INERGY L P
Form 424B3
January 08, 2004
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Filed Pursuant to Rule 424(b)(3)

Registration No. 333-101165

We will amend and complete the information in this prospectus supplement. This preliminary prospectus supplement and the accompanying prospectus are part of an effective registration statement filed with the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not offers to sell nor solicitations of offers to buy these securities in any jurisdiction where such offer or sale is not permitted.

Subject to Completion, dated January 7, 2004

PROSPECTUS SUPPLEMENT

(To Prospectus dated November 22, 2002)

1,650,000 Common Units

(without giving effect to pending two-for-one unit split)

Representing Limited Partner Interests

We are offering to sell 1,650,000 common units (without giving effect to our pending unit split). Our common units are traded on the Nasdaq National Market under the symbol NRGY. The last reported sale price of our common units on the Nasdaq on January 6, 2004 was $49.27 per common unit.

On December 10, 2003, we announced a two-for-one unit split of our outstanding common and subordinated units. The split entitles unitholders of record at the close of business on January 2, 2004 to receive on January 12, 2004 one additional unit for each unit held as of January 2, 2004. Because this offering will close after the payment date for the split, you will receive two common units for each unit you elect to purchase in the offering.

Investing in the common units involves risks. See Risk Factors beginning on page 1 of the accompanying prospectus.

	Per Common Unit	Total
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 247,500 common units (without giving effect to our pending unit split) on the same terms and conditions as set forth above to cover over-allotments of common units.

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

Lehman Brothers, on behalf of the underwriters, expects to deliver the common units on or about January , 2004.

LEHMAN BROTHERS

A.G. EDWARDS & SONS, INC.

WACHOVIA SECURITIES

RAYMOND JAMES

January , 2004

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This document is in two parts. The first part is the prospectus supplement, which describes the terms of this offering of common units. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to the common units.

If the information relating to the offering varies between the prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of those documents or that any information we have incorporated by reference is accurate as of any date other than the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since such dates.

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SUMMARY

This summary highlights some basic information from this prospectus supplement and the accompanying prospectus to help you understand the common units. It does not contain all of the information that is important to you. You should carefully read the entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference to understand fully the terms of the common units. You should read Risk Factors beginning on page 1 of the accompanying prospectus for more information about important risks that you should consider before buying common units in this offering.

Throughout this prospectus supplement and the accompanying prospectus,

(1) *the information presented assumes that the underwriters do not exercise their over-allotment option and does not give effect to our pending two-for-one unit split; please read Recent Developments Two-for-One Unit Split,*

(2) *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*

(3) *when we use the term our predecessor, we are referring to Inergy Partners, LLC, the entity that conducted our business prior to our initial public offering, which closed on July 31, 2001. Inergy, L.P. was formed as a Delaware limited partnership on March 7, 2001 and did not have operations until the initial public offering. Our predecessor commenced operations in November 1996. The discussion of our business throughout this prospectus supplement and the accompanying prospectus relates to the business operations of Inergy Partners, LLC prior to Inergy, L.P. s initial public offering and Inergy, L.P. thereafter.*

Inergy, L.P.

We own and operate a rapidly growing retail and wholesale propane marketing and distribution business. We have grown primarily through acquisitions of retail propane operations and, to a lesser extent, through internal growth. Since our predecessor s inception in November 1996 and through December 31, 2003, we have acquired 32 propane companies in California, Florida, Georgia, Illinois, Indiana, Maryland, Michigan, North Carolina, Ohio, Tennessee, Texas, Virginia and Canada for an aggregate purchase price of approximately $322 million, including working capital, assumed liabilities and acquisition costs. These acquisitions include twelve propane companies acquired during fiscal 2003 for an aggregate purchase price of approximately $80 million. For the fiscal year ended September 30, 2003, we sold and physically delivered approximately 119.7 million gallons of propane to retail customers and approximately 284.7 million gallons of propane to wholesale customers.

We believe we are the seventh largest propane retailer in the United States, based on retail propane gallons sold. Our retail business includes the retail marketing, sale and distribution of propane, including the sale and lease of propane supplies and equipment, to residential, commercial, industrial and agricultural customers. We market our propane products primarily under eight regional brand names: Bradley Propane, Country Gas, Hancock Gas, Hoosier Propane, Independent Propane Company, McCracken, Pro Gas and United Propane. As of December 31, 2003, we served approximately 240,000 retail customers in Arkansas, Delaware, Florida, Georgia, Illinois, Indiana, Maryland, Michigan, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas, Virginia and West Virginia from 131 customer service centers which had an aggregate of approximately 8.5 million gallons of above-ground propane storage capacity. In addition to our retail business, we operate a wholesale supply, marketing and distribution business, providing propane procurement, transportation and supply and price risk management services to our customer service centers, as well as to independent dealers, multistate marketers, petrochemical companies, refinery and gas processors and a number of other natural gas liquids (NGLs) marketing and distribution companies in 35 states, primarily in the Midwest and Southeast.

Our principal executive offices are located at Two Brush Creek Boulevard, Suite 200, Kansas City, Missouri 64112, and our phone number is (816) 842-8181.

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Recent Developments

Recent Acquisitions

In October 2003, we acquired from EOTT Energy, L.P. its West Coast NGL business, which includes gas processing and NGL fractionation facilities, 6.1 million gallons of above-ground NGL storage capacity, truck and rail distribution facilities, and a 23-tractor NGL transportation fleet all located in south central California. In October 2003, we also acquired the assets of Smith Propane and of Peoples Gas and Appliance. In November 2003, we acquired the assets of Pembroke Propane. In December 2003, we acquired the assets of two retail propane companies in the Southeast. These six companies generated revenue during the twelve months ended September 30, 2003, of less than 10% of our consolidated revenue during fiscal 2003.

Potential Acquisitions

As part of our ongoing acquisition program, we are continuing to evaluate a number of potential acquisitions, which are at various stages of the due diligence and negotiation process and which we believe are consistent with our acquisition strategy of making acquisitions that will increase our distributable cash flow per unit. While our acquisition efforts are primarily focused on propane assets, we may from time to time consider other opportunities that we believe provide the potential to increase our distributable cash flow per unit. Our acquisition efforts may involve assets which, if acquired, would have a material impact on our financial condition and results of operations.

As of January 7, 2004, we had executed non-binding letters of intent to acquire substantially all of the assets of two retail propane marketers. The aggregate purchase price for these two propane marketers is anticipated to be approximately $30 million. It is expected that the consideration for these acquisitions would be payable in cash which would be obtained from our revolving credit facility for acquisitions. Each of these acquisitions is subject to the successful negotiation of a definitive purchase agreement and the satisfaction of customary closing conditions. There can be no assurance that any or all of these acquisitions will be consummated.

Two-for-One Unit Split

On December 10, 2003, we announced a two-for-one split of our outstanding common and subordinated units. The split entitles unitholders of record at the close of business on January 2, 2004 to receive one additional unit for each unit held as of such date. We expect certificates for the additional partnership units to be issued and mailed on or about January 12, 2004. The unit split will require retroactive restatement of all historical per unit data in the consolidated financial statements for the first quarter ended December 31, 2003. Because this offering will close after the payment date for the split, you will receive two common units for each unit you elect to purchase in the offering. The effect of the split will be to double the number of all outstanding units and to reduce by half the minimum quarterly distribution and the target distribution levels.

Business Strategy

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

Proven Acquisition Expertise. Our executive officers and key employees, who average more than 15 years experience in the propane and energy-related industries, have developed business relationships with retail propane owners and businesses throughout the United States. These significant industry contacts have enabled us to negotiate most of our acquisitions on an exclusive basis. We believe that this acquisition expertise should allow us to continue to grow through strategic and accretive acquisitions.

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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. A majority of our operations 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 operations 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.

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, 2003, sales to residential customers represented approximately 67% of our retail propane gallons sold.

Strong Wholesale Supply, Marketing and Distribution Business. One of our distinguishing strengths is our procurement and distribution expertise and capabilities. For the fiscal year ended September 30, 2003, we delivered approximately 284.7 million gallons of propane on a wholesale basis to independent dealers, multistate marketers, petrochemical companies, refinery and gas processors and a number of other NGL marketing and distribution companies. The presence of our trucks serving our wholesale customers allows us to take advantage of various pricing and distribution inefficiencies that exist in the market from time to time. We believe our wholesale business enables us to obtain valuable market intelligence and awareness of potential acquisition opportunities.

Flexible Financial Structure. We have a $150.0 million revolving credit facility for acquisitions and a $50.0 million revolving working capital facility. As of December 31, 2003, we had available capacity of approximately $108.7 million under our acquisition facility and approximately $11.3 million under our working capital facility. We believe our available capacity under these facilities combined with our ability to fund acquisitions through the issuance of additional partnership interests will provide us with a flexible financial structure that will facilitate our acquisition strategy.

Our Structure

Our operations are conducted through, and our operating assets are owned by, our subsidiaries. We own our interests in our subsidiaries through our operating company, Inergy Propane, LLC. The information set forth below does not give effect to our pending unit split.

We own a 100% membership interest in Inergy Propane, LLC. Our membership interest in Inergy Propane, LLC carries all of the economic and voting rights.

Inergy GP, LLC, our managing general partner, has 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 and does not receive a management fee, but it is reimbursed for expenses incurred on our behalf.

Inergy Partners, LLC, our non-managing general partner, owns a 2% general partner interest in us and 10,000 common units. The 2% general partner interest is entitled to its proportionate share of allocations and distributions in our partnership. Our non-managing general partner has no operational or managerial responsibilities under our partnership agreement. In this prospectus supplement, we refer to the interest owned by the non-managing general partner as its 2% general partner interest.

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Inergy Holdings, LLC and its affiliates own 100% of our managing general partner and our non-managing general partner. Inergy Holdings also owns 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. Additionally, Inergy Holdings, LLC owns 394,601 common units, 1,807 senior subordinated units and 399 junior subordinated units, which will represent an aggregate limited partner interest in us of approximately 3.5% after this offering.

New Inergy Propane, LLC, a wholly-owned subsidiary of our non-managing general partner, owns 920,954 senior subordinated units and 487,563 junior subordinated units, which will represent an aggregate limited partner interest in us of approximately 12.5% after this offering.

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THE OFFERING

Common units offered by Inergy, L.P.	1,650,000 common units offered by Inergy, L.P.
	1,897,500 common units if the underwriters exercise their over-allotment option in full.
Units outstanding after this offering	7,172,411 common units, or 7,419,911 common units if the underwriters exercise their over-allotment option in full; 3,567,626 senior subordinated units; and 572,542 junior subordinated units.
Pending unit split	On December 10, 2003, we announced a two-for-one unit split of our outstanding common units. The unit split entitles unitholders of record at the close of business on January 2, 2004 to receive on January 12, 2004 one additional unit for each unit held as of January 2, 2004. We expect this offering to close following the payment date for the split. Accordingly, you will receive two common units for each unit you elect to purchase in the offering. The offering information included in this section does not give effect to our pending unit split and the unit numbers and minimum quarterly distribution amounts described in this section will be proportionately adjusted after the unit split.
Use of proceeds	We will use the net proceeds from this offering and our non-managing general partner s capital contribution to repay indebtedness. Please read Use of Proceeds.
Cash distributions	Under our partnership agreement, 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. The amount of available cash may be greater than or less than the minimum quarterly distribution.
	Common units are entitled to receive distributions of available cash of $0.60 per quarter, or $2.40 on an annualized basis, before any distributions are paid on our subordinated units.
	On November 14, 2003, we paid a quarterly cash distribution for the fourth quarter of fiscal year 2003 of $0.77 per common, senior subordinated and junior subordinated unit, or $3.08 on an annualized basis.
	In general, during the subordination period we will pay any cash distributions we make each quarter in the following manner:
	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 earlier quarters;
	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;

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

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	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.
	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. Because our quarterly cash distributions currently exceed $0.66 per unit, Inergy Holdings is currently receiving its incentive distribution rights.
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.
	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 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, 828,342 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 828,342 senior subordinated units will convert into common units. The early conversion of the second 828,342 senior subordinated units may not occur until at least one year after the early conversion of the first 828,342 senior subordinated units.
	If we meet the applicable financial tests in the partnership agreement for any quarter ending on or after June 30, 2006, 143,136 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 143,136 junior subordinated units will convert into common units. The early conversion of the second 143,136 junior subordinated units may not occur until at least one year after the early conversion of the first 143,136 junior subordinated units.
	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.
Estimated ratio of taxable income to distributions	We estimate that if you own the common units you purchase in this offering through December 31, 2005, 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. Please read Tax Considerations in the prospectus supplement for the basis of this estimate.
Nasdaq National Market symbol	NRGY

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RISK FACTORS

You should read carefully the discussion of the material risks relating to an investment in the common units offered by Inergy set forth under "Risk Factors" beginning on page 1 of the accompanying prospectus.

USE OF PROCEEDS

We will receive approximately $77.1 million (based on the last reported sales price of our common units on Nasdaq on January 6, 2004 of $49.27 per unit) from the sale of the 1,650,000 common units, or approximately $88.8 million if the underwriters' over-allotment option is exercised in full, in each case, after deducting underwriting discounts and commissions and estimated offering expenses. In connection with the offering, we will also receive a capital contribution of $1.7 million from our non-managing general partner to maintain its 2% general partner interest, or $1.9 million if the underwriters exercise their over-allotment option in full.

We will use the net proceeds of this offering to repay approximately $41.0 million of indebtedness under our revolving credit facility, which was incurred for acquisitions and funding of growth capital expenditures. We will use the remainder of the net proceeds and our non-managing general partner's capital contribution, together with new borrowings under our revolving credit facility, to repay in full $85.0 million aggregate principal amount of senior secured notes, plus a prepayment premium of approximately $17.0 million.

As of December 31, 2003, total borrowings under our revolving credit facility were approximately $74.6 million and carried an interest rate of between 3.12% and 4.0%. The facility has a maturity date of July 29, 2006. Upon completion of this offering, we expect to have available borrowing capacity of approximately $97.1 million under our revolving credit facility.

The $85.0 million aggregate principal amount of senior secured notes were issued on June 7, 2002 and have a weighted average interest rate of 9.07% and a weighted average maturity of 5.9 years. The senior secured notes consist of the following: $35.0 million principal amount of 8.85% senior secured notes with a 5-year maturity, $25.0 million principal amount of 9.10% senior secured notes with a 6-year maturity, and $25.0 million principal amount of 9.34% senior secured notes with a 7-year maturity. The proceeds from the issuance of the senior secured notes were used to refinance borrowings under our bank credit facilities.

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PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS

As of January 6, 2004, we had 5,522,411 common units outstanding, owned by approximately 6,700 unitholders of record. The common units are listed and traded on the Nasdaq National Market under the symbol NRGY.

The following table shows the high and low sales prices per common unit, as reported by the Nasdaq National Market, for the periods indicated. Distributions are shown in the quarter for which they were paid. For each quarter, an identical cash distribution was paid on all outstanding senior and junior subordinated units. The last reported sale price of the common units on the Nasdaq on January 6, 2004 was $49.27. The information set forth below does not give effect to our pending unit split.

	Price Ranges		Cash Distributions
Period Ended:	**Low**	**High**	**Per Unit**
Fiscal 2004:			
March 31, 2004 (a)	$ 48.83	$ 50.00	$ N/A (b)
December 31, 2003	41.01	50.00	N/A (b)
Fiscal 2003:			
September 30, 2003	$ 37.10	$ 42.25	$ 0.770
June 30, 2003	31.31	40.00	0.750
March 31, 2003	28.31	32.87	0.730
December 31, 2002	27.46	29.45	0.715
Fiscal 2002:			
September 30, 2002	$ 27.88	$ 30.75	$ 0.700
June 30, 2002	29.40	35.10	0.675
March 31, 2002	27.05	30.30	0.660
December 31, 2001	23.06	28.65	0.625
Fiscal 2001:			
September 30, 2001	$ 21.90	$ 28.00	$ 0.400 (c)

(a) Through January 6, 2004.

(b) We expect to declare and pay a cash distribution for the first and second quarters of fiscal 2004 within 45 days following the end of the applicable quarter.

(c) Reflects the pro rata portion of the $0.60 minimum quarterly distribution per unit, representing the period from the July 31, 2001 closing of the initial public offering through September 30, 2001.

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CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2003:

On a consolidated historical basis; and

As adjusted to give effect to the sale of common units offered by this prospectus supplement, our non-managing general partner s proportionate capital contribution, new borrowings under our revolving credit facility, the application of the net proceeds from this offering and the new borrowings as described under Use of Proceeds and the write off of deferred financing costs associated with the repayment of indebtedness.

You should read our financial statements and the notes to those financial statements that are incorporated by reference in the prospectus supplement for additional information about our capital structure.

	As of September 30, 2003		
	Consolidated Historical	Adjustments for Equity Offering and Borrowings	As Adjusted
		(in thousands)	
Cash and cash equivalents	$ 3,528		$ 3,528
Debt:			
Current portion of long-term debt	$ 12,449		$ 12,449
Long-term debt, less current portion	118,678	$ 23,204 (a)	56,882
		(85,000)(b)	
Total debt (c)	131,127	(61,796)	69,331
Partners capital:			
Common unitholders	129,168	77,137 (d)	194,993
		(11,312)(e)	
Senior subordinated unitholders	46,842	(5,629)(e)	41,213
Junior subordinated unitholders	(141)	(911)(e)	(1,052)
Non-managing general partner (2% interest)	3,114	1,659 (d)	4,409
		(364)(e)	
Total partners capital	178,983	60,580	239,563
Total capitalization	$ 310,110	$ (1,216)	$ 308,894

(a) Reflects the net borrowings under our bank credit facility to be used in the repayment of the senior secured notes.

(b) Reflects the repayment in full of the senior secured notes. This does not consider the effects of terminating the related interest rate swap agreements, under which $1.3 million is recorded as long-term debt at September 30, 2003.

(c) Does not reflect approximately $33.0 million of indebtedness incurred through December 31, 2003, primarily attributable to borrowings under our revolving credit facility.

(d) Reflects assumed net proceeds of $77.1 million (based on the last reported sales price of our common units on Nasdaq on January 6, 2004 of $49.27 per unit) from the issuance of 1,650,000 common units in this offering and the $1.7 million capital contribution from our non-managing general partner to retain its 2% general partner interest.

(e) Reflects the reduction in partners capital related to the charges to be recorded in connection with the prepayment premium of approximately $17.0 million related to the senior secured notes, and the write off of $1.2 million in deferred financing costs related to the senior secured notes.

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MANAGEMENT

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.

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

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

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

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

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

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

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

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

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

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

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

Robert A. Pascal joined our managing general partner s board of directors in July 2003, upon our acquisition of the assets of United Propane, Inc. He owns the capital stock of the former United Propane and has served as it Chief Executive Officer since 1980. He also has 40 years of industry experience.

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TAX CONSIDERATIONS

The tax consequences to you of an investment in our common units will depend in part on your own tax circumstances. For a discussion of the principal federal income tax considerations associated with our operations and the purchase, ownership and disposition of our common units, please read Tax Considerations in the accompanying prospectus. You are urged to consult with your own tax advisor about the federal, state, local and foreign tax consequences peculiar to your circumstances.

We estimate that if you purchase common units in this offering and own them through December 31, 2005, then 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. This estimate is based upon the assumption that our available cash for distribution will be sufficient for us to make quarterly distributions of $0.77 per unit to the holders of our common units, and other assumptions with respect to capital expenditures, cash flow and anticipated cash distributions. This estimate and our assumptions are subject to, among other things, numerous business, economic, regulatory, competitive and political uncertainties beyond our control. Further, the estimate is based on current tax law and certain tax reporting positions that we have adopted with which the IRS could disagree. Accordingly, we cannot assure you that the estimate will be correct. The actual percentage of distributions 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. See Tax Considerations in the accompanying prospectus.

Recently issued Treasury Regulations require taxpayers to report certain information on Internal Revenue Service Form 8886 if they participate in a reportable transaction. You may be required to file this form with the IRS if we participate in a reportable transaction. A transaction may be a reportable transaction based upon any of several factors. You are urged to consult with your own tax advisor concerning the application of any of these factors to your investment in our common units. Congress is considering legislative proposals that, if enacted, would impose significant penalties for failure to comply with these disclosure requirements. The Treasury Regulations also impose obligations on material advisors that organize, manage or sell interests in registered tax shelters. As stated in the prospectus accompanying this prospectus supplement, we have registered as a tax shelter, and, thus, one of our material advisors will be required to maintain a list with specific information, including your name and tax identification number, and to furnish this information to the IRS upon request. You are urged to consult with your own tax advisor concerning any possible disclosure obligation with respect to your investment and should be aware that we and our material advisors intend to comply with the list and disclosure requirements.

Ownership of common units by tax-exempt entities, regulated investment companies and foreign investors raises issues unique to such persons. Please read Tax Considerations Tax-Exempt Organizations and Other Investors in the accompanying prospectus.

Under recently enacted legislation, the top marginal income tax rate for individuals was lowered to 35%. In general, net capital gains of an individual are subject to a maximum 15% tax rate if the asset disposed of was held for more than 12 months at the time of disposition.

In addition, because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity-level taxation through the implementation of state income, franchise or other forms of taxation. If any state were to impose a tax on us as an entity, our cash available for distribution would be reduced.

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UNDERWRITING

Subject to the terms and conditions of the underwriting agreement, which will be filed with the Commission as an exhibit to a current report on Form 8-K, each of the underwriters named below have severally agreed to purchase common units from us. Each underwriter is obligated to purchase the respective number of common units indicated in the following table:

Underwriters	Number of Common Units
Lehman Brothers Inc.	
A.G. Edwards & Sons, Inc.	
Wachovia Capital Markets, LLC	
Raymond James & Associates, Inc.	
Total	1,650,000

The underwriting agreement provides that the underwriters are obligated to purchase, subject to certain conditions, all of the common units in the offering, if any are purchased, other than those covered by the over- allotment option described below. The conditions contained in the underwriting agreement include the requirement that:

- all of the representations and warranties made by us to the underwriters are true;
- there has been no material adverse change in our condition or in the financial markets; and
- we deliver to the underwriters customary closing documents.

Over-Allotment Option

We have granted to the underwriters a 30-day option after the date of the underwriting agreement to purchase, in whole or in part, up to an aggregate of 247,500 additional common units (without giving effect to our pending unit split) at the price to the public less the underwriting discount set forth on the cover page of this prospectus supplement. Such option may be exercised to cover over-allotments made in connection with the offering. If this option is exercised, each underwriter will be obligated, subject to certain conditions, to purchase the additional common units proportionate to the underwriter s initial underwriting commitment in the offering as indicated in the preceding table, and we will be obligated, pursuant to the option, to sell these common units to the underwriters.

Commission and Expenses

We have been advised by the underwriters that they propose to offer the common units directly to the public at the price to the public set forth on the cover page of this prospectus supplement and to selected dealers, who may include the underwriters, at the offering price less a selling concession not in excess of $ per unit. The underwriters may allow, and the selected dealers may reallow, a discount from the concession not in excess of $ per unit to other dealers. After the offering, the underwriters may change the offering price and other selling terms.

The following table shows the underwriting discounts and commissions we will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters option to purchase additional common units. The underwriting fee is the difference between the initial offering price and the amount the underwriters pay to us to purchase the common units from us.

	No Exercise	Full Exercise
Per Unit	$	$
Total	$	$

We estimate that the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately $500,000.

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Lock-Up Agreements

We, our affiliates that own common units, the directors and executive officers of our managing general partner and the holder of the 889,906 common units and 254,259 senior subordinated units issued in the United Propane acquisition have agreed that they will not, subject to limited exceptions, directly or indirectly, sell, offer, pledge or otherwise dispose of any common units or any securities convertible into or exchangeable or exercisable for common units or enter into any derivative transaction with similar effect as a sale of common units for a period of 90 days after the date of this prospectus supplement without the prior written consent of Lehman Brothers Inc. The restrictions described in this paragraph do not apply to any existing employee benefit plans, to issuances of common units in connection with acquisitions and capital improvements that increase cash flow from operations on a per unit basis, and to the transfer of senior subordinated units and junior subordinated units.

Lehman Brothers Inc., in its discretion, may release the common units subject to lock-up agreements in whole or in part at any time with or without notice. When determining whether or not to release common units from lock-up agreements, Lehman Brothers Inc. will consider, among other factors, the unitholders reasons for requesting the release, the number of common units for which the release is being requested and market conditions at the time.

Indemnification

We, our general partner and our operating partnership have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments that may be required to be made in respect of these liabilities.

Stabilization, Short Positions and Penalty Bids

In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids for the purpose of pegging, fixing or maintaining the price of the common units in accordance with Regulation M under the Securities Exchange Act of 1934, as amended.

- 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 a naked short position. In a covered short position, the number of units over-allotted 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 underwriters 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.

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These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our 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. These transactions may be effected on the Nasdaq or otherwise and, if commenced, may be discontinued at any time.

Neither we nor any of the underwriters makes 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 we nor any of the underwriters makes any representation that the underwriters will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

No sales to accounts over which the underwriters have discretionary authority may be made without the prior written approval of the customer.

Affiliations

Some of the underwriters and their affiliates have performed investment banking, financial advisory and other commercial services for us and our affiliates in the ordinary course of business from time to time for which they have received customary fees and expenses. The underwriters and their affiliates may, from time to time in the future, engage in transactions with and perform such services for us and our affiliates in the ordinary course of business.

Electronic Distribution

A prospectus in electronic format may be made available on the Internet sites or through other online services maintained by the underwriters and/or selling group members participating in this offering, or by their affiliates. In those cases, prospective investors may view offering terms online, and depending upon the particular underwriter or selling group member, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations.

Other than the prospectus in electronic format, the information on any underwriter s or selling group member s web site and any information contained in any other web site maintained by an underwriter or selling group member is not part of the prospectus or the registration statement of which this prospectus supplement forms a part, has not been approved and/or endorsed by us or any underwriter or selling group member in its capacity as underwriter or selling group member and should not be relied upon by investors.

Listing

The common units are listed on the Nasdaq under the symbol NRGY.

Passive Market Making

In connection with the offering, the underwriters may engage in passive market making transactions in the common units on the Nasdaq National Market in accordance with Rule 103 of Regulation M under the Securities Exchange Act of 1934 during the period before the commencement of offers or sales of common units and extending through the completion of the distribution. A passive market maker must display its bids at a price not in excess of the highest independent bid of the security. However, if all independent bids are lowered below the passive market maker s bid, that bid must be lowered when specified purchase limits are exceeded.

NASD Conduct Rules

Because the NASD 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 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.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Securities and Exchange Commission allows us to incorporate by reference into this prospectus supplement and the accompanying prospectus the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus, and later information that we file with the Commission will automatically update and supersede this information. We incorporate by reference the documents listed below filed by us and any future filings made by us with the Commission under section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, (excluding any information furnished pursuant to Item 9 or Item 12 on any current report on Form 8-K) until this offering is completed:

- our annual report on Form 10-K for the fiscal year ended September 30, 2003 (as amended on January 7, 2004);

- our current reports on Form 8-K filed with the Commission on August 15, 2003 (as amended on October 14, 2003) and January 7, 2004; and

- the description of our common units contained in our registration statement on Form 8-A, initially filed with the Commission on March 15, 2001, and any subsequent amendment thereto filed for the purposes of updating such description.

The documents incorporated by reference into this prospectus supplement do not give effect to our pending unit split.

LEGAL MATTERS

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 our consolidated financial statements and schedule included in our Annual Report on Form 10-K for the year ended September 30, 2003, the financial statements of United Propane, Inc. and Subsidiary included in our Current Report on Form 8-K/A dated October 14, 2003, and the balance sheet of Inergy GP, LLC included in our Current Report on Form 8-K dated January 7, 2004, as set forth in their reports, which are incorporated by reference in this prospectus supplement and accompanying prospectus. These financial statements are incorporated by reference in reliance on Ernst & Young LLP s reports, given on their authority as experts in accounting and auditing.

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PROSPECTUS

$300,000,000

Inergy, L.P.

Common Units

Partnership Securities

Debt Securities

This prospectus provides you with a general description of the securities we may offer. Each time we offer to sell securities we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement also may add, update or change information contained in this prospectus. You should read this prospectus and any prospectus supplement carefully before you invest.

Our common units are traded on the Nasdaq National Market under the symbol NRGY. On November 21, 2002, the last reported sale price of our common units on the Nasdaq was $28.31 per common unit. We will provide information in the prospectus supplement for the trading market, if any, for the partnership securities and debt securities.

You should read and carefully consider the risks relating to investing in the securities and each of the other risk factors described under Risk Factors beginning on page 1 of this prospectus.

Our principal executive offices are located at 2 Brush Creek Boulevard, Suite 200, Kansas City, Missouri 64112, and our phone number is (816) 842-8181.

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.

Prospectus dated November 22, 2002

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GUIDE TO READING THIS PROSPECTUS

To understand us and the terms of our common units and other securities we may offer, you should carefully read this prospectus together with any and all prospectus supplements before you invest. You also should read the documents we refer to under Where You Can Find More Information for information on us and for our financial statements.

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;

(2) when we use the term our predecessor, we are referring to Inergy Partners, LLC, the entity that conducted our business prior to our initial public offering, which closed on July 31, 2001. Inergy, L.P. was formed as a Delaware limited partnership on March 7, 2001 and did not have operations until the initial public offering. Our predecessor commenced operations in November 1996. The discussion of our business throughout this prospectus relates to the business operations of Inergy Partners, LLC prior to Inergy, L.P. s initial public offering and Inergy, L.P. thereafter;

(3) when we use the term securities, we are referring to the common units, partnership securities and debt securities described in this prospectus; and

(4) when we use the term unitholders, we are referring to the holders of common units and partnership securities, and we are referring to the holders of debt securities when we use the term holders, except as the context otherwise requires.

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 and does not receive a management fee, but it is reimbursed for expenses incurred on our behalf. Our non-managing general partner owns a 2% non-managing general partner interest in our 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.

RISK FACTORS

Before you invest in the securities, you should be aware that there are risks in doing so, including those described below. Common units, representing limited partner interests, and other securities we may offer 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, any prospectus supplement and the information that we have incorporated herein by reference before investing in the securities.

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, we may be unable to make distributions to our unitholders or pay interest on or the principal of any debt securities, the trading price of our securities could decline and you could lose all or part of your investment.

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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 and partnership securities 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.

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. 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, 2000 and 2002, temperatures were significantly warmer than normal in our areas of operation. We believe that our results of operations during these periods were adversely affected primarily due to this abnormally warm weather.

If we do not continue to 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 long-standing 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 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 continue to make acquisitions at attractive prices. We cannot assure you that we will be able to continue 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:

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, we are subject to certain debt incurrence covenants in our revolving credit facility and senior secured notes that may restrict our ability to incur additional debt to finance acquisitions. In addition, any new debt we incur to finance acquisitions may adversely affect our ability to make distributions to our unitholders.

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Although we intend to use our securities as an acquisition currency, some prospective sellers may not be willing to accept our securities as consideration and their issuance in some circumstances may be dilutive to our existing unitholders.

Moreover, acquisitions involve 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.

We cannot assure you that we will be successful in integrating our recent acquisitions.

We have recently completed the Independent Propane Company, Pro Gas and Hancock acquisitions, which geographically expanded our operations into several new states, including Arkansas, Florida, Georgia, Oklahoma, South Carolina and Texas. We cannot assure you that we will successfully integrate these acquisitions into our operations, or that we will achieve the desired profitability from these acquisitions. Failure to successfully integrate these acquisitions could adversely affect our operations and cash flows available for distribution to our unitholders.

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 changes in 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. Furthermore, on May 1, 2002, we entered into a one-year contract to purchase all of Sunoco Inc. (R&M) s propane production at its Toledo, Ohio refinery, which is approximately 62 million gallons per year. If we are unable to market all of this propane at competitive prices, our gross profits and margins could be significantly reduced.

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

As of November 21, 2002, our total outstanding long-term indebtedness (excluding borrowings under our working capital facility) was approximately $118.4 million, including $85.7 million of senior secured notes, approximately $29.0 million under our acquisition facility and approximately $3.7 million of other indebtedness. Our payment of principal and interest on the indebtedness will reduce the cash available for distribution on our common units and partnership securities. We will be prohibited by our credit facility and the terms of our senior secured notes from making cash distributions during an event of default under any of our indebtedness. Furthermore, our leverage and various limitations in the credit facility and the note purchase agreement relating to the senior secured notes may reduce our ability to incur additional indebtedness, to engage in some transactions and to capitalize on acquisition or other business opportunities.

In addition, our credit facility contains provisions relating to change of control of our managing general partner, our partnership and our operating company. If these provisions are triggered, such outstanding

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indebtedness may become due. In such event, there is no assurance that we would be able to pay the indebtedness, in which case the lenders would have the right to foreclose on our assets, which would have a material adverse effect on us. There is no restriction on the ability of our general partners to enter into a transaction which would trigger the change of control provisions.

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.

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

During the fiscal year ended September 30, 2001, Louis Dreyfus Energy Services, L.P. and Dynegy Inc. each accounted for approximately 10% of our volume of propane purchases on a pro forma combined basis. Most 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. On May 1, 2002, we entered into a one-year contract to purchase all of Sunoco Inc. (R&M) s propane production at its Toledo, Ohio refinery, which is approximately 62 million gallons per year. In the event that we are unable to purchase propane from Sunoco or our other significant suppliers, 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.

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.

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Terrorist attacks, such as the attacks that occurred on September 11, 2001, have resulted in increased costs, and future war or risk of war may adversely impact our results of operations.

The impact that terrorist attacks, such as the attacks of September 11, 2001, may have on the energy industry in general, and on us in particular, is not known at this time. Uncertainty surrounding retaliatory military strikes or a sustained military campaign may affect our operations in unpredictable ways, including disruptions of fuel supplies and markets, particularly oil, and the possibility that infrastructure facilities, including pipelines, production facilities, processing plants and refineries, could be direct targets of, or indirect casualties of, an act of terror. We may have to incur additional costs in the future to safeguard certain of our assets and we may be required to incur significant additional costs in the future.

The terrorist attacks on September 11, 2001 and the changes in the insurance markets attributable to the September 11 attacks may make certain types of insurance more difficult for us to obtain. We may be unable to secure the levels and types of insurance we would otherwise have secured prior to September 11, 2001. There can be no assurance that insurance will be available to us without significant additional costs. A lower level of economic activity could also result in a decline in energy consumption which could adversely affect our revenues or restrict our future growth. Instability in the financial markets as a result of terrorism or war could also affect our ability to raise capital.

Our business would be adversely affected if service at our principal storage facilities or on the 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.

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 have been, and likely will be, a defendant in legal proceedings and litigation arising in the ordinary course of business. We maintain insurance policies with insurers in such amounts and with such coverages and deductibles as we believe are reasonable and prudent. However, 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 and adversely affect our operating results.

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 and adversely affect our operating results.

Due to our lack of asset diversification, adverse developments in our propane business would reduce our ability to make distributions to our unitholders.

We rely exclusively on the revenues generated from our propane business. Due to our lack of asset diversification, an adverse development in this business would have a significantly greater impact on our financial condition and results of operations than if we maintained more diverse assets.

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, including our executive officers and directors, currently control approximately 30% of all the units, it will be difficult to remove the managing general partner without the consent of the general partners and our affiliates. 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 all or 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

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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. From July 31, 2001 until June 30, 2002, our general partners and their affiliates incurred $7.0 million of direct and indirect expenses on our behalf, consisting primarily of salaries and employee benefits. Effective January 1, 2002, all employees of our general partners became employees of our operating company.

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 800,000 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 employee benefit plans.

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

- the proportionate ownership interest of our unitholders in us will decrease,
- the amount of cash available for distribution on each common unit or partnership security 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 or partnership securities 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.

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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.

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.

Inergy Holdings and its affiliates directly and indirectly own an aggregate limited partner interest of approximately 24% in us and the incentive distribution rights, own and control our managing general partner and 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.

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Tax Risks To Common Unitholders

You are urged to 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 unitholders.

The anticipated after-tax economic benefit 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% and we would likely pay state taxes as well. Distributions to unitholders would generally be taxed again as corporate distributions, and none of our income, gains, losses or deductions would flow through to unitholders. Because a tax would be imposed upon us as a corporation, our cash available for distribution to unitholders would be substantially reduced. Therefore, treatment of us as a corporation would result in a material reduction in the after-tax return to the unitholders, likely causing a substantial reduction in the value of our common units.

A change in current law or a change in our business could 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 adjusted 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 and the costs of any contest will be borne by our unitholders and our general partners.

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 indirectly bear the costs of any contest with the IRS, principally legal, accounting and related fees.

Unitholders may be required to pay taxes on their share of our income even if they do not receive any cash distributions from us.

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

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

Unitholders who sell common units will recognize gain or loss equal to the difference between the amount realized and their tax basis in those common units. Prior distributions in excess of the total net taxable income allocated for a common unit which decreased a unitholder s tax basis in that common unit will, in effect, become taxable income to the unitholder if the common unit is sold at a price greater than the unitholder s tax basis in that common unit, even if the price is less than his original cost. A substantial portion of the amount the unitholder realizes, whether or not representing gain, will likely be ordinary income to the unitholder. Should the IRS successfully contest some positions we take, a unitholder could recognize more gain on the sale of common units than would be the case under those positions, without the benefit of decreased income in prior years. Also, unitholders who sell common units may incur a tax liability in excess of the amount of cash they 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, including employee benefit plans and individual retirement accounts (known as IRAs), 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 unitholders who are organizations exempt from federal income tax, may 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, at the highest effective tax rate applicable to individuals, and non-U.S. persons will be required to file federal income tax returns and generally pay tax on their share of our taxable income.

We are registered as a tax shelter. This may increase the risk of an IRS audit of us or a unitholder.

We are registered with the IRS as a tax shelter. Our tax shelter registration number is 01204000001. The tax laws require that some types of entities, including some partnerships, register as tax shelters in response to the perception that they claim tax benefits that may 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 the unitholder s tax returns and may lead to audits of his tax returns and adjustments of items unrelated to us. Unitholders will bear the cost of any expense incurred in connection with an examination of their personal tax returns and indirectly bear a portion of the cost of an audit of us.

We will treat each purchaser of common 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 the unitholder s sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to the unitholder s tax returns. Please read Tax Considerations Uniformity of Units for a further discussion of the effect of the depreciation and amortization positions we adopt.

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

In addition to federal income taxes, the unitholders likely will 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 now or in the future even if they do not live in any of those jurisdictions. Unitholders likely will be required to file state and local income tax returns and pay state and local income taxes in some or all of the jurisdictions. Further, unitholders 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: Arkansas, Florida, Georgia, Illinois, Indiana, Michigan, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas, Virginia and Wisconsin. Each of these states, except Florida and Texas, imposes a personal income tax. If we expand our operations into other states, unitholders may have to file state and local income tax returns in additional jurisdictions. If we conduct operations in other states, unitholders may be required to file state and local income tax returns in additional jurisdictions. It is the responsibility of each unitholder to file all federal, state and local tax returns. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in us.

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FORWARD-LOOKING STATEMENTS

Some of the information in this prospectus, any prospectus supplement and the documents that we have incorporated herein by reference may contain forward-looking statements. All statements other than statements of historical fact are 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 sim words. These statements discuss plans, strategies, events or developments that we expect or anticipate will or may occur in the future. Specific factors could cause our actual results to differ materially from those contained in any forward-looking statement. These factors include, but are not limited to:

- the effect of weather conditions on demand for propane;
- the price volatility and availability of propane;
- the availability of capacity to transport propane to market areas and our customers;
- competition from other energy sources and within the propane industry;
- improvements in energy efficiency and technology trends resulting in reduced demand for propane;
- our ability to achieve expected operating cost savings, synergies and productivity improvements from the integration of the propane distribution businesses we acquire;
- our inability to make business acquisitions on economically acceptable terms;
- our ability to obtain new customers and retain existing customers;
- operating hazards and risks incidental to transporting, storing and distributing propane and related products, including the risk of explosions and fires resulting in personal injury and property damage;
- liability for environmental claims;
- adverse labor relations;
- governmental legislation and regulation;
- the condition of the capital markets in the United States; and
- the political and economic stability of oil producing nations of the world.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. However, we caution you that assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this prospectus, any prospectus supplement and the documents that we have incorporated by reference, including those described in the Risk Factors section of this prospectus. We will not update these statements unless the securities laws require us to do so.

THE OFFERING

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission using a shelf registration process. Under this shelf registration process, we may sell the common units, partnership securities and debt securities described in this prospectus from time to time in one or more offerings. This prospectus provides you with a general description of us and the securities. Each time we offer to sell securities with this prospectus, we may provide a prospectus supplement that will contain specific information about the terms of that offering. Prospectus supplements may add, update or change information contained in this prospectus. Therefore, before you invest in the securities, you should read this prospectus, any prospectus supplements and the documents we refer to under the heading Incorporation of Documents by Reference.

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WHO WE ARE

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 14 propane companies for an aggregate purchase price of approximately $243 million, including working capital, assumed liabilities and acquisition costs. For a more detailed description of our predecessor, please read Guide to Reading this Prospectus. For the fiscal year ended September 30, 2001, on a pro forma combined basis we sold approximately 124 million gallons of propane to retail customers and approximately 262 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 seven regional brand names: Bradley Propane, Country Gas, Hancock Gas Service, Hoosier Propane, Independent Propane Company, McCracken and Pro Gas. We serve approximately 199,000 retail customers in Arkansas, Florida, Georgia, Illinois, Indiana, Michigan, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas, Virginia and Wisconsin from 103 customer service centers which have an aggregate of approximately 6.6 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.

Our operations are conducted through, and our operating assets are owned by, our subsidiaries. We own our interests in our subsidiaries through our operating company, Inergy Propane, LLC. Inergy GP, LLC, our managing general partner, has 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 and does not receive a management fee, but it is reimbursed for expenses incurred on our behalf. Inergy Partners, LLC, our non-managing general partner, owns 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 has no operational or managerial responsibilities under our partnership agreement.

Our common units, which represent limited partner interests, are traded on the Nasdaq National Market under the symbol NRGY. On November 21, 2002, the last reported sale price of our common units on the Nasdaq was $28.31 per common unit.

Our principal executive offices are located at 2 Brush Creek Boulevard, Suite 200, Kansas City, Missouri 64112, and our phone number is (816) 842-8181.

USE OF PROCEEDS

We will use the net proceeds from the sale of the securities for general business purposes, including debt repayment, future acquisitions, capital expenditures and working capital. We may change the potential uses of the net proceeds in a prospectus supplement.

RATIOS OF EARNINGS TO FIXED CHARGES

The table below sets forth the ratio of earnings to fixed charges of Inergy, L.P. for the periods indicated.

	November 8, 1996 to Septemeber 30, 1997	Year Ended September 30, 1998	1999	2000	2001	Nine Months Ended June 30, 2002
Ratio of earnings to fixed charges					1.63x	3.08x

For purposes of determining the ratio of earnings to fixed charges, earnings are defined as earnings (loss) from continuing operations before income taxes, plus fixed charges. Fixed charges consist of interest expense on all indebtedness and the amortization of deferred financing costs and interest associated with operating rentals. Earnings were inadequate to cover fixed charges by $274,000 for the period from November 8, 1996 to September 30, 1997, $35,000 for the year ended September 30, 1998, $129,000 for the year ended September 30, 1999, and $1.8 million for the year ended September 30, 2000.

DESCRIPTION OF THE COMMON UNITS

The common units and the subordinated units represent limited partner interests in us. The holders of these units are entitled to participate in partnership distributions and exercise the rights or privileges available to limited partners under our partnership agreement. As of November 8, 2002, we had 3,827,176 common units, representing a 48.6% limited partner interest; 3,313,367 senior subordinated units, representing a 42.1% limited partner interest; and 572,542 junior subordinated units, representing a 7.3% limited partner interest. Thus, as of that date our equity consisted of a 98% limited partner interest and a 2% general partner interest.

Distributions

Common units are entitled to receive distributions of available cash of $0.60 per quarter, or $2.40 on an annualized basis, before any distributions are paid on our subordinated units.

In general, we will pay any cash distributions we make each quarter in the following manner:

- 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;
- 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;
- 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
- 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.

If cash distributions exceed $0.66 per unit in any quarter, Inergy Holdings, the sole member of our managing general partner, will receive increasing percentages, up to 48%, of the cash we distribute in excess of that amount.

We must distribute all of our cash on hand at the end of each quarter, less reserves established by our managing general partner. The amount of this available cash may be greater than or less than the minimum quarterly distribution.

Timing of Distributions

We pay distributions approximately 45 days after March 31, June 30, September 30 and December 31 to unitholders of record on the applicable record date and to our non-managing general partner.

Subordination Period

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.

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 will no longer be entitled to arrearages.

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Early Conversion of Subordinated Units

If we meet the applicable financial tests in the partnership agreement as of 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 as of 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.

If we meet the applicable financial tests in the partnership agreement as of 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 as of 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.

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 800,000 additional common units without obtaining unitholder approval. We may, however, issue an unlimited number of common units in connection with 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, our common unitholders will have only limited voting rights on matters affecting our business. Our unitholders 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 common 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.

Exchange Listing

Our common units are traded on the Nasdaq National Market under the symbol NRGY.

Transfer Agent and Registrar Duties

American Stock Transfer & Trust Company serves 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.

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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 as transfer agent, except for any liability due to any gross negligence or intentional misconduct of the indemnified person or entity.

Transfer of Common Units

Any 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 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.

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.

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DESCRIPTION OF THE PARTNERSHIP SECURITIES

Limitation on Issuance of Additional Partnership 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 800,000 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 also may 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, 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.

Issuance of Additional Partnership Securities

The following is a description of the general terms and provisions of the partnership securities. The particular terms of any series of partnership securities will be described in the applicable prospectus supplement and the amendment to the partnership agreement relating to that series of partnership securities, which will be filed as an exhibit to or incorporated by reference in this prospectus at or prior to the time of issuance of any such series of partnership securities. If so indicated in a prospectus supplement, the terms of any such series may differ from the terms set forth below.

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Subject to the limitations described above, the general partner is authorized to approve the issuance of one or more series of partnership securities without further authorization of the limited partners and to fix the number of securities, the designations, rights, privileges, restrictions and conditions of any such series.

The applicable prospectus supplement will set forth the number of securities, particular designation, relative rights and preferences and the limitations of any series of partnership securities in respect of which this prospectus is delivered. The particular terms of any such series will include the following:

- the maximum number of securities to constitute the series and the designation and ranking thereof;
- the annual distribution rate, if any, on securities of the series, whether such rate is fixed or variable or both, the dates from which distributions will begin to accrue or accumulate, whether distributions will be cumulative and whether such distributions shall be paid in cash, securities or otherwise;
- whether the securities of the series will be redeemable and, if so, the price at the terms and conditions on which the securities of the series may be redeemed, including the time during which securities of the series may be redeemed and any accumulated distributions thereof that the holders of the securities of the series shall be entitled to receive upon the redemption thereof;
- the liquidation preference, if any, applicable to securities of the series;
- the terms and conditions, if any, on which the securities of the series shall be convertible into, or exchangeable for, securities of any other class or classes of partnership securities, including the price or prices or the rate or rates of conversion or exchange and the method, is any, of adjusting the same; and
- the voting rights, if any, of the securities of the series.

The holders of partnership securities will have no preemptive rights. Partnership securities will be fully paid and nonassessable when issued upon full payment of the purchase price therefor. The prospectus supplement will contain, if applicable, a description of the material United States federal income tax consequences relating to the purchase and ownership of the series of partnership securities offered by the prospectus supplement. The transfer agent, registrar and distributions disbursement agent for the partnership securities will be designated in the applicable prospectus supplement.

DESCRIPTION OF THE DEBT SECURITIES

General

The debt securities will be:

our direct secured or unsecured general obligations; and

either senior debt securities or subordinated debt securities.

Senior debt securities will be issued under a Senior Indenture and subordinated debt securities will be issued under a Subordinated Indenture. The Senior Indenture and the Subordinated Indenture are each referred to as an Indenture and collectively referred to as the Indentures. We will enter into the Indentures with a trustee that is qualified to act under the Trust Indenture Act of 1939, as amended, and with any other trustees chosen by us and appointed in a supplemental indenture for a particular series of debt securities. The trustee for each series of debt securities will be identified in the applicable prospectus supplement. Any supplemental indentures will be filed by us from time to time by means of an exhibit to a Current Report on Form 8-K and will be available for inspection at the corporate trust office of the trustee, or as described below under Where You Can Find More Information. The Indentures will be subject to, and governed by, the Trust Indenture Act. We will execute an Indenture and supplemental indenture if and when we issue any debt securities.

We have summarized below the material provisions of the Indentures in the following order:

those provisions that apply only to the Senior Indenture;

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- those provisions that apply only to the Subordinated Indenture; and
- those provisions that apply to both Indentures.

We have not restated the Indentures in their entirety in this prospectus. You should read the Indentures, because they, and not this description, control your rights as holders of the debt securities. Capitalized terms used in the summary have the meanings specified in the Indentures.

In the Indentures, the term subsidiary means, with respect to any person:

- any partnership of which more than 50% of the partners equity interests (considering all partners equity interests as a single class) is at the time owned or controlled, directly or indirectly, by such person or one or more of the other subsidiaries of such person or combination thereof; or
- any corporation, limited liability company, association or other business entity of which more than 50% of the total voting power of the equity interests entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such person or one or more of the other subsidiaries of such person or combination thereof.

Specified Terms of Each Series of Debt Securities in the Prospectus Supplement

A prospectus supplement and a supplemental indenture relating to any series of debt securities being offered will include specific terms relating to such debt securities. These terms will include some or all of the following:

- whether the debt securities are senior or subordinated debt securities;
- the title of the debt securities;
- the total principal amount of the debt securities;
- the assets, if any, that are pledged as security for the payment of the debt securities;
- whether we will issue the securities in individual certificates to each holder in registered form, or in the form of temporary or permanent global securities held by a depository on behalf of holders;
- the prices at which we will issue the debt securities;
- the portion of the principal amount that will be payable if the maturity of the debt securities is accelerated;

the currency or currency unit in which the debt securities will be payable, if not U.S. dollars;

any right we may have to defer payments of interest by extending the dates payments are due and whether interest on those deferred amounts will be payable as well;

the date or dates on which the principal of the debt securities will be payable;

the interest rate that the debt securities will bear and the interest payment dates for the debt securities;

any conversion or exchange provisions;

any optional redemption provisions;

any sinking fund or other provisions that would obligate us to repurchase or otherwise redeem the debt securities;

any changes to or additional events of default or covenants; and

any other terms of the debt securities.

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Provisions Only in the Senior Indenture

Summary

The senior debt securities will rank equally in right of payment with all of our other senior and unsubordinated debt and senior in right of payment to any of our subordinated debt (including the subordinated debt securities). The Senior Indenture will contain provisions that:

- limit our ability to put liens on our principal assets; and
- limit our ability to sell and lease back our principal assets.

The Subordinated Indenture will not contain any similar provisions. We have described below these provisions and some of the defined terms used in them.

Limitations on Liens

The Senior Indenture will provide that we will not, nor will we permit any subsidiary to, create, assume, incur of suffer to exist any lien upon any property or assets, whether owned or leased on the date of the Senior Indenture or thereafter acquired, to secure our debt or the debt of any other person (other than the senior debt securities issued thereunder), without in any such case providing that all of the senior debt securities outstanding thereunder shall be secured equally and ratably with, or prior to, such debt so long as such debt shall be so secured.

There is excluded from this restriction:

1. Permitted Liens, which is a term we define below;
2. with respect to any series, any lien upon any property or assets of our company or any subsidiary in existence on the date the senior debt securities of that series are first issued or provided for under agreements existing on that date;
3. any lien upon any property or assets created at the time of acquisition of such property or assets by us or any subsidiary or within one year after that time to secure all or a portion of the purchase price for such property or assets or debt incurred to finance such purchase price, whether such debt was incurred prior to, at the time of or within one year after the date of such acquisition;
4. any lien upon any property or assets existing at the time of its acquisition by us or any subsidiary; provided, however, that such lien only encumbers the property or assets so acquired;

5. any lien upon property or assets of a person existing at the time such person becomes a subsidiary by acquisition, merger or otherwise; provided, however, that such lien only encumbers the property or assets of such person at the time it becomes a subsidiary;

6. any lien upon any property or assets to secure all or part of the cost of construction, development, repair or improvements thereon or to secure debt incurred prior to, at the time of, or within one year after completion of such construction, development, repair or improvements or the commencement of full operations thereof (whichever is later), to provide funds for any such purpose;

7. liens imposed by law or order as a result of any proceeding before any court or regulatory body that are being contested in good faith, and liens which secure a judgment or other court-ordered award or settlement as to which we or the applicable subsidiary has not exhausted its appellate rights;

8. any lien upon any additions, improvements, replacements, repairs, fixtures, appurtenances or component parts attaching to or required to be attached to property or assets under the terms of any mortgage, pledge agreement, security agreement or other similar instrument, creating a lien upon such property or assets permitted by clauses 1 through 7 above;

9. any extension, renewal, refinancing, refunding or replacement (or successive extensions, renewals, refinancings, refundings or replacements) of liens, in whole or in part, referred to in clauses 1 through

8, above; provided, however, that any such extension, renewal, refinancing, refunding or replacement lien shall be limited to the property or assets covered by the lien extended, renewed, refinanced, refunded or replaced and that the obligations secured by any such extension, renewal, refinancing, refunding or replacement lien shall be in an amount not greater than the amount of the obligations secured by the lien extended, renewed, refinanced, refunded or replaced plus any expenses of our company and subsidiaries (including any premium) incurred in connection with such extension, renewal, refinancing, refunding replacement; or

10. any lien resulting from the deposit of moneys or evidence of indebtedness in trust for the purpose of defeasing debt of our company or any subsidiary.

Notwithstanding the foregoing, under the Senior Indenture, we may, and may permit any subsidiary to, create, assume, incur, or suffer to exist any lien upon any property or assets to secure debt of our company or any person (other than the senior debt securities) that is not excepted by clauses 1 through 10 above without securing the senior debt securities issued under the Senior Indenture, if the aggregate principal amount of all debt then outstanding secured by such lien and all similar liens, together with all net sale proceeds from Sale-Leaseback Transactions (excluding Sale-Leaseback Transactions permitted by clauses 1 through 4 of the first paragraph of the restriction on sale-leaseback covenant described below) does not exceed 10% of Consolidated Net Tangible Assets (as defined below).

When we use the term Permitted Liens, we are referring to:

1. zoning restrictions, easements, licenses, covenants, reservations, restrictions on the use of real property or minor irregularities of title incident thereto that do not, in the aggregate, materially detract from the value of the property or the assets of our company or its subsidiaries or impair the use of such property in the operation of the business of our company or its subsidiaries;

2. any statutory or governmental lien or lien arising by operation of law, or any mechanics , repairmen s, materialmen s, suppliers , carriers , landlords , warehousemen s or similar lien incurred in the ordinary course of business which is not yet due or which is being contested in good faith by appropriate proceedings and any undetermined lien which is incidental to construction, development, improvement or repair;

3. the right reserved to, or vested in, any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or by any provision of law, to purchase or recapture or to designate a purchaser of any property;

4. liens of taxes and assessments which are (A) for the then current year, (B) not at the time delinquent, or (C) delinquent but the validity of which is being contested at the time by us or any subsidiary in good faith;

5. liens of, or to secure performance of, leases, other than capital leases;

6. any lien upon, or deposits of, any assets in favor of any surety company or clerk of court for the purpose of obtaining indemnity or stay of judicial proceedings;

7. any lien upon property or assets acquired or sold by us or any subsidiary resulting from the exercise of any rights arising out of defaults on receivables;

8. any lien incurred in the ordinary course of business in connection with workmen s compensation, unemployment insurance, temporary disability, social security, retiree health or similar laws or regulations or to secure obligations imposed by statute or governmental regulations;

9. any lien in favor of us or any subsidiary;

10. any lien in favor of the United States of America or any state thereof, or any department, agency or instrumentality or political subdivision of the United States of America or any state thereof, to secure partial, progress, advance, or other payments pursuant to any contract or statute, or any debt incurred

by us or any subsidiary for the purpose of financing all or any part of the purchase price of, or the cost of constructing, developing, repairing or improving, the property or assets subject to such lien;

11. any lien securing industrial development, pollution control or similar revenue bonds;

12. any lien securing debt of our company or any subsidiary, all or a portion of the net proceeds of which are used, substantially concurrent with the funding thereof, to refinance, refund or repurchase the debt securities and all other outstanding securities under the Senior Indenture, including the amount of all accrued interest and reasonable fees and expenses and premium, if any, incurred by us or any subsidiary in connection therewith;

13. liens in favor of any person to secure obligations under the provisions of any letters of credit, bank guarantees, bonds or surety obligations required or requested by any governmental authority in connection with any contract or statute; and

14. any lien upon or deposits of any assets to secure performance of bids, trade contracts, leases or statutory obligations.

When we use the term Consolidated Net Tangible Assets, we are referring to the total amount of assets after deducting (x) all current liabilities (excluding (A) any current liabilities that by their terms are extendable or renewable at the option of the obligor to a time more than 12 months after the time which the amount thereof is being computed, and (B) current maturities of long-term debt), and (y) the value (net of any applicable reserves) of all goodwill, trade names, trademarks, patents and other like intangible assets, all as set forth on the consolidated balance sheet of our company and its subsidiaries for our most recently completed fiscal quarter, prepared in accordance with generally accepted accounting principles.

Restriction on Sale-Leasebacks

The Senior Indenture will prohibit us or any subsidiary from engaging in a Sale-Leaseback Transaction, unless:

1. such Sale-Leaseback Transaction occurs within one year from the date of completion of the acquisition of the property or assets subject to such Sale-Leaseback Transaction or the date of the completion of construction, development or substantial repair or improvement, or commencement of full operations on such property or assets, whichever is later;

2. the Sale-Leaseback Transaction involves a lease for a period, including renewals, of not more than the lesser of (A) three years and (B) 60% of the useful remaining life of such property;

3. we or our subsidiary would be entitled to incur debt secured by a lien on the property or assets subject to such Sale-Leaseback Transaction in a principal amount equal to or exceeding the net sale proceeds from such Sale-Leaseback Transaction without equally and ratably securing the senior debt securities; or

4. we or our subsidiary, within a one-year period after such Sale-Leaseback Transaction, applies or causes to be applied an amount not less than the net sale proceeds from such Sale-Leaseback Transaction to (A) the prepayment, repayment, redemption, reduction or retirement of any debt of our company or any subsidiary that is not subordinated to the senior debt securities, or (B) the expenditure or expenditures for property or assets used or to be used in the ordinary course of business.

When we use the term Sale-Leaseback Transaction, we are referring to the sale or transfer by us or any subsidiary of any property or assets to a person (other than us or any subsidiary) and the taking back by us or any subsidiary, as the case may be, of a lease of such property or assets.

Notwithstanding the foregoing, under the Senior Indenture we may, and may permit any subsidiary to, effect any Sale-Leaseback Transaction that is not excepted by clauses 1 through 4 of the above exceptions to the prohibition on Sale-Leaseback Transactions, provided that the net sale proceeds from such Sale-Leaseback

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Transaction, together with the aggregate principal amount of outstanding debt (other than the senior debt securities) secured by liens upon property and assets not excepted by clauses 1 through 10 of the exceptions to the limitations on liens described above do not exceed 10% of the Consolidated Net Tangible Assets.

Provisions Only in the Subordinated Indenture

Subordinated Debt Securities Subordinated to Senior Debt

The subordinated debt securities will rank junior in right of payment to all of our Senior Debt. When we use the term Senior Debt, we are referring to all notes or other evidences of indebtedness not expressed to be subordinate or junior in right of payment to the subordinated debt securities or any other of our indebtedness ranking pari passu or junior in right of payment to the subordinated debt securities.

Payment Blockages

The Subordinated Indenture will provide that no payment of principal, interest and any premium on the subordinated debt securities may be made in the event we have a default on any Senior Debt that imposes a payment blockage on the subordinated debt securities for a maximum of 179 days at any one time.

No Limitation on Amount of Senior Debt

The Subordinated Indenture will not limit the amount of Senior Debt that we incur.

Provisions That Apply to Both Indentures

Consolidation, Merger or Asset Sale

Each Indenture will, in general, allow us to consolidate or merge with another domestic entity. They also will allow us to sell, lease or transfer all or substantially all of our property and assets to another domestic entity. If this happens, the remaining or acquiring entity must assume all of our responsibilities and liabilities under the Indentures including the payment of all amounts due on the debt securities and performance of the covenants in the Indentures. However, we may only consolidate or merge with or into an entity or sell, lease or transfer all or substantially all of our assets according to the terms and conditions of the Indentures, which will include the following requirements:

- the remaining or acquiring entity is organized under the laws of the United States, any state or the District of Columbia;

- the remaining or acquiring entity assumes our obligations under the Indentures; and

- immediately after giving effect to the transaction no default or Event of Default (as defined below) exists.

The remaining or acquiring entity will be substituted for us in the Indentures with the same effect as if it had been an original party to the Indentures. Thereafter, the successor may exercise our rights and powers under the Indentures, in our name or in its own name. If we sell or transfer all or substantially all of our assets, we will be released from all our liabilities and obligations under the Indentures and under the debt securities. If we lease all or substantially all of our assets, we will not be released from our obligations under the Indentures.

Modification of Indentures

We may modify or amend each Indenture if the holders of a majority in principal amount of the outstanding debt securities of all series issued under the Indenture affected by the modification or amendment consent to it. Without the consent of the holders of each outstanding debt security affected, however, no modification may:

- change the stated maturity of the principal of or any installment of principal of or interest on any debt security

- reduce the principal amount of, the interest rate on or the premium payable upon redemption of any debt security
- change the redemption date for any debt security
- change our obligation, if any, to pay additional amounts
- reduce the principal amount of an original discount debt security payable upon acceleration of maturity
- change the currency in which any debt security or any premium or interest on any debt security is payable
- change the redemption right of any holder
- impair the right to institute suit for the enforcement of any payment on any debt security
- reduce the percentage in principal amount of outstanding debt securities of any series necessary to modify the Indenture, to waive compliance with certain provisions of the Indenture or to waive certain defaults
- reduce quorum or voting requirements
- change our obligation to maintain an office or agency in the places and for the purposes required by the Indenture
- modify any of the above provisions

We may modify or amend the Indenture without the consent of any holders of the debt securities in certain circumstances, including:

- to provide for the assumption of our obligations under the Indenture and the debt securities by a successor upon any merger, consolidation or asset transfer
- to add covenants and events of default or to surrender any rights we have under the Indenture
- to make any change that does not adversely affect any outstanding debt securities of a series in any material respect
- to secure the senior debt securities
- to provide for successor trustees
- to cure any ambiguity, omission, defect or inconsistency

The holders of a majority in principal amount of the outstanding debt securities of any series may waive past defaults under the Indenture and compliance by us with our covenants with respect to the debt securities of that series only. Those holders may not however, waive any default in any payment on any debt security of that series or compliance with a provision that cannot be modified or amended