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

FORM 10-Q

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

For the quarterly period ended March 31, 2003

OR

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

For the transition period from _____ to _____.

COMMISSION FILE NUMBER: 0-32453

Inergy, L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

43-1918951
(IRS Employer Identification No.)

Two Brush Creek Blvd., Suite 200
Kansas City, Missouri
(Address of principal executive offices)

64112
(Zip code)

(816) 842-8181

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the last 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The following units were outstanding at May 1, 2003:

Common Units	4,629,854
Senior Subordinated Units	3,313,367
Junior Subordinated Units	572,542

[Table of Contents](#)

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

	<u>Page</u>
Part I – Financial Information	
Item 1 – Financial Statements of Inergy, L.P.:	
Consolidated Balance Sheets as of March 31, 2003 (unaudited) and September 30, 2002 (audited)	3
Unaudited Consolidated Statements of Income for the Three and Six Months Ended March 31, 2003 and 2002	5
Unaudited Consolidated Statement of Partners’ Capital for the Six Months Ended March 31, 2003	6
Unaudited Consolidated Statements of Cash Flows for the Six Months Ended March 31, 2003 and 2002	7
Unaudited Notes to Consolidated Financial Statements	9
Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operation	19
Item 3 – Quantitative and Qualitative Disclosures About Market Risk	28
Item 4 – Controls and Procedures	30
Part II – Other Information	
Item 1 – Legal Proceedings	31
Item 2 – Changes in Securities and Use of Proceeds	31
Item 3 – Defaults Upon Senior Securities	31
Item 4 – Submission of Matters to a Vote of Security Holders	31
Item 5 – Other Information	31
Item 6 – Exhibits and Reports on Form 8-K	31
Signatures	33

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

INERGY, L.P. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	March 31, 2003 <i>(Unaudited)</i>	September 30, 2002
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash	\$ 9,123	\$ 2,088
Accounts receivable, less allowance for doubtful accounts of \$1,289,000 and \$927,000 at March 31, 2003 and September 30, 2002, respectively	36,875	13,112
Inventories	9,051	41,162
Prepaid expenses and other current assets	1,163	3,929
Assets from price risk management activities	5,609	9,725
Total current assets	61,821	70,016
Property, plant and equipment, at cost	149,896	137,902
Less accumulated depreciation	(17,757)	(13,352)
Property, plant and equipment, net	132,139	124,550
Intangible assets	106,892	101,591
Less accumulated amortization	(11,650)	(8,941)
Intangible assets, net	95,242	92,650
Other	1,518	1,016
Total assets	\$ 290,720	\$ 288,232

INERGY, L.P. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (continued)

	March 31, 2003 <i>(Unaudited)</i>	September 30, 2002
	<i>(In Thousands)</i>	
Liabilities and partners' capital		
Current liabilities:		
Accounts payable	\$ 25,343	\$ 13,364
Accrued expenses	6,640	6,394
Customer deposits	1,767	8,718
Liabilities from price risk management activities	4,237	14,378
Current portion of long-term debt	1,090	19,367
Total current liabilities	39,077	62,221
Long-term debt, less current portion	92,657	105,095
Partners' capital:		
Common unitholders (4,629,854 and 3,828,877 units issued and outstanding as of March 31, 2003 and September 30, 2002, respectively)	107,158	76,762
Senior subordinated unitholders (3,313,367 units issued and outstanding)	47,255	41,292
Junior subordinated unitholders (572,542 units issued and outstanding)	1,637	607
Non-managing general partner (2% interest with 173,791 and 157,445 equivalent units outstanding as of March 31, 2003 and September 30, 2002, respectively)	2,936	2,255
Total partners' capital	158,986	120,916
Total liabilities and partners' capital	\$ 290,720	\$288,232

See accompanying notes.

INERGY, L.P. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Unit Data)
(unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2002	2003	2002
Revenue:				
Propane	\$ 153,450	\$ 78,614	\$ 257,492	\$ 125,198
Other	5,200	4,572	10,847	7,618
	<u>158,650</u>	<u>83,186</u>	<u>268,339</u>	<u>132,816</u>
Cost of product sold	117,693	48,748	199,016	82,543
Gross profit	40,957	34,438	69,323	50,273
Expenses:				
Operating and administrative	17,493	15,034	32,032	23,326
Depreciation and amortization	3,374	3,371	6,735	5,145
Operating income	20,090	16,033	30,556	21,802
Other income (expense):				
Interest expense	(2,496)	(1,998)	(5,136)	(3,236)
Gain (loss) on sale of property, plant and equipment	116	(29)	10	(119)
Finance charges	73	48	89	85
Other	22	17	52	36
Income before income taxes	17,805	14,071	25,571	18,568
Provision for income taxes	20	20	70	52
Net income	<u>\$ 17,785</u>	<u>\$ 14,051</u>	<u>\$ 25,501</u>	<u>\$ 18,516</u>
Partners' interest information for the three and six months ended March 31, 2003 and 2002:				
Non-managing general partners' interest in net income	<u>\$ 356</u>	<u>\$ 281</u>	<u>\$ 510</u>	<u>\$ 370</u>
Limited partners' interest in net income:				
Common unit interest	\$ 8,788	\$ 5,543	\$ 12,500	\$ 6,702
Senior subordinated unit interest	7,368	7,015	10,651	9,758
Junior subordinated unit interest	1,273	1,212	1,840	1,686
Total limited partners' interest in net income	<u>\$ 17,429</u>	<u>\$ 13,770</u>	<u>\$ 24,991</u>	<u>\$ 18,146</u>
Net income per limited partner unit:				
Basic	<u>\$ 2.22</u>	<u>\$ 2.12</u>	<u>\$ 3.21</u>	<u>\$ 2.94</u>
Diluted	<u>\$ 2.19</u>	<u>\$ 2.08</u>	<u>\$ 3.17</u>	<u>\$ 2.90</u>
Weighted average limited partners' units outstanding:				
Basic	<u>7,838</u>	<u>6,504</u>	<u>7,775</u>	<u>6,162</u>
Diluted	<u>7,951</u>	<u>6,607</u>	<u>7,877</u>	<u>6,249</u>

See accompanying notes.

INERGY, L.P. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL
(In Thousands)
(unaudited)

	<u>Common Unit Capital</u>	<u>Senior Subordinated Unit Capital</u>	<u>Junior Subordinated Unit Capital</u>	<u>Non-Managing General Partner and Affiliate</u>	<u>Total Partners' Capital</u>
Balance at September 30, 2002	\$ 76,762	\$ 41,292	\$ 607	\$ 2,255	\$ 120,916
Net proceeds from issuance of common units	23,372	—	—	—	23,372
Contribution from non-managing general partner	—	—	—	509	509
Return and cancellation of common units originally issued in the IPC acquisition	(62)	—	—	(1)	(63)
Distributions	(5,414)	(4,688)	(810)	(337)	(11,249)
Net income	12,500	10,651	1,840	510	25,501
Balance at March 31, 2003	<u>\$ 107,158</u>	<u>\$ 47,255</u>	<u>\$ 1,637</u>	<u>\$ 2,936</u>	<u>\$ 158,986</u>

See accompanying notes.

INERGY, L.P. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(unaudited)

	Six Months Ended March 31,	
	2003	2002
Operating activities		
Net income	\$ 25,501	\$ 18,516
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	423	680
Depreciation	4,714	3,633
Amortization	2,020	1,511
Amortization of deferred financing costs	689	547
Gain (loss) on disposal of property, plant and equipment	(10)	119
Net asset/liabilities from price risk management activities	(6,025)	296
Changes in operating assets and liabilities, net of effects from acquisitions of retail propane companies:		
Accounts receivable	(23,648)	(6,532)
Inventories	32,352	(65)
Prepaid expenses and other current assets	2,717	(36)
Other assets	(4)	(92)
Accounts payable	11,158	(1,410)
Accrued expenses	168	(1,839)
Customer deposits	(6,968)	(5,623)
Net cash provided by operating activities	<u>43,087</u>	<u>9,705</u>
Investing activities		
Acquisition of retail propane companies, net of cash acquired	(13,906)	(83,625)
Purchases of property, plant and equipment	(2,698)	(2,524)
Deferred financing and acquisition costs incurred	(103)	(1,979)
Proceeds from sale of property, plant and equipment	319	91
Net cash used in investing activities	<u>(16,388)</u>	<u>(88,037)</u>

INERGY, L.P. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(unaudited)

	Six Months Ended March 31,	
	2003	2002
Financing activities		
Proceeds from issuance of long-term debt	\$ 84,827	\$ 220,621
Principal payments on long-term debt and noncompete obligations	(117,123)	(136,184)
Contribution from non-managing general partner	509	204
Net proceeds from issuance of common units	23,372	480
Distributions	(11,249)	(6,485)
Net cash provided by (used in) financing activities	(19,664)	78,636
Net increase in cash	7,035	304
Cash at beginning of period	2,088	2,171
Cash at end of period	\$ 9,123	\$ 2,475
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	\$ 4,754	\$ 3,025
Supplemental schedule of noncash investing and financing activities		
Acquisition of retail propane company through the issuance of common units	—	\$ 19,723
Increase in the fair value of senior secured notes and the related interest rate swap	\$ 498	—

See accompanying notes.

INERGY, L.P. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 – Organization and Basis of Presentation

Organization

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

Basis of Presentation

The financial information as of March 31, 2003 and for the three-month and six-month periods ended March 31, 2003 and 2002 contained herein is unaudited. The Partnership believes this information has been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and Article 10 of Regulation S-X. The Partnership also believes this information includes all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods then ended. The results of operations for the three-month and six-month periods ended March 31, 2003 and 2002 are not indicative of the results of operations that may be expected for the entire year.

The accompanying financial statements should be read in conjunction with the consolidated financial statements of Inergy, L.P. and subsidiaries and the notes thereto included in the consolidated financial statements included in Form 10-K/A as filed with the Securities and Exchange Commission for the year ended September 30, 2002.

INERGY, L.P. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 – Accounting Policies Update

Financial Instruments and Price Risk Management

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

SFAS No. 133 requires recognition of all derivative instruments in the balance sheets and measures them at fair value. If a derivative does not qualify for hedge accounting, it must be adjusted to fair value through earnings. Beginning in December 2002, certain of Inergy's commodity derivative financial instruments have been designated as hedges of selected inventory positions, and qualify as fair value hedges, as defined in SFAS No. 133. For derivative instruments designated as hedges, Inergy formally assesses, both at the hedge contract's inception and on an ongoing basis, whether the hedge contract is highly effective in offsetting changes in fair value of hedged items. Changes in the fair value of derivative instruments designated as fair value hedges are reported in the balance sheet as price risk management assets or liabilities. The ineffective portions of hedging derivatives are recognized immediately in cost of product sold. At March 31, 2003, the fair value of approximately 5.5 million gallons of propane inventory was being hedged by various commodity derivatives with a fair value of \$386,000 recorded as a liability from price risk management activities in accordance with Inergy's hedging strategies. Changes in the fair value of derivative instruments that are not designated as hedges are recorded in current period earnings in accordance with SFAS No. 133.

During the three months and six months ended March 31, 2003, the Company recognized a net loss of \$14,000 and net gain of \$73,000, respectively, related to the ineffective portion of its hedging instruments and a net loss of \$430,000 and a net loss of \$298,000, respectively, related to the portion of the hedging instruments the Company excluded from its assessment of hedge effectiveness.

INERGY, L.P. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 – Accounting Policies Update (continued)

The June 2002 consensus reached on EITF No. 02-3 codifies and reconciles existing guidance on the recognition and reporting of gains and losses on energy trading contracts and addresses other aspects of the accounting for contracts involved in energy trading and risk management activities. Among other things, the consensus requires that mark-to-market gains and losses on energy trading contracts should be shown net in the income statement, irrespective of whether the contract is physically settled. This presentation was effective for financial statements issued for periods ending after July 15, 2002. As such, Inergy has reclassified all settled transactions that meet the definition of trading activities net in the income statement to conform to the new presentation required under EITF No. 02-3. Inergy previously reported these transactions when settled in the income statement at their gross amounts in revenues and cost of product sold. The reclassified amounts for the three months and six months ended March 31, 2002 were \$18.8 million and \$31.2 million, respectively. This required reclassification has no impact on previously reported gross profit, net income or cash provided by (used in) operating activities. Inergy physically delivered approximately 95.3 million and 52.6 million gallons related to transactions considered trading activities as defined by EITF No. 02-3 for the three months ended March 31, 2003 and 2002, respectively, and 198.6 million and 84.3 million gallons for the six months ended March 31, 2003 and 2002, respectively.

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

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

INERGY, L.P. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 – Accounting Policies Update (continued)

The consensus reached in EITF No. 02-3 rescinding Issue 98-10 requires all derivatives held for trading purposes to be reported on a net basis in the income statement regardless of whether these derivatives are settled physically. These netting requirements are also effective for fiscal periods beginning after December 15, 2002 and have been adopted, as discussed above.

Revenue Recognition

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

Use of Estimates

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

Inventories

Inventories for retail operations, which mainly consist of liquid propane, are stated at the lower of cost, determined using the average-cost method, or market. Inventories for wholesale operations, which consist mainly of liquid propane commodities, are stated at market, except for inventories purchased under energy contracts subsequent to October 25, 2002, which are stated at the lower of cost or market unless hedged, as discussed above.

Inventories consist of (in thousands)

	<u>March 31, 2003</u>	<u>September 30, 2002</u>
Propane gas and other liquids	\$ 5,892	\$ 37,934
Appliances, parts and supplies	3,159	3,228
	<u>\$ 9,051</u>	<u>\$ 41,162</u>

INERGY, L.P. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 – Accounting Policies Update (continued)*Income Per Unit*

Basic net income per limited partner unit is computed by dividing net income, after considering the Non-Managing General Partner's interest, by the weighted average number of Common and Subordinated Units outstanding. Diluted net income per limited partner unit is computed by dividing net income, after considering the Non-Managing General Partner's interest, by the weighted average number of Common and Subordinated Units outstanding and the dilutive effect of unit options granted under the long-term incentive plan. The following table presents the calculation of basic and dilutive income per limited partner unit (in thousands, except per unit data):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2003	2002	2003	2002
Numerator:				
Net income	\$17,785	\$14,051	\$25,501	\$18,516
Less: Non-Managing General Partners' interest in net income	356	281	510	370
Limited partners' interest in net income – basic and diluted	<u>\$17,429</u>	<u>\$13,770</u>	<u>\$24,991</u>	<u>\$18,146</u>
Denominator:				
Weighted average limited partners' units outstanding – basic	7,838	6,504	7,775	6,162
Effect of dilutive unit options outstanding	113	103	102	87
Weighted average limited partners' units outstanding – dilutive	<u>7,951</u>	<u>6,607</u>	<u>7,877</u>	<u>6,249</u>
Net income per limited partner unit:				
Basic	<u>\$ 2.22</u>	<u>\$ 2.12</u>	<u>\$ 3.21</u>	<u>\$ 2.94</u>
Diluted	<u>\$ 2.19</u>	<u>\$ 2.08</u>	<u>\$ 3.17</u>	<u>\$ 2.90</u>

INERGY, L.P. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 – Accounting Policies Update (continued)

Reclassifications

Certain reclassifications have been made to the three and six months ended March 31, 2002 consolidated financial statements to conform to the three and six months ended March 31, 2003 presentation.

Accounting for Unit-Based Compensation

At March 31, 2003, Inergy has a unit-based employee compensation plan, which is accounted for under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No unit-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common units on the date of grant. The following table illustrates the effect on net income and net income per limited partner unit if the company had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, to unit-based employee compensation (in thousands, except per unit data).

	Three Months Ended March 31		Six Months Ended March 31	
	2003	2002	2003	2002
Limited partners' interest in net income, as reported	\$ 17,429	\$ 13,770	\$24,991	\$18,146
Deduct: Total Unit-based employee compensation expense determined under fair value based method for all awards ¹	21	35	66	73
Pro forma limited partners' interest in net income	\$ 17,408	\$ 13,735	\$24,925	\$18,073
Net income per limited partner unit:				
Basic—as reported	\$ 2.22	\$ 2.12	\$ 3.21	\$ 2.94
Basic—pro forma	\$ 2.22	\$ 2.11	\$ 3.20	\$ 2.93
Diluted—as reported	\$ 2.19	\$ 2.08	\$ 3.17	\$ 2.90
Diluted—pro forma	\$ 2.19	\$ 2.08	\$ 3.16	\$ 2.89

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

INERGY, L.P. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 3 – Long-Term Debt

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

	March 31, 2003	September 30, 2002
Credit agreement	\$ 4,000	\$ 35,500
Senior secured notes	86,207	85,709
Obligations under noncompetition agreements and notes to former owners of businesses acquired	3,534	3,244
Other	6	9
	<u>93,747</u>	<u>124,462</u>
Less current portion	1,090	19,367
	<u>\$ 92,657</u>	<u>\$ 105,095</u>

Inergy's credit agreement is comprised of a \$50.0 million revolving working capital facility and a \$75.0 million revolving acquisition facility. The credit agreement expires in December 2004, and is guaranteed by Inergy, L.P. and its subsidiaries.

At March 31, 2003 and September 30, 2002, the balance outstanding under this credit facility was \$4.0 million and \$35.5 million, respectively, including \$0 and \$22.0 million, respectively, under the working capital facility. Inergy is required to reduce the principal outstanding on the revolving working capital line of credit to \$4.0 million or less for a minimum of 30 consecutive days during the period commencing March 1 and ending September 30. As such, \$0 and \$4.0 million of the outstanding balance at March 31, 2003 and September 30, 2002, respectively, has been classified as a long-term liability in the accompanying consolidated balance sheets.

In October 2002, Inergy entered into three interest rate swap agreements scheduled to mature in June 2007, June 2008 and June 2009, respectively, each designed to hedge \$5.0 million in underlying fixed rate senior secured notes, in order to manage interest rate risk exposure in an attempt to reduce overall interest expense. The swap agreements, which expire on the same dates as the maturity dates of the related senior secured notes, require the counterparty to pay an amount based on the stated fixed interest rate on the notes due every three months. In exchange, Inergy is required to make quarterly floating interest rate payments on the same dates to the counterparty based on an annual interest rate equal to the 3 month LIBOR interest rate plus approximately 5.0% applied to the same notional amount of \$15.0 million. The swap agreements have been recognized as fair value hedges. Amounts to be received or paid under the agreements are accrued and recognized over the life of the agreements as an adjustment to interest expense.

INERGY, L.P. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 3 – Long-Term Debt (continued)

The operating company had previously entered into similar swap agreements in fiscal 2002 on a notional amount of \$20.0 million of the fixed rate senior secured notes. The Partnership has recognized the approximate \$0.1 million and \$0.5 million increase in the fair market value of these related senior secured notes for the three months and six months ended March 31, 2003, respectively, with a corresponding increase in the fair value of its interest rate swaps, which is recorded in other non-current assets. The total increase in market value of the interest rate swaps is approximately \$1.2 million at March 31, 2003.

Note 4 – Unit Offering

In March 2003, Inergy issued 805,000 common units in a follow-on offering, resulting in proceeds of \$23.4 million, net of underwriter's discount, commission, and offering expenses. Inergy Partners, LLC contributed \$0.5 million in cash to Inergy, L.P. in conjunction with the issuance in order to maintain its 2% non-managing general partner interest. These funds were used to repay borrowings under Inergy's credit agreement.

Note 5 – Quarterly Distributions of Available Cash

On November 14, 2002, a quarterly distribution of \$0.70 per limited partner unit was paid to its unitholders of record on November 7, 2002 with respect to the fourth fiscal quarter of 2002, which totaled \$5.5 million. On February 14, 2003, a quarterly distribution of \$0.715 per limited partner unit was paid to its unitholders of record on February 7, 2003 with respect to the first fiscal quarter of 2003, which totaled \$5.7 million. Inergy announced that it will distribute \$0.73 per limited partner unit on May 15, 2003 to unitholders of record on May 8, 2003, for a total distribution of \$6.4 million with respect to its second fiscal quarter of 2003.

Note 6 – Commitments and Contingencies

Inergy periodically enters into agreements to purchase fixed quantities of propane at fixed prices with suppliers. At March 31, 2003, the total of these firm purchase commitments was approximately \$31.0 million.

At March 31, 2003, Inergy was contingently liable for letters of credit outstanding totaling \$3.4 million, which guarantees various transactions.

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

INERGY, L.P. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 7 – Segments

Inergy's financial statements reflect two reportable segments: retail sales operations and wholesale sales operations. Revenues, gross profit and identifiable assets for each of our reportable segments are presented below.

The identifiable assets associated with each reportable segment include accounts receivable and inventories. The net asset/liability from price risk management, as reported in the accompanying consolidated balance sheets, is related to the wholesale segment.

The following segment information is presented in thousands of dollars:

	Three Months Ended March 31, 2003			
	Retail Sales Operations	Wholesale Sales Operations	Intersegment Eliminations	Total
Revenues	\$ 78,196	\$ 118,272	(\$ 37,818)	\$ 158,650
Gross profit	36,915	4,766	(724)	40,957
Identifiable assets	25,118	20,808	—	45,926

	Three Months Ended March 31, 2002			
	Retail Sales Operations	Wholesale Sales Operations	Intersegment Eliminations	Total
Revenues	\$ 53,905	\$ 40,052	(\$ 10,771)	\$ 83,186
Gross profit	33,143	1,483	(188)	34,438
Identifiable assets	19,292	21,410	—	40,702

INERGY, L.P. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 7 – Segments (continued)

	Six Months Ended March 31, 2003			
	Retail Sales Operations	Wholesale Sales Operations	Intersegment Eliminations	Total
Revenues	\$ 129,580	\$ 194,599	(\$ 55,840)	\$ 268,339
Gross profit	63,052	7,265	(994)	69,323
Identifiable assets	25,118	20,808		45,926

	Six Months Ended March 31, 2002			
	Retail Sales Operations	Wholesale Sales Operations	Intersegment Eliminations	Total
Revenues	\$ 72,229	\$ 73,161	(\$ 17,574)	\$ 132,816
Gross profit	46,901	3,822	(450)	50,273
Identifiable assets	19,292	21,410	—	40,702

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

Our "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Inergy should be read in conjunction with the accompanying condensed consolidated financial statements and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report on Form 10-K/A for the fiscal year ended September 30, 2002 of Inergy, L.P.

The statements in this Quarterly Report on Form 10-Q that are not historical facts, including most importantly, those statements preceded by, or that include the words "may", "believes", "expects", "anticipates" or the negation thereof, or similar expressions, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the Reform Act). Such forward-looking statements include, but are not limited to, statements concerning our expected recovery of goodwill attributable to our acquisitions and the sufficiency of cash received from operations and borrowings to meet our foreseeable liquidity needs. Such forward-looking statements involve risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements express or implied by such forward-looking statements. Such factors include, but are not limited to, the following: weather in our area of operations; market price of propane; availability of financing; changes in, or failure to comply with, government regulations; the costs, uncertainties and other effects of legal and administrative proceedings and other risks and uncertainties detailed in our Securities and Exchange Commission filings. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Reform Act. We will not undertake and specifically decline any obligation to publicly release the result of any revisions to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect events or circumstances after anticipated or unanticipated events. In addition, it is our policy generally not to make any specific projections as to future earnings, and we do not endorse any projections regarding future performance that may be made by third parties.

Acquisitions

In October 2002, we acquired the assets of Hancock Gas Service, Inc. with headquarters in Findlay, Ohio; in December 2002, we acquired the assets of Central Carolina Gas Company, Inc., with headquarters in Hamlet, North Carolina; and Live Oak Gas Company, Inc., with headquarters in Live Oak, Florida. These three companies distributed approximately ten million gallons of propane during the preceding 12 month period ended September 30, 2002, which represents approximately 11% of our retail propane gallons distributed during fiscal 2002.

As previously announced, we acquired the assets of two retail distributors subsequent to March 31, 2003. In April 2003, we acquired the assets of Coleman Gas, Inc. of Hastings, Florida and the assets of Johnson & Johnson Propane, Inc. of Madison, Florida. In May 2003, we acquired certain assets of Resource Energy Marketing Ltd., a wholesale propane marketer and transporter based in Calgary, Alberta, Canada.

Three Months Ended March 31, 2003 Compared to Three Months Ended March 31, 2002

Volume. During the three months ended March 31, 2003, we sold 49.6 million retail gallons of propane, an increase of 6.6 million gallons, or 15%, from the 43.0 million retail gallons sold during the same three-month period in 2002. The increase in retail sales volume was principally due to the colder weather and the October 2002 acquisition of Hancock Gas Service, Inc. The weather was approximately 14% colder in the three months ended March 31, 2003 as compared to the same three-month period in 2002 in our retail areas of operations.

Wholesale gallons delivered increased 24.9 million gallons, or 30%, to 108.5 million gallons during the three months ended March 31, 2003 from 83.6 million gallons during the same three-month period in 2002. This increase was primarily attributable to the growth of our existing wholesale operations and the colder weather in the three months ended March 31, 2003 as compared to the same period in 2002 in our wholesale areas of operations.

Revenues. Revenues in the three months ended March 31, 2003 were \$158.7 million, an increase of \$75.5 million, or 91%, from \$83.2 million of revenues in fiscal 2002.

Revenues from retail sales were \$74.9 million (after elimination of sales to our wholesale operations) in the three months ended March 31, 2003, an increase of \$22.7 million, or 44%, from \$52.2 million during the same three-month period in 2002. This increase was primarily attributable to higher selling prices of propane due to the higher cost of propane, an increase in volume as a result of colder weather in the three months ended March 31, 2003, and acquisition-related volume. Revenues from retail sales consist of retail propane sales, transportation revenues, tank rentals, heating oil sales, and appliance sales and service.

Revenues from wholesale sales were \$83.8 million (after elimination of sales to our retail operations) in the three months ended March 31, 2003, an increase of \$52.8 million or 170%, from \$31.0 million during the same three-month period in 2002. This increase was primarily attributable to the higher cost of propane and colder weather in the three months ended March 31, 2003 as compared to the same period in 2002. EITF No. 02-3 requires the reporting of gains and losses on energy trading contracts be reported on a net basis in the income statement. Upon adoption, we reduced both revenue and cost of product sold by \$18.8 million for the three months ended March 31, 2002. This reclassification had no impact on gross profit or net income.

Cost of Product Sold. Cost of product sold in the three months ended March 31, 2003 was \$117.7 million, an increase of \$69.0 million or 141%, from cost of product sold of \$48.7 million in the same period in 2002. This increase was primarily attributable to an approximate 95% increase in the average per gallon cost of propane, and an increase in wholesale and retail gallons sold, due to colder weather and acquisition-related volume.

Gross Profit. Retail gross profit was \$36.9 million (after elimination of sales to our wholesale operations) in the three months ended March 31, 2003 compared to \$33.1 million during the same three-month period in 2002, an increase of \$3.8 million, or 12%. This increase was primarily attributable to an increase in retail gallons sold due to colder weather and acquisition-related volume, partially offset by a decrease in margin per gallon as a result of propane costs during the three months ended March 31, 2003 as compared to the same period in 2002. Wholesale gross profit was \$4.1 million (after

[Table of Contents](#)

elimination of gross profit attributable to our retail operations) in the three months ended March 31, 2003 compared to \$1.3 million in fiscal 2002, an increase of \$2.8 million. This increase was attributable to increased wholesale volumes and margins as a result of colder weather and propane price volatility.

Operating and Administrative Expenses. Operating and administrative expenses increased \$2.5 million, or 16%, to \$17.5 million in the three months ended March 31, 2003 as compared to \$15.0 million in the same three-month period in 2002. This increase was primarily attributable to increased personnel and retail delivery vehicle expenses as a result of higher retail propane sales volumes in 2003 as compared to 2002 due to the colder weather, internal growth and retail acquisitions. In addition, greater profitability in 2003 as compared to 2002 resulted in higher personnel costs through incentive compensation.

Depreciation and Amortization. Depreciation and amortization was \$3.4 million in the three months ended March 31, 2003 and 2002.

Interest Expense. Interest expense increased \$0.5 million, or 25%, to \$2.5 million in the three-month period ended March 31, 2003 as compared to \$2.0 million in the same period of 2002. This increase is primarily the result of a higher overall average interest rate in the three months ended March 31, 2003 as compared to the same period in the prior year as a result of the higher rate of interest associated with the senior secured notes issued in June 2002, partially offset by lower outstanding borrowings in 2003 as compared to the same period in 2002.

Net Income. Net income increased \$3.7 million, or 27%, to \$17.8 million for the three months ended March 31, 2003 from \$14.1 million in the same period in 2002. This increase in net income was primarily attributable to the increase in gross profit partially offset by increases in operating expenses due to greater volumes sold as a result of colder weather and acquisitions.

EBITDA. For the three months ended March 31, 2003, income before interest, taxes, depreciation and amortization was \$23.7 million compared to \$19.4 million in the same period in 2002. The \$4.3 million increase was primarily attributable to increased retail sales volumes and increased wholesale gross profits partially offset by an increase in operating and administrative expenses, all primarily due to greater sales volume in the three months ended March 31, 2003, due to colder weather as compared to the same period in 2002, and acquisitions. EBITDA is defined as income before taxes, plus interest expense and depreciation and amortization expense, less interest income. EBITDA should not be considered an alternative to net income, income before income taxes, cash flows from operating activities, or any other measure of financial performance calculated in accordance with generally accepted accounting principles as those items are used to measure operating performance, liquidity or ability to service debt obligations. We believe that EBITDA provides additional information for evaluating our ability to make the minimum quarterly distribution and is presented solely as a supplemental measure. EBITDA, as we define it, may not be comparable to EBITDA or similarly titled measures used by other corporations or partnerships.

EBITDA (in thousands)	(Unaudited) Three Months Ended	
	March 31,	
	2003	2002
EBITDA:		
Net Income	\$ 17,785	\$ 14,051
Interest Expense	2,496	1,998
Provision for income taxes	20	20
Depreciation and amortization	3,374	3,371
EBITDA	\$ 23,675	\$ 19,440

Six Months Ended March 31, 2003 Compared to Six Months Ended March 31, 2002

Volume. During the six months ended March 31, 2003, we sold 86.4 million retail gallons of propane, an increase of 25.5 million gallons, or 42%, from the 60.9 million retail gallons sold during the same six-month period in 2002. The increase in retail sales volume was principally due to colder weather, the December 2001 IPC acquisition and the October 2002 acquisition of Hancock Gas Service, Inc. The weather was approximately 21% colder in the six months ended March 31, 2003 as compared to the same six-month period in 2002 in our retail areas of operations and approximately 7% colder than normal.

Wholesale gallons delivered increased 59.5 million gallons, or 41%, to 206.3 million gallons during the six months ended March 31, 2003 from 146.8 million gallons during the same six-month period in 2002. This increase was primarily attributable to the growth of our existing wholesale operations and the colder weather in the six months ended March 31, 2003 as compared to the same period in 2002 in our wholesale areas of operations.

Revenues. Revenues in the six months ended March 31, 2003 were \$268.3 million, an increase of \$135.5 million, or 102%, from \$132.8 million of revenues in fiscal 2002.

Revenues from retail sales were \$124.3 million (after elimination of sales to our wholesale operations) in the six months ended March 31, 2003, an increase of \$50.1 million, or 68%, from \$74.2 million during the same six-month period in 2002. This increase was primarily attributable to higher selling prices of propane due to the higher cost of propane, volume increases at our existing locations as a result of colder weather in the six months ended March 31, 2003, and acquisition-related volume.

Revenues from wholesale sales were \$144.0 million (after elimination of sales to our retail operations) in the six months ended March 31, 2003, an increase of \$85.4 million or 146%, from \$58.6 million during the same six-month period in 2002. This increase was primarily attributable to the higher cost of propane and colder weather in the six months ended March 31, 2003 as compared to the same period in 2002. Upon adoption of EITF No. 02-3 during the fourth quarter of fiscal 2002, as discussed further above, we reduced both revenue and cost of product sold by \$31.2 million for the six months ended March 31, 2002. This reclassification had no impact on gross profit or net income.

[Table of Contents](#)

Cost of Product Sold. Cost of product sold in the six-month period ended March 31, 2003 was \$199.0 million, an increase of \$116.5 million or 141%, from cost of product sold of \$82.5 million in the same period in 2002. This increase was primarily attributable to an approximate 72% increase in the average per gallon cost of propane, and an increase in wholesale and retail gallons sold, due to colder weather, and acquisition-related volume.

Gross Profit. Retail gross profit was \$63.0 million (after elimination of sales to our wholesale operations) in the six months ended March 31, 2003 compared to \$46.9 million during the same six-month period in 2002, an increase of \$16.1 million, or 35%. This increase was primarily attributable to an increase in retail gallons sold due to colder weather and acquisition-related volume, partially offset by a decrease in margin per gallon as a result of higher propane costs during the six months ended March 31, 2003 as compared to the same period in 2002. Wholesale gross profit was \$6.3 million (after elimination of gross profit attributable to our retail operations) in the six months ended March 31, 2003 compared to \$3.4 million in fiscal 2002, an increase of \$2.9 million. This increase was attributable to increased wholesale volumes and margins as a result of colder weather and propane price volatility.

Operating and Administrative Expenses. Operating and administrative expenses increased \$8.7 million, or 37%, to \$32.0 million in the six months ended March 31, 2003 as compared to \$23.3 million in the same six-month period in 2002. This increase was primarily attributable to increased personnel and retail delivery vehicle expenses as a result of higher retail propane sales volumes in 2003 as compared to 2002 due to the colder weather, internal growth and retail acquisitions. In addition, greater profitability in 2003 as compared to 2002 resulted in higher personnel costs through incentive compensation.

Depreciation and Amortization. Depreciation and amortization increased \$1.6 million, or 31%, to \$6.7 million in the six months ended March 31, 2003 from \$5.1 million in the same six-month period in 2002 primarily as a result of acquisitions.

Interest Expense. Interest expense increased \$1.9 million, or 59%, to \$5.1 million in the six-month period ended March 31, 2003 as compared to \$3.2 million in the same period of 2002. This increase is primarily the result of a higher overall average interest rate in the six months ended March 31, 2003 as compared to the same period in the prior year as a result of the higher rate of interest associated with the senior secured notes issued in June 2002, partially offset by lower outstanding borrowings in 2003 as compared to the same period in 2002.

Net Income. Net income increased \$7.0 million, or 38%, to \$25.5 million for the six months ended March 31, 2003 from \$18.5 million in the same period in 2002. This increase in net income was primarily attributable to the increase in gross profit partially offset by increases in operating expenses, due to greater volumes sold as a result of colder weather and acquisitions, and higher interest costs.

EBITDA. For the six months ended March 31, 2003, income before interest, taxes, depreciation and amortization was \$37.4 million compared to \$26.9 million in the same period in 2002. The \$10.5 million increase was primarily attributable to increased retail sales volumes and increased wholesale gross profits partially offset by an increase in operating and administrative expenses, all primarily due to greater sales volume in the six months ended March 31, 2003 due to colder weather as compared to the same period in 2002 and acquisitions. EBITDA is defined as income before taxes, plus interest expense and depreciation and amortization expense, less interest income. EBITDA should not be considered an

[Table of Contents](#)

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

EBITDA (in thousands)	(Unaudited) Six Months Ended	
	2003	2002
EBITDA:		
Net Income	\$ 25,501	\$ 18,516
Interest Expense	5,136	3,236
Provision for income taxes	70	52
Depreciation and amortization	6,735	5,145
EBITDA	\$ 37,442	\$ 26,949

Liquidity and Sources of Capital

In March 2003, Inergy issued 805,000 common units in a follow-on offering, resulting in proceeds of \$23.4 million, net of underwriter's discount, commission, and offering expenses. Inergy Partners, LLC contributed \$0.5 million in cash to Inergy, L.P. in conjunction with the issuance in order to maintain its 2% non-managing general partner interest. These funds were used to repay borrowings under our credit agreement.

Cash flows provided by operating activities of \$43.1 million in the six months ended March 31, 2003 consisted primarily of: net income of \$25.5 million, net non-cash charges of \$7.8 million (principally related to depreciation and amortization of \$6.7 million), and an increase in cash flows of \$9.8 million associated with the changes in operating assets and liabilities, including net liabilities from price risk management activities. The source of cash associated with the changes in operating assets and liabilities is primarily due to a decrease in propane inventory and an increase in accounts payable, partially offset by an increase in accounts receivable. These changes are attributable to the seasonal nature of our business and our retail and wholesale growth. Cash flows provided by operations of \$9.7 million in the same six-month period of 2002 consisted primarily of net income of \$18.5 million, net non-cash charges of \$6.5 million (principally related to depreciation and amortization of \$5.1 million) offset by a use of cash of \$15.3 million associated with the changes in operating assets and liabilities, including net liabilities from price risk management activities. The use of cash associated with the changes in operating assets and liabilities in the 2002 period was due primarily to increase in accounts receivable and the decrease in customer deposits, resulting from weather seasonality.

[Table of Contents](#)

Cash used in investing activities was \$16.4 million in the six months ended March 31, 2003 as compared to \$88.0 million in the same period of 2002. Investing activities during the six months ended March 31, 2003 included a use of cash of \$13.9 million for the acquisitions of Hancock Gas Service, Inc., Central Carolina Gas Company, Inc. and Live Oak Gas Company, Inc. Investing activities in the 2002 period included a use of cash of \$83.6 million for the acquisitions of Independent Propane Company and Pro Gas. Additionally, we expended \$2.7 million and \$2.5 million during the six months ended March 31, 2003 and 2002, respectively for additions to property and equipment to accommodate our growing operations.

Cash used in financing activities was \$19.7 million in the six months ended March 31, 2003, compared to \$78.6 million in cash provided by financing activities in the same period 2002. Cash used in financing activities in 2003 included net payments of \$32.3 million compared to net borrowings of \$84.4 million in 2002, under debt agreements, including borrowings and repayments of our revolving working capital and acquisition credit facility. The net payments in 2003 were primarily from net proceeds of \$23.4 million received from the issuance of common units, while the net borrowings in 2002 resulted primarily from the issuance of debt in connection with the Independent Propane Company and Pro Gas acquisitions. Cash paid as distributions to unitholders was \$11.2 million and \$6.5 million in the six months ended 2003 and 2002, respectively.

The following table summarizes our company's long-term debt and operating lease obligations as of March 31, 2003 in thousands of dollars:

	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>4-5 years</u>	<u>After 5 years</u>
Aggregate amount of principal to be paid on the outstanding long-term debt	\$93,747	\$ 1,090	\$5,143	\$36,171	\$51,343
Future minimum lease payments under noncancelable operating leases	7,323	2,089	3,053	1,710	471
Standby letters of credit	3,360	3,360	—	—	—

The following table summarizes the change in the unrealized fair value of our propane contracts related to our risk management activities for the three months and six months ended March 31, 2003 where settlement has not yet occurred (in thousands of dollars):

	<u>Three Months Ended March 31, 2003</u>	<u>Six Months Ended March 31, 2003</u>
Net unrealized losses in fair value of contracts outstanding at beginning of period	\$(2,551)	\$(4,653)
Other unrealized gains and (losses) recognized	2,787	1,994
Less: realized gains and losses recognized	1,136	4,031
Net unrealized gains in fair value of contracts outstanding at March 31, 2003	\$1,372	\$1,372

[Table of Contents](#)

Of the outstanding unrealized gain as of March 31, 2003, contracts with a maturity of less than one year totaled \$1.4 million, and contracts maturing in excess of one year totaled \$0.

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

Seasonality

The retail market for propane is seasonal because it is used primarily for heating in residential and commercial buildings. Approximately 75% of our retail propane volume is sold during the peak heating season from October through March. Consequently, sales and operating profits are generated mostly in the first and fourth calendar quarters of each year.

Description of Credit Facility

Our credit agreement comprises a \$125.0 million facility including a \$50.0 million revolving working capital facility due in December 2004 and a \$75.0 million revolving acquisition facility due in December 2004. This credit agreement accrues interest at either prime rate or LIBOR plus applicable spreads, resulting in interest rates of 3.52% at March 31, 2003. At March 31, 2003, borrowings outstanding under the credit facility were \$4.0 million, all of which was borrowed under the revolving acquisition facility and thus classified as long term in the accompanying consolidated balance sheet. At May 1, 2003, the borrowings outstanding under the credit facility were unchanged from March 31, 2003.

Recent Accounting Pronouncements

At March 31, 2003, we have a unit-based employee compensation plan, which is accounted for under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No unit-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common units on the date of grant. The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to unit-based employee compensation.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for a disposal of a segment of a business. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, with earlier application encouraged. We adopted the provisions of SFAS No. 144 on October 1, 2002. This adoption did not materially affect our company's consolidated financial position or results of operations.

[Table of Contents](#)

The June 2002 consensus reached on EITF No. 02-3 codifies and reconciles existing guidance on the recognition and reporting of gains and losses on energy trading contracts and addresses other aspects of the accounting for contracts involved in energy trading and risk management activities. Among other things, the consensus requires that mark-to-market gains and losses on energy trading contracts should be shown net in the income statement, irrespective of whether the contract is physically settled. This presentation was effective for financial statements issued for periods ending after July 15, 2002. As such, we have reclassified all settled transactions that meet the definition of trading activities net in the income statement to conform to the new presentation required under EITF No. 02-3. We have previously reported these transactions when settled in the income statement at their gross amounts in revenues and cost of product sold. The reclassified amounts for the three months and six months ended March 31, 2002 was \$18.8 million and \$31.2 million, respectively. This required reclassification has no impact on previously reported gross profit, net income or cash provided by (used in) operating activities. Inergy physically delivered approximately 95.3 million and 52.6 million gallons related to transactions considered trading activities as defined by EITF No. 02-3 for the three months ended March 31, 2003 and 2002, respectively, and 198.6 million and 84.3 million gallons for the six months ended March 31, 2003 and 2002, respectively.

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

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

The consensus reached in EITF No. 02-3 rescinding Issue 98-10 requires all derivatives held for trading purposes to be reported on a net basis in the income statement regardless of whether these derivatives are settled physically. These netting requirements are also effective for fiscal periods beginning after December 15, 2002 and have been adopted, as discussed above.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We have long-term debt and a revolving line of credit subject to the risk of loss associated with movements in interest rates. At March 31, 2003, we had floating rate obligations totaling approximately \$4.0 million for amounts borrowed under our credit agreement and an additional \$35.0 million of floating rate obligations as a result of interest rate swap agreements as discussed below. These floating rate obligations expose us to the risk of increased interest expense in the event of increases in short-term interest rates.

Our operating company has five interest rate swap agreements designed to hedge \$35.0 million of our fixed rate senior secured notes, in order to manage interest rate risk exposure and attempt to reduce overall interest expense. The swap agreements, which expire on the same dates as the maturity dates of the related senior secured notes, require the counterparties to pay us an amount based on the stated fixed interest rate on the notes due every three months. In exchange, our operating company is required to make quarterly floating interest rate payments on the same dates to the counterparties based on an annual interest rate equal to the 3 month LIBOR interest rate plus an average spread of approximately 5.00% applied to the same notional amount of \$35.0 million. The swap agreements have been recognized as fair value hedges. Amounts to be received or paid under the agreements are accrued and recognized over the life of the agreements as an adjustment to interest expense. At March 31, 2003, we have recognized the approximate \$1.2 million increase in the fair market value of the related senior secured notes with a corresponding increase in the fair value of its interest rate swaps, which is recorded in other non-current assets. Approximately \$0.1 million and \$0.5 million of the amount related to the three months and six months ended March 31, 2003, respectively.

If the floating rate were to increase by 100 basis points from March 2003 levels, our interest expense would increase by a total of approximately \$0.4 million per year.

Propane Price, Market and Credit Risk

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

The propane industry is a "margin-based" business in which gross profits depend on the excess of sales prices over supply costs. As a result, our profitability will be sensitive to changes in wholesale prices of propane caused by changes in supply or other market conditions. When there are sudden and sharp increases in the wholesale cost of propane, we may not be able to pass on these increases to our customers through retail or wholesale prices. Propane is a commodity and the price we pay for it can fluctuate significantly in response to supply or other market conditions. We have no control over supply

[Table of Contents](#)

or market conditions. In addition, the timing of cost pass-throughs can significantly affect margins. Sudden and extended wholesale price increases could reduce our gross profits and could, if continued over an extended period of time, reduce demand by encouraging our retail customers to conserve or convert to alternative energy sources.

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

Notional Amounts and Terms

The notional amounts and terms of these financial instruments as of March 31, 2003 and September 30, 2002 include fixed price payor for 2.0 million and 3.7 million barrels of propane, respectively, and fixed price receiver for 2.2 million and 5.6 million barrels of propane, respectively. Notional amounts reflect the volume of transactions, but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure our exposure to market or credit risks.

Fair Value

The fair value of the derivative financial instruments related to price risk management activities as of March 31, 2003, and September 30, 2002 was assets of \$5.6 million and \$9.7 million related primarily to propane, respectively, and liabilities of \$4.2 million and \$14.4 million related primarily to propane, respectively. All intercompany transactions have been appropriately eliminated. The market prices used to value these transactions reflect management's best estimate considering various factors including closing exchange and over-the-counter quotations, recent transactions, time value and volatility factors underlying the commitments.

Sensitivity Analysis

A theoretical change of 10% in the underlying commodity value would result in an approximate \$0.1 million change in the market value of the contracts as there were approximately 1.6 million gallons of net unbalanced positions at March 31, 2003.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. Within 90 days prior to the filing of this report, our senior management, including our Chief Executive Officer and our Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Our disclosure controls and procedures are designed to ensure that information we are required to disclose in our periodic filings with the SEC, including annual and quarterly reports such as this report, is reported accurately and suitably within the time periods specified in the SEC's rules and forms. Based upon that evaluation, senior management concluded that our disclosure controls and procedures are effective in causing material information related to us (including our consolidated subsidiaries) to be recorded, processed, summarized and reported on a timely basis and to ensure that the quality and timeliness of our public disclosures comply with applicable disclosure obligations.

(b) Changes in internal controls. There were no significant changes in our internal controls or in other factors that in management's estimation could significantly affect our disclosure controls and procedures after the date of our most recent evaluation.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Use of Proceeds

In March 2003, Inergy issued 805,000 common units in a follow-on offering, resulting in proceeds of \$23.4 million, net of underwriter's discount, commission, and offering expenses. Inergy Partners, LLC contributed \$0.5 million in cash to Inergy, L.P. in conjunction with the issuance in order to maintain its 2% non-managing general partner interest. These funds were primarily used to pay borrowings under our credit agreement.

In conjunction with the December 2001 acquisition of Independent Propane Company, Inc., an escrow was available for uncollected accounts receivable and environmental claims. During the three months ended March 31, 2003, a claim was settled that resulted in collection of approximately \$0.5 million and 2,322 common units. The units were subsequently cancelled, resulting in a reduction in common units outstanding. The escrow has expired, and the remaining funds and shares were released.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

3.1 Certificate of Correction of Certificate of Limited Partnership of Inergy, L.P. and Certificate of Limited Partnership of Inergy, L.P.

10.1 Inergy Long-Term Incentive Plan

99.1 Certification of Chief Executive Officer of Inergy, L.P. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

99.2 Certification of Chief Financial Officer of Inergy, L.P. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

(b) Inergy filed four reports on Form 8-K during the three months ended March 31, 2003.

Form 8-K dated February 5, 2003, was filed regarding the issuance of a press release reporting its first quarter 2003 financial results.

[Table of Contents](#)

Form 8-K dated February 10, 2003, was filed disclosing certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Form 8-K dated February 27, 2003, was filed disclosing the balance sheet of Inergy GP, LLC as of September 30, 2002; the Auditor's Report dated November 15, 2002, on the balance sheet of Inergy GP, LLC; and the Consent of Independent Auditors dated February 27, 2003.

Form 8-K dated February 27, 2003, was filed reporting the public offering of 700,000 common units and an additional 105,000 common units to the underwriter.

SIGNATURE

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

Date: May 12, 2003

INERGY, L.P

By: INERGY GP, LLC
(its managing general partner)

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

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

CERTIFICATIONS

I, John J. Sherman, certify that:

1. I have reviewed this Form 10-Q of Inergy, L.P.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ John J. Sherman

John J. Sherman
President and Chief Executive Officer

CERTIFICATIONS

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

1. I have reviewed this Form 10-Q of Inergy, L.P.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ R. Brooks Sherman, Jr.

R. Brooks Sherman, Jr.
Senior Vice President and Chief Financial Officer

CERTIFICATE OF LIMITED PARTNERSHIP OF INERGY, L.P.

This Certificate of Limited Partnership, dated March 7, 2001, has been duly executed and is filed pursuant to Section 17-201 of the Delaware Revised Uniform Limited Partnership Act (the "Act") to form a limited partnership under the Act.

1. NAME. The name of the limited partnership is "Inergy, L.P."
2. REGISTERED OFFICE; REGISTERED AGENT. The address of the registered office required to be maintained by Section 17-104 of the Act is:
1209 Orange Street
Wilmington, Delaware 19801

The name and the address of the registered agent for service of process required to be maintained by Section 17-104 of the Act are:

The Corporation Trust Company
1209 Orange Street
Wilmington, Delaware 19801

3. GENERAL PARTNER. The name and the business, residence or mailing address of the general partner are:

Inergy GP, LLC
1101 Walnut, Suite 1500
Kansas City, Missouri 64106

EXECUTED as of the date written first above.

INERGY GP, LLC

By: /s/ JOHN J. SHERMAN

Name: John J. Sherman
Title: President

INERGY LONG TERM INCENTIVE PLAN
(Amended and Restated)

SECTION 1
INTRODUCTION

- 1.1 *Establishment.* Inergy Holdings, LLC, a Delaware limited liability company (“Holdings”), originally established, effective June 1, 2001, the Inergy Long Term Incentive Plan (the “Plan”) for certain employees, non-employee directors and consultants of Holdings, Inergy GP, LLC, a Delaware limited liability company (“Inergy GP”), Inergy, L.P., a Delaware limited partnership (the “Partnership”), and their Affiliates.

Effective May 1, 2002, Holdings assigned and transferred its position and title as plan sponsor of this Plan, as well as its right, title and interest in all outstanding Unit Option Agreements issued hereunder, to Inergy GP. Inergy GP has accepted its title and position as successor plan sponsor of this Plan.

- 1.2 *Purpose.* The purpose of this Plan is to encourage employees of the Partnership, Holdings, Inergy GP, and their Affiliates to acquire a proprietary and vested interest in the growth and performance of the Partnership. The Plan is also designed to assist the Partnership, Holdings, Inergy GP and their Affiliates in attracting and retaining employees, non-employee directors and consultants by providing them with the opportunity to participate in the financial success and profitability of the Partnership.

SECTION 2
DEFINITIONS

- 2.1 Capitalized terms used in this document shall have the meanings as defined in Appendix A to this Plan.
- 2.2 *Gender and Number.* Except when otherwise indicated by the context, the masculine gender shall also include the feminine gender, and the definition of any term herein in the singular shall also include the plural.

SECTION 3
PARTICIPATION

- 3.1 Participants in the Plan shall be those Service Providers, who, in the judgment of the Committee, are performing, or during the term of their incentive arrangement will perform, important services in the management, operation and financial success of Holdings, Inergy GP or the Partnership, and significantly contribute, or are expected to significantly contribute, to the achievement of long-term economic objectives. Participants may be granted from time to time one or more Awards; provided, however, that the grant of each such Award shall be separately approved by the Committee, and receipt of one such Award shall not result in the automatic receipt of any other Award, and written notice shall be given to such person, specifying the terms, conditions, rights and duties related thereto. Each Participant shall enter into an Award Agreement(s) with

Inergy GP, in such form as the Committee shall determine and which is consistent with the provisions of the Plan, specifying such terms, conditions, rights and duties. Unless otherwise explicitly stated in the Award Agreement, Awards shall be deemed to be granted as of the date specified in the grant resolution of the Committee, which date shall be the date of any related agreement(s) with the Participant.

SECTION 4
UNIT OPTIONS

4.1 *Grant of Options.* A Participant may be granted one or more Options. The Committee may grant an Option to the same Participant at the same time or at different times. Options shall be clearly identified, and in no event shall the exercise of one Option affect the right to exercise any other Option or affect the number of Units for which any other Option may be exercised.

4.2 *Terms of Options.* Each Option granted under the Plan shall be evidenced by a written Option Award Agreement which shall be entered into by Inergy GP and the Participant to whom the Option is granted (the "Option Holder"), and which shall be subject to the following terms and conditions, as well as such other terms and conditions not inconsistent therewith, as the Committee may consider appropriate in each case.

- (a) *Number of Units.* Each Option Award Agreement shall state that it covers a specified number of Units, as determined by the Committee.
- (b) *Price.* Each Option Award Agreement shall state the price at which the Units covered by the Option may be purchased. Such price shall be determined in each case by the Committee and may be more or less than the Units' Fair Market Value as of the Date of Grant.
- (c) *Duration of Options and Exercisability.* Each Option Award Agreement shall state the duration of the Option and the extent to which it shall become exercisable. Under no circumstances, however, except in the event of a Change of Control, shall an Option be exercisable prior to the end of the Subordination Period for the Senior Subordinated Units (as defined in the Partnership Agreement) except at the same time and in the same proportion as such Senior Subordinated Units are converted into Common Units. Unless otherwise provided in an Option Award Agreement, the Option Period shall be ten years from the Option's Date of Grant. If any Option is not exercised during its Option Period, it shall be deemed to have been forfeited and of no further force or effect.

To the extent that an Option Award Agreement does not state the extent to which the Option shall become exercisable, the following rules shall apply:

Subject to the Restriction Period provided below in Section 4.2(c)(iii), and subject to subsections (c)(i) and (c)(ii), no Option granted under the Plan shall become exercisable until the fifth (5th) anniversary of an Option's Date of Grant. In the event of a Change in Control, all Options shall become immediately exercisable.

- (i) Subject to subsection (c)(iii), in the event that an Option Holder ceases to be a Service Provider because of the Option Holder's death or Disability,

the Option shall be deemed to be vested according to the following schedule based upon the number of years that have elapsed since the Option's Date of Grant:

<u>Anniversary of Option's Date of Grant</u>	<u>Percentage Exercisable</u>
1st	40%
2nd	60%
3rd	80%
4th and beyond	100%

- (ii) Subject to subsection (c)(iii), in the event that an Option Holder ceases to be a Service Provider because of the termination of the Option Holder's service by his or her employer without Cause, the Option shall be deemed to be vested according to the following schedule based upon the number of years that have elapsed from the Option's Date of Grant.

<u>Anniversary of Option's Date of Grant</u>	<u>Percentage Exercisable</u>
1st	20%
2nd	40%
3rd	60%
4th	80%
5th and beyond	100%

- (iii) Notwithstanding the number of years that have elapsed from an Option's Date of Grant, in no event shall an Option be exercisable prior to the end of the Subordination Period for the Senior Subordinated Units (as defined in the Partnership Agreement) except (i) at the same time and in the same proportion as such Senior Subordinated Units are converted into Common Units, and (ii) upon a Change in Control.

- (d) *Termination of Service, Death, Disability, etc.* Each Option Award Agreement may state the period of time the Option, to the extent already exercisable, may be exercised after a Participant ceases to be a Service Provider on account of the Service Provider's death, Disability, retirement, removal from the Board or separation from service with or without Cause. To the extent that an Option Award Agreement does not state the period of time the Option (or a portion thereof) may be exercised after a Participant ceases to be a Service Provider, the following rules shall apply:

- (i) If the Participant ceases to be a Service Provider within the Option Period due to the termination of the Participant's service (or removal as a non-employee director) for Cause, the Option may be exercised by the Participant within 10 days following the Participant's termination of service or removal as a non-employee director. If the Option is not exercised within such 10 day period, the Option shall thereafter be void for

all purposes. The effect of this Section 4.2(d)(i) shall be limited to determining the conditions under which an Option may be rendered null and void, and nothing in this Section 4.2(d)(i) shall restrict or otherwise interfere with the employer's discretion with respect to the termination of any Service Provider's employment or continuance as a director.

- (ii) If the Participant ceases to be a Service Provider in a manner determined by the Committee, in its sole discretion, to constitute retirement (which determination shall be communicated to the Option Holder), the Option, to the extent vested, may be exercised by the Participant within twelve months following the Participant's retirement (provided that such exercise must occur within the Option Period), but not thereafter. In the event that the Participant retires while the Option is non-exercisable because the Subordination Period for the Senior Subordinated Units has not yet ended, the Option will remain exercisable (only to the extent the Option was vested at the time of retirement) for a period of six months following the end of such Subordination Period or twelve months following retirement, whichever is longer.
- (iii) If the Participant dies (A) while he or she is a Service Provider, or (B) within the twelve-month period referred to in clause (ii) above, the Option, to the extent vested, may be exercised by those Beneficiaries entitled to do so within twelve months following the Participant's death (provided that such exercise must occur within the Option Period), but not thereafter. In the event that the Participant dies while the Option is non-exercisable because the Subordination Period for the Senior Subordinated Units has not yet ended, the Option will remain exercisable (only to the extent the Option was vested at the time of the Option Holder's death) for a period of six months following the end of such Subordination Period or twelve months following the Participant's death, whichever is longer.

To the extent the Participant dies within the twelve-month period referred to in clause (iv) below or the six-month period referred to in clause (v) below, the Option, to the extent vested, may be exercised by those Beneficiaries entitled to do so solely within the time period that the Participant could have exercised the Option if the Participant were still alive, including any extensions due to the Subordination Period for the Senior Subordinated Units having not yet ended.

- (iv) If the Participant becomes Disabled while a Service Provider, Options held by the Participant, to the extent vested, may be exercised by the Participant within twelve months following the date of the Participant's Disability (provided that such exercise must occur within the Option Period), but not thereafter. In the event that the Participant becomes Disabled while the Option is non-exercisable because the Subordination Period for the Senior Subordinated Units has not yet ended, the Option will remain exercisable (only to the extent the Option was vested at the time of the Disability) for a period of six months following the end of such Subordination Period or

twelve months following the date of the Participant's Disability, whichever is longer.

- (v) If the Participant ceases to be a Service Provider within the Option Period due to the (A) Participant's voluntary resignation, or (B) termination of the Participant's service or the removal of the Participant from the Board without Cause, the Option may be exercised by the Participant within 6 months following the date of such cessation (provided that such exercise must occur within the Option Period), but not thereafter. In the event that the Option is non-exercisable within such 6 month period because the Subordination Period for the Senior Subordinated Units has not yet ended, the Option will remain exercisable (only to the extent the Option was vested at the time of the Option Holder's cessation of service) for a period of 6 months following the end of the Subordination Period for the Senior Subordinated Units or 6 months following the date of the Option Holder's voluntary resignation or separation from service or removal from the Board without Cause, whichever is longer.
- (e) *Transferability.* Except as otherwise determined by the Committee and as provided in Section 9.3, Options shall not be transferable by the Option Holder except by will or pursuant to the laws of descent and distribution; each Option shall be exercisable during the Option Holder's lifetime only by him or her, or in the event of Disability or incapacity, by his or her guardian or legal representative; and Units issuable pursuant to any Option shall be delivered only to or for the account of the Option Holder, or in the event of Disability or incapacity, by his or her guardian or legal representative.
- (f) *Exercise, Payments, etc.* Each Option Award Agreement may set forth the acceptable method(s) under which the Option may be exercised and the permissible payment method(s) for exercising the Option granted therein. Unless otherwise provided in the Award Agreement, acceptable payment methods under this Plan include, but are not limited to: (i) cash; (ii) cashier's check payable to the order of Inergy GP; (iii) a "cashless broker" exercise; (iv) by delivery of other securities or other property; (v) a recourse note from the Option Holder; or (vi) any combination thereof having a Fair Market Value on the exercise date equal to the relevant exercise price. The exercise of the Option shall be deemed effective upon receipt of such notice by Inergy GP and payment to Inergy GP.
- (g) *Date of Grant.* Unless otherwise specifically specified in the Option Award Agreement, an Option shall be considered as having been granted on the date specified in the grant resolution of the Committee.
- (h) *Vesting Commencement Date.* An Option Award Agreement may provide for a Vesting Commencement Date. An Option's Vesting Commencement Date may be the same as or different from the Option's Date of Grant. Unless otherwise provided in the Award Agreement, the Vesting Commencement Date is the Date of Grant.

- 4.3 *Adjustment of Options.* Subject to the limitations contained in this Section 4 and Section 11, the Committee may make any adjustment in the Option Price, the number of Units subject to, or the terms of, an outstanding Option and a subsequent granting of an Option by amendment or by substitution of an outstanding Option. Such amendment, substitution, or re-grant may result in terms and conditions (including Option Price, number of Units covered, Restriction Period or Option Period) that differ from the terms and conditions of the original Option. The Committee may not, however, adversely affect the rights of any Option Holder to previously granted Options without the consent of such Option Holder.
- 4.4 *Member Privileges.* No Option Holder shall have any rights as a limited partner with respect to any Unit covered by an Option until the Option Holder becomes the holder of record of such Unit, and no adjustments shall be made for distributions, dividends or other rights as to which there is a record date preceding the date such Option Holder becomes the holder of record of such Units, except as provided in Section 8.4.

**SECTION 5
PHANTOM UNITS**

- 5.1 *Awards Granted by Committee.* Coincident with or following designation for participation in the Plan, a Participant may be granted one or more Phantom Unit Awards consisting of Phantom Units. The number of Units granted as a Phantom Unit Award shall be determined by the Committee.
- 5.2 *Restrictions/Vesting.* Phantom Units received by a Holder will be subject to a Restricted Period. The terms of such Restricted Period shall be set forth in the Phantom Unit Award Agreement along with the conditions under which the Phantom Units may become vested or forfeited and may include, without limitation, the accelerated vesting upon the achievement of specified performance goals, and such other terms and conditions as the Committee may establish with respect to such Awards, including whether DERs are granted with respect to such Phantom Units. A Holder's right to sell, encumber or otherwise transfer such Phantom Unit shall be subject to the limitations of Section 10 hereof. The Committee may in its sole discretion decide the methods of enforcing the restrictions referred to in Section 5.2 and 5.3.
- 5.3 *Termination of Service, Death, Disability, etc.* In the event of the death or Disability of a Participant, or in the event the Participant ceases to be a Service Provider in a manner determined by the Committee, in its sole discretion, to constitute retirement, the Restricted Period and other restrictions applicable to Phantom Unit Awards then held by the Holder shall lapse, and such Awards shall become fully nonforfeitable. Subject to Section 6, in the event a Participant ceases to be a Service Provider for any other reason, any Phantom Unit Awards then held by the Holder and as to which the Restricted Period or other restrictions have not been satisfied shall be forfeited.

**SECTION 6
REORGANIZATION, CHANGE IN CONTROL OR LIQUIDATION**

- 6.1 *General.* In the event of a Change in Control, or in the event Holdings, the Partnership, the Non-Managing GP or Inergy GP shall become a party to any corporate or partnership

merger, consolidation, split-up, spin-off, reorganization or liquidation, the Committee, or the board of directors of any corporation or partnership assuming the obligations of Holdings, the Partnership, the Non-Managing GP or Inergy GP, shall have the full power and discretion to prescribe and amend the terms and conditions for the exercise, or modification, of any outstanding Awards granted hereunder. The Committee may remove restrictions on Phantom Units and may modify the requirements for any other Awards. The Committee may provide that Options or other Awards granted hereunder must be exercised in connection with the closing of such transactions, and that if not so exercised such Awards will expire. Any such determinations by the Committee may be made generally with respect to all Participants, or may be made on a case-by-case basis with respect to particular Participants.

- 6.2 *Unit Options.* By way of illustration, and not by way of limitation, in the event of a Change in Control, or in the event Holdings, the Partnership, the Non-Managing GP or Inergy GP shall become a party to any corporate or partnership merger, consolidation, split-up, spin-off, reorganization or liquidation, the Committee may, without obtaining the approval of other limited partners or Inergy GP, (A) provide for the complete or partial acceleration of any time periods relating to the exercise of any outstanding Option so that such Option may be exercised in full on or before the date such Option would otherwise have been exercisable; (B) in all such events other than a liquidation, cause any Option then outstanding to be assumed by the surviving entity in such transaction; (C) require the mandatory surrender to Inergy GP by any Option Holder of some (in all such events other than a liquidation) or all of the outstanding Options held by an Option Holder (irrespective of whether such Options are then exercisable under the provisions of the Plan) as of a date specified by Inergy GP or the surviving corporation, in which event or the surviving entity shall thereupon cancel such Options and pay to each Option Holder an amount of cash per share equal to the amount that could have been attained upon the exercise of such Option or realization of the Option Holder's rights had such Option been currently exercisable or payable to the extent that such cash is available for distribution to Option Holders after payment of all debt and senior securities of the Partnership (including the payment of \$1 for any and all Options which are underwater); (D) in all such events other than a liquidation, require the substitution of a new Option for some or all of the outstanding Options held by an Option Holder (irrespective of whether such Options are then exercisable under the provisions of the Plan) provided that any replacement or substituted Option shall be equivalent in economic value to the Option Holder; or (E) in all such events other than a liquidation, make such adjustment to any such Option then outstanding as Inergy GP deems appropriate to reflect such merger, consolidation, split-up, spin-off, reorganization or liquidation.
- 6.3 *Phantom Units.* By way of illustration, and not by way of limitation, in the event of a Change in Control, or in the event Holdings, the Partnership or Inergy GP shall become a party to any corporate or partnership merger, consolidation, split-up, spin-off, reorganization or liquidation, the Committee may, without obtaining the approval of the other limited partners or Inergy GP, eliminate all restrictions with respect to Phantom Units and deliver Units free of restrictive legends to any Participant.

**SECTION 7
PLAN ADMINISTRATION**

- 7.1 *Authority of Committee.* The Plan shall be administered by the Committee. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Committee shall have full power and authority to: (i) select the Service Providers to whom Awards may from time to time be granted hereunder; (ii) determine the type or types of Awards to be granted to eligible Service Providers; (iii) determine the number of Units to be covered by, or with respect to which payments, rights, or other matters are to be calculated in connection with, Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, and to what extent, and under what circumstances Awards may be settled or exercised in cash, Units, other Awards or other property, (vi) determine whether, and to what extent, and under what circumstance Awards may be canceled, forfeited, or suspended and the method or methods by which Awards may be settled, exercised, canceled, forfeited, or suspended; (vii) determine whether, to what extent, and under what circumstances cash, Units, other Awards, other property, and other amounts payable with respect to an Award shall be deferred either automatically or at the election of the holder thereof or of the Committee; (viii) determine whether, to what extent, and under what circumstances Awards may be transferred under circumstances other than by transfer by will or by the laws of descent and distribution; (ix) correct any defect, supply an omission, reconcile any inconsistency and otherwise interpret and administer the Plan and any Award Agreement relating to the Plan or any Award hereunder; (x) modify and amend the Plan, establish, amend, suspend, or waive such rules, regulations and procedures of the Plan, and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (xi) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. A majority of the members of the Committee may determine its actions and fix the time and place of its meetings.
- 7.2 *Determination Under the Plan.* Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive, and binding upon all persons, including Holdings, Inergy GP, the Partnership, any Participant, any Holder, and any shareholder. No member of the Committee shall be liable for any action, determination or interpretation made in good faith, and all members of the Committee shall, in addition to their rights as directors, be fully protected by the Partnership with respect to any such action, determination or interpretation.

**SECTION 8
UNITS SUBJECT TO THE PLAN**

- 8.1 *Number of Units.* The maximum number of Units that may be issued under the Plan is 867,550. No more than 282,800 Units may be issued pursuant to Phantom Unit Awards.
- 8.2 *Unused and Forfeited Units.* Any Unit that is subject to an Award under this Plan that is not issued or is forfeited because the terms and conditions of the Award are not met, or

because such Award is terminated or canceled, shall automatically become available for use with respect to future Awards under the Plan.

- 8.3 *Sources of Units Deliverable Under Awards.* Any Units delivered pursuant to an Award shall consist, in whole or in part, of Units acquired in the open market, from any Affiliate, the Partnership or other combination of the foregoing, as determined by the Committee in its discretion.
- 8.4 *Adjustments for Change in Capitalization.* In the event that the Committee determines that any distribution (whether in the form of cash, Units, other securities, or other property), liquidation, recapitalization, unit split, stock split, reverse split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Units or other securities of the Partnership, issuance of warrants or other rights to purchase Units or other securities of the Partnership, or other similar transaction or event affects the Units such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Units (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Units (or other securities or property) subject to outstanding Awards, and (iii) the grant or exercise price with respect to any Award or, if deemed appropriate, make provision for a cash payment to the Holder of an outstanding Award; provided, that the number of Units subject to any Award shall always be a whole number.
- 8.5 *Determination by Committee, etc.* Adjustments under this Section 8 shall be made by the Committee, whose determinations with regard thereto shall be final and binding upon all persons.

SECTION 9 RIGHTS OF EMPLOYEES; PARTICIPANTS

- 9.1 *Employment.* Nothing contained in the Plan or in any Award granted under the Plan shall confer upon any Participant any right with respect to the continuation of his or her services as a Service Provider or interfere in any way with the right of his or her employer, subject to the terms of any separate employment or consulting agreement to the contrary, at any time to terminate such services or to increase or decrease the compensation of the Participant from the rate in existence at the time of the grant of an Award. Whether an authorized leave of absence, or absence in military or government service, shall constitute a termination of the Participant's services as a Service Provider shall be determined by the Committee at the time.
- 9.2 *Nontransferability.* Except as provided in Section 9.3, no right or Unit of any Holder in an Award granted pursuant to the Plan shall be assignable or transferable during the lifetime of the Holder either voluntarily or involuntarily, or be subjected to any lien, directly or indirectly, by operation of law, or otherwise, including execution, levy, garnishment, attachment, pledge or bankruptcy. In the event of a Holder's death, a Holder's rights and Units in all Options and Phantom Units shall to the extent permitted by the Committee and as provided for under this Plan, be transferable by testamentary will or the laws of descent and distribution, and payment of any amounts due under the

Plan shall be made to, and exercise of any Options may be made by, the Holder's legal representatives, heirs or legatees. If, in the opinion of the Committee, a person entitled to payments or to exercise rights with respect to the Plan is disabled from caring for his or her affairs because of a mental condition, physical condition or age, payment due such person may be made to, and such rights shall be exercised by, such person's guardian, conservator, or other legal personal representative upon furnishing the Committee with evidence satisfactory to the Committee of such status.

- 9.3 *Permitted Transfers.* Pursuant to conditions and procedures established by the Committee from time to time, the Committee may permit Options to be transferred to, exercised by and paid to certain persons or entities related to a Participant, including but not limited to members of the Participant's immediate family, charitable institutions, or trusts or other entities whose beneficiaries or beneficial owners are members of the Participant's immediate family and/or charitable institutions. In the case of initial Options, at the request of the Participant, the Committee may permit the naming of the related person or entity as the Option recipient. Any permitted transfer shall be subject to the condition that the Committee receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes on a gratuitous or donative basis and without consideration (other than nominal consideration).

SECTION 10 GENERAL RESTRICTIONS

- 10.1 *Investment Representations.* Inergy GP may require any person to whom an Option or other Award is granted, as a condition of exercising such Option or receiving Units under the Award, to give written assurances in substance and form satisfactory to Inergy GP and its counsel to the effect that such person is acquiring the Unit subject to the Option or the Award for his own account for investment and not with any present intention of selling or otherwise distributing the same, and to such other effects as Inergy GP deems necessary or appropriate in order to comply with federal and applicable state securities laws. Legends evidencing such restrictions may be placed on the certificates evidencing the Unit.
- 10.2 *Compliance with Securities Laws.* Each Award shall be subject to the requirement that, if at any time counsel to the Partnership shall determine that the listing, registration or qualification of the Units subject to such Award upon any securities exchange or under any state or federal law, or the consent or approval of any governmental or regulatory body, is necessary as a condition of, or in connection with, the issuance or purchase of Units thereunder, such Award may not be accepted or exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained on conditions acceptable to the Committee. Nothing herein shall be deemed to require the Partnership to apply for or to obtain such listing, registration or qualification.
- 10.3 *Unit Restriction Agreement.* The Committee may provide that Units issuable upon the exercise of an Option shall, under certain conditions, be subject to restrictions whereby Inergy GP has a right of first refusal with respect to such Units or a right or obligation to repurchase all or a portion of such Units, which restrictions may survive a Participant's cessation or termination as a Service Provider.

**SECTION 11
PLAN AMENDMENT, MODIFICATION AND TERMINATION**

- 11.1 The Committee may at any time terminate, and from time to time may amend or modify, the Plan; provided, however, that no amendment or modification may become effective without approval of the amendment or modification by Inergy GP if Inergy GP's approval is required to enable the Plan to satisfy any applicable statutory or regulatory requirements, or if Inergy GP, on the advice of counsel, determines that Inergy GP's approval is otherwise necessary or desirable. No amendment to the Plan may be made without the approval of the Unit Majority (as defined in the Partnership Agreement) that would either accelerate vesting to prior to the end of the Subordination Period for the Senior Subordinated Units, except as provided in the current definition of Restriction Period, or (ii) permit DERs to be granted prior to the end of such Subordination Period.

No amendment, modification or termination of the Plan shall in any manner adversely affect any Awards theretofore granted under the Plan, without the consent of the Holder holding such Awards.

**SECTION 12
WITHHOLDING**

- 12.1 *Withholding Requirement.* Inergy GP's obligations to deliver Units upon the exercise of an Option, or upon the vesting of any other Award, shall be subject to the Holder's satisfaction of all applicable federal, state and local income and other tax withholding requirements.

**SECTION 13
NONEXCLUSIVITY OF THE PLAN**

- 13.1 The acceptance by Inergy GP of the sponsorship of the Plan shall not be construed as creating any limitations on the power or authority of Inergy GP to adopt such other or additional incentive or other compensation arrangements of whatever nature as Inergy GP may deem necessary or desirable or preclude or limit the continuation of any other plan, practice or arrangement for the payment of compensation or fringe benefits to employees, non-employee directors, or consultants generally, or to any class or group of employees, directors, or consultants, which Inergy GP now has lawfully put into effect, including, without limitation, any retirement, pension, savings and stock purchase plan, insurance, death and disability benefits and executive short-term incentive plans.

**SECTION 14
REQUIREMENTS OF LAW**

- 14.1 *Requirements of Law.* The issuance of Units and the payment of cash pursuant to the Plan shall be subject to all applicable laws, rules and regulations.
- 14.2 *Rule 16b-3.* Transactions under the Plan and to the extent even applicable within the scope of Rule 16b-3 are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of the Plan or any action by the Committee under the Plan fails to so comply, such provision or action shall, without further action by any person, be deemed to be automatically amended to the extent necessary to effect compliance with

Rule 16b-3; provided, however, that if such provision or action cannot be amended to effect such compliance, such provision or action shall be deemed null and void to the extent permitted by law and deemed advisable by the Committee.

- 14.3 *Governing Law.* The Plan and all agreements hereunder shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to conflict of laws principles.

SECTION 15
DURATION OF THE PLAN

- 15.1 This Plan shall continue and be in effect until terminated by the Board. No Award shall be granted under the Plan after the Plan is terminated; provided, however, that any Award theretofore granted may be amended, altered, adjusted, suspended, discontinued, or terminated by the Committee and the Committee's authority to waive any conditions or rights under any such Award shall extend beyond the Plan's termination date.

**APPENDIX A
DEFINITIONS**

For purposes of the Plan the following terms shall have the meanings set forth below.

- (a) “*1934 Act*” means the Securities Exchange Act of 1934, as amended. Reference to a specific section of the 1934 Act or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing, or superseding such section or regulation.
- (b) “*Affiliate*” means, with respect to any Person, any other Person that directly or indirectly through one or more intermediaries controls, is controlled by or is under common control with, the Person in question. As used herein, the term “control” means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.
- (c) “*Award*” means an Option or Phantom Unit granted under the Plan, and shall include any tandem DERs granted with respect to a Phantom Unit.
- (d) “*Award Agreement*” means a written agreement or instrument between the Partnership and a Holder evidencing an Award.
- (e) “*Beneficiary*” means the Person who has been designated by a Holder in his or her most recent written beneficiary designation filed with Inergy GP or an Affiliate thereof to receive the benefits specified under this Plan upon the death of the Holder, or, if there is no designated Beneficiary or surviving designated Beneficiary, then the Person entitled by will or the laws of descent and distribution to receive such benefits.
- (f) “*Board*” means the Board of Directors of Inergy GP.
- (g) “*Cause*” means (i) willful failure by the Participant to carry out the reasonable and lawful policies and directives of Holdings, Inergy GP, the Partnership or their Affiliates; (ii) willful engaging by the Participant in misconduct that causes material injury to, or damages the reputation of, Holdings, Inergy GP, the Partnership or one of their Affiliates, as determined in good faith by the Committee; (iii) any act of dishonesty of the Participant; (iv) commission by the Participant of a criminal offense, other than a minor traffic misdemeanor; (v) any use by the Participant of an illegal controlled substance; or (vi) excessive absenteeism other than for illness, after receiving a warning in writing from Holdings, Inergy GP, the Partnership or one of their Affiliates to refrain from such behavior.
- (h) “*Change in Control*” shall be deemed to have occurred upon the occurrence of one of the following events: (i) any sale, lease, exchange or other transfer (in one or a series of related transactions) of all or substantially all of the assets of the Non-Managing GP or the Partnership to any Person or its Affiliates, other than Inergy GP, the Partnership or any of their Affiliates, or (ii) any merger, reorganization,

consolidation or other transaction pursuant to which more than 50% of the combined voting power of the equity interests in Inergy GP or the Non-Managing GP cease to be controlled by Holdings.

- (i) “*Code*” means the Internal Revenue Code of 1986, as it may be amended from time to time, and the rules and regulations promulgated thereunder.
- (j) “*Committee*” means the Compensation Committee of the Board or such other committee of the Board appointed by the Board to administer the Plan.
- (k) “*Date of Grant*” means, with respect to any Award, the date as of which such Award is granted under the Plan.
- (l) “*DER*” means a contingent right, granted in tandem with a specific Phantom Unit, to receive an amount in cash equal to the cash distributions made by the Partnership with respect to a Unit during the period such Phantom Unit is outstanding.
- (m) “*Disability*” or “*Disabled*” means disabled as defined in Section 22(e) of the Code, except that Disability or Disabled may, subject to the discretion of the Committee, mean qualifying for and receiving payments under a disability pay plan of Holdings, Inergy GP, the Partnership or one of their Affiliates.
- (n) “*Effective Date*” means June 1, 2001.
- (o) “*Fair Market Value*” means the closing sales price of a Unit on the applicable date (or if there is no trading in the Units on such date, on the next preceding date on which there was trading) as reported in The Wall Street Journal (or other reporting service approved by the Committee). In the event Units are not publicly traded at the time a determination of fair market value is required to be made hereunder, the determination of fair market value shall be made in good faith by the Committee.
- (p) “*General Partner*” means Inergy GP, LLC, a Delaware limited liability company.
- (q) “*Holder*” means a Participant or a Beneficiary who is in possession of an Award Agreement representing an Award that has been granted to such individual (or received by such individual in a transfer permitted by Committee and the Award Agreement) and has not expired, been canceled or terminated.
- (r) “*Holdings*” means Inergy Holdings, LLC, a Delaware limited liability company.
- (s) “*Non-Managing GP*” means Inergy Partners, LLC, a Delaware limited liability company.
- (t) “*Option*” means a right to purchase a Unit at a stated price for a specified period of time.
- (u) “*Option Period*” means a period of time from the Option Date of Grant to the date the Option is scheduled to expire as provided under the Option Award Agreement.
- (v) “*Option Price*” means the price at which a Unit subject to an Option may be purchased, determined in accordance with Section 4.2(b).

- (w) “*Partnership*” means Inergy, L.P., a Delaware limited partnership, and any of its Affiliates.
- (x) “*Partnership Agreement*” means the Amended and Restated Agreement of Limited Partnership of Inergy, L.P., as amended from time to time.
- (y) “*Participant*” means a Service Provider designated by the Committee from time to time during the term of the Plan to receive one or more Awards under the Plan.
- (z) “*Person*” means an individual or a corporation, limited liability company, partnership, joint venture, trust, unincorporated organization, association, governmental agency or political subdivision thereof or other entity.
- (aa) “*Phantom Unit*” means a phantom (notional) Unit granted under the Plan which upon vesting entitles the Participant to receive a Unit or an amount of cash equal to the Fair Market Value of a Unit, whichever is determined by the Committee.
- (bb) “*Plan*” means the Inergy Long Term Incentive Plan, as set forth in this instrument and as hereafter amended from time to time.
- (cc) “*Plan Year*” means each 12-month period beginning January 1 and ending the following December 31, except that for the first year of the Plan it shall begin on the Effective Date and extend to December 31 of that year.
- (dd) “*Restricted Period*” means the period established by the Committee with respect to an Award during which the Award remains subject to forfeiture and is not exercisable by or payable to the Participant; provided, however, the Restricted Period with respect to any Award may not terminate prior to the end of the Subordination Period for senior subordinated Units (as defined in the Partnership Agreement) except (i) at the same time and in the same proportion as such senior subordinated units are converted into Common Units, and (ii) upon a Change in Control.
- (ee) “*Rule 16b-3*” means Rule 16b-3 promulgated under the 1934 Act, and any future regulation amending, supplementing, or superseding such regulation.
- (ff) “*Section 16 Person*” means a person who, with respect to a Unit, is subject to Section 16 of the 1934 Act.
- (gg) “*Service Provider*” means an employee (full or part-time), non-employee director or consultant of Holdings, Inergy GP, Partnership, or any of their Affiliates who renders service to or for the benefit of Inergy GP or the Partnership.
- (hh) “*Unit*” means a Common Unit of the Partnership.

Certification of Chief Executive Officer

I, John J. Sherman, President and Chief Executive Officer of Inergy, L.P. (the "Company"), do hereby certify in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (a) The Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003, which this certification accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (b) The information contained in the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003, which this certification accompanies, fairly presents, in all material aspects, the financial condition and results of operations of the Company.

Dated: May 12, 2003.

/s/ JOHN J. SHERMAN

John J. Sherman
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Inergy, L.P. and will be retained by Inergy, L.P. and furnished to the Securities and Exchange Commission or its staff upon request.

Certification of Chief Financial Officer

I, R. Brooks Sherman, Jr., Senior Vice President and Chief Financial Officer of Inergy, L.P. (the "Company"), do hereby certify in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (a) The Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003, which this certification accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (b) The information contained in the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003, which this certification accompanies, fairly presents, in all material aspects, the financial condition and results of operations of the Company.

Dated: May 12, 2003.

/s/ R. BROOKS SHERMAN, JR.

R. Brooks Sherman, Jr.
Senior Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Inergy, L.P. and will be retained by Inergy, L.P. and furnished to the Securities and Exchange Commission or its staff upon request.