.

15. Headings. The headings of the sections of this Agreement have been inserted for convenience of reference only and shall in no way restrict or otherwise modify any of the terms or provisions hereof.

16. Governing Law. This Agreement and all rights and obligations of the parties hereunder shall be governed by, and construed and interpreted in accordance with, the laws of the State of Missouri applicable to agreements made and to be performed entirely within the State, including all matters of enforcement, validity and performance; provided, however,

that to the extent any provision herein is deemed unenforceable in the State of Missouri, then this Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Delaware.

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

If to the Company:

| Name: | With Copy To: |
|---|---|
| Inergy Partners, LLC | Stinson, Mag & Fizzell, P.C. |
| 1101 Walnut, Suite 1500 | 1201 Walnut, Suite 2800 |
| Kansas City, Missouri 64106 | Kansas City, Missouri 64106 |
| Attn: John J. Sherman | Attn: Paul E. McLaughlin |

If to the Employee:

R. Brooks Sherman Jr.
1419 E. Dry Creek Rd.
Phoenix, Arizona 85048

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 17.

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

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

IN WITNESS WHEREOF, the Company has caused this Employment Agreement to be duly executed, and the Employee has hereunto set his hand, as of the day and year first above written.

INERGY PARTNERS, LLC

/s/ JOHN J. SHERMAN
By: _____
John J. Sherman, President

/s/ R. BROOKS SHERMAN
_____
R. Brooks Sherman Jr.

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the references to our firm under the caption "Experts" and to the use of our reports dated December 6, 2000, except Notes 4 and 12, as to which the date is January 12, 2001, and Note 13, as to which the date is March 7, 2001, with respect to Inergy Partners, LLC; our report dated May 2, 2001 with respect to the Hoosier Propane Group; our report dated January 26, 2001 with respect to Country Gas Company, Inc.; our report dated March 7, 2001 with respect to Inergy, L.P., and our report dated March 2, 2001 with respect to Inergy GP, LLC, in Amendment No. 1 to the Registration Statement (Form S-1 No. 333-56976) and related Prospectus of Inergy, L.P. for the registration of 1,500,000 common units.

/s/ Ernst & Young LLP

Kansas City, Missouri
May 2, 2001

EXHIBIT 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in this Registration Statement on Form S-1 of our report dated November 20, 1998, which appears in such Registration Statement. We also consent to the references to us under the headings "Experts" and "Selected Financial Data" in such Registration Statement.

/s/ Batchelor, Tillery & Roberts, LLP

Raleigh, North Carolina
May 3, 2001