
**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 June 30, 2004

OR

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

For the transition period from _____ to _____.

COMMISSION FILE NUMBER: 0-32453

Inergy, L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

43-1918951
(IRS Employer
Identification No.)

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

64112
(Zip code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the last 90 days. Yes No

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

The following units were outstanding at August 2, 2004:

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

INERGY, L.P. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	June 30, 2004 (Unaudited)	September 30, 2003
	(In Thousands)	
Assets		
Current assets:		
Cash	\$ 8,009	\$ 3,528
Accounts receivable, less allowance for doubtful accounts of \$1,700,000 and \$997,000 at June 30, 2004 and September 30, 2003, respectively	35,724	21,841
Inventories	25,358	35,722
Prepaid expenses and other current assets	5,761	3,957
Assets from price risk management activities	12,105	8,905
	<hr/>	<hr/>
Total current assets	86,957	73,953
Property, plant and equipment, at cost:		
Land and buildings	19,324	14,265
Office furniture and equipment	9,913	8,614
Vehicles	30,126	21,986
Tanks and plant equipment	171,286	135,040
	<hr/>	<hr/>
	230,649	179,905
Less accumulated depreciation	(33,204)	(22,704)
	<hr/>	<hr/>
Property, plant and equipment, net	197,445	157,201
Intangible assets:		
Covenants not to compete	11,009	8,752
Deferred financing costs	5,282	8,843
Customer accounts	69,454	59,951
Goodwill	72,079	64,546
	<hr/>	<hr/>
	157,824	142,092
Less accumulated amortization	(15,486)	(12,383)
	<hr/>	<hr/>
Intangible assets, net	142,338	129,709
Other	222	1,530
	<hr/>	<hr/>
Total assets	\$ 426,962	\$ 362,393
	<hr/>	<hr/>

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

	June 30, 2004 <i>(Unaudited)</i>	September 30, 2003
	<i>(In Thousands)</i>	
Liabilities and partners' capital		
Current liabilities:		
Accounts payable	\$ 43,136	\$ 22,733
Accrued expenses	14,985	11,919
Customer deposits	4,642	11,830
Liabilities from price risk management activities	9,425	5,801
Current portion of long-term debt	1,379	12,449
Total current liabilities	73,567	64,732
Long-term debt, less current portion	111,629	118,678
Partners' capital:		
Common unitholders (14,669,822 and 11,044,822 units issued and outstanding as of June 30, 2004 and September 2003, respectively)	199,431	129,168
Senior subordinated unitholders (7,135,252 units issued and outstanding)	39,979	46,842
Junior subordinated unitholders (1,145,084 units issued and outstanding)	(1,242)	(141)
Non-managing general partner (2% interest)	3,598	3,114
Total partners' capital	241,766	178,983
Total liabilities and partners' capital	\$ 426,962	\$ 362,393

See accompanying notes.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Revenue:				
Propane	\$ 57,540	\$ 35,331	\$ 345,787	\$ 292,823
Other	12,175	4,150	34,578	14,998
	<u>69,715</u>	<u>39,481</u>	<u>380,365</u>	<u>307,821</u>
Cost of product sold	52,728	28,414	275,941	228,078
Gross profit	16,987	11,067	104,424	79,743
Expenses:				
Operating and administrative	20,027	12,057	60,514	43,441
Depreciation and amortization	5,591	3,362	15,267	10,097
Operating income (loss)	(8,631)	(4,352)	28,643	26,205
Other income (expense):				
Interest expense, net	(1,443)	(2,263)	(5,810)	(7,399)
Write-off of deferred financing costs (Note 3)	—	—	(1,216)	—
Make whole premium charge (Note 3)	—	—	(17,949)	—
Swap value received (Note 3)	—	—	949	—
Gain (loss) on sale of property, plant and equipment	143	(96)	(136)	(86)
Finance charges	238	147	591	236
Other	6	48	84	99
Income (loss) before income taxes	(9,687)	(6,516)	5,156	19,055
Provision for income taxes	113	32	164	102
Net income (loss)	<u>\$ (9,800)</u>	<u>\$ (6,548)</u>	<u>\$ 4,992</u>	<u>\$ 18,953</u>
Partners' interest information for the three and nine months ended June 30, 2004 and 2003:				
Non-managing general partners' interest in net income (loss)	<u>\$ (196)</u>	<u>\$ (131)</u>	<u>\$ 100</u>	<u>\$ 379</u>
Limited partners' interest in net income (loss):				
Common unit interest	\$ (5,728)	\$ (3,489)	\$ 3,012	\$ 9,576
Senior subordinated unit interest	(3,340)	(2,497)	1,620	7,672
Junior subordinated unit interest	(536)	(431)	260	1,326
Total limited partners' interest in net income (loss)	<u>\$ (9,604)</u>	<u>\$ (6,417)</u>	<u>\$ 4,892</u>	<u>\$ 18,574</u>
Net income (loss) per limited partner unit:				
Basic	\$ (0.42)	\$ (0.38)	\$ 0.23	\$ 1.16
Diluted	\$ (0.42)	\$ (0.38)	\$ 0.22	\$ 1.14
Weighted average limited partners' units outstanding:				
Basic	22,950	17,032	21,551	16,044
Diluted	<u>22,950</u>	<u>17,032</u>	<u>22,011</u>	<u>16,276</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, 2003	\$ 129,168	\$ 46,842	\$ (141)	\$ 3,114	\$ 178,983
Net proceeds from issuance of common units	83,290	—	—	—	83,290
Contribution from non-managing general partner	—	—	—	1,790	1,790
Distributions	(15,988)	(8,456)	(1,357)	(1,404)	(27,205)
Comprehensive income:					
Net income	3,012	1,620	260	100	4,992
Foreign currency translation	(51)	(27)	(4)	(2)	(84)
Comprehensive income					4,908
Balance at June 30, 2004	<u>\$ 199,431</u>	<u>\$ 39,979</u>	<u>\$ (1,242)</u>	<u>\$ 3,598</u>	<u>\$ 241,766</u>

See accompanying notes.

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

	Nine Months Ended June 30,	
	2004	2003
Operating activities		
Net income	\$ 4,992	\$ 18,953
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	10,925	7,116
Amortization	4,342	2,981
Amortization of deferred financing costs	1,197	1,045
Provision for doubtful accounts	484	619
Write-off of deferred financing costs	1,216	—
Make whole premium charge	17,949	—
(Gain) loss on disposal of property, plant and equipment	136	86
Net asset (liabilities) from price risk management activities	424	(4,476)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(10,543)	(5,651)
Inventories	11,524	22,391
Prepaid expenses and other current assets	(1,792)	1,594
Other assets	43	(4)
Accounts payable	15,195	(2,340)
Accrued expenses	768	984
Customer deposits	(7,238)	(5,349)
Net cash provided by operating activities	49,622	37,949
Investing activities		
Acquisitions, net of cash acquired	(56,698)	(19,804)
Purchases of property, plant and equipment	(10,005)	(3,902)
Deferred financing and acquisition costs incurred	(901)	(577)
Proceeds from sale of property, plant and equipment	1,572	490
Net cash used in investing activities	(66,032)	(23,793)

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

	Nine Months Ended June 30,	
	2004	2003
Financing activities		
Proceeds from issuance of long-term debt	\$ 268,138	\$ 102,995
Principal payments on long-term debt	(287,089)	(123,355)
Payment of make whole premium charge	(17,949)	—
Contribution from non-managing general partner	1,790	511
Net proceeds from issuance of common units	83,290	23,350
Distributions	(27,205)	(17,685)
Net cash provided by (used in) financing activities	20,975	(14,184)
Effect of foreign exchange rate changes on cash	(84)	6
Net increase (decrease) in cash	4,481	(22)
Cash at beginning of period	3,528	2,088
Cash at end of period	\$ 8,009	\$ 2,066
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	\$ 4,773	\$ 6,531
Supplemental schedule of noncash investing and financing activities		
Acquisition of NGL business through the issuance of obligations	\$ 1,970	\$ —
Acquisition of retail propane company through the issuance of common units	\$ —	\$ 100
Additions to covenants not to compete through the issuance of noncompete obligations	\$ 2,096	\$ 1,243
Increase (decrease) in the fair value of senior secured notes and the related interest rate swap	\$ (316)	\$ 1,373

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

Basis of Presentation

The financial information as of June 30, 2004 and for the three-month and nine-month periods ended June 30, 2004 and 2003 contained herein is unaudited. The Company believes this information has been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and Article 10 of Regulation S-X. The Company also believes this information includes all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods then ended. The retail distribution business is largely seasonal due to propane’s primary use as a heating source in residential and commercial buildings. Accordingly, the results of operations for the three-month and nine-month periods ended June 30, 2004 and 2003 are not indicative of the results of operations that may be expected for the entire year.

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

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

Note 2 – Accounting Policies

Financial Instruments and Price Risk Management

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

SFAS No. 133 requires recognition of all derivative instruments in the balance sheets and measures them at fair value. If a derivative does not qualify for hedge accounting, it must be adjusted to fair value through earnings. Beginning in December 2002, certain of Inergy's commodity derivative financial instruments have been designated as hedges of selected inventory positions, and qualify as fair value hedges, as defined in SFAS No. 133. For derivative instruments designated as hedges, Inergy uses regression analysis to formally assess, both at the hedge contract's inception and on an ongoing basis, whether the hedge contract is highly effective in offsetting changes in fair value of hedged items. Changes in the fair value of derivative instruments designated as fair value hedges are reported in the balance sheet as price risk management assets or liabilities. The ineffective portions of hedging derivatives are recognized immediately in cost of product sold. At June 30, 2004, the fair value of approximately 21.5 million gallons of propane inventory was being hedged by various commodity derivatives with a fair value of \$1.3 million recorded as a liability from price risk management activities in accordance with Inergy's hedging strategies. Changes in the fair value of derivative instruments that are not designated as hedges are recorded in current period earnings in accordance with SFAS No. 133. The fair value of derivatives not designated as hedges are determined based on quoted market prices, current transactions or similar commodities with similar counterparties, or other calculations based on observable market inputs.

During the three months and nine months ended June 30, 2004, Inergy recognized a net loss of \$0.1 million and a net gain of \$0.0 million, respectively, related to the ineffective portion of its hedging instruments and net losses of \$0.2 million related to the portion of the hedging instruments Inergy excluded from its assessment of hedge effectiveness.

The cash flow impact of financial instruments is reflected as cash flows from operating activities in the consolidated statements of cash flows.

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

Note 2 – Accounting Policies (continued)

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

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

Revenue Recognition

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

Expense Classification

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

Use of Estimates

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

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

Note 2 – Accounting Policies (continued)*Inventories*

Inventories for retail operations, which mainly consist of liquid propane, are stated at the lower of cost, determined using the average-cost method, or market. Wholesale propane inventories are stated at the lower of cost, determined using the average-cost method, or market unless designated as being hedged by forward sales contracts, as discussed above, in which case the inventories are marked to market. Wholesale propane inventories being hedged and carried at market were \$14.8 million and \$28.9 million at June 30, 2004 and September 30, 2003, respectively.

Inventories consist of (in thousands):

	<u>June 30, 2004</u>	<u>September 30, 2003</u>
Propane gas and other liquids	\$ 21,528	\$ 32,247
Appliances, parts and supplies	3,830	3,475
	<u>\$ 25,358</u>	<u>\$ 35,722</u>

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

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

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Numerator:				
Net income (loss)	\$ (9,800)	\$ (6,548)	\$ 4,992	\$ 18,953
Less: Non-Managing General Partner's interest in net income (loss)	(196)	(131)	100	379
Limited partners' interest in net income (loss) – basic and diluted	<u>\$ (9,604)</u>	<u>\$ (6,417)</u>	<u>\$ 4,892</u>	<u>\$ 18,574</u>
Denominator:				
Weighted average limited partners' units outstanding – basic	22,950	17,032	21,551	16,044
Effect of dilutive unit options outstanding	—	—	460	232
Weighted average limited partners' units outstanding – dilutive	<u>22,950</u>	<u>17,032</u>	<u>22,011</u>	<u>16,276</u>
Net income (loss) per limited partner unit:				
Basic	<u>\$ (0.42)</u>	<u>\$ (0.38)</u>	<u>\$ 0.23</u>	<u>\$ 1.16</u>
Diluted	<u>\$ (0.42)</u>	<u>\$ (0.38)</u>	<u>\$ 0.22</u>	<u>\$ 1.14</u>

As the effects of including the incremental units associated with options are antidilutive for the quarters ended June 30, 2004 and 2003, both basic earnings per unit and diluted earnings per unit reflect the same calculation. Weighted average antidilutive unit options outstanding totaled 453,472 and 286,932 for the quarters ended June 30, 2004 and 2003, respectively.

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

Note 2 – Accounting Policies (continued)*Accounting for Unit-Based Compensation*

Inergy has a unit-based employee compensation plan, which is accounted for under the recognition and measurement principles of APB Opinion No. 25, “Accounting for Stock Issued to Employees” for all periods presented and presents the fair value method pro forma disclosures required under the provisions of SFAS No. 123, “Accounting for Stock-Based Compensation,” as amended by SFAS No. 148 “Accounting for Stock-Based Compensation – Transition and Disclosure.” No unit-based employee compensation cost is reflected in net income (loss), as all options granted under the plan had an exercise price equal to the market value of the underlying Common Units on the date of grant. The following table illustrates the effect on net income (loss) and net income (loss) per limited partner unit as if Inergy had applied the fair value recognition provisions of SFAS No. 123, to unit-based employee compensation. For purposes of pro forma disclosures, the estimated fair value of an option is amortized to expense over the option’s vesting period. Inergy’s pro forma information for each of the three and nine month periods ended June 30, 2004 and 2003 is as follows (in thousands, except per unit data):

	Three Month Ended June 30,		Nine Months ended June 30,	
	2004	2003	2004	2003
Net income (loss) as reported	\$ (9,800)	\$ (6,548)	\$ 4,992	\$ 18,953
Deduct: Total unit-based employee compensation expense determined under fair value method for all awards	55	45	166	111
Pro forma net income (loss)	\$ (9,855)	\$ (6,593)	\$ 4,826	\$ 18,842
Pro forma limited partners’ interest in net income (loss) for the three and nine month periods ended June 30, 2004 and 2003	\$ (9,659)	\$ (6,462)	\$ 4,726	\$ 18,463
Net income (loss) per limited partner unit:				
Basic – as reported	\$ (0.42)	\$ (0.38)	\$ 0.23	\$ 1.16
Basic – pro forma	\$ (0.42)	\$ (0.38)	\$ 0.22	\$ 1.15
Pro forma net income (loss) per limited partner unit:				
Diluted – as reported	\$ (0.42)	\$ (0.38)	\$ 0.22	\$ 1.14
Diluted – pro forma	\$ (0.42)	\$ (0.38)	\$ 0.22	\$ 1.13

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

Note 2 – Accounting Policies (continued)*Reclassifications*

Certain reclassifications have been made to the consolidated financial statements for the three and nine months ended June 30, 2003 to conform to the three and nine months ended June 30, 2004.

Note 3 – Long-Term Debt

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

	June 30, 2004	September 30, 2003
Credit agreement:		
Working Capital Facility	\$ 129	\$ 15,500
Acquisition Facility	107,604	25,524
Senior secured notes (including interest rate swap liability)	—	86,265
Obligations under noncompetition agreements and notes to former owners of businesses acquired	5,272	3,833
Other	3	5
	<u>113,008</u>	<u>131,127</u>
Less current portion	1,379	12,449
	<u>\$ 111,629</u>	<u>\$ 118,678</u>

Effective in May 2004, Inergy Propane, LLC executed an Amended and Restated Credit Agreement (the “Amended Facility”) with its existing lenders in addition to others. The Amended Facility consists of a \$75 million revolving working capital facility and a \$225 million revolving acquisition facility. The Amended Facility expires in July 2006 and carries terms, conditions and covenants substantially similar to the previous credit agreement. The Amended Facility is also guaranteed by Inergy, L.P.

Inergy is required to reduce the principal outstanding on the revolving working capital line of credit to \$4 million or less for a minimum of 30 consecutive days during the period commencing March 1 and ending September 30. As such, \$4 million of the outstanding balance at September 30, 2003 and the \$0.1 million balance at June 30, 2004, have been classified as long-term liabilities in the accompanying consolidated balance sheets. At June 30, 2004 and September 30, 2003, the total balance outstanding under this Amended Facility was \$107.7 million and \$41.0 million, respectively, including \$0.1 million and \$15.5 million, respectively, under the working capital facility. The prime rate and LIBOR plus the applicable spreads were between 3.15% and 4.00% at June 30, 2004, and between 3.11% and 4.00% at September 30, 2003, for all outstanding debt under the credit agreement.

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

Note 3 – Long-Term Debt (continued)

In June 2002, Inergy entered into a note purchase agreement with a group of institutional lenders pursuant to which it issued \$85.0 million aggregate principal amount of senior secured notes with a weighted average interest rate of 9.07% and a weighted average maturity of 5.9 years. The senior secured notes consisted of the following: \$35 million principal amount of 8.85% senior secured notes with a 5-year maturity, \$25.0 million principal amount of 9.10% senior secured notes with a 6-year maturity, and \$25.0 million principal amount of 9.34% senior secured notes with a 7-year maturity. The net proceeds from these senior secured notes were used to repay a portion of the amount outstanding under the credit facility. The funds from a public unit offering, together with net new borrowings under the revolving credit facility were used to repay in full \$85.0 million aggregate principal amount of senior secured notes, plus a make whole premium charge of approximately \$17.9 million in January 2004. All interest rate swap agreements were cancelled in conjunction with the repayment of \$85 million of senior secured notes. The make whole premium charge of \$17.9 million was recorded as a charge to earnings in the quarter ended March 31, 2004 together with the write-off of the \$1.2 million deferred financing costs associated with the senior secured notes, partially offset by a \$0.9 million gain from the cancellation of the interest rate swaps.

The Amended Facility contains several covenants which, among other things, require the maintenance of various financial performance ratios, restrict the payment of distributions to unitholders, and require financial reports to be submitted periodically to the financial institutions. Unused borrowings under the Amended Facility amounted to \$188.2 million and \$154.9 million at June 30, 2004 and September 30, 2003, respectively.

The aggregate amounts of principal to be paid on the outstanding long-term debt during the next five years ending June 30 and thereafter, are as follows, in thousands of dollars:

2005	\$ 1,379
2006	743
2007	108,349
2008	1,176
2009	609
Thereafter	752
	<hr/>
	\$ 113,008

INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 3 – Long-Term Debt (continued)

In August 2002, Inergy Propane, LLC (the “Operating Company”) entered into two interest rate swap agreements scheduled to mature in June 2008 and June 2009, respectively, each designed to hedge \$10 million in underlying fixed rate senior secured notes, in order to manage interest rate risk exposure and reduce overall interest expense. In October 2002, the Operating Company entered into three additional interest rate swap agreements scheduled to mature in June 2007, June 2008, and June 2009, each designed to hedge \$5 million in underlying fixed rate senior secured notes. These swap agreements, which were scheduled to expire on the same dates as the maturity dates of the related senior secured notes, required the counterparty to pay us an amount based on the stated fixed interest rate on the notes due every three months. In exchange, the Operating Company was required to make quarterly floating interest rate payments on the same dates to the counterparty based on an annual interest rate equal to the 3 month LIBOR interest rate plus spreads between 4.83% and 5.02% applied to the same notional amount of \$35 million. The swap agreements have been recognized as fair value hedges. Amounts to be received or paid under the agreements were accrued and recognized over the life of the agreements as an adjustment to interest expense. Inergy, L.P. recognized the approximate \$1.3 million increase in the fair market value of the related senior secured notes at September 30, 2003, with a corresponding increase in the fair value of its interest rate swaps, which was recorded in other non-current assets. In January 2004, all interest rate swap agreements were cancelled in conjunction with the repayment of \$85 million of senior secured notes.

Note 4 – Two-for-One Unit Split

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

INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 5 – Quarterly Distributions of Available Cash

On May 14, 2004, a quarterly distribution of \$0.405 per limited partner unit was paid to its unitholders of record on May 7, 2004 with respect to the second fiscal quarter of 2004, which totaled \$9.9 million. Inergy distributed \$0.415 per limited partner unit on August 13, 2004 to unitholders of record on August 6, 2004, for a total distribution of \$10.2 million with respect to its third fiscal quarter of 2004.

Inergy distributed \$0.365 per limited partner unit on May 15, 2003 to unitholders of record on May 8, 2003, for a total distribution of \$6.4 million with respect to its second fiscal quarter of 2003. On August 14, 2003, Inergy distributed \$0.375 per limited partner unit to its unitholders of record on August 7, 2003, for a total distribution of \$7.5 million with respect to its third 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 June 30, 2004, the total of these firm purchase commitments was approximately \$78.2 million.

At June 30, 2004, Inergy was contingently liable for letters of credit outstanding totaling \$4.1 million, which guarantee various transactions.

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

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

Note 7 – Segments

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

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

The following segment information is presented in thousands of dollars:

	Three Months Ended June 30, 2004			
	Retail Sales Operations	Wholesale Sales Operations	Intersegment Eliminations	Total
Revenues	\$ 30,873	\$ 49,205	\$ (10,363)	\$ 69,715
Gross profit	14,673	2,314	—	16,987
Identifiable assets	19,103	41,979	—	61,082

	Three Months Ended June 30, 2003			
	Retail Sales Operations	Wholesale Sales Operations	Intersegment Eliminations	Total
Revenues	\$ 21,687	\$ 25,756	\$ (7,962)	\$ 39,481
Gross profit	10,694	373	—	11,067
Identifiable assets	14,698	23,355	—	38,053

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

Note 7 – Segments (continued)

Nine Months Ended June 30, 2004

	Retail Sales Operations	Wholesale Sales Operations	Intersegment Eliminations	Total
Revenues	\$ 187,591	\$ 278,994	\$ (86,220)	\$ 380,365
Gross profit	90,613	14,421	(610)	104,424
Identifiable assets	19,103	41,979	—	61,082

Nine Months Ended June 30, 2003

	Retail Sales Operations	Wholesale Sales Operations	Intersegment Eliminations	Total
Revenues	\$ 150,778	\$ 220,354	\$ (63,311)	\$ 307,821
Gross profit	73,099	7,638	(994)	79,743
Identifiable assets	14,698	23,355	—	38,053

INERGY, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 8 – Subsequent Events

Effective in July 2004, Inergy acquired the assets of Highland Propane Company, an operating subsidiary of RGC Resources, Inc. Highland Propane, with headquarters in Roanoke, Virginia represents less than 10% of consolidated total assets and partners' capital.

On August 13, 2004, 1,656,684 senior subordinated units converted on a one-for-one basis to common units. The conversion of senior subordinated units does not impact the amount of cash distributions paid or the total number of limited partnership units outstanding.

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

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

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

Overview

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

In January 2004, we acquired the assets of a retail propane company, Dorsey Propane Gas Company, with headquarters in Nashville, Georgia. In February 2004, we acquired the assets of a retail propane company, Direct Propane Inc., with headquarters in Norristown, Pennsylvania. In March 2004, we acquired the assets of two more retail propane companies; Premier Propane, LLC, with headquarters in

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Richmond, Virginia and Hancock Gas Company, Inc., with headquarters in Scotland Neck, North Carolina. These four retail propane companies acquired in the three-months ended March 31, 2004 represent less than 10% of our consolidated revenues, consolidated assets and partners' capital.

In April 2004, Inergy acquired the assets of two retail propane companies, Hometown Propane Gas located in central Arkansas and Gaylord Gas, Inc. located in Michigan. In May of 2004, Inergy acquired the assets of Burnwell Gas Corporation, and affiliates Sullivan County Gas Service, Inc. and Sarpol Gas Corporation located in the Hudson Valley area of New York. In June of 2004, we acquired the assets of Midland Gas Company, Inc., with headquarters in Sumter, South Carolina and the assets of Petersen Propane Company located in the greater Chicago, Illinois market. The retail companies acquired in the three-months ended June 30, 2004 represent less than 10% of our consolidated revenues, consolidated assets and partners' capital.

The retail distribution business is largely seasonal due to propane's primary use as a heating source in residential and commercial buildings. As a result, operating income is highest when customers purchase propane during the six-month peak heating season of October through March. The operating expenses incurred in the normal course of business with the acquisitions in the nine-months ended June 30, 2004, combined with the off season, as described above, have contributed to the increased net losses for the three-months ended June 30, 2004 as compared to the same period in 2003. We generally experience net losses in the six-month, off season of April through September. During the three-months and nine-months ended June 30, 2004 the weather was approximately 18% and 11% warmer in our retail areas of operations as compared to the same periods in 2003, respectively.

The retail propane business is a "margin-based" business where the level of profitability is largely dependent on the difference between sales prices and product cost. The unit cost of propane is subject to volatile changes as a result of product supply or other market conditions. Propane unit cost changes can occur rapidly over a short period of time and can impact margins as sales prices may not change as rapidly. There is no assurance that we will be able to fully pass on product cost increases, particularly when product costs increase rapidly. We have generally been successful in passing on higher propane costs to our customers and have historically maintained or increased our gross margin per gallon over the long term in periods of rising costs.

We believe our wholesale supply, marketing and distribution business complements our retail distribution business. Through our wholesale operations, we distribute propane and also offer price risk management services. We engage in hedging transactions to reduce the effect of price volatility on our product costs and to help ensure the availability of propane during periods of short supply. In October 2003, we expanded our wholesale and supply operations by acquiring from Link Energy, LLC (formerly known as EOTT Energy, L.P.) its west coast NGL business (Inergy Services), which includes natural gas processing, NGL fractionation, NGL rail and truck terminals, bulk storage, trucking and marketing operations. We believe Inergy Services complements our existing U.S. and Canadian wholesale and supply operations. Our wholesale profit margin during the three-months and nine-months ended June 30, 2004 was \$2.3 million and \$13.8 million, respectively, an increase from \$0.4 million and \$6.6 million in the same periods of 2003. This increase was primarily attributable to our Inergy Services acquisition.

Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003

Volume. During the three months ended June 30, 2004, we sold 18.2 million retail gallons of propane, an increase of 37% over the 13.4 million retail gallons sold during the same three-month period in 2003. The increase in retail sales volume was principally due to acquisitions, partially offset by lower retail gallon sales at existing locations as a result of deferral of purchases by our customers due to the higher wholesale cost of propane.

Wholesale gallons delivered during the three months ended June 30, 2004 was 53.7 million gallons, as compared to 32.6 million gallons during the same three-month period in 2003. This increase was primarily attributable to increased volume sales to existing customers in our wholesale operations, and to a lesser extent, wholesale sales volumes through Inergy Services.

Revenues. Revenues in the three months ended June 30, 2004 were \$69.7 million, an increase from \$39.5 million during the same period in 2003.

Revenues from retail sales were \$29.7 million (after elimination of sales to our wholesale operations) in the three months ended June 30, 2004, an increase of 42% from \$20.9 million during the same three-month period in 2003. This increase was primarily attributable to acquisition-related volume and higher selling prices of propane, as a result of the higher cost of propane. Revenues from retail sales consist of retail propane sales, transportation revenues, tank rentals, heating oil sales, and appliance sales and service.

Revenues from wholesale sales were \$40.0 million (after elimination of sales to our retail operations) in the three months ended June 30, 2004, compared to \$18.6 million during the same three-month period in 2003. This increase was primarily attributable to our Inergy Services acquisition, the higher cost of propane and the volume increase generated in our wholesale propane operations.

Cost of Product Sold. Cost of product sold in the three months ended June 30, 2004 was \$52.7 million, compared to \$28.4 million in the same period in 2003. This increase was primarily attributable to an increase in retail acquisition-related volume, higher wholesale cost of propane, production costs associated with our Inergy Services acquisition, and wholesale volume.

Gross Profit. Retail gross profit was \$14.7 million in the three months ended June 30, 2004 compared to \$10.7 million during the same three-month period in 2003. This increase was primarily attributable to an increase in acquisition-related volume and an increase in margin per gallon. Wholesale gross profit was \$2.3 million in the three months ended June 30, 2004 compared to \$0.4 million in fiscal 2003. This increase was primarily attributable to the Inergy Services acquisition and increased wholesale volumes partially offset by a decrease in margin per gallon.

Operating and Administrative Expenses. Operating and administrative expenses increased to \$20.0 million in the three months ended June 30, 2004 as compared to \$12.1 million in the same three-month period in 2003. This increase was primarily attributable to increased personnel and operating expenses as a result of acquisitions.

Depreciation and Amortization. Depreciation and amortization increased to \$5.6 million in the three months ended June 30, 2004 from \$3.4 million in the same three-month period in 2003, primarily as a result of acquisition activity.

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Interest Expense. Interest expense decreased to \$1.4 million in the three-month period ended June 30, 2004 as compared to \$2.3 million in the same period of 2003. Interest expense decreased primarily due to a decrease in debt outstanding including the January 2004 early retirement of the \$85.0 million senior secured notes, and lower average interest rates.

Net Income (loss). Net loss increased to \$9.8 million for the three months ended June 30, 2004 from a loss of \$6.5 million in the same three-month period in 2003. This increase in net loss is primarily due to the increased operating costs associated with the acquisitions during the current period and warmer weather incurred as well as the deferral of gallon purchases by customers in the three months ended June 30, 2004 as compared to the same period in 2003.

EBITDA. For the three months ended June 30, 2004, income (loss) before interest, taxes, depreciation and amortization was \$(2.7) million compared to \$(0.9) million in the same period in 2003. EBITDA is defined as income before taxes, plus net interest expense (inclusive of write-off of deferred financing costs, make whole premium charge, less gain from termination of interest rate swap agreement) and depreciation and amortization expense. EBITDA should not be considered an alternative to net income, income before income taxes, cash flows from operating activities, or any other measure of financial performance calculated in accordance with generally accepted accounting principles as those items are used to measure operating performance, liquidity or ability to service debt obligations. EBITDA is presented because such information is relevant and is used by management, industry analysts, investors, lenders and rating agencies to assess the financial performance and operating results of our fundamental business activities. We believe that the presentation of EBITDA is useful to lenders and investors because of its use in the propane industry and for master limited partnerships as an indicator of the strength and performance of the ongoing business operations, including the ability to fund capital expenditures, service debt and pay distributions. Additionally, we believe that EBITDA provides useful information to our investors for trending, analyzing and benchmarking our operating results as compared to other companies that may have different financing and capital structures. The presentation of EBITDA allows investors to view our performance in a manner similar to the methods used by management and provides additional insight to our operating results.

	Three Months Ended June 30,	
	2004	2003
	(in thousands)	
EBITDA:		
Net loss	\$(9,800)	\$(6,548)
Interest expense, net	1,443	2,263
Provision for income taxes	113	32
Depreciation and amortization	5,591	3,362
EBITDA	\$(2,653)	\$ (891)

Nine Months Ended June 30, 2004 Compared to Nine Months Ended June 30, 2003

Volume. During the nine months ended June 30, 2004, we sold 117.4 million retail gallons of propane, an increase of 18% over the 99.8 million retail gallons sold during the same nine-month period in 2003. The increase in retail sales volume was principally due to acquisitions, partially offset by lower retail gallon sales at existing locations as a result of weather in the nine-month period ended June 30, 2004 that was approximately 11% warmer than the same period in 2003.

Wholesale gallons delivered during the nine months ended June 30, 2004 was 290.1 million gallons, as compared to 239.0 million gallons during the same nine-month period in 2003. This increase was primarily attributable to increased volume sales to existing customers in our wholesale operations, and to a lesser extent, wholesale sales volumes through Inergy Services.

Revenues. Revenues in the nine months ended June 30, 2004 were \$380.4 million, an increase from \$307.8 million during the same period in 2003.

Revenues from retail sales were \$181.7 million (after elimination of sales to our wholesale operations) in the nine months ended June 30, 2004, an increase from \$145.2 million during the same nine-month period in 2003. This increase was primarily attributable to acquisition-related volume and higher selling prices of propane, as the result of higher cost of propane. Revenues from retail sales consist of retail propane sales, transportation revenues, tank rentals, heating oil sales, and appliance sales and service.

Revenues from wholesale sales were \$198.7 million (after elimination of sales to our retail operations) in the nine months ended June 30, 2004, compared to \$162.6 million during the same nine-month period in 2003. This increase was primarily attributable to our Inergy Services acquisition and the volume increase generated by our wholesale operations.

Cost of Product Sold. Cost of product sold in the nine months ended June 30, 2004 was \$275.9 million, compared to \$228.1 million in the same period in 2003. This increase was primarily attributable to an increase in retail acquisition-related volume, production costs associated with our Inergy Services acquisition, and increased gallon sales volume.

Gross Profit. Retail gross profit was \$90.6 million (after elimination of gross profit attributable to our wholesale operations) in the nine months ended June 30, 2004 compared to \$73.1 million during the same nine-month period in 2003. This increase was primarily attributable to an increase in acquisition-related volume and an increase in margin per gallon. Wholesale gross profit was \$13.8 million (after elimination of gross profit attributable to our retail operations) in the nine months ended June 30, 2004 compared to \$6.6 million in fiscal 2003. This increase was attributable to the Inergy Services acquisition and increased wholesale volumes partially offset by a decrease in margin per gallon.

Operating and Administrative Expenses. Operating and administrative expenses increased to \$60.5 million in the nine months ended June 30, 2004 as compared to \$43.4 million in the same nine-month period in 2003. This increase was primarily attributable to increased personnel and operating expenses as a result of acquisitions.

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Depreciation and Amortization. Depreciation and amortization increased to \$15.3 million in the nine months ended June 30, 2004 from \$10.1 million in the same nine-month period in 2003, primarily as a result of acquisition activity.

Interest Expense. Interest expense decreased to \$5.8 million in the nine-month period ended June 30, 2004 as compared to \$7.4 million in the same period of 2003. Interest expense decreased primarily due to a decrease in debt outstanding including the January 2004 early retirement of the \$85.0 million senior secured notes, and lower average interest rates.

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

Net Income. Net income decreased to \$5.0 million for the nine months ended June 30, 2004 from \$19.0 million in the same nine-month period in 2003. Net income decreased primarily as a result of the charges associated with the early repayment of the senior secured notes through an equity offering, offset partially by the accretive earnings associated with our retail acquisitions and our Inergy Services acquisition.

EBITDA. For the nine months ended June 30, 2004, income before interest, taxes, depreciation and amortization was \$44.4 million compared to \$36.6 million in the same period in 2003. EBITDA is defined as income before taxes, plus net interest expense (inclusive of write-off of deferred financing costs, make whole premium charge, less gain from termination of interest rate swap agreement) and depreciation and amortization expense. EBITDA should not be considered an alternative to net income, income before income taxes, cash flows from operating activities, or any other measure of financial performance calculated in accordance with generally accepted accounting principles as those items are used to measure operating performance, liquidity or ability to service debt obligations. EBITDA is presented because such information is relevant and is used by management, industry analysts, investors, lenders and rating agencies to assess the financial performance and operating results of our fundamental business activities. We believe that the presentation of EBITDA is useful to lenders and investors because of its use in the propane industry and for master limited partnerships as an indicator of the strength and performance of the ongoing business operations, including the ability to fund capital expenditures, service debt and pay distributions. Additionally, we believe that EBITDA provides useful information to our investors for trending, analyzing and benchmarking our operating results as compared to other companies that may have different financing and capital structures. The presentation of EBITDA allows investors to view our performance in a manner similar to the methods used by management and provides additional insight to our operating results.

	Nine Months Ended June 30,	
	2004	2003
	(in thousands)	
EBITDA:		
Net income	\$ 4,992	\$18,953
Interest expense, net	5,810	7,399
Write off of deferred financing costs	1,216	—
Make whole premium charge	17,949	—
Swap value received	(949)	—
Provision for income taxes	164	102
Depreciation and amortization	15,267	10,097
EBITDA	\$44,449	\$36,551

Liquidity and Sources of Capital

Cash flows provided by operating activities of \$49.6 million in the nine months ended June 30, 2004 consisted primarily of: net income of \$5.0 million, net non-cash charges of \$18.2 million (principally related to depreciation and amortization of \$15.3 million), a make whole premium charge of \$17.9 million associated with the early repayment of the senior secured notes and an increase in cash flows of \$8.4 million associated with the changes in operating assets and liabilities, including assets and liabilities from price risk management activities. The source of cash associated with the changes in operating assets and liabilities is primarily due to the \$15.2 million increase in accounts payable and an \$11.5 million reduction in inventory, partially offset by an increase of \$12.3 million in accounts receivable and prepaid expenses and other current assets, and a \$7.2 million decrease in customer deposits. These changes are attributable to the seasonal nature of our business and our retail and wholesale growth. Cash flows provided by operations of \$37.9 million in the same nine-month period of 2003 consisted primarily of net income of \$19.0 million, net non-cash charges of \$11.8 million (principally related to depreciation and amortization of \$10.1 million) and \$7.2 million associated with the changes in operating assets and liabilities, including net liabilities from price risk management activities. The source of cash associated with the changes in operating assets and liabilities in the 2003 period was due primarily to a \$22.4 million decrease in propane inventory, partially offset by decreases in accounts payable and customer deposits and an increase in accounts receivable.

Cash used in investing activities was \$66.0 million in the nine months ended June 30, 2004 as compared to \$23.8 million in the same period of 2003. Investing activities during the nine months ended June 30, 2004 included a use of cash of \$56.7 million for the acquisitions of EOTT Energy, L.P.'s west coast NGL business and fourteen retail propane companies, and \$10.0 million of purchases of property plant and equipment. Investing activities in the 2003 period included a use of cash of \$19.8 million for the acquisitions of seven retail companies and five locations from a regional marketer and \$3.9 million of purchases of property, plant and equipment.

Cash provided by financing activities was \$21.0 million in the nine months ended June 30, 2004, compared to a use of cash of \$14.2 million in the same period of 2003. Cash used in financing activities in 2004 included net payments of \$19.0 million compared to net payments of \$20.4 million in 2003,

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under long-term debt agreements, including borrowings and repayments of our revolving working capital and acquisition credit facility and the early repayment in full of our senior secured notes during the nine-months ended June 30, 2004. The early repayment of our senior secured notes resulted in a make whole premium payment to the lenders in the amount of \$17.9 million. Cash paid as distributions to unitholders was \$27.2 million and \$17.7 million in the nine months ended June 30, 2004 and 2003, respectively.

The following table summarizes our company's long-term debt and operating lease obligations as of June 30, 2004 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	\$ 113,008	\$ 1,379	\$ 109,092	\$ 1,785	\$ 752
Future minimum lease payments under noncancelable operating leases	14,931	3,524	5,381	3,741	2,285
Standby letters of credit	4,101	4,101			

In January and February 2004, Inergy issued 3,625,000 common units in a public offering, resulting in proceeds of approximately \$83.3 million, net of underwriters' discounts, commissions, and offering expenses. Additionally, Inergy Partners, LLC contributed \$1.8 million in cash to Inergy, L.P. in conjunction with the issuance in order to maintain its 2% non-managing general partner interest. These funds were used to repay indebtedness under our revolving credit facility, which was incurred for acquisitions and funding of growth capital expenditures and, together with net new borrowings under the revolving credit facility, to repay in full \$85.0 million aggregate principal amount of senior secured notes, plus a prepayment premium of approximately \$17.9 million. All interest rate swap agreements were cancelled in conjunction with the repayment of \$85 million of senior secured notes.

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The following table summarizes the change in the unrealized fair value of our energy contracts related to our risk management activities for the three and nine months ended June 30, 2004 where settlement has not yet occurred (in thousands of dollars):

	Three Months Ended June 30, 2004	Nine Months Ended June 30, 2004
Net unrealized gains and (losses) in fair value of contracts outstanding at beginning of period	\$ 3,565	\$ 3,104
Initial recorded value of new contracts entered into during the period	—	2,723
Change in fair value of contracts attributable to market movement during the year	(569)	(4,054)
Realized (gains)/losses recognized	(316)	907
Net unrealized gains in fair value of contracts outstanding at June 30, 2004	<u>\$ 2,680</u>	<u>\$ 2,680</u>

Of the outstanding unrealized gain as of June 30, 2004, all contracts had a maturity of less than one year.

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

Seasonality

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

Description of Credit Facility

Effective May 2004, Inergy executed an Amended and Restated Credit Agreement (the "Amended Facility") with its existing lenders in addition to others. The Amended Facility consists of a \$75 million revolving working capital facility and a \$225 million revolving acquisition facility. The Amended Facility expires in July 2006 and carries terms, conditions and covenants substantially similar to the previous credit agreement. The Amended Facility is guaranteed by Inergy, L.P. and its subsidiary.

This credit agreement accrues interest at either prime rate or LIBOR plus applicable spreads, resulting in interest rates of 3.15% to 4.00% at June 30, 2004. At June 30, 2004, borrowings outstanding under the credit facility were \$107.7 million, including \$0.1 million under the revolving working capital facility of the entire outstanding credit facility balance of \$107.7 million, \$107.6 is classified as long term in the accompanying 2004 consolidated balance sheet. At August 2, 2004, the borrowings outstanding under the credit facility were \$158.9 million, with \$23.9 million due under the revolving working capital facility.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We have long-term debt and a revolving line of credit subject to the risk of loss associated with movements in interest rates. At June 30, 2004, we had floating rate obligations totaling approximately \$107.7 million for amounts borrowed under our credit agreement.

If the floating rate were to increase by 100 basis points from June 2004 levels, our interest expense would increase by a total of approximately \$1.1 million per year.

Commodity Price, Market and Credit Risk

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

The propane industry is a "margin-based" business in which gross profits depend on the excess of sales prices over supply costs. As a result, our profitability will be sensitive to changes in wholesale prices of propane caused by changes in supply or other market conditions. When there are sudden and sharp increases in the wholesale cost of propane, we may not be able to pass on these increases to our customers through retail or wholesale prices. Propane is a commodity and the price we pay for it can fluctuate significantly in response to supply or other market conditions. We have no control over supply or market conditions. In addition, the timing of cost pass-throughs can significantly affect margins. Sudden and extended wholesale price increases could reduce our gross profits and could, if continued over an extended period of time, reduce demand by encouraging our retail customers to conserve or convert to alternative energy sources.

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

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Notional Amounts and Terms

The notional amounts and terms of these financial instruments as of June 30, 2004 and September 30, 2003 include fixed price payor for 3.6 million and 3.0 million barrels of propane, respectively, and fixed price receiver for 3.8 million and 4.8 million barrels of propane, respectively. Notional amounts reflect the volume of transactions, but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure our exposure to market or credit risks.

Fair Value

The fair value of the derivative financial instruments related to price risk management activities as of June 30, 2004, and September 30, 2003 was assets of \$12.1 million and \$8.9 million, respectively, and liabilities of \$9.4 million and \$5.8 million, respectively. All intercompany transactions have been appropriately eliminated. The market prices used to value these transactions reflect management's best estimate considering various factors including closing exchange and over-the-counter quotations, recent transactions, time value and volatility factors underlying the commitments.

Sensitivity Analysis

A theoretical change of 10% in the underlying commodity value would result in an approximate \$0.1 million change in the market value of the contracts as there were approximately (0.9) million gallons of net unbalanced positions at June 30, 2004.

Item 4. Controls and Procedures

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the SEC, and that information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such terms are defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act). Based upon that evaluation, management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were adequate and effective as of June 30, 2004. There have been no change in the Company's internal controls over financial reporting (as defined in Rule 13(e)-15 or Rule 15d-15(f) of the Exchange Act) or in other factors during the Company's fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting, and there have been no corrective actions with respect to significant deficiencies and material weaknesses in our internal controls.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Use of Proceeds

None

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

- 10.1 Sixth Amended and Restated Credit Agreement by and among Inergy Propane, LLC and the lenders named therein, dated as of May 27, 2004
- 31.1 Certification of Chief Executive Officer of Inergy, L.P. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer of Inergy, L.P. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer of Inergy, L.P. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer of Inergy, L.P. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Inergy filed one report on Form 8-K pertaining to the three months ended June 30, 2004:

Form 8-K dated May 10, 2004, was filed regarding the issuance of a press release reporting its second quarter 2004 financial results.

SIGNATURE

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

INERGY, L.P.

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

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

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

Date: August 13, 2004

**SIXTH AMENDED AND RESTATED
CREDIT AGREEMENT**

Dated as of May 27, 2004,

by and among

INERGY PROPANE, LLC,

as Borrower,

the Lenders referred to herein,

WACHOVIA BANK, NATIONAL ASSOCIATION

(f/k/a First Union National Bank),

as Administrative Agent

FLEET NATIONAL BANK, as Syndication Agent

and

BANK OF OKLAHOMA, N.A., as Syndication Agent

and

BANK ONE, NA, as Documentation Agent

and

U.S. BANK, N.A., as Documentation Agent

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EXHIBITS

- Exhibit A-1 - Form of Permitted Acquisition Note
- Exhibit A-2 - Form of Working Capital Note
- Exhibit A-3 - Form of Swingline Note
- Exhibit B - Form of Notice of Borrowing
- Exhibit C - Form of Notice of Account Designation
- Exhibit D - Form of Notice of Conversion/Continuation
- Exhibit E - Form of Officer's Compliance Certificate
- Exhibit F - Form of Borrowing Base Certificate
- Exhibit G - Form of Applicable Margin Calculation Certificate
- Exhibit H - Form of Assignment and Acceptance
- Exhibit I - Form of Subsidiary Guaranty Agreement
- Exhibit J - Form of Inergy, L.P. Guaranty Agreement
- Exhibit K - Form of Opinion of Credit Parties' Counsel
- Exhibit L - Form of Request for Vehicle Lien Release

SCHEDULES

- Schedule 1.01A - Commitments of Lenders
- Schedule 1.01B - Notice and Lending Offices of Lenders
- Schedule 3.01 - Existing Letters of Credit
- Schedule 6.01(a) - Organization
- Schedule 6.01(b) - Ownership
- Schedule 6.01(s) - Title to Properties
- Schedule 8.10 - Location of Collateral
- Schedule 10.02 - Permitted Debt

This **SIXTH AMENDED AND RESTATED CREDIT AGREEMENT** (as the same may be amended, supplemented or otherwise modified from time to time in accordance with its terms, this "**Agreement**"), dated as of the 27th day of May, 2004, by and among the following:

- (i) **INERGY PROPANE, LLC**, a Delaware limited liability company (formerly known as McCracken Oil & Propane Company, LLC) (the "**Borrower**");
- (ii) The Lenders who are or may become a party hereto, in their capacity as Lenders and in such other capacities as reflected on the signature pages hereto (collectively, the "**Lenders**"; and each a "**Lender**"); and
- (iii) **WACHOVIA BANK, NATIONAL ASSOCIATION** (f/k/a First Union National Bank), as Administrative Agent,

is an amendment and restatement of the Existing Credit Agreement (as defined below).

STATEMENT OF PURPOSE

The Borrower, certain Affiliates (as defined below) of the Borrower and certain lenders previously entered into an Amended and Restated Credit Agreement dated as of October 23, 1998 (the "**1998 Credit Agreement**"), as amended by (i) a First Amendment to Amended and Restated Credit Agreement dated as of December 10, 1998, (ii) a Second Amendment to Amended and Restated Credit Agreement dated as of February 10, 1999, (iii) a Third Amendment to Amended and Restated Credit Agreement dated as of July 22, 1999, (iv) a Fourth Amendment to Amended and Restated Credit Agreement dated as of November 15, 1999, and (v) a Fifth Amendment to Amended and Restated Credit Agreement dated as of May 30, 2000 (the 1998 Credit Agreement, as so amended and restated is hereby referred to as the "**Original Credit Agreement**").

The Borrower, certain Affiliates of the Borrower party to the Original Credit Agreement, and the lenders party to the Original Credit Agreement subsequently amended and restated the Original Credit Agreement in its entirety pursuant to a Second Amended and Restated Credit Agreement dated as of January 12, 2001 (as amended, the "**Second Amended and Restated Credit Agreement**").

The Borrower and certain lenders subsequently amended and restated the Second Amended and Restated Credit Agreement in its entirety pursuant to a Third Amended and Restated Credit Agreement dated as of July 25, 2001 (as amended, the "**Third Amended and Restated Credit Agreement**").

The Borrower and certain lenders subsequently amended and restated the Third Amended and Restated Credit Agreement in its entirety pursuant to a Fourth Amended and Restated Credit Agreement dated as of December 20, 2001 (as amended, the "**Fourth Amended and Restated Credit Agreement**").

The Borrower and certain lenders subsequently amended and restated the Fourth Amended and Restated Credit Agreement in its entirety pursuant to a Fifth Amended and

The Borrower, the Administrative Agent and certain Lenders desire to amend and restate the Existing Credit Agreement in its entirety on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, such parties hereby agree that the Existing Credit Agreement is hereby amended and restated as follows:

ARTICLE I
DEFINITIONS

SECTION 1.01. *Definitions.*

The following terms when used in this Agreement shall have the meanings assigned to them below:

“*Account Debtor*” means any Person who is or may become obligated in respect of an Account.

“*Accounts*” means all accounts (as defined in the UCC), contract rights, chattel paper, instruments and documents, in which the Borrower or any Controlled Subsidiary has or acquires an interest on or after the Closing Date.

“*Administrative Agent*” means Wachovia Bank, National Association (f/k/a First Union National Bank), in its capacity as Administrative Agent hereunder, and any successor thereto appointed pursuant to Section 12.09.

“*Administrative Agent’s Office*” means the office of the Administrative Agent specified in or determined in accordance with the provisions of Section 13.01(c).

“*Affiliate*” means with respect to any Person, any other Person (i) which owns or otherwise has an interest in five percent or more of any equity interest of such Person, (ii) five percent or more of the equity interests of which such Person (or any member, shareholder, director, officer, employee or Subsidiary of such Person or any combination thereof) owns or otherwise has an interest in, or (iii) which, directly or through one or more intermediaries, is controlled by, controls, or is under common control with such Person. For purposes of subpart (iii) above, “control” means the ability, directly or indirectly, to affect the management or policies of a Person by virtue of an ownership interest, by right of contract or any other means.

“*Aggregate Commitment*” means the sum of the Working Capital Commitment and the Permitted Acquisition Commitment, as such amount may be reduced or modified at any time or from time to time pursuant to the terms hereof. On the Closing Date, the Aggregate Commitment shall be Three Hundred Million Dollars (\$300,000,000).

“**Agreement**” has the meaning set forth in the recitals above.

“**Annual Budget**” means a budget setting forth detailed quarterly projections of the earnings and expenditures of the Borrower and its Consolidated Subsidiaries.

“**Applicable Law**” means all applicable provisions of constitutions, statutes, laws, ordinances, rules, treaties, regulations, permits, licenses, approvals, interpretations and orders of all Governmental Authorities and all orders and decrees of all courts and arbitrators.

“**Applicable Margin**” means, at any date, (i) with respect to Base Rate Loans, 0.00% per annum, (ii) with respect to LIBOR Loans, 2.00% per annum, and (iii) with respect to the Unused Line Fee, 0.375% per annum; *provided, however*, that if the Consolidated Leverage Ratio as of the last day of the immediately preceding fiscal quarter falls within any of the ranges set forth in the Schedule below, then, subject to the delivery to the Administrative Agent by the Borrower of an Applicable Margin Calculation Certificate demonstrating such fact, the Applicable Margin for each type of Loan and the Unused Line Fee, as the case may be, shall be reduced or increased, if such is the case, to the rate for the same set forth in the Schedule below. Any such adjustment in the Applicable Margin shall take effect on the third (3rd) Business Day after the Administrative Agent receives the Applicable Margin Calculation Certificate and shall remain in effect until the next adjustment of the Applicable Margin made in accordance with the terms of this Agreement. Notwithstanding anything herein to the contrary, no downward adjustment in the Applicable Margin shall take effect or remain in effect if (1) the Administrative Agent, acting in a commercially reasonable manner, disputes the accuracy of the calculations set forth in the Applicable Margin Calculation Certificate (or the accuracy or completeness of the information contained in the financial statements supporting such calculations), or (2) any Event of Default exists. The Schedule referred to above is as follows:

<u>Level</u>	<u>Consolidated Leverage Ratio</u>	<u>Applicable Margin for Base Rate Loans</u>	<u>Applicable Margin for LIBOR Rate Loans</u>	<u>Unused Line Fee</u>
V.	Less than or equal to 3.0:1.0	0.00%	2.00%	0.375%
IV.	Greater than 3.0:1.0 and less than or equal to 3.5:1.0	0.00%	2.125%	0.375%
III.	Greater than 3.5:1.0 and less than or equal to 4.0:1.0	0.25%	2.25%	0.500%
II.	Greater than 4.0:1.0 and less than or equal to 4.5:1.0	0.50%	2.50%	0.500%
I.	Greater than 4.5:1.0	0.50%	2.75%	0.500%

“Applicable Margin Calculation Certificate” means, at any time, the certificate, substantially in the form of Exhibit G hereto, signed by a Financial Officer of the Borrower and pursuant to which the Borrower sets forth its calculations for purposes of determining the Applicable Margin for a particular time period.

“Application” means an application, in the form specified by the Issuing Lender from time to time, requesting the Issuing Lender to issue a Letter of Credit.

“Assignment and Acceptance” has the meaning assigned thereto in Section 13.10(b)(iii).

“Available Cash” means, with respect to the Borrower, for any period:

(a) the sum of:

(1) all cash and cash equivalents of the Borrower and its Subsidiaries on hand at the end of such period; and

(2) all additional cash and cash equivalents of the Borrower and its Subsidiaries on hand on the date of determination of Available Cash for such period resulting from Working Capital Loans made after the end of such period;

(b) less the total amount of any cash reserves that is necessary or appropriate in the reasonable discretion of the Borrower to:

(1) provide for the proper conduct of the business of the Borrower and its Subsidiaries (including reserves for future Capital Expenditures and for future credit needs of the Borrower and its Subsidiaries) after such period;

(2) pay 50% of the interest to be paid on the Loans and any Permitted Debt in the next fiscal quarter; and

(3) comply with applicable law or any debt instrument or other agreement or obligation to which the Borrower or any of its Subsidiaries is a party or its assets are subject;

provided, further, that disbursements made by the Borrower or any of its Subsidiaries or cash reserves established, increased or reduced after the end of such period but on or before the

date of determination of Available Cash for such period shall be deemed to have been made, established, increased or reduced, for purposes of determining Available Cash, within such period if the Borrower so determines.

“Average Quarterly Loan Balance” means the sum of (i) the aggregate principal amount of all Working Capital Loans outstanding, (ii) the aggregate principal amount of all Permitted Acquisition Loans outstanding, (iii) the aggregate principal amount of all Swingline Loans outstanding and (iv) the aggregate L/C Obligations outstanding, in each case outstanding at the end of each day for each day of the quarter in question, divided by the number of days in such quarter.

“Base Rate” means, at any time, the higher of (a) the Prime Rate, and (b) the Federal Funds Rate plus 0.5%. Each change in the Base Rate shall take effect simultaneously with the corresponding change or changes in the Prime Rate or the Federal Funds Rate.

“Base Rate Loan” means any Loan bearing interest at a rate based upon the Base Rate as provided in Section 4.06(a).

“Benefited Lender” has the meaning assigned thereto in Section 4.11.

“Borrower” has the meanings set forth in the recitals to this Agreement.

“Borrower Pledge Agreement” means the Pledge Agreement (Amended and Restated) from the Borrower, as pledgor, to the Administrative Agent, as pledgee, dated the Closing Date, pursuant to which the Borrower grants to the Administrative Agent a Lien as security for the Obligations in all of the Borrower’s existing and future equity and other interests in L & L Transportation, Inergy Transportation and Inergy Sales, together with any amendments, renewals, restatements, replacements, consolidations or other modifications thereof from time to time.

“Borrower Security Agreement” means the Security Agreement (Amended and Restated) from the Borrower, as debtor, to the Administrative Agent, as secured party, dated the Closing Date, pursuant to which the Administrative Agent is granted a Lien as security for the Obligations on all of the Borrower’s existing and future personal property assets, together with any amendments, renewals, restatements, replacements, consolidations or other modifications thereof from time to time.

“Borrowing Base” means, at any date, an amount equal to the lesser of:

- (i) the sum of (a) (i) for the period commencing July 1 and ending December 31 of each Fiscal Year only, \$12,000,000, and (ii) for the period commencing January 1 and ending June 30 of each Fiscal Year only, \$0, plus (b) an amount equal to the Eligible Account Advance Amount at such date, plus (c) Eligible Inventory Advance Amount at such date, minus [subtract from the sum of (a), (b) and (c)] the sum, at such date, of all amounts for which the Issuing Lender may be liable pursuant to any Letter

of Credit issued by the Issuing Lender for the Borrower's or any Controlled Subsidiary's account; or
(ii) \$75,000,000.

"Borrowing Base Certificate" has the meaning assigned thereto in Section 7.01(a)(i).

"BSA" means all Bank Secrecy Act laws and regulations, as amended.

"Business Day" means (a) for all purposes other than as set forth in clause (b) below, any day other than a Saturday, Sunday or legal holiday on which banks in Charlotte, North Carolina are open for the conduct of their commercial banking business, and (b) with respect to all notices and determinations in connection with, and payments of principal and interest on, any LIBOR Rate Loan, any day that is a Business Day described in clause (a) and that is also a day for trading by and between banks in Dollar deposits in the London interbank market.

"Capital Expenditures" means expenditures made and liabilities incurred that should, in accordance with GAAP, be classified and accounted for as capital expenditures.

"Capital Lease" means any lease of any property that should, in accordance with GAAP, be classified and accounted for as a capital lease.

"Capital Stock" means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any preferred interest, any limited or general partnership interest and any limited liability company membership interest.

"Cleansdown Period" means the period commencing March 1 and ending September 30 during each Fiscal Year.

"Closing Date" means the date of this Agreement or such later Business Day as the parties hereto shall mutually agree.

"Code" means the Internal Revenue Code of 1986, and the rules and regulations thereunder, each as amended or supplemented from time to time.

"Collateral" means all personal and real property with respect to which a Lien is granted to or for the benefit of the Administrative Agent for the benefit of the Lenders pursuant to the Security Agreements, the Mortgages, the Pledge Agreements or any other Credit Documents or which otherwise secures the payment or performance of any Obligation.

"Commitment" means, as to any Lender, on a collective basis, such Lender's Permitted Acquisition Commitment and Working Capital Commitment, as set forth opposite such Lender's name on Schedule 1.01A hereto, as the same may be reduced or modified at any time or from time to time pursuant to the terms hereof.

“Commitment Percentage” means, as to any Lender at any time, the ratio of (a) for Working Capital Loans, L/C Obligations and Swingline Loans, (i) the amount of the Working Capital Commitment of such Lender to (ii) the Working Capital Commitment of all of the Lenders, and (b) for Permitted Acquisition Loans, (i) the amount of the Permitted Acquisition Commitment of such Lender to (ii) the Permitted Acquisition Commitment of all of the Lenders.

“Consolidated” means the consolidation of accounts in accordance with GAAP.

“Consolidated EBITDA” means, with respect to the Borrower and its Consolidated Subsidiaries, or Inergy, L.P. and its Consolidated Subsidiaries, as applicable, for any period, an amount equal to: (i) net income for such period, plus (ii) amounts deducted in the computation thereof for (a) interest expense, (b) federal, state and local income taxes, and (c) depreciation and amortization, plus or minus, as the case may be, (iii) gains or losses from the sale of assets in the ordinary course of business, and plus or minus, as the case may be, (iv) extraordinary non-cash gains or losses for such period; provided, that for the purposes of determining Consolidated EBITDA for any period during which a Permitted Acquisition is consummated, Consolidated EBITDA shall be adjusted in a manner reasonably satisfactory to the Administrative Agent to give effect to the consummation of such Permitted Acquisition on a pro forma basis, as if such Permitted Acquisition occurred on the first day of such period.

“Consolidated Interest Expense” means, with respect to the Borrower and its Consolidated Subsidiaries, for any period, an amount equal to (i) all interest in respect of Debt accrued during such period (whether or not actually paid during such period), plus (ii) the net amount payable (or minus the net amount receivable) under Hedging Agreements accrued during such period (whether or not actually paid or received during such period) plus (iii) on a pro-forma basis, the sum of all interest accrued relating to Debt incurred in connection with any Permitted Acquisition calculated in a manner reasonably satisfactory to the Administrative Agent, excluding in each case up front financing fees payable in connection with the consummation of the transactions contemplated hereby.

“Consolidated Leverage Ratio” means, with respect to the Borrower and its Consolidated Subsidiaries, or Inergy, L.P. and its Consolidated Subsidiaries, as applicable, the ratio of (i) Total Funded Debt (other than Debt under clause (i) of the definition of “Debt”), at such time, to (ii) Consolidated EBITDA for the four fiscal quarters most recently ended. For purposes of calculating Consolidated Leverage Ratio of the Borrower and its Consolidated Subsidiaries under Section 9.02(a), and for purposes of calculating Consolidated Leverage Ratio of Inergy, L.P. and its Consolidated Subsidiaries under Section 9.02(b), Total Funded Debt shall not include any outstanding Working Capital Loans or Swingline Loans if the Borrower is in compliance with Section 4.02(b), except to the extent that the aggregate amount of outstanding Working Capital Loans and Swingline Loans exceeds the sum of items (i)(b) and (i)(c) of the definition of Borrowing Base.

“Consolidated Subsidiary” shall mean for any Person, each Subsidiary of such Person (whether existing on the Closing Date or thereafter created or acquired) the financial statements of which shall be (or should have been) consolidated with the financial statements of such Person in accordance with GAAP.

“Controlled Subsidiary” means a direct or indirect Subsidiary of the Borrower and with respect to which the Borrower owns not less than fifty-one percent (51%) of the voting equity interests of such Subsidiary.

“Credit Documents” means, collectively, this Agreement, the Notes, the Applications, the Security Agreements, the Pledge Agreements, the Mortgages, the Guaranty Agreements, any Subordination Agreements and any other agreements or documents existing on or after the Closing Date evidencing, securing or otherwise relating to any of the transactions described in or contemplated by this Agreement, and any amendments, renewals, restatements, replacements or other modifications of the foregoing from time to time.

“Credit Facilities” means the collective reference to the Working Capital Facility, the Permitted Acquisition Facility, and the L/C Facility.

“Credit Parties” means, collectively, Inergy, L.P., the Borrower, Inergy Transportation, L & L Transportation, Inergy Sales and any other direct and indirect Subsidiary (other than the Excluded Subsidiary) of the Borrower.

“Debt” means, with respect to any Person, without duplication (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind (including repurchase obligations, but not including customer deposits), (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments or letters of credit in support of bonds, notes, debentures or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under any conditional sale or other title retention agreement relating to property purchased by such Person, (e) all obligations of such Person issued or assumed as the deferred purchase price of property or services (including, without duplication, obligations under a non-compete or similar agreement) to the extent such obligations are reportable under GAAP, (f) all obligations of such Person as lessee under Capital Leases of such Person or leases of such Person for which such Person retains tax ownership of the property subject to a lease, (g) all obligations of others secured by (or for which the holder of such Debt has an existing right, contingent or otherwise, to be secured by) any Lien on property or assets owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (h) all Guaranties of such Person, (i) all obligations of such Person with respect to interest rate protection agreements (including, without limitation, Hedging Agreements) or foreign currency exchange agreements (valued at the termination value thereof computed in accordance with a method approved by the International Swap Dealers Association and agreed to by such Person in the applicable Hedging Agreement, if any), (j) all obligations of such Person as an account party in respect of letters of credit (1) securing Debt (other than letters of credit obtained in the ordinary course of business and consistent with past practices) or (2) obtained for any purpose not in the ordinary course of business or not consistent with past practices, (k) all obligations of such Person in respect of bankers’ acceptances and (l) all current liabilities in respect of unfunded vested benefits under a Pension Plan covered by ERISA; provided that accrued expenses and accounts payable incurred in the ordinary course of business shall not constitute Debt.

“Default” means any of the events specified in Section 11.01, which with the passage of time, the giving of notice or any other condition, would constitute an Event of Default.

“Dollars” or **“\$”** means, unless otherwise qualified, dollars in lawful currency of the United States.

“Eligible Account” means an Account arising in the ordinary course of the Borrower’s or a Controlled Subsidiary’s business from the sale of goods or the rendering of services which the Administrative Agent, in its reasonable credit judgment, deems to be an Eligible Account. To be an Eligible Account, such Account must be subject to the Administrative Agent’s perfected first priority Lien and no Lien other than a Permitted Lien, and must be evidenced by an invoice or other documentary evidence reasonably satisfactory to the Administrative Agent. Without limiting the generality of the foregoing, no Account shall be an Eligible Account if:

(1) the Account remains unpaid more than ninety (90) days after the original invoice date (except if the Account Debtor is engaged primarily in the business of agriculture, in which case the Account remains unpaid after November 15 of the calendar year in which the Account arose or ninety (90) days after the invoice date, whichever is later); or

(2) ten percent (10%) or more of the other Accounts from the Account Debtor are not Eligible Accounts; or

(3) the Account Debtor has disputed liability with respect to such Account, or has made any claim with respect to any other Account due from such Account Debtor to the Borrower or the applicable Controlled Subsidiary, or the Account otherwise is or may become subject to any right of setoff by the Account Debtor, to the extent of any offset, dispute or claim; or

(4) If the Account Debtor is also a creditor or supplier of the Borrower, Eligible Accounts shall consist of the lesser of (a) if the aggregate liabilities of the Borrower and its Controlled Subsidiaries to such Account Debtor do not exceed \$2,000,000, the face amount of the Accounts of such Account Debtor; and (b) if such liabilities of the Borrower and its Controlled Subsidiaries to such Account Debtor exceed \$2,000,000, the face amount of the Accounts of such Account Debtor minus the aggregate liabilities of the Borrower and its Controlled Subsidiaries to such Account Debtor in excess of \$2,000,000; provided, however, the aggregate amount of Eligible Accounts under this clause (4) shall not exceed the aggregate Accounts of all Account Debtors who are also a creditor or a supplier of the Borrower and its Controlled Subsidiaries minus the aggregate liabilities of the Borrower and its Controlled Subsidiaries to such Account Debtors in excess of \$8,000,000; or

(5) any bankruptcy or other insolvency proceeding has been filed by or against the Account Debtor; or

(6) the Account arises from a sale to an Account Debtor outside the United States, unless the sale is on letter of credit, guaranty or acceptance terms, in each case reasonably acceptable to the Administrative Agent; or

(7) the Account arises from a sale to an Account Debtor which is not final, including, without limitation, on a bill-and-hold, guaranteed sale, sale-or-return, sale-on-approval, consignment or any other repurchase or return; or

(8) the Administrative Agent believes, in its reasonable credit judgment, that collection of such Account is insecure or that payment thereof is doubtful or will be delayed by reason of the Account Debtor's financial condition; or

(9) the Account Debtor is the United States of America or any state, or any department, agency, instrumentality or subdivision of the foregoing, unless the applicable Borrower assigns its right to payment of such Account to the Administrative Agent, in form and substance reasonably satisfactory to the Administrative Agent, so as to comply with the Assignment of Claims Act, as amended (31 U.S.C. § 3727 *et seq.*), or the comparable state statute, as the case may be; or

(10) the goods giving rise to such Account have not been shipped to the Account Debtor in accordance with the Account Debtor's instructions in respect of such goods, or such goods are otherwise nonconforming goods, or the services giving rise to such Account have not been properly performed by the Borrower or the applicable Controlled Subsidiary; or

(11) the total unpaid Accounts of the Account Debtor exceed a credit limit determined by the Administrative Agent in its reasonable discretion (which credit limit may be based upon the extent to which the total unpaid Accounts of such Account Debtor are excess relative to all other unpaid Accounts and upon such other customary credit criteria as the Administrative Agent reasonably deems appropriate), to the extent such Account exceeds such limit; or

(12) the total unpaid Accounts of the Account Debtor exceed \$3,000,000 (or such other amount in excess of \$3,000,000 approved by the Administrative Agent in writing) to the extent such unpaid Accounts exceed \$3,000,000 or such other amount, or

(13) the Account is evidenced by chattel paper or an instrument of any kind, or has been reduced to judgment; or

(14) the Borrower or the applicable Controlled Subsidiary has made any agreement with the Account Debtor for any deduction therefrom, except for discounts or allowances which are made in the ordinary course of the Borrower's or the applicable Controlled Subsidiary's business for prompt payment and which discounts or allowances are reflected in the calculation of the face value of each invoice related to such Account; or

(15) the Account arises out of a sale by the Borrower or a Controlled Subsidiary to any Affiliate of the Borrower or a Controlled Subsidiary or to a Person controlled by an Affiliate of the Borrower or a Controlled Subsidiary.

“Eligible Account Advance Amount” means, at any date, an amount equal to eighty-five percent (85%) of the net face amount of all Eligible Accounts outstanding at such date.

“Eligible Assignee” means, with respect to any assignment of the rights, interest and obligations of a Lender hereunder, a Person that is at the time of such assignment (a) a commercial bank organized or licensed under the laws of the United States or any state thereof, having combined capital and surplus in excess of \$500,000,000, (b) a commercial bank organized under the laws of any other country that is a member of the Organization of Economic Cooperation and Development, or a political subdivision of any such country, having combined capital and surplus in excess of \$500,000,000, (c) a finance company, insurance company or other financial institution which in the ordinary course of business extends credit of the type extended hereunder and that has total assets in excess of \$1,000,000,000, (d) a Lender hereunder (whether as an original party to this Agreement or as the assignee of another Lender), (e) an Affiliate or Subsidiary of a Lender (whether as an original party to this Agreement or as the assignee of another Lender), hereunder that does not otherwise qualify as an Eligible Assignee provided such Lender continues to be obligated under this Agreement, (f) the successor (whether by transfer of assets, merger or otherwise) to all or substantially all of the commercial lending business of the assigning Lender, or (g) any other Person that has been approved in writing as an Eligible Assignee by the Administrative Agent and, if no Default or Event of Default exists and is continuing, by the Borrower.

“Eligible Inventory” means inventory of the Borrower and its Controlled Subsidiaries, consisting of propane, fuel oil, diesel oil, kerosene or gasoline, as the Administrative Agent, in the exercise of its reasonable credit judgment, deems to be Eligible Inventory. Without limiting the generality of the foregoing, no inventory shall be Eligible Inventory unless, in the Administrative Agent’s reasonable determination, it (i) is in good, new and saleable condition, (ii) is not obsolete or unmerchantable, (iii) meets all standards imposed by any governmental agency or authority, (iv) conforms in all respects to the warranties and representations set forth in this Agreement and the Security Agreements, (v) is at all times subject to the Administrative Agent’s duly perfected, first priority Lien and no other Lien other than Permitted Liens (except for Liens under items (1) or (4) of the definition of Permitted Liens, which secure obligations in excess of \$1,000,000 in the aggregate), and (vi) is situated at a location in compliance with Section 8.10 hereof.

“Eligible Inventory Advance Amount” means, at any date, the lesser of (i) an amount equal to the product of (a) the Eligible Inventory Advance Rate, times (b) the aggregate amount of the Eligible Inventory (calculated on the lower of cost or market, on a first-in, first-out basis) at such time, or (ii) \$52,500,000.

“Eligible Inventory Advance Rate” means, with respect to Eligible Inventory, eighty percent (80%).

“Environmental Laws” means any and all federal, state and local laws, statutes, ordinances, rules, regulations, permits, licenses, approvals, interpretations and orders of courts or Governmental Authorities, relating to the protection of human health (including, but not limited to employee health and safety) or the environment, including, but not limited to, requirements pertaining to the manufacture, processing, distribution, use, treatment, storage, disposal, transportation, handling, reporting, licensing, permitting, investigation or remediation of Hazardous Materials.

“ERISA” means the Employee Retirement Income Security Act of 1974, and the rules and regulations promulgated from time to time thereunder, each as amended or modified from time to time.

“ERISA Affiliate” means any Person who together with the Borrower is treated as a single employer within the meaning of Section 414(b), (c), (m) or (o) of the Code or Section 4001(b) of ERISA.

“Eurodollar Reserve Percentage” means, for any day, the percentage (expressed as a decimal and rounded upwards, if necessary, to the next higher 1/100th of 1%) which is in effect for such day as prescribed by the Federal Reserve Board (or any successor) for determining the maximum reserve requirement (including without limitation any basic, supplemental or emergency reserves) in respect of Eurocurrency liabilities or any similar category of liabilities for a member bank of the Federal Reserve System in New York City.

“Event of Default” means any of the events specified in Section 11.01; provided, that any requirement for passage of time, giving of notice, or any other condition, has been satisfied.

“Excluded Subsidiary” means Inergy Canada Corporation, a Canadian ULC, so long as such Subsidiary meets all of the following conditions: (i) the Borrower’s and its other Subsidiaries’ investments in and advances to such Subsidiary are less than \$1,000,000; (ii) the fair market value of the assets of such Subsidiary totals less than \$1,000,000 (as determined by the Borrower in good faith); and (iii) EBITDA (as defined below) from such Subsidiary is less than \$1,000,000 per annum. For the purposes of this definition, **“EBITDA”** means, with respect to such Subsidiary, for any period, an amount equal to: (1) net income for such period, plus (2) amounts deducted in the computation thereof for (a) interest expense, (b) federal, state and local income taxes, and (c) depreciation and amortization, plus or minus, as the case may be, (3) gains or losses from the sale of assets in the ordinary course of business, and plus or minus, as the case may be, (4) extraordinary non-cash gains or losses for such period.

“Existing Credit Agreement” has the meaning set forth in the recitals to this Agreement.

“Existing Senior Debt” means the Debt of the Borrower under the Existing Credit Agreement and the loan documents executed in connection therewith.

“Existing Letters of Credit” means the letters of credit set forth on Schedule 3.01 hereto and deemed issued under Article III.

“Expansion Capital Expenditures” means Capital Expenditures made for the purpose of generating incremental net cash flow, including, without limitation, the purchase of customer storage tanks.

“Extensions of Credit” means, as to any Lender at any time, an amount equal to the sum of (a) the aggregate principal amount of all Working Capital Loans made by such Lender then outstanding, (b) the aggregate principal amount of all Permitted Acquisition Loans made by such Lender then outstanding, (c) such Lender’s Commitment Percentage of the L/C Obligations then outstanding and (d) such Lender’s Commitment Percentage of the Swingline Loans then outstanding.

“FDIC” means the Federal Deposit Insurance Corporation, or any successor thereto.

“Federal Funds Rate” means, the rate per annum (rounded upwards, if necessary, to the next higher 1/100th of 1%) representing the daily effective federal funds rate as quoted by the Administrative Agent and confirmed in Federal Reserve Board Statistical Release H.15 (519) or any successor or substitute publication selected by the Administrative Agent. If, for any reason, such rate is not available, then “Federal Funds Rate” means a daily rate which is determined, in the opinion of the Administrative Agent, to be the rate at which federal funds are being offered for sale in the national federal funds market at 9:00 a.m. (Charlotte time). Rates for weekends or holidays shall be the same as the rate for the most immediate preceding Business Day.

“Financial Officer” means, as to any Person, the president, the chief financial officer or the controller of such Person.

“Fiscal Year” means the 52-week fiscal year of any Person ending September 30 of each calendar year.

“Fourth Amended and Restated Credit Agreement” has the meaning set forth in the recitals to this Agreement.

“GAAP” means generally accepted accounting principles, as recognized by the American Institute of Certified Public Accountants and the Financial Accounting Standards Board, consistently applied and maintained on a consistent basis for the Borrower and its Consolidated Subsidiaries throughout the period indicated and consistent with the prior financial practice of the Borrower and its Consolidated Subsidiaries.

“Governmental Approvals” means all authorizations, consents, approvals, licenses and exemptions of, registrations and filings with, and reports to, all Governmental Authorities.

“Governmental Authority” means any nation, province, state or political subdivision thereof, and any government or any Person exercising executive, legislative, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

“Guaranty” of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person

(the “**primary obligor**”) (excluding endorsements of checks for collection or deposit in the ordinary course of business) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Debt, (ii) to purchase property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt.

“**Guaranty Agreements**” means, collectively, (i) the Subsidiary Guaranty Agreements in substantially the form of Exhibit I hereto, (ii) the Inergy, L.P. Guaranty Agreement in substantially the form of Exhibit J hereto, and (iii) all other guaranty agreements in favor of the Administrative Agent executed in connection with Permitted Acquisitions.

“**Hedging Agreement**” means any agreement with respect to an interest rate swap, collar, cap, floor or a forward rate agreement or other agreement regarding the hedging of interest rate risk exposure executed in connection with hedging the interest rate exposure of the Borrower under this Agreement, and any confirming letter executed pursuant to such hedging agreement, all as amended, restated or otherwise modified.

“**Inergy GP**” means Inergy GP, LLC, a Delaware limited liability company.

“**Inergy Holdings**” means Inergy Holdings, LLC, a Delaware limited liability company.

“**Inergy, L.P.**” means Inergy, L.P., a Delaware limited partnership.

“**Inergy, L.P. Guaranty Agreement**” means the Guaranty (Amended and Restated) executed by Inergy, L.P. in favor of the Administrative Agent, dated the Closing Date, together with any amendments, renewals, restatements, replacements, consolidations or other modifications thereof from time to time.

“**Inergy, L.P. Pledge Agreement**” means the Pledge Agreement (Amended and Restated) from Inergy, L.P., as pledgor, to the Administrative Agent, as pledgee, dated the Closing Date, pursuant to which Inergy, L.P. grants to the Administrative Agent a Lien as security for the payment and performance of all obligations under the Inergy, L.P. Guaranty Agreement on all of Inergy L.P.’s existing and future equity and other interests in the Borrower, together with any amendments, renewals, restatements, replacements, consolidations or other modifications thereof from time to time.

“**Inergy Sales**” means Inergy Sales & Service, Inc., a Delaware corporation.

“**Inergy Transportation**” means Inergy Transportation, LLC, a Delaware limited liability company.

“**Interest Period**” has the meaning assigned thereto in Section 4.06(b).

“Investment” means, as applied to any Person, any direct or indirect purchase or other acquisition by such Person of stock or other securities of any other Person, or any direct or indirect loan, advance or capital contribution by such Person to any other Person and any other item which would be classified as an “investment” on a balance sheet of such Person prepared in accordance with GAAP, including without limitation any direct or indirect contribution by such Person of property or assets to a joint venture, partnership or other business entity in which such Person retains an interest (it being understood that a direct or indirect purchase or other acquisition by such Person of assets of any other Person (other than stock or other securities) shall not constitute an “Investment” for purposes of this Agreement).

“ISP 98” means the International Standby Practices (1998 Revision, effective January 1, 1999), International Chamber of Commerce Publication No. 590.

“Issuing Lender” means Wachovia Bank, National Association (f/k/a First Union National Bank), in its capacity as issuer of any Letter of Credit, or any successor thereto.

“L & L Transportation” means L & L Transportation, LLC, a Delaware limited liability company.

“L/C Commitment” means the lesser of (a) Fifteen Million Dollars (\$15,000,000), (b) the Borrowing Base and (c) the Working Capital Commitment.

“L/C Facility” means the letter of credit facility established pursuant to Article III.

“L/C Obligations” means at any time, an amount equal to the sum of (a) the aggregate undrawn and unexpired amount of the then outstanding Letters of Credit and (b) the aggregate amount of drawings under Letters of Credit which have not then been reimbursed pursuant to Section 3.05.

“L/C Participants” means the collective reference to all the Lenders other than the Issuing Lender.

“Lender” means each Person executing this Agreement as a Lender (including, without limitation, the Issuing Lender and the Swingline Lender unless the context otherwise requires) set forth on the signature pages hereto and each Person that hereafter becomes a party to this Agreement as a Lender pursuant to Section 13.10.

“Lending Office” means, with respect to any Lender, the office of such Lender maintaining such Lender’s Commitment Percentage of the Loans as set forth on Schedule 1.01B hereto.

“Letters of Credit” has the meaning assigned thereto in Section 3.01.

“LIBOR” means the rate of interest per annum determined on the basis of the rate for deposits in Dollars in minimum amounts of at least \$2,000,000 for a period equal to the Interest Period selected which appears on the Dow Jones Market Screen 3750 at approximately 11:00 a.m. London time, two (2) Business Days prior to the first day of the applicable Interest Period

(rounded upward, if necessary, to the nearest one-sixteenth of one percent (1/16%)). If, for any reason, such rate does not appear on Dow Jones Market Screen 3750, then "LIBOR" shall be determined by the Administrative Agent to be the arithmetic average of the rate per annum at which deposits in Dollars in minimum amounts of at least \$2,000,000 would be offered by first class banks in the London interbank market to the Administrative Agent at approximately 11:00 a.m. London time, two (2) Business Days prior to the first day of the applicable Interest Period for settlement in immediately available funds by leading banks in the London interbank market for a period equal to the Interest Period selected. Each calculation by the Administrative Agent of LIBOR shall be conclusive and binding for all purposes, absent manifest error.

"**LIBOR Rate**" means a rate per annum (rounded upwards, if necessary, to the next higher 1/100th of 1%) determined by the Administrative Agent pursuant to the following formula:

$$\text{LIBOR Rate} = \frac{\text{LIBOR}}{1.00\text{-Eurodollar Reserve Percentage}}$$

"**LIBOR Rate Loan**" means any Loan bearing interest at a rate based upon the LIBOR Rate as provided in [Section 4.06\(a\)](#).

"**Lien**" means any mortgage, deed of trust, pledge security interest, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or preference, priority, or other security agreement or preferential arrangement, charge or encumbrance of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the UCC or comparable law of any jurisdiction to evidence any of the foregoing).

"**Loan**" means any Working Capital Loan, Permitted Acquisition Loan, or Swingline Loan made to the Borrower pursuant to Article II; "**Loans**" means the collective reference thereto.

"**Material Adverse Effect**" means (a) a materially adverse effect on the business, assets, operations, prospects or financial condition of Inergy, L.P. and its Subsidiaries, taken as a whole, or the Borrower and its Subsidiaries, taken as a whole, (b) any material impairment of the ability of Inergy, L.P., the Borrower or any Subsidiary of the Borrower to perform any of its respective Obligations under any Credit Document or (c) any material impairment of the rights of, or benefits available to, the Lenders or the Administrative Agent under any of the Credit Documents.

"**Midstream Business**" means the business of storage, processing, marketing and/or transmission of gas, oil or products thereof, including, without limitation, owning and operating pipelines, storage facilities, processing plants and facilities and gathering systems, and other assets related thereto.

"**Mortgages**" means, collectively, (i) all of the deeds to secure debt, mortgages and deeds of trust, executed by the Borrower in favor of the Administrative Agent, relating to the real

properties owned by the Borrower, (ii) all of the deeds to secure debt, mortgages and deeds of trust, executed by the Borrower or any of its Subsidiaries in favor of the Administrative Agent in connection with Permitted Acquisitions or otherwise pursuant to Section 10.03(b), and (iii) any other assignments, amendments, renewals, restatements, replacements, consolidations or other modifications from time to time of any of the foregoing, all in form and substance reasonably satisfactory to the Administrative Agent.

“New Inergy Propane, LLC” means New Inergy Propane, LLC, a Delaware limited liability company.

“1998 Credit Agreement” has the meaning set forth in the recitals to this Agreement.

“Notes” means the collective reference to the Working Capital Notes, the Permitted Acquisition Notes, and the Swingline Note; **“Note”** means any of such Notes.

“Notice of Account Designation” has the meaning assigned thereto in Section 4.01(b).

“Notice of Borrowing” has the meaning assigned thereto in Section 4.01(a).

“Notice of Conversion/Continuation” has the meaning assigned thereto in Section 4.07.

“Obligations” means, in each case, whether now in existence or hereafter arising: (a) the principal of and interest on (including interest accruing after the filing of any bankruptcy or similar petition) the Loans, (b) the L/C Obligations, (c) all payment and other obligations owing by the Borrower to any Lender or the Administrative Agent under any Hedging Agreement to which a Lender is a party (or any Affiliate of a Lender) which is permitted under this Agreement and (d) all other fees and commissions (including attorney’s fees), charges, indebtedness, loans, liabilities, financial accommodations, obligations, covenants and duties owing by any Credit Party to the Lenders or the Administrative Agent, in each case under or in respect of this Agreement, any Note, any Letter of Credit or any of the other Credit Documents of every kind, nature and description, direct or indirect, absolute or contingent, due or to become due, contractual or tortious, liquidated or unliquidated, and whether or not evidenced by any note, and whether or not for the payment of money under or in respect of this Agreement, any Note, any Letter of Credit or any of the other Credit Documents.

“OFAC” has the meaning assigned thereto in Section 10.13.

“Officer’s Compliance Certificate” has the meaning assigned thereto in Section 7.01(f).

“Organic Documents” means, relative to any Credit Party, its partnership agreement, limited liability company or operating agreement, bylaws, certificate or articles of partnership, certificate or articles of formation, certificate or articles of incorporation and other like documents, and all shareholder agreements, voting trusts and similar arrangements applicable to any of its authorized shares of Capital Stock or other equity interests.

“Original Credit Agreement” has the meaning set forth in the recitals to this Agreement.

“Other Taxes” has the meaning assigned thereto in [Section 4.16\(b\)](#).

“Permitted Acquisition” means an acquisition (or series of related acquisitions) by the Borrower or any Subsidiary Guarantor of all or any part of the assets of another Person (such assets being referred to herein as the **“Target Assets”**) or of at least fifty-one percent (51%) of the voting equity interests of another Person (such Person, together with any and all Subsidiaries of such Person, being referred to herein as the **“Target”**) in each case made in compliance with all of the following terms and conditions:

(1) the Target is in, or the Target Assets are employed in, the same line of business as the Borrower, or in any Midstream Business;

(2) in the case of an equity acquisition, the Target is (or, immediately after giving effect to such acquisition, will be) a Controlled Subsidiary of the Borrower (or, in the case of an equity acquisition in the form of a merger, (a) the Target is merged with and into the Borrower or a Controlled Subsidiary, with the Borrower or such Controlled Subsidiary, as the case may be, being the surviving entity, or (b) the Target is merged with and into a Controlled Subsidiary with the Target being the surviving entity, provided that such surviving entity qualifies as a Controlled Subsidiary);

(3) no Default or Event of Default exists at the time of the acquisition or would result therefrom;

(4) the purchase price (including assumed Debt) of any Target or Target Assets shall not exceed \$75,000,000. Any acquisition in excess of the individual purchase price limitation set forth above shall be subject to the prior written consent of the Required Lenders, which consent shall not be unreasonably withheld, conditioned or delayed;

(5) within a reasonable time prior to such acquisition, the Administrative Agent (and any Lender, upon request) shall have received a complete copy of the executed purchase agreement (or, in the event that the purchase agreement is not being executed until closing, then a substantially complete unexecuted version of the purchase agreement, with the complete copy of the executed purchase agreement to follow promptly upon closing of such acquisition) for the applicable Target or Target Assets, a breakdown of the purchase price for such acquisition, a detailed schedule of assets being acquired and values reasonably assigned to such assets at the time of such acquisition, the anticipated amount to be borrowed under the Permitted Acquisition Facility and such other information related to such acquisition as the Administrative Agent shall reasonably request;

(6) upon the consummation of the acquisition (or, in the reasonable discretion of the Administrative Agent, within a reasonable time after such acquisition), the Administrative Agent shall have (or shall have received, as the case may be), subject to Sections 12.10(b) and (e):

- (i) in the case of an asset acquisition, with respect to the Target Assets, a perfected Lien on (1) such fee-owned real properties as constitute at least seventy-five percent (75%) of the aggregate value of the fee-owned real properties included in the Target Assets, as determined by the Administrative Agent in its reasonable discretion, (2) such motor vehicles as constitute at least seventy-five percent (75%) of the aggregate value of the motor vehicles included in the Target Assets, as determined by the Administrative Agent in its reasonable discretion, (3) all other material personal property assets included in the Target Assets (to the extent that (a) a Lien can be perfected thereon by the filing of UCC financing statements in the appropriate jurisdictions, and (b) if required by the Administrative Agent, a Lien can be perfected thereon by possession or other methods under the UCC), all subject to no other Lien other than Permitted Liens (and, in connection therewith, the Borrower shall have submitted to the Administrative Agent for its approval a revised Schedule 8.10 to this Agreement reflecting the location of the Collateral, inclusive of Target Assets on which the Administrative Agent has a perfected Lien);
- (ii) in the case of an equity acquisition, (i) a Guaranty from the Target in form and substance reasonably satisfactory to the Administrative Agent, pursuant to which such Target guarantees, in favor of the Administrative Agent, the payment and performance of all Obligations, (ii) a perfected Lien on (1) such fee-owned real properties as constitute at least seventy-five percent (75%) of the aggregate value of all existing and future fee-owned real properties of the Target, as determined by the Administrative Agent in its reasonable discretion, (2) such motor vehicles as constitute at least seventy-five percent (75%) of the aggregate value of all existing and future motor vehicles of the Target, as determined by the Administrative Agent in its reasonable discretion, (3) all other material existing and future personal property assets of the Target (to the extent that (a) a Lien can be perfected thereon by the filing of UCC financing statements in the appropriate jurisdictions, and (b) if required by the Administrative Agent, a Lien can be perfected thereon by possession or other methods under the UCC), all subject to no other Lien other than Permitted Liens (and, in connection therewith, the Borrower shall have submitted to the Administrative Agent for its approval a revised Schedule 8.10 to this Agreement reflecting the location of the Collateral, inclusive of such assets of the Target on which the Administrative Agent has a perfected Lien), (iii) a Lien on all of the existing and future equity interests in the Target, subject to no other Lien other than Permitted Liens, and (iv) the Borrower shall have submitted to the Administrative Agent for its approval a revised Schedule 6.01(b) to this Agreement reflecting the ownership structure of the Borrower and its Subsidiaries;
- (iii) if any Target Assets (or any assets of the Target) consist of fee-owned real properties, then, with respect to such fee-owned real properties as

constitute at least seventy-five percent (75%) of the aggregate value of the fee-owned real properties included in the Target Assets and other assets of the Target, as determined by the Administrative Agent in its reasonable discretion, at no expense to the Administrative Agent, (i) record owner searches with respect to each such fee-owned real property in form, terms and scope, satisfactory to the Administrative Agent, and (ii) a mortgage, deed of trust or deed to secure debt, as applicable, satisfactory to the Administrative Agent and granting the Administrative Agent a perfected Lien on each such fee interest; and

- (iv) such UCC financing statements, loan and security agreements and other documents (including, without limitation, opinions of counsel to the Borrower and the Target regarding, among other things, the authority of the Target to guarantee the Obligations and to grant Liens) as the Administrative Agent may reasonably request in connection with the conditions set forth in this subpart (6);

(7) the Borrower shall have paid all reasonable costs and expenses incurred by the Administrative Agent and its counsel in connection with such acquisition, including, without limitation, all such costs and expenses incurred to satisfy the conditions set forth in subpart (6) above; and

(8) the Administrative Agent shall have received such other assurances and documentation as the Administrative Agent may reasonably request from time to time in connection with the acquisition and the conditions set forth above.

Notwithstanding anything to the contrary set forth above, subject to Sections 12.10(b) and (e), the conditions set forth in subpart (6) shall not apply to the acquisition of Target Assets (whether acquired in one or more related or unrelated transactions) to the extent that the aggregate purchase price of such Target Assets does not exceed \$5,000,000.

“Permitted Acquisition Commitment” means, (a) as to any Lender, the obligation of such Lender to make Permitted Acquisition Loans to the Borrower hereunder in an aggregate principal amount at any time outstanding not to exceed the amount so designated opposite such Lender’s name on Schedule 1.01A hereto, as the same may be reduced or modified at any time or from time to time pursuant to the terms hereof, and (b) as to all Lenders, the aggregate commitment of all Lenders to make Permitted Acquisition Loans, as such amount may be reduced at any time from time to time pursuant to the terms hereof. The Permitted Acquisition Commitment of all Lenders on the Closing Date shall be Two Hundred Twenty-Five Million Dollars (\$225,000,000).

“Permitted Acquisition Facility” means the loan facility established pursuant to Section 2.03.

“Permitted Acquisition Loan” means any of the loans made by the Lenders to the Borrower pursuant to Section 2.03 and all such loans collectively as the context requires.

“Permitted Acquisition Notes” means the separate Permitted Acquisition Notes made by the Borrower, payable to the order of each Lender, substantially in the form of Exhibit A-1 hereto, evidencing the Permitted Acquisition Facility, and any amendments and modifications thereto, any substitutes therefor, and any replacements, restatements, renewals or extension thereof, in whole or in part. **“Permitted Acquisition Note”** means any of such Permitted Acquisition Notes.

“Permitted Debt” means any of the following:

- (1) Debt under this Agreement (including, Guaranties of Debt under this Agreement) and Debt under the Existing Credit Agreement on or prior to the Closing Date;
- (2) Permitted Junior Debt and Guaranties of Permitted Junior Debt;
- (3) Debt of the Borrower or any Subsidiary Guarantor to any other Subsidiary Guarantor;
- (4) Debt of the type described in clause (i) of the definition “Debt,” provided such Debt is incurred in connection with interest rate protection agreements (including, Hedging Agreements) covering the floating rate portion of the Obligations under this Agreement;
- (5) Other Debt in existence on the Closing Date and set forth on Schedule 10.02 hereto;
- (6) Other Debt, provided that the aggregate outstanding principal amount of such Debt (with respect to all Credit Parties) does not exceed \$10,000,000 at any time; and
- (7) Other Debt approved in advance by the Administrative Agent and the Required Lenders in writing.

“Permitted Junior Debt” means the aggregate Debt of Inergy, L.P., the Borrower and the Borrower’s Subsidiaries, which is either unsecured Debt, or second Lien Debt that is subordinated to the Obligations pursuant to the terms of a Subordination Agreement. Permitted Junior Debt may be incurred only so long as each of the following conditions are satisfied: (i) at the time of the incurrence of such Debt (a) no Default or Event of Default has occurred and is continuing (or would result from the incurrence of such Debt), and (b) the Consolidated Leverage Ratio of Inergy, L.P. is less than 5.00 to 1.00, calculated on a pro forma basis; (ii) such Debt shall not mature, and no installments of principal shall be due and payable on such Debt, prior to the Termination Date; and (iii) such Debt shall not be incurred upon financial covenants more restrictive than those set forth in this Agreement.

“Permitted Liens” means any of the following:

(1) Liens for taxes, assessments or governmental charges not delinquent or being contested in good faith and by appropriate proceedings and for which adequate reserves in accordance with GAAP are maintained on the Borrower’s books;

(2) Liens arising out of deposits in connection with workers’ compensation, unemployment insurance, old age pensions or other social security or retirement benefits legislation;

(3) deposits or pledges to secure bids, tenders, contracts (other than contracts for the payment of money), leases, statutory obligations, surety and appeal bonds, and other obligations of like nature arising in the ordinary course of the Borrower’s business;

(4) Liens imposed by law, such as mechanics’, workers’, materialmen’s, carriers’ or other like liens (excluding, however, any statutory or other Lien in favor of a landlord under a written or oral lease) arising in the ordinary course of the Borrower’s business which secure the payment of obligations which are not past due or which are being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP are maintained on the Borrower’s books;

(5) rights of way, zoning restrictions, easements and similar encumbrances affecting the Borrower’s real property which do not materially interfere with the use of such property;

(6) Liens in favor of the Administrative Agent;

(7) Second Liens securing Permitted Junior Debt that is subordinated to the Obligations pursuant to the terms of a Subordination Agreement; and

(8) purchase money security interests for the purchase of equipment to be used in the Borrower’s business, encumbering only the equipment so purchased, and which secures only the purchase-money Debt incurred to acquire the equipment so purchased and which Debt qualifies as Permitted Debt.

“Person” means an individual, corporation, limited liability company, partnership, association, trust, business trust, joint venture, joint stock company, pool, syndicate, sole proprietorship, unincorporated organization, Governmental Authority or any other form of entity or group thereof.

“Plan” means an employee benefit plan (as defined in Section 3(3) of ERISA) maintained for employees of the Borrower.

“Pledge Agreements” means, collectively, (i) the Borrower Pledge Agreement, (ii) the Inergy, L.P. Pledge Agreement and (iii) any other pledge agreement entered into thereafter from any other Person holding an equity or other interest in any of the Credit Parties (other than Inergy, L.P.), any Target or any other direct or indirect Subsidiary of the Borrower, as pledgor, to the Administrative Agent, as pledgee, securing all or any part of the Obligations or the payment

and performance of all or any portion of the obligations under the applicable Guaranty Agreements, each in form and substance reasonably satisfactory to the Administrative Agent.

“Post-Closing Agreement” has the meaning assigned thereto in Section 5.02(a)(xiii).

“Prime Rate” means, at any time, the rate of interest per annum publicly announced from time to time by Wachovia Bank, National Association (f/k/a First Union National Bank) as its prime rate. Each change in the Prime Rate shall be effective as of the opening of business on the day such change in the Prime Rate occurs. The parties hereto acknowledge that the rate announced publicly by Wachovia Bank, National Association (f/k/a First Union National Bank) as its Prime Rate is an index or base rate and shall not necessarily be its lowest or best rate charged to its customers or other banks.

“Register” has the meaning assigned thereto in Section 13.10(d).

“Reimbursement Obligation” means the obligation of the Borrower to reimburse the Issuing Lender pursuant to Section 3.05 for amounts drawn under Letters of Credit.

“Required Lenders” means, at any date, any combination of Lenders whose Commitments aggregate at least sixty-six and two-thirds percent (66-2/3%) of the Aggregate Commitment or, if the Credit Facilities have been terminated pursuant to the terms hereof, the Administrative Agent and any combination of Lenders holding at least sixty-six and two-thirds percent (66-2/3%) of the aggregate Extensions of Credit.

“Risk Management Policy” means that certain Trading and Risk Management Policy dated October 1, 2002 of the Borrower and its Subsidiaries, as the same may be amended from time to time and adopted by the Board of Directors of the Borrower; provided that a copy of each amendment shall be delivered to the Administrative Agent prior to the effective date thereof.

“Second Amended and Restated Credit Agreement” has the meaning set forth in the recitals to this Agreement.

“SEC” means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

“Security Agreements” means, collectively, (i) each of the Subsidiary Security Agreements, (ii) the Borrower Security Agreement, and (iii) all other security agreements executed by the Borrower or any of its Subsidiaries in favor of the Administrative Agent in connection with Permitted Acquisitions or pursuant to Section 10.03(b), each in form and substance reasonably satisfactory to the Administrative Agent.

“Solvent” means, with respect to any Person, that such Person (a) has capital sufficient to carry on its business and transactions and all business and transactions in which it is about to engage and is able to pay its debts as they mature, (b) owns property having a value, both at fair valuation and at present fair saleable value, greater than the amount required to pay its probable liabilities (including contingencies), and (c) does not believe that it will incur debts or liabilities beyond its ability to pay such debts or liabilities as they mature.

“Subordination Agreement” means a subordination agreement between the Administrative Agent (on behalf of itself and the Lenders) and the holders of any second Lien Permitted Junior Debt, in form and substance satisfactory to the Administrative Agent and the Required Lenders, pursuant to which such second Lien Permitted Junior Debt is subordinated to the Obligations, with only such modifications as are approved by the Administrative Agent and the Required Lenders.

“Subsidiary” means as to any Person, any corporation, partnership, limited liability company or other entity of which more than fifty percent (50%) of the outstanding Capital Stock or other ownership interests having ordinary voting power to elect a majority of the board of directors or other managers of such corporation, partnership, limited liability company or other entity is at the time, directly or indirectly, owned by or the management is otherwise controlled by such Person (irrespective of whether, at the time, Capital Stock or other ownership interests of any other class or classes of such corporation, partnership, limited liability company or other entity shall have or might have voting power by reason of the happening of any contingency). Unless otherwise qualified references to **“Subsidiary”** or **“Subsidiaries”** herein shall refer to a Subsidiary or Subsidiaries of the Borrower.

“Subsidiary Guaranty Agreements” means, collectively, (i) each Guaranty (Amended and Restated) executed by L & L Transportation, Inergy Transportation and Inergy Sales, respectively, in favor of the Administrative Agent, dated the Closing Date, and (ii) any amendments, renewals, restatements, replacements, consolidations or other modifications thereof from time to time.

“Subsidiary Guarantor” means, collectively, (i) L & L Transportation, Inergy Transportation and Inergy Sales, and (ii) any Target that executes and delivers a Guaranty pursuant to clause (6)(ii) of the definition of “Permitted Acquisition,” and specifically excludes the Excluded Subsidiary.

“Subsidiary Security Agreements” means, collectively, (i) each Security Agreement (Amended and Restated) executed by L & L Transportation, Inergy Transportation, and Inergy Sales, respectively, as debtor, to the Administrative Agent, as secured party, dated the Closing Date, pursuant to which the Administrative Agent is granted a Lien, as security for the payment and performance of all obligations under the applicable Subsidiary Guaranty Agreement, on all of L & L Transportation’s, Inergy Transportation’s, or Inergy Sales’, as applicable, existing and future assets; and (ii) any amendments, renewals, restatements, replacements, consolidations or other modifications thereof from time to time.

“Swap Counterparty” as used in the Credit Documents means the Administrative Agent, any Lender or any Affiliate thereof party to a Hedging Agreement with the Borrower.

“Swingline Commitment” means Five Million Dollars (\$5,000,000).

“Swingline Facility” means the swingline facility established pursuant to [Section 2.02](#).

“Swingline Lender” means Wachovia Bank, National Association (f/k/a First Union National Bank), in its capacity as swingline lender hereunder.

“Swingline Loan” means the swingline loans made by the Swingline Lender to the Borrower pursuant to Section 2.02, and all such loans collectively as the context requires.

“Swingline Note” means the Swingline Note made by the Borrower payable to the order of the Swingline Lender, substantially in the form of Exhibit A-3 hereto, evidencing the Swingline Loans, and any amendments, supplements and modifications thereto, any substitutes therefor, and any replacements, restatements, renewals or extension thereof, in whole or in part.

“Swingline Termination Date” means the earlier to occur of (a) the resignation of Wachovia Bank, National Association (f/k/a First Union National Bank) as Administrative Agent in accordance with Section 12.09 and (b) the Termination Date.

“Taxes” has the meaning assigned thereto in Section 4.16(a).

“Termination Date” means the earliest of (a) July 29, 2006, (b) the date of termination by the Borrower of the Commitments in full pursuant to Section 4.04(a), and (c) the date of termination of the Credit Facilities pursuant to Section 11.02(a).

“Third Amended and Restated Credit Agreement” has the meaning set forth in the recitals to this Agreement.

“Total Funded Debt” means, with respect to the Borrower and its Consolidated Subsidiaries, or Inergy, L.P. and its Consolidated Subsidiaries, as applicable, at any time, the total amount of Debt at such time, whether such Debt is matured, unmatured, absolute, contingent or otherwise.

“UCC” means the Uniform Commercial Code as in effect in the State where the applicable Collateral is located, as amended or modified from time to time.

“Uniform Customs” means the Uniform Customs and Practice for Documentary Credits (1994 Revision), effective January, 1994, International Chamber of Commerce Publication No. 500.

“United States” means the United States of America.

“Unused Line Fee” has the meaning set forth in Section 4.08(a).

“Wachovia” means Wachovia Bank, National Association (f/k/a First Union National Bank), a national banking association, and its successors.

“Working Capital Commitment” means (a) as to any Lender, the obligation of such Lender to make Working Capital Loans to the Borrower hereunder in an aggregate principal amount at any time outstanding not to exceed the amount so designated opposite such Lender’s name on Schedule 1.01A hereto, as the same may be reduced or modified at any time or from time to time pursuant to the terms hereof and (b) as to all Lenders, the aggregate commitment of all Lenders to make Working Capital Loans, as such amount may be increased or reduced at any

time or from time to time pursuant to the terms hereof. The Working Capital Commitment of all Lenders on the Closing Date shall be Seventy-Five Million Dollars (\$75,000,000).

“**Working Capital Facility**” means the loan facility established pursuant to Section 2.01.

“**Working Capital Loan**” means any of the Working Capital Loans made by the Lenders to the Borrower pursuant to Section 2.01 and all such loans collectively as the context requires.

“**Working Capital Notes**” means the collective reference to the Working Capital Notes made by the Borrower payable to the order of each Lender, substantially in the form of Exhibit A-2 hereto, evidencing the Working Capital Facility, and any amendments and modifications thereto, any substitutes therefor, and any replacements, restatements, renewals or extension thereof, in whole or in part. “**Working Capital Note**” means any of such Working Capital Notes.

SECTION 1.02. Other Definitions and Provisions.

(a) Use of Capitalized Terms. Unless otherwise defined therein, all capitalized terms defined in this Agreement shall have the defined meanings when used in this Agreement, the Notes and the other Credit Documents or any certificate, report or other document made or delivered pursuant to this Agreement.

(b) Miscellaneous. Unless otherwise specified, a reference in this Agreement to a particular section, subsection, Schedule or Exhibit is a reference to that section, subsection, Schedule or Exhibit of this Agreement. The words “hereof”, “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. Wherever from the context it appears appropriate, each term stated in either the singular or plural shall include the singular and plural, and pronouns stated in the masculine, feminine or neuter gender shall include the masculine, the feminine and the neuter. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. Any reference herein to “Charlotte time” shall refer to the applicable time of day in Charlotte, North Carolina. This Agreement shall be construed without regard to any presumption or rule requiring construction against the party causing such instrument or any portion thereof to be drafted.

ARTICLE II

THE CREDIT FACILITIES

SECTION 2.01. Working Capital Loans.

Subject to the terms and conditions of this Agreement, and in reliance upon the representations and warranties set forth herein, each Lender severally agrees to make Working Capital Loans to the Borrower from time to time from the Closing Date to, but not including, the Termination Date, as requested by the Borrower in accordance with the terms of Section 4.01; provided, that (i) the aggregate principal amount of all outstanding Working Capital Loans (after giving effect to any amount requested and the application of the proceeds thereof) shall not exceed the Working Capital Commitment less the sum of all outstanding Swingline Loans and

L/C Obligations; (ii) the aggregate principal amount of all outstanding Working Capital Loans (after giving effect to any amount requested) shall not exceed the Borrowing Base less the sum of all outstanding Swingline Loans and L/C Obligations; (iii) the principal amount of outstanding Working Capital Loans from any Lender to the Borrower shall not at any time exceed such Lender's Working Capital Commitment less such Lender's Commitment Percentage of L/C Obligations and outstanding Swingline Loans; and (iv) the principal amount of all Lenders' Extensions of Credit (after giving effect to any amount requested and the application of the proceeds thereof) shall not at any time exceed the Aggregate Commitment. Each Working Capital Loan by a Lender shall be in a principal amount equal to such Lender's Commitment Percentage of the aggregate principal amount of Working Capital Loans requested on such occasion. Subject to the terms and conditions hereof, the Borrower may borrow, repay and reborrow Working Capital Loans.

SECTION 2.02. Swingline Loans.

(a) Availability. Subject to the terms and conditions of this Agreement, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time from the Closing Date through, but not including, the Swingline Termination Date; provided, that the aggregate principal amount of all outstanding Swingline Loans (after giving effect to any amount requested and the application of the proceeds thereof), shall not exceed the lesser of (i) the Working Capital Commitment less the sum of all outstanding Working Capital Loans and L/C Obligations, (ii) the Borrowing Base less the sum of all outstanding Working Capital Loans and L/C Obligations and (iii) the Swingline Commitment. Each Lender acknowledges that the aggregate principal amount of all outstanding Swingline Loans made by the Swingline Lender, when taken together with the aggregate principal amount of all outstanding Working Capital Loans made by the Swingline Lender, may exceed the Swingline Lender's Working Capital Commitment. Upon and during the continuance of a Default or an Event of Default, the Borrower shall no longer have the option of requesting Swingline Loans.

(b) Refunding.

(i) Swingline Loans shall be reimbursed fully by the Lenders on demand by the Swingline Lender. Such reimbursements shall be made by the Lenders in accordance with their respective Commitment Percentages and shall thereafter be reflected as Working Capital Loans of the Lenders on the books and records of the Administrative Agent; provided that no Lender shall be required to reimburse any Swingline Loan if, after giving effect to such reimbursement, the aggregate principal amount of such Lender's Working Capital Loans outstanding would exceed such Lender's Working Capital Commitment. Each Lender shall fund its respective Commitment Percentage of Working Capital Loans as required to repay Swingline Loans outstanding to the Swingline Lender upon demand by the Swingline Lender but in no event later than 2:00 p.m. (Charlotte time) on the next succeeding Business Day after such demand is made. No Lender's obligation to fund its respective Commitment Percentage of a Swingline Loan shall be affected by any other Lender's failure to fund its

Commitment Percentage of a Swingline Loan, nor shall any Lender's Commitment Percentage be increased as a result of any such failure of any other Lender to fund its Commitment Percentage of a Swingline Loan.

- (ii) The Borrower shall pay to the Swingline Lender on demand the amount of such Swingline Loans to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. In addition, the Borrower hereby authorizes the Administrative Agent to charge any account maintained by the Borrower or any Subsidiary of the Borrower with the Swingline Lender (up to the amount available therein) in order to immediately pay the Swingline Lender the amount of such Swingline Loans to the extent amounts received from the Lenders are not sufficient to repay in full the outstanding Swingline Loans requested or required to be refunded. If any portion of any such amount paid to the Swingline Lender shall be recovered by or on behalf of the Borrower from the Swingline Lender in bankruptcy or otherwise, the loss of the amount so recovered shall be ratably shared among all the Lenders in accordance with their respective Commitment Percentages.
- (iii) Each Lender acknowledges and agrees that its obligation to refund Swingline Loans in accordance with the terms of this Section 2.02 is absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, the existence of a Default or an Event of Default other than a Default or Event of Default that the Swingline Lender had actual knowledge of at the time such Swingline Loan was made. Further, each Lender agrees and acknowledges that if prior to the refunding of any outstanding Swingline Loans pursuant to this Section 2.02, one of the events described in Section 11.01(h) or (i) shall have occurred, each Lender will, on the next Business Day, purchase an undivided participating interest in the Swingline Loan in an amount equal to its Commitment Percentage of the aggregate amount of such Swingline Loan. Each Lender will immediately transfer to the Swingline Lender, in immediately available funds, the amount of its participation and upon receipt thereof the Swingline Lender will deliver to such Lender a certificate evidencing such participation dated the date of receipt of such funds and for such amount. Whenever, at any time after the Swingline Lender has received from any Lender such Lender's participating interest in a Swingline Loan, the Swingline Lender receives any payment on account thereof, the Swingline Lender will distribute to such Lender its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded).

SECTION 2.03. Permitted Acquisition Loans.

Subject to the terms and conditions of this Agreement, and in reliance upon the representations and warranties set forth herein, each Lender severally agrees to make Permitted Acquisition Loans to the Borrower from time to time from the Closing Date to, but not including, the Termination Date, as requested by the Borrower in accordance with the terms of Section 4.01(a); provided, that (i) the aggregate principal amount of all outstanding Permitted Acquisition Loans (after giving effect to any amount requested) shall not exceed the Permitted Acquisition Commitment, (ii) the principal amount of outstanding Permitted Acquisition Loans from any Lender to the Borrower shall not at any time exceed such Lender's Permitted Acquisition Commitment, and (iii) the aggregate principal amount of all Lenders' Extensions of Credit shall not at any time exceed the Aggregate Commitment. Each Permitted Acquisition Loan by a Lender shall be in a principal amount equal to such Lender's Commitment Percentage of the aggregate principal amount of Permitted Acquisition Loans requested or required on such occasion. Subject to the terms and conditions hereof, the Borrower may borrow, repay and reborrow Permitted Acquisition Loans hereunder.

ARTICLE III

LETTER OF CREDIT FACILITY

SECTION 3.01. L/C Commitment.

(a) Subject to the terms and conditions of this Agreement, the Issuing Lender, in reliance on the agreements of the other Lenders set forth in Section 3.04(a), agrees to issue standby letters of credit ("**Letters of Credit**") for the account of the Borrower on any Business Day from the Closing Date to, but not including, the date that is ninety (90) days prior to the Termination Date in such form as may be approved from time to time by the Issuing Lender; provided, that the Issuing Lender shall have no obligation to issue any Letter of Credit if, after giving effect to such issuance, (i) the L/C Obligations would exceed the L/C Commitment or (ii) the aggregate principal amount of outstanding Working Capital Loans, plus the aggregate principal amount of outstanding Swingline Loans, plus the aggregate amount of L/C Obligations would exceed the lesser of (1) the Working Capital Commitment and (2) the Borrowing Base.

(b) Each Letter of Credit shall (i) be denominated in Dollars in a minimum amount of \$100,000, (ii) be a standby letter of credit issued to support obligations of the Borrower or any of its Subsidiaries, contingent or otherwise, incurred in the ordinary course of business, (iii) expire on a date not later than the Termination Date and that is otherwise satisfactory to the Issuing Lender and (iv) be subject to the Uniform Customs and/or ISP 98, as set forth in the Application or as determined by the Issuing Lender and, to the extent not inconsistent therewith, the laws of the State of Missouri. The Issuing Lender shall not at any time be obligated to issue any Letter of Credit hereunder if such issuance would conflict with, or cause the Issuing Lender or any L/C Participant to exceed any limits imposed by, any Applicable Law. References herein to "issue" and derivations thereof with respect to Letters of Credit shall also include extensions or modifications of any existing Letters of Credit, unless the context otherwise requires.

(c) For purposes of this Agreement, the Existing Letters of Credit set forth on Schedule 3.01 hereto shall be deemed issued under this Agreement and shall constitute Letters of Credit for all purposes under this Agreement. Upon the initial expiration of each Existing Letter of Credit, the Borrower shall terminate and cancel each such Existing Letter of Credit and request a new Letter of Credit to be issued in replacement thereof.

SECTION 3.02. Procedure for Issuance of Letters of Credit.

The Borrower may from time to time request that the Issuing Lender issue a Letter of Credit by delivering to the Issuing Lender at the Administrative Agent's Office an Application therefor, completed to the satisfaction of the Issuing Lender, and such other certificates, documents and other papers and information as the Issuing Lender may request. Upon receipt of any Application, the Issuing Lender shall process such Application and the certificates, documents and other papers and information delivered to it in connection therewith in accordance with its customary procedures and shall, subject to Section 3.01 and Article V, promptly issue the Letter of Credit requested thereby (but in no event shall the Issuing Lender be required to issue any Letter of Credit earlier than two (2) Business Days after its receipt of the Application therefor and all such other certificates, documents and other papers and information relating thereto) by issuing the original of such Letter of Credit to the beneficiary thereof or as otherwise may be agreed by the Issuing Lender and the Borrower. The Issuing Lender shall promptly furnish to the Borrower a copy of such Letter of Credit and promptly notify each Lender of the issuance and upon request by any Lender, furnish to such Lender a copy of such Letter of Credit and the amount of such Lender's L/C Participation therein.

SECTION 3.03. Commissions and Other Charges.

(a) The Borrower shall pay to the Administrative Agent, for the account of the Issuing Lender and the L/C Participants, a letter of credit commission with respect to each Letter of Credit in an amount equal to the product of (i) the average daily maximum amount available to be drawn during the relevant quarter under such Letter of Credit, and (ii) 1.50% (determined on a per annum basis). Such commission shall be payable quarterly in arrears on the last Business Day of each calendar quarter and on the Termination Date. The Administrative Agent shall, promptly following its receipt thereof, distribute to the Issuing Lender and the L/C Participants all commissions received pursuant to this Section 3.03(a) in accordance with their respective Commitment Percentages.

(b) In addition to the foregoing commission, the Borrower shall pay to the Administrative Agent, for the account of the Issuing Lender, a fronting fee with respect to each Letter of Credit issued on or after the Closing Date in an amount equal to the product of (i) the face amount of such Letter of Credit and (ii) one quarter of one percent (0.25%). Such fronting fee shall be payable in arrears on the last Business Day of each calendar quarter for each day such Letter of Credit is issued and outstanding.

(c) In addition to the foregoing fees and commissions, the Borrower shall pay or reimburse the Issuing Lender for such normal and customary costs and expenses as are incurred

or charged by the Issuing Lender in issuing, effecting payment under, amending or otherwise administering any Letter of Credit.

SECTION 3.04. *L/C Participations.*

(a) The Issuing Lender irrevocably agrees to grant and hereby grants to each L/C Participant, and, to induce the Issuing Lender to issue Letters of Credit hereunder, each L/C Participant irrevocably agrees to accept and purchase and hereby accepts and purchases from the Issuing Lender, on the terms and conditions hereinafter stated, for such L/C Participant's own account and risk an undivided interest equal to such L/C Participant's Commitment Percentage in the Issuing Lender's obligations and rights under and in respect of each Letter of Credit issued (or deemed issued) hereunder and the amount of each draft paid by the Issuing Lender thereunder. Each L/C Participant unconditionally and irrevocably agrees with the Issuing Lender that, if a draft is paid under any Letter of Credit for which the Issuing Lender is not reimbursed in full by the Borrower through a Working Capital Loan or otherwise in accordance with the terms of this Agreement, such L/C Participant shall pay to the Issuing Lender upon demand at the Issuing Lender's address for notices specified herein an amount equal to such L/C Participant's Commitment Percentage of the amount of such draft, or any part thereof, which is not so reimbursed.

(b) Upon becoming aware of any amount required to be paid by any L/C Participant to the Issuing Lender pursuant to Section 3.04(a) in respect of any unreimbursed portion of any payment made by the Issuing Lender under any Letter of Credit, the Issuing Lender shall notify each L/C Participant of the amount and due date of such required payment and such L/C Participant shall pay to the Issuing Lender the amount specified on the applicable due date. If any such amount is paid to the Issuing Lender after the date such payment is due, such L/C Participant shall pay to the Issuing Lender on demand, in addition to such amount, the product of (i) such amount, times (ii) the daily average Federal Funds Rate (or Base Rate, if such amount is not paid within three Business Days of demand) as determined by the Administrative Agent during the period from and including the date such payment is due to the date on which such payment is immediately available to the Issuing Lender, times (iii) a fraction the numerator of which is the number of days that elapse during such period and the denominator of which is 360. A certificate of the Issuing Lender with respect to any amounts owing under this Section 3.04(b) shall be conclusive in the absence of manifest error. With respect to payment to the Issuing Lender of the unreimbursed amounts described in this Section 3.04(b), if the L/C Participants receive notice that any such payment is due (A) prior to 1:00 p.m. (Charlotte time) on any Business Day, such payment shall be due that Business Day, and (B) after 1:00 p.m. (Charlotte time) on any Business Day, such payment shall be due on the following Business Day.

(c) Whenever, at any time after the Issuing Lender has made payment under any Letter of Credit and has received from any L/C Participant its Commitment Percentage of such payment in accordance with this Section 3.04, the Issuing Lender receives any payment related to such Letter of Credit (whether directly from the Borrower or otherwise) or any payment of interest on account thereof, the Issuing Lender will distribute to such L/C Participant its pro rata share thereof; provided, that in the event that any such payment received by the Issuing

Lender shall be required to be returned by the Issuing Lender, such L/C Participant shall return to the Issuing Lender the portion thereof previously distributed by the Issuing Lender to it.

SECTION 3.05. *Reimbursement Obligation of the Borrower.*

In the event of any drawing under any Letter of Credit, the Borrower agrees to reimburse (either with the proceeds of a Working Capital Loan as provided for in this Section 3.05 or with funds from other sources), in same day funds, the Issuing Lender on each date on which the Issuing Lender notifies the Borrower of the date and amount of a draft paid under any Letter of Credit for the amount of (a) such draft so paid and (b) any amounts referred to in Section 3.03(c) incurred by the Issuing Lender in connection with such payment. Unless the Borrower shall immediately notify the Issuing Lender that the Borrower intends to reimburse the Issuing Lender for such drawing from other sources or funds, the Borrower shall be deemed to have timely given a Notice of Borrowing to the Administrative Agent requesting that the Lenders make a Working Capital Loan bearing interest at the Base Rate on such date in the amount of (a) such draft so paid and (b) any amounts referred to in Section 3.03(c) incurred by the Issuing Lender in connection with such payment, and the Lenders shall make a Working Capital Loan bearing interest at the Base Rate in such amount, the proceeds of which shall be applied to reimburse the Issuing Lender for the amount of the related drawing and costs and expenses. Each Lender acknowledges and agrees that its obligation to fund a Working Capital Loan in accordance with this Section 3.05 to reimburse the Issuing Lender for any draft paid under a Letter of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, the existence of a Default or an Event of Default other than a Default or Event of Default that the Issuing Bank had actual knowledge of at the time of the issuance of such Letter of Credit. If the Borrower has elected to pay the amount of such drawing with funds from other sources and shall fail to reimburse the Issuing Lender as provided above, the unreimbursed amount of such drawing shall bear interest in the rate which would be payable on any outstanding Base Rate Loans which were then overdue from the date such amounts become payable (whether at stated maturity, by acceleration or otherwise) until payment in full.

SECTION 3.06. *Obligations Absolute.*

The Borrower's obligations under this Article III (including without limitation the Reimbursement Obligation) shall be absolute and unconditional under any and all circumstances and irrespective of any set-off, counterclaim or defense to payment which the Borrower may have or have had against the Issuing Lender or any beneficiary of a Letter of Credit or any other Person. The Borrower also agrees that the Issuing Lender and the L/C Participants shall not be responsible for, and the Borrower's reimbursement obligation under Section 3.05 shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon, even though such documents shall in fact prove to be invalid, fraudulent or forged, or any dispute between or among the Borrower and any beneficiary of any Letter of Credit or any other party to which such Letter of Credit may be transferred or any claims whatsoever of the Borrower against any beneficiary of such Letter of Credit or any such transferee. The Issuing Lender shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit, except for errors or omissions caused by the Issuing Lender's gross

negligence or willful misconduct. The Borrower agrees that any action taken or omitted by the Issuing Lender under or in connection with any Letter of Credit or the related drafts or documents, if done in the absence of gross negligence or willful misconduct and in accordance with the standards of care specified in ISP 98 or the Uniform Customs, as the case may be, and, to the extent not inconsistent therewith, the UCC, shall be binding on the Borrower and shall not result in any liability of the Issuing Lender or any L/C Participant to the Borrower.

ARTICLE IV

GENERAL LOAN PROVISIONS

SECTION 4.01. *Procedure for Advances of Loans.*

(a) Requests for Borrowing. The Borrower shall give the Administrative Agent irrevocable prior written notice in the form attached hereto as Exhibit B (a "**Notice of Borrowing**") not later than 11:00 a.m. (Charlotte time) (i) on the same Business Day for each Base Rate Loan and each Swingline Loan and (ii) at least three (3) Business Days before each LIBOR Rate Loan, of its intention to borrow, specifying (A) the date of such borrowing, which shall be a Business Day, (B) the amount of such borrowing, which shall be (x) with respect to each LIBOR Rate Loan, in a principal amount of \$2,000,000 or a whole multiple of \$500,000 in excess thereof, (y) with respect to each Base Rate Loan, in a principal amount of \$1,000,000 or a whole multiple of \$100,000 in excess thereof, and (z) with respect to each Swingline Loan, in a principal amount of \$250,000 or a whole multiple of \$50,000 in excess thereof, (C) whether such Loan is to be a Working Capital Loan, Swingline Loan or Permitted Acquisition Loan, (D) in the case of a Working Capital Loan or Permitted Acquisition Loan, whether such Loan is to be a LIBOR Rate Loan or Base Rate Loan, and (E) in the case of a LIBOR Rate Loan, the duration of the Interest Period applicable thereto. A Notice of Borrowing received after 11:00 a.m. (Charlotte time) shall be deemed received on the next Business Day. The Administrative Agent shall promptly notify the Lenders of each Notice of Borrowing.

(b) Disbursement of Loans. Not later than 2:00 p.m. (Charlotte time) on the proposed borrowing date, (i) each Lender will make available to the Administrative Agent, for the account of the Borrower, at the office of the Administrative Agent in funds immediately available to the Administrative Agent, as applicable, (A) such Lender's Commitment Percentage of the Working Capital Loans to be made on such borrowing date, and (B) such Lender's Commitment Percentage of the Permitted Acquisition Loans to be made on such borrowing date, and (ii) the Swingline Lender will make available to the Administrative Agent, for the account of the Borrower, at the office of the Administrative Agent in funds immediately available to the Administrative Agent, the Swingline Loans to be made to the Borrower on such borrowing date. The Borrower hereby irrevocably authorizes the Administrative Agent to disburse the proceeds of each borrowing requested pursuant to this Section 4.01 in immediately available funds by crediting or wiring such proceeds to the deposit account of the Borrower identified in the most recent notice substantially in the form of Exhibit C hereto (a "**Notice of Account Designation**") delivered by the Borrower to the Administrative Agent or such other account as may be otherwise agreed upon by the Borrower and the Administrative Agent from

time to time. Subject to Section 4.12, the Administrative Agent shall not be obligated to disburse the portion of the proceeds of any Working Capital Loan, Permitted Acquisition Loan or Swingline Loan requested pursuant to this Section 4.01 to the extent that any Lender (or the Swingline Lender, in the case of Swingline Loans) has not made available to the Administrative Agent its applicable Commitment Percentage of such Loan. Working Capital Loans to be made for the purpose of refunding Swingline Loans shall be made by the Lenders as provided in Section 2.02(b).

SECTION 4.02. Repayment of Loans.

(a) Repayment on Termination Date. On the Termination Date, the Borrower shall repay the outstanding principal amount of (i) all Working Capital Loans, Permitted Acquisition Loans and Reimbursement Obligations in full and (ii) to the extent the Swingline Termination Date has not occurred, all Swingline Loans in full, together, in each case, with all accrued but unpaid interest thereon.

(b) Cleandown Period. Notwithstanding anything to the contrary in this Agreement and commencing with the Fiscal Year beginning October 1, 2004, the Borrower must reduce to and/or maintain at \$4,000,000 or less, as the case may be, the aggregate outstanding principal balance of all Working Capital Loans and Swingline Loans for a period of not less than thirty (30) consecutive days during each Cleandown Period.

(c) Mandatory Repayment of Working Capital Loans. If at any time the outstanding principal amount of all Working Capital Loans, plus the sum of all outstanding Swingline Loans and L/C Obligations, as of such date exceeds the lesser of (i) Working Capital Commitment and (ii) the Borrowing Base, the Borrower shall repay immediately upon notice from the Administrative Agent, by payment to the Administrative Agent for the account of the Lenders, the aggregate outstanding Working Capital Loans, Swingline Loans and L/C Obligations in an amount equal to such excess with each such repayment applied first to the principal amount of outstanding Swingline Loans, second to the principal amount of outstanding Working Capital Loans and third, with respect to any Letters of Credit then outstanding, a payment of cash collateral into a cash collateral account opened by the Borrower with the Administrative Agent, for the benefit of the Lenders (such cash collateral to be applied in accordance with Section 11.02(b)). Each such repayment shall be accompanied by any amount required to be paid pursuant to Section 4.14.

(d) Mandatory Repayment of Permitted Acquisition Loans. If at any time the outstanding principal amount of all Permitted Acquisition Loans exceeds the Permitted Acquisition Commitment, the Borrower shall repay immediately upon notice from the Administrative Agent, by payment to the Administrative Agent for the account of the Lenders, the Permitted Acquisition Loans in an amount equal to such excess. Each such repayment shall be accompanied by any amount required to be paid pursuant to Section 4.14.

(e) Asset Dispositions. If the Borrower or any of its Subsidiaries sells or otherwise disposes of any assets (other than the sale of inventory and motor vehicles in the ordinary course of the Borrower's business and the sale or disposition of obsolete or worn-out

equipment), or if any Collateral or other assets of the Borrower or its Subsidiaries is taken by condemnation or other governmental taking, then in each case the Borrower shall pay to the Administrative Agent for the account of the Lenders unless otherwise agreed by the Required Lenders, as a mandatory prepayment of the Loans (in the manner set forth below), a sum equal to the net proceeds received by the Borrower or Subsidiary from such sale or condemnation; provided, however, that (i) the Borrower shall not be obligated to remit the first \$5,000,000 of any such proceeds received in any Fiscal Year, and (ii) the Borrower shall not be obligated to remit any such proceeds to the Administrative Agent if, prior to such sale or condemnation, the Borrower gives the Administrative Agent written notice that the Borrower intends to use such proceeds to purchase replacement assets of a similar type within sixty (60) days thereafter (such notice to specify in reasonable detail the nature and specifics of such replacement purchase) and such proceeds are in fact used within such time period to purchase such replacement assets.

(f) Issuance of Debt or Equity. If the Borrower, any of its Subsidiaries or any special purpose financing vehicle established by any of them (i) incurs any Debt (other than (1) refinancing Debt existing on the Closing Date in an amount not to exceed such existing Debt, and (2) Debt that complies with the requirements of subparts (2), (6) or (7) of the definition of Permitted Debt, or (ii) issues any Capital Stock (other than Capital Stock issued in connection with the exercise of stock options in the ordinary course of business and consistent with past practices), after the Closing Date, then, in any such case, the Borrower shall pay to the Administrative Agent for the account of the Lenders, unless otherwise agreed by the Required Lenders, as a mandatory prepayment of the Loans (in the manner set forth below), a sum equal to the net cash proceeds received by the Borrower therefrom.

(g) Order of Application of Mandatory Prepayments. Any prepayment pursuant to Sections 4.02(e) or (f) shall be applied first to the outstanding principal balance of the Permitted Acquisition Loans, and, upon payment in full thereof, then to the outstanding principal balance of the Swingline Loans, and, upon payment in full thereof, then to the outstanding principal balance of the Working Capital Loans. Each such prepayment shall be accompanied by any amount required to be paid pursuant to Section 4.14.

(h) Voluntary Prepayments. The Borrower shall have the right, without penalty or premium, to prepay the Working Capital Loans, the Permitted Acquisition Loans, and the Swingline Loans, in whole or in part, at any time and from time to time after the Closing Date, subject, however, to the following terms and conditions: (1) the Borrower shall give the Administrative Agent (x) at least three (3) Business Days prior written notice of its intent to prepay any LIBOR Loan and (y) written notice prior to 11:00 a.m. on the date of the proposed prepayment of its intent to prepay any Base Rate Loan or Swingline Loan; (2) such notice shall specify the amount of the Loan to be prepaid, the type of Loan to be prepaid, and in the case of LIBOR Loans, the specific LIBOR Loans to which such prepayment is to apply; (3) each prepayment of a LIBOR Loan shall be in an amount of not less than \$2,000,000 and be a whole multiple of \$500,000 (unless the outstanding principal balance of such Loan is less than \$2,000,000, in which event such prepayment shall be an amount equal to such outstanding principal balance); (4) each prepayment of a Base Rate Loan shall be in an amount of not less than \$1,000,000 and be a whole multiple of \$100,000 (unless the outstanding principal balance of such Base Rate Loan is less than \$1,000,000, in which event such prepayment shall be an

amount equal to such outstanding principal balance); and (5) each prepayment of a Swingline Loan shall be an amount of not less than \$250,000 and a whole multiple of \$50,000 (unless the outstanding principal balance of such Swingline Loan is less than \$250,000, in which event such prepayment shall be an amount equal to such outstanding principal balance). Each such prepayment shall be accompanied by any amount required to be paid pursuant to Section 4.14.

SECTION 4.03. Notes.

(a) Working Capital Notes. Each Lender's Working Capital Loans and the obligation of the Borrower to repay such Working Capital Loans shall be evidenced by a separate Working Capital Note executed by the Borrower payable to the order of such Lender representing the Borrower's obligation to pay such Lender's Working Capital Commitment or, if less, the aggregate unpaid principal amount of all Working Capital Loans made and to be made by such Lender to the Borrower hereunder, plus interest and all other fees, charges and other amounts due thereon. Each Working Capital Note shall be dated the date hereof and shall bear interest on the unpaid principal amount thereof at the applicable interest rate per annum specified in Section 4.06.

(b) Permitted Acquisition Notes. Each Lender's Permitted Acquisition Loans and the obligation of the Borrower to repay such Permitted Acquisition Loans shall be evidenced by a Permitted Acquisition Note executed by the Borrower payable to the order of such Lender representing the Borrower's obligation to pay such Lender's Permitted Acquisition Commitment or, if less, the aggregate unpaid principal amount of all Permitted Acquisition Loans made and to be made by such Lender to the Borrower hereunder, plus interest and all other fees, charges and other amounts due thereon. Each Permitted Acquisition Note shall be dated the date hereof and shall bear interest on the unpaid principal amount thereof at the applicable interest rate per annum specified in Section 4.06.

(c) Swingline Note. The Swingline Loans and the obligation of the Borrower to repay such Swingline Loans shall be evidenced by the Swingline Note executed by the Borrower payable to the order of the Swingline Lender representing the Borrower's obligation to pay the Swingline Lender the aggregate unpaid principal amount of all Swingline Loans made and to be made by the Swingline Lender to the Borrower hereunder, plus interest and all other fees, charges and other amounts due thereon. The Swingline Note shall be dated the date hereof and shall bear interest on the unpaid principal amount thereof at the applicable interest rate specified in Section 4.06.

SECTION 4.04. Permanent Reduction of the Commitments.

(a) Voluntary Reduction. The Borrower shall have the right, without penalty or premium, to permanently reduce all or a portion of the Working Capital Commitment or the Permitted Acquisition Commitment, at any time and from time to time after the Closing Date, subject, however, to the following terms and conditions: (1) the Borrower shall give the Administrative Agent at least three (3) Business Day prior written notice of its intent to reduce the Working Capital Commitment or the Permitted Acquisition Commitment, as applicable, and (2) each reduction shall be in an aggregate principal amount not less than \$1,000,000 or any whole multiple of \$500,000 in excess thereof.

(b) No Mandatory Reduction of Working Capital Commitment or Permitted Acquisition Commitment. Any mandatory prepayment of a Working Capital Loan required to be made pursuant to Section 4.02 shall not cause the Working Capital Commitment to be reduced. Any mandatory prepayment of a Permitted Acquisition Loan required to be made pursuant to Section 4.02 shall not cause the Permitted Acquisition Commitment to be reduced.

(c) Repayment of Excess Loans. Each permanent reduction permitted pursuant to Section 4.04(a), with respect to outstanding Working Capital Loans, Swingline Loans and L/C Obligations, shall be accompanied by a payment of principal sufficient to reduce the aggregate outstanding Working Capital Loans and Swingline Loans, of the Lenders to the Working Capital Commitment as so reduced. If the Working Capital Commitment as so reduced (and after the application of the payment in the preceding sentence) is less than the aggregate amount of all outstanding L/C Obligations, the Borrower shall be required to deposit in a cash collateral account opened by the Administrative Agent an amount equal to the aggregate then undrawn and unexpired amount of such L/C Obligations. Each permanent reduction permitted pursuant to Section 4.04(a), with respect to Permitted Acquisition Loans shall be accompanied by a payment of principal sufficient to reduce the aggregate outstanding Permitted Acquisition Loans to the Permitted Acquisition Commitment, as so reduced. If the reduction of the Working Capital Commitment or the Permitted Acquisition Commitment, as applicable, requires the repayment of any LIBOR Rate Loan, such repayment shall be accompanied by any amount required to be paid pursuant to Section 4.14.

SECTION 4.05. Termination of Credit Facilities.

(a) The Working Capital Facility, the Permitted Acquisition Facility and the L/C Facility shall terminate, and each of the Working Capital Commitment and the Permitted Acquisition Commitment shall be automatically reduced to zero on the Termination Date.

(b) The Swingline Facility shall terminate, and the Swingline Commitment shall be automatically reduced to zero, on the Swingline Termination Date.

SECTION 4.06. Interest.

(a) Interest Rate Options. Subject to the provisions of this Section 4.06, at the election of the Borrower, the aggregate unpaid principal balance of (i) each Loan (other than Swingline Loans) shall bear interest at the Base Rate plus the Applicable Margin or the LIBOR

Rate plus the Applicable Margin as set forth below; provided that the LIBOR Rate shall not be available until three (3) Business Days after the Closing Date, and (ii) each Swingline Loan shall bear interest at the Base Rate plus the Applicable Margin. The Borrower shall select the rate of interest and Interest Period, if any, applicable to any LIBOR Rate Loan at the time a Notice of Borrowing is given pursuant to Section 4.01(a) or at the time a Notice of Conversion/Continuation is given pursuant to Section 4.07. Each Loan (including each Swingline Loan) or portion thereof bearing interest based on the Base Rate shall be a “**Base Rate Loan**”, and each Loan or portion thereof bearing interest based on the LIBOR Rate shall be a “**LIBOR Rate Loan**.” Any Loan or any portion thereof as to which the Borrower has not duly specified an interest rate as provided herein shall be deemed a Base Rate Loan.

(b) Interest Periods. In connection with each LIBOR Rate Loan, the Borrower, by giving notice at the times described in Section 4.06(a), shall elect an interest period (each, an “**Interest Period**”) to be applicable to such Loan, which Interest Period shall be a period of one (1), two (2), three (3), or six (6) months (or twelve (12) months, if available, and consented to by the Administrative Agent and the Lenders); provided that:

- (i) the Interest Period shall commence on the date of advance of or conversion to any LIBOR Rate Loan and, in the case of immediately successive Interest Periods, each successive Interest Period shall commence on the date on which the next preceding Interest Period expires;
- (ii) if any Interest Period would otherwise expire on a day that is not a Business Day, such Interest Period shall expire on the next succeeding Business Day; provided, that if any Interest Period with respect to a LIBOR Rate Loan would otherwise expire on a day that is not a Business Day but is a day of the month after which no further Business Day occurs in such month, such Interest Period shall expire on the next preceding Business Day;
- (iii) any Interest Period with respect to a LIBOR Rate Loan that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the relevant calendar month at the end of such Interest Period;
- (iv) no Interest Period shall extend beyond the Termination Date; and
- (v) there shall be no more than eight (8) Interest Periods outstanding at any time.

(c) Default Rate. Subject to Section 11.03, upon the occurrence and during the continuance of an Event of Default, (i) the Borrower shall no longer have the option to request LIBOR Rate Loans, (ii) all outstanding LIBOR Rate Loans shall bear interest at a rate per annum three percent (3%) in excess of the rate then applicable to LIBOR Rate Loans until the

end of the applicable Interest Period and thereafter at a rate equal to three percent (3%) in excess of the rate then applicable to Base Rate Loans, (iii) all outstanding Swingline Loans shall bear interest at a rate per annum equal to three percent (3%) in excess of the rate then applicable to Swingline Loans and (iv) all outstanding Base Rate Loans shall bear interest at a rate per annum equal to three percent (3%) in excess of the rate then applicable to Base Rate Loans. Interest shall continue to accrue on the Notes after the filing by or against the Borrower of any petition seeking any relief in bankruptcy or under any act or law pertaining to insolvency or debtor relief, whether state, federal or foreign.

(d) Interest Payment and Computation. Interest on each Base Rate Loan shall be payable in arrears on the last Business Day of each calendar quarter commencing June 30, 2004; and interest on each LIBOR Rate Loan shall be payable on the last day of each Interest Period applicable thereto, and if such Interest Period extends over three (3) months, at the end of each three (3) month interval during such Interest Period. All interest rates, fees and commissions provided hereunder shall be computed on the basis of a 360-day year and assessed for the actual number of days elapsed; provided, however, that interest on each Base Rate Loan that is based on the Prime Rate shall be computed on the basis of a 365-day or 366-day year, as applicable, and assessed for the actual number of days elapsed.

(e) Maximum Rate. In no contingency or event whatsoever shall the aggregate of all amounts deemed interest hereunder or under any of the Notes charged or collected pursuant to the terms of this Agreement or pursuant to any of the Notes exceed the highest rate permissible under any Applicable Law which a court of competent jurisdiction shall, in a final determination, deem applicable hereto. In the event that such a court determines that the Lenders have charged or received interest hereunder in excess of the highest applicable rate, the rate in effect hereunder shall automatically be reduced to the maximum rate permitted by Applicable Law and the Lenders shall at the Administrative Agent's option promptly refund to the Borrower any interest received by Lenders in excess of the maximum lawful rate or shall apply such excess to the principal balance of the Obligations. It is the intent hereof that the Borrower not pay or contract to pay, and that neither the Administrative Agent nor any Lender receive or contract to receive, directly or indirectly in any manner whatsoever, interest in excess of that which may be paid by the Borrower under Applicable Law.

SECTION 4.07. Notice and Manner of Conversion or Continuation of Loans.

Provided that no Event of Default has occurred and is then continuing, the Borrower shall have the option to (a) convert at any time all or any portion of its outstanding Base Rate Loans in a principal amount equal to \$2,000,000 or any whole multiple of \$500,000 in excess thereof into a LIBOR Rate Loan or (b) upon the expiration of any Interest Period, (i) convert all or any part of its outstanding LIBOR Rate Loans in a principal amount equal to \$1,000,000 or a whole multiple of \$100,000 in excess thereof into Base Rate Loans or (ii) continue such LIBOR Rate Loans as LIBOR Rate Loans. Whenever the Borrower desires to convert or continue Loans as provided above, the Borrower shall give the Administrative Agent irrevocable prior written notice in the form attached as Exhibit D (a "**Notice of Conversion/Continuation**") not later than 11:00 a.m. (Charlotte time) three (3) Business Days before the day on which a proposed conversion or continuation of such Loan is to be effective specifying (A) the Loans to be converted or continued, and, in the case of any LIBOR Rate Loan to be converted or continued, the last day of the Interest Period therefor, (B) the effective date of such conversion or continuation (which date shall be a Business Day), (C) the principal amount of such Loans to be converted or continued, and (D) the Interest Period to be applicable to such converted or continued LIBOR Rate Loan. If a LIBOR Rate Loan is not converted or continued as a new LIBOR Rate Loan as provided in this Section, such LIBOR Rate Loan shall in the last day of the applicable Interest Period be converted into a Base Rate Loan. The Administrative Agent shall promptly notify the Lenders of such Notice of Conversion/Continuation.

SECTION 4.08. Fees.

(a) Unused Line Fee. The Borrower agrees to pay to the Administrative Agent for the account of the Lenders, on the last Business Day of each quarter for the immediately preceding quarter and on the Termination Date, a fee (the "**Unused Line Fee**") equal to (a) the Applicable Margin, as in effect on such day, times (b) the difference between (1) (i) from the Closing Date through September 30, 2004, the lesser of the Aggregate Commitment and \$275,000,000 and (ii) for each quarter thereafter, the Aggregate Commitment, and (2) the Average Quarterly Loan Balance for such preceding quarter. If, during any quarter, this Agreement is terminated on a date other than the last Business Day of such quarter, then the Unused Line Fee shall be pro-rated for such quarter on a daily basis.

(b) Administrative Agent's and Other Fees. To compensate the Administrative Agent, the Borrower agrees to pay to the Administrative Agent, for its account, the fees set forth in the separate fee letter dated May 5, 2004, executed by the Borrower and the Administrative Agent.

SECTION 4.09. Manner of Payment.

Each payment by the Borrower on account of the principal of or interest on the Loans or of any fee, commission or other amounts payable to the Lenders under this Agreement or any Note shall be made not later than 1:00 p.m. (Charlotte time) on the date specified for payment under this Agreement to the Administrative Agent at the Administrative Agent's office for the account of the Lenders (other than as set forth below) pro rata in accordance with their respective

applicable Commitment Percentages, in Dollars, in immediately available funds and shall be made without any set-off, counterclaim or deduction whatsoever. Any payment received after such time but before 2:00 p.m. (Charlotte time) on such day shall be deemed a payment on such date for the purposes of Section 11.01, but for all other purposes shall be deemed to have been made on the next succeeding Business Day. Any payment received after 2:00 p.m. (Charlotte time) shall be deemed to have been made on the next succeeding Business Day for all purposes. Upon receipt by the Administrative Agent of each such payment, the Administrative Agent shall distribute to each Lender at its address for notices set forth herein its pro rata share of such payment in accordance with such Lender's applicable Commitment Percentage and shall wire advice of the amount of such credit to each Lender. Each payment to the Administrative Agent of Administrative Agent's fees or expenses shall be made for the account of the Administrative Agent and any amount payable to any Lender under Sections 4.13, 4.14, 4.15, 4.16 or 13.02 shall be paid to the Administrative Agent for the account of the applicable Lender. Any payment required to be made under Section 4.02 that is due on a date that is not a Business Day shall be due on the next Business Day.

SECTION 4.10. Crediting of Payments and Proceeds.

In the event that the Borrower shall fail to pay any of the Obligations when due and the Obligations have been accelerated pursuant to Section 11.02, all payments received by the Lenders upon the Notes and the other Obligations and all net proceeds from the enforcement of the Obligations shall be applied first to all expenses then due and payable by the Borrower hereunder, then to all indemnity obligations then due and payable by the Borrower hereunder, then to all Administrative Agent's fees then due and payable, then to all fees and commissions then due and payable, then to accrued and unpaid interest on the Swingline Note to the Swingline Lender, then to the unpaid principal amount outstanding under the Swingline Note to the Swingline Lender, then to accrued and unpaid interest on the Working Capital Notes, the Permitted Acquisition Notes and the Reimbursement Obligations (pro rata in accordance with all such amounts due), then to the principal amount of the Working Capital Notes, the Permitted Acquisition Notes, the Reimbursement Obligations and obligations under Hedging Agreements (pro rata in accordance with all such amounts due) and then to the cash collateral account described in Section 11.02(b) to the extent of any L/C Obligations then outstanding, in that order.

SECTION 4.11. Adjustments.

If any Lender (a "**Benefited Lender**") shall at any time receive any payment of all or part of the Obligations owing to it, or interest thereon, or if any Lender shall at any time receive any collateral in respect to the Obligations owing to it (whether voluntarily or involuntarily, by set-off or otherwise) in a greater proportion than any such payment to and collateral received by any other Lender, if any, in respect of the Obligations owing to such other Lender, or interest thereon, such Benefited Lender shall purchase for cash from the other Lenders such portion of each such other Lender's Extensions of Credit, or shall provide such other Lenders with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such Benefited Lender to share the excess payment or benefits of such collateral or proceeds ratably with each of the Lenders; provided, that if all or any portion of such excess payment or benefits is thereafter recovered from such Benefited Lender, such purchase shall be rescinded, and the

purchase price and benefits returned to the extent of such recovery, but without interest. The Borrower agrees that each Lender so purchasing a portion of another Lender's Extensions of Credit may exercise all rights of payment (including, without limitation, rights of set-off) with respect to such portion as fully as if such Lender were the direct holder of such portion.

SECTION 4.12. Nature of Obligations of Lenders Regarding Extensions of Credit; Assumption by the Administrative Agent.

The obligations of the Lenders under this Agreement to make the Loans and issue or participate in Letters of Credit are several and are not joint or joint and several. Unless the Administrative Agent shall have received notice from a Lender prior to a proposed borrowing date that such Lender will not make available to the Administrative Agent such Lender's ratable portion of the amount to be borrowed on such date (which notice shall not release such Lender of its obligations hereunder), the Administrative Agent may assume that such Lender has made such portion available to the Administrative Agent on the proposed borrowing date in accordance with Section 4.01(b) and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If such amount is made available to the Administrative Agent on a date after such borrowing date, such Lender shall pay to the Administrative Agent on demand an amount, until paid, equal to the product of (a) the amount not made available by such Lender in accordance with the terms hereof, times (b) the daily average Federal Funds Rate (or, if such amount is not made available for a period of three (3) Business Days after the borrowing date, the Base Rate) during such period as determined by the Administrative Agent, times (c) a fraction the numerator of which is the number of days that elapse from and including such borrowing date to the date on which such amount not made available by such Lender in accordance with the terms hereof shall have become immediately available to the Administrative Agent and the denominator of which is 360. A certificate of the Administrative Agent with respect to any amounts owing under this Section 4.12 shall be conclusive, absent manifest error. If such Lender's Commitment Percentage of such borrowing is not made available to the Administrative Agent by such Lender within three (3) Business Days of such borrowing date, then the Administrative Agent shall be entitled to recover such amount made available by the Administrative Agent with interest thereon at the rate per annum applicable to Base Rate Loans hereunder, on demand, from the Borrower. The failure of any Lender to make available its Commitment Percentage of any Loan requested by the Borrower shall not relieve it or any other Lender of its obligation, if any, hereunder to make its Commitment Percentage of such Loan available on such borrowing date, but no Lender shall be responsible for the failure of any other Lender to make its Commitment Percentage of such Loan available on the borrowing date.

SECTION 4.13. Changed Circumstances; Laws Affecting LIBOR Rate Availability; Etc.

(a) Changed Circumstances. If, with respect to any Interest Period, the Administrative Agent or any Lender (after consultation with Administrative Agent) shall determine that, by reason of circumstances affecting the foreign exchange and interbank markets generally, deposits in eurodollars, in the applicable amounts are not being quoted via Telerate Page 3750 or offered to the Administrative Agent or such Lender for such Interest Period, then

the Administrative Agent shall forthwith give notice thereof to the Borrower. Thereafter, until the Administrative Agent notifies the Borrower that such circumstances no longer exist, the obligation of the Lenders to make LIBOR Rate Loans and the right of the Borrower to convert any Loan to or continue any Loan as a LIBOR Rate Loan shall be suspended, and the Borrower shall repay in full (or cause to be repaid in full) the then outstanding principal amount of each such LIBOR Rate Loans together with accrued interest thereon, on the last day of the then current Interest Period applicable to such LIBOR Rate Loan or convert the then outstanding principal amount of each such LIBOR Rate Loan to a Base Rate Loan as of the last day of such Interest Period.

(b) Laws Affecting LIBOR Rate Availability. If, after the date hereof, the introduction of, or any change in, any Applicable Law or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or any of their respective Lending Offices) with any request or directive (whether or not having the force of law) of any such Authority, central bank or comparable agency, shall make it unlawful or impossible for any of the Lenders (or any of their respective Lending Offices) to honor its obligations hereunder to make or maintain any LIBOR Rate Loan, such Lender shall promptly give notice thereof to the Administrative Agent and the Administrative Agent shall promptly give notice to the Borrower and the other Lenders. Thereafter, until the Administrative Agent notifies the Borrower that such circumstances no longer exist, (i) the obligations of the Lenders to make LIBOR Rate Loans and the right of the Borrower to convert any Loan or continue any Loan as a LIBOR Rate Loan shall be suspended and thereafter the Borrower may select only Base Rate Loans hereunder, and (ii) if any of the Lenders may not lawfully continue to maintain a LIBOR Rate Loan to the end of the then current Interest Period applicable thereto as a LIBOR Rate Loan, the applicable LIBOR Rate Loan shall immediately be converted to a Base Rate Loan for the remainder of such Interest Period.

(c) Increased Costs. If, after the date hereof, the introduction of, or any change in, any Applicable Law, or in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any of the Lenders (or any of their respective Lending Offices) with any request or directive (whether or not having the force of law) of such Governmental Authority, central bank or comparable agency:

- (i) shall subject any of the Lenders (or any of their respective Lending Offices) to any tax, duty or other charge with respect to any Note, Letter of Credit or Application or shall change the basis of taxation of payments to any of the Lenders (or any of their respective Lending Offices) of the principal of or interest on any Note, Letter of Credit or Application or any other amounts due under this Agreement in respect thereof (except for changes in the rate of tax on the overall net income of any of the Lenders or any of their respective Lending Offices imposed by the jurisdiction in which such Lender is organized or is or should be qualified to do business or such Lending Office is located); or

- (ii) shall impose, modify or deem applicable any reserve (including, without limitation, any imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance or capital or similar requirement against assets of, deposits with or for the account of, or credit extended by any of the Lenders (or any of their respective Lending Offices) or shall impose on any of the Lenders (or any of their respective Lending Offices) or the foreign exchange and interbank markets any other condition affecting any Note;

and the result of any of the foregoing is to increase the costs to any of the Lenders of making or maintaining any Loan or issuing or participating in Letters of Credit or to reduce the yield or amount of any sum received or receivable by any of the Lenders under this Agreement or under the Notes or Letters of Credit or Application, then such Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify the Borrower of such fact and demand compensation therefor and, within ten (10) Business Days after such notice by the Administrative Agent, the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender or Lenders for such increased cost or reduction. The Administrative Agent will promptly notify the Borrower of any event of which it has knowledge which will entitle such Lender to compensation pursuant to this Section 4.13(c); provided, that the Administrative Agent shall incur no liability whatsoever to the Lenders or the Borrower in the event it fails to do so. The amount of such compensation shall be determined, in the applicable Lender's sole discretion, based upon the assumption that such Lender funded its Commitment Percentage of the LIBOR Rate Loans in the London interbank market and using any reasonable attribution or averaging methods which such Lender deems appropriate and practical. A certificate of such Lender setting forth the basis for determining such amount or amounts necessary to compensate such Lender shall be forwarded to the Borrower through the Administrative Agent and shall be conclusively presumed to be correct save for manifest error.

SECTION 4.14. Indemnity.

The Borrower hereby indemnifies each of the Lenders against any loss or expense which may arise or be attributable to each Lender's obtaining, liquidating or employing deposits or other funds acquired to effect, fund or maintain any Loan (a) as a consequence of any failure by the Borrower to make any payment when due of any amount due hereunder in connection with a LIBOR Rate Loan, (b) due to any failure of the Borrower to borrow on a date specified therefor in a Notice of Borrowing or Notice of Continuation/Conversion or (c) due to any payment, prepayment or conversion of any LIBOR Rate Loan on a date other than the last day of the Interest Period therefor. The amount of such loss or expense shall be determined, in the applicable Lender's sole discretion, based upon the assumption that such Lender funded its Commitment Percentage of the LIBOR Rate Loans in the London interbank market and using any reasonable attribution or averaging methods that such Lender deems appropriate and practical. A certificate of such Lender setting forth the basis for determining such amount or amounts necessary to compensate such Lender shall be forwarded to the Borrower through the Administrative Agent and shall be conclusively presumed to be correct save for manifest error.

SECTION 4.15. Capital Requirements.

If either (a) the introduction of, or any change in, or in the interpretation of, any Applicable Law or (b) compliance with any guideline or request from any central bank or comparable agency or other Governmental Authority (whether or not having the force of law), has or would have the effect of reducing the rate of return on the capital of, or has affected or would affect the amount of capital required to be maintained by, any Lender or any corporation controlling such Lender as a consequence of, or with reference to the Commitments and other commitments of this type, below the rate which the Lender or such other corporation could have achieved but for such introduction, change or compliance, then within ten (10) Business Days after written demand by any such Lender, the Borrower shall pay to such Lender from time to time as specified by such Lender additional amounts sufficient to compensate such Lender or other corporation for such reduction. A certificate as to such amounts submitted to the Borrower and the Administrative Agent by such Lender, shall be conclusively presumed to be correct save for manifest error.

SECTION 4.16. Taxes.

(a) Payments Free and Clear. Any and all payments by the Borrower hereunder or under the Notes or the Letters of Credit shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholding, and all liabilities with respect thereto excluding, (i) in the case of each Lender and the Administrative Agent, income and franchise taxes imposed by the jurisdiction under the laws of which such Lender or the Administrative Agent (as the case may be) is organized or is or should be qualified to do business or any political subdivision thereof and (ii) in the case of each Lender, income and franchise taxes imposed by the jurisdiction of such Lender's Lending Office or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "**Taxes**"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note or Letter of Credit to any Lender or the Administrative Agent, (A) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 4.16) such Lender or the Administrative Agent (as the case may be) receives an amount equal to the amount such party would have received had no such deductions been made, (B) the Borrower shall make such deductions, (C) the Borrower shall pay the full amount deducted to the relevant taxing authority or other authority in accordance with applicable law, and (D) the Borrower shall deliver to the Administrative Agent evidence of such payment to the relevant taxing authority or other authority in the manner provided in Section 4.16(d). Any Lender for which any such payment shall have been made shall promptly remit to the Borrower the amount of any excess benefit such Lender receives by reason of such payment.

(b) Stamp and Other Taxes. In addition, the Borrower shall pay any present or future stamp, registration, recordation or documentary taxes or any other similar fees or charges or excise or property taxes, levies of the United States or any state or political subdivision thereof or any applicable foreign jurisdiction which arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement, the Loans, the Letters of Credit, the other Credit Documents, or the perfection of any rights or security interest in respect thereto (hereinafter referred to as "**Other Taxes**").

(c) Indemnity. The Borrower shall indemnify each Lender and the Administrative Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes and Other Taxes imposed by any jurisdiction on amounts payable under this Section 4.16) paid by such Lender or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. Such indemnification shall be made within thirty (30) days from the date such Lender or the Administrative Agent (as the case may be) makes written demand therefor.

(d) Evidence of Payment. Within thirty (30) days after the date of any payment of Taxes or Other Taxes, the Borrower shall furnish to the Administrative Agent, at its address referred to in Section 13.01, the original or a certified copy of a receipt evidencing payment thereof or other evidence of payment satisfactory to the Administrative Agent.

(e) Delivery of Tax Forms. Each Lender organized under the laws of a jurisdiction other than the United States or any state thereof shall deliver to the Borrower, with a copy to the Administrative Agent, on the Closing Date or concurrently with the delivery of the relevant Assignment and Acceptance, as applicable, (i) two United States Internal Revenue Service Forms 4224 or Forms 1001, as applicable (or successor forms) properly completed and certifying in each case that such Lender is entitled to a complete exemption from withholding or deduction for or on account of any United States federal income taxes, and (ii) an Internal Revenue Service Form W-8 or W-9 or successor applicable form, as the case may be, to establish an exemption from United States backup withholding taxes. Each such Lender further agrees to deliver to the Borrower, with a copy to the Administrative Agent, a Form 1001 or 4224 and Form W-8 or W-9, or successor applicable forms or manner of certification, as the case may be, on or before the date that any such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent form previously delivered by it to the Borrower, certifying in the case of a Form 1001 or 4224 that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes (unless in any such case an event (including without limitation any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders such forms inapplicable or the exemption to which such forms relate unavailable and such Lender notifies the Borrower and the Administrative Agent that it is not entitled to receive payments without deduction or withholding of United States federal income taxes) and, in the case of a Form W-8 or W-9, establishing an exemption from United States backup withholding tax. The Borrower shall not be required to pay any additional amount to any non-U.S. Lender in respect of United States withholding tax pursuant to Section 4.16(a) to the extent that the obligation to withhold such tax existed at the time such non-U.S. Lender became a Lender hereunder, unless such obligation would not have arisen but for a failure by such non-U.S. Lender to deliver the documents referred to in this Section 4.16(e).

(f) Survival. Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in this Section 4.16 shall survive the payment in full of the Obligations and the termination of the Commitments.

SECTION 4.17. Duty to Mitigate; Assignment of Commitments Under Certain Circumstances.

(a) Any Lender (or Eligible Assignee) claiming any additional amounts payable pursuant to Sections 4.13, 4.14 or 4.16, shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document requested by the Borrower or to change the jurisdiction of its applicable lending office if the making of such a filing or change would avoid the need for or reduce the amount of any such additional amounts which may thereafter accrue or avoid the circumstances giving rise to such exercise and would not, in the sole determination of such Lender (or Eligible Assignee), be otherwise disadvantageous to such Lender (or Eligible Assignee).

(b) In the event that any Lender shall have delivered a notice pursuant to Section 4.13 or 4.15 or the Borrower shall be required to make additional payments to any Lender under Section 4.16, the Borrower shall have the right, at its expense (which shall include the assignment fee referred to in Section 13.10), upon notice to such Lender and the Administrative Agent, to require such Lender to transfer and assign without recourse (in accordance with and subject to the restrictions contained in Section 13.10) all interests, rights and obligations contained hereunder to another financial institution (including any other Lender) approved by the Administrative Agent (which approval shall not be unreasonably withheld) which shall assume such obligations; provided that (i) no such assignment shall conflict with any law, rule or regulation or order of any Governmental Authority and (ii) the assignee or the Borrower, as the case may be, shall pay to the affected Lender in immediately available funds on the date of such assignment the principal of and interest accrued to the date of payment on, or transfer of, the Loans made by it hereunder and all other amounts accrued for its account or owed to it hereunder (including the additional amounts asserted and payable pursuant to Sections 4.13, 4.15 or 4.16, if any).

ARTICLE V

CLOSING; CONDITIONS OF CLOSING AND BORROWING

SECTION 5.01. Closing.

The closing shall take place at the offices of Parker, Poe, Adams & Bernstein L.L.P., Charlotte, North Carolina at 9:00 a.m. (or at such other time and place as the parties hereto shall mutually agree) on the Closing Date.

SECTION 5.02. Credit Documents and Conditions Precedent.

Notwithstanding anything herein or in the other Credit Documents to the contrary, the Lenders and the Issuing Bank shall not be obligated to make the initial Extension of Credit under this Agreement until:

(a) Credit Documents. The Administrative Agent shall have received the following documents, duly executed and delivered by all parties thereto (including any party who signs to

evidence its consent or acknowledgment thereto), if applicable, and otherwise satisfactory in form and content to the Administrative Agent:

- (i) Credit Agreement. This Agreement;
- (ii) Notes. The Notes;
- (iii) Security Agreements. The Security Agreements;
- (iv) Guaranty Agreements. The Guaranty Agreements;
- (v) Pledge Agreements. The Pledge Agreements;
- (vi) UCC Financing Statements. UCC-1 or similar financing statements from each Credit Party, as debtor, to the Administrative Agent, as secured party, covering the Collateral, filed, or to be filed, in all such jurisdictions as the Administrative Agent deems necessary or desirable to perfect its Liens in the Collateral;
- (vii) Mortgage Documents. Except as set forth in the Post-Closing Agreement, the Mortgages and such UCC fixture financing statements and like real property security documents as the Administrative Agent deems necessary or desirable to create, perfect and preserve a Lien in favor of the Administrative Agent, as security for the Obligations, on certain real properties listed on Schedule 6.01(s) hereto owned in fee by the Borrower;
- (viii) Record Owner/Lien Searches. To the extent required by the Administrative Agent, record owner and/or lien searches, performed by a title insurance company or other search service satisfactory to the Administrative Agent, with respect to each Credit Party and fee-owned parcel of real property encumbered, or to be encumbered, by a Mortgage, reflecting no Liens other than Permitted Liens and Liens to be terminated prior to, or simultaneously with, the Closing Date, and no other matters of title which the Administrative Agent shall not have approved in its reasonable discretion;
- (ix) Certificates of Title. Vehicle certificates of title, issued by the appropriate state governmental authorities, acknowledging the Administrative Agent's perfected, first priority Lien on all vehicles listed on Part 2 of Schedule 6.01(s) hereto, subject to no other Liens noted on such certificates;
- (x) Insurance. Copies of each Credit Party's property damage insurance policies, together with loss payable endorsements which are acceptable to the Administrative Agent and which name the Administrative Agent as sole loss payee thereunder, and copies of each Credit Party's liability insurance policies (including pollution legal liability policies), together

with endorsements naming the Administrative Agent as an additional named insured thereunder;

- (xi) Loan Disbursement Instructions. Written instructions from the Credit Parties to the Administrative Agent directing the application of proceeds of the initial Loan made pursuant to this Agreement;
 - (xii) Opinion of Credit Parties' Counsel. The favorable written opinion of Stinson Morrison Hecker LLP, counsel to the Credit Parties, to the Administrative Agent regarding the Credit Parties, the Credit Documents and the transactions contemplated by the Credit Documents, substantially in the form of Exhibit K hereto; and
 - (xiii) Post-Closing Agreement. A Post-Closing Agreement (the "**Post-Closing Agreement**") satisfactory to the Administrative Agent setting forth certain conditions precedent waived by the Administrative Agent, which the Borrower agrees to satisfy no later than the respective dates specified therein.
- (b) Conditions Precedent. The satisfaction, in the Administrative Agent's sole judgment, of each of the following conditions precedent:
- (i) President's Certificate. Receipt by the Administrative Agent of (A) a certificate of the president of each of the Credit Parties, as applicable, dated the Closing Date and certifying with respect to each applicable Credit Party, (1) that attached thereto is a true and complete copy of the articles of incorporation, articles of organization or certificate of partnership, as applicable, and all amendments thereto of each of them, certified as of a recent date by the appropriate Governmental Authority in its jurisdiction of organization (or, in the alternative, a certification that none of such documents have been modified since delivery thereof to the Administrative Agent in connection with the execution and delivery of the Existing Credit Agreement), (2) that attached thereto is a true and complete copy of the operating agreement, by-laws, partnership agreement or equivalent document, as applicable, of each applicable Credit Party in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (3) below (or, in the alternative, a certification that none of such documents have been modified since delivery thereof to the Administrative Agent in connection with the execution and delivery of the Existing Credit Agreement), (3) that attached thereto is a true and complete copy of resolutions or consents, as applicable, duly adopted by the respective governing boards of each applicable Credit Party authorizing, as applicable, the execution, delivery and performance of the Credit Documents to which it is party and, in the case of the Borrower, the borrowings hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and

effect, (4) that the organizational documents of each applicable Credit Party have not been amended since the date of the last amendment thereto shown on the certificate of good standing attached thereto and (5) as to the incumbency and specimen signature of each officer executing any Credit Document or any other document delivered in connection herewith on its behalf; and (B) a certificate of another officer as to the incumbency and specimen signature of such president executing the certificate pursuant to (A) above;

- (ii) Officer's Certificate. Receipt by the Administrative Agent of a certificate from the chief executive officer or chief financial officer of each Credit Party, as applicable, in form and substance satisfactory to the Administrative Agent, to the effect that all representations and warranties of each Credit Party contained in this Agreement and the other Credit Documents are true, correct and complete; that the applicable Credit Party is not in violation of any of the covenants contained in this Agreement and the other Credit Documents; that, after giving effect to the transactions contemplated by this Agreement, no Default or Event of Default has occurred and is continuing; and that the applicable Credit Party has satisfied each of the conditions precedent set forth in this Section 5.02;
- (iii) Material Adverse Change. Since each of the dates of the financial statements referred to in Section 5.02(b)(viii), there shall not have occurred any material adverse change in the business, financial condition or results of operations of Inergy, L.P., the Borrower or the Borrower and its Subsidiaries taken as a whole, or the existence or value of any Collateral or any other event, condition or state of facts which would reasonably be expected to materially and adversely affect the actual or prospective business, financial condition or operations of Inergy, L.P., the Borrower or the Borrower and its Subsidiaries taken as a whole;
- (iv) Proceedings. No action, proceeding, investigation, regulation or legislation shall have been instituted, threatened or proposed before any court, government agency or legislative body to enjoin, restrain or prohibit, or to obtain damages in respect of, or which is related to or arises out of this Agreement or the other Credit Documents or the consummation of the transactions contemplated hereby or thereby or which, in the Administrative Agent's reasonable determination, would prohibit the making of the Loans or the issuances of Letters of Credit or have a material adverse effect on Inergy, L.P., the Borrower or the Borrower and its Subsidiaries taken as a whole;
- (v) Fees. The Credit Parties, as applicable, shall have paid to the Administrative Agent and the Lenders the fees set forth or referenced in this Agreement and any other accrued and unpaid fees, expenses or commissions due hereunder (including, without limitation, legal fees and

expenses of counsel to the Administrative Agent), and to any other Person such amount as may be due thereto in connection with the transactions contemplated hereby, including all taxes, fees and other charges in connection with the execution, delivery, recording, filing and registration of any of the Credit Documents;

- (vi) Certificates of Good Standing / Authorization. Receipt by the Administrative Agent of a certificate of good standing or authorization for each Credit Party, as applicable, dated on or immediately prior to the Closing Date, from the Secretary of State of the state of organization of the applicable Credit Party and from all states in which the applicable Credit Party is required to obtain a certificate of good standing, certificate of authorization or like certificate due to the nature of its operations in such state, each such state being listed on Part 1 of Schedule 6.01(a) hereto;
- (vii) Solvency Certificate. Receipt by the Administrative Agent of a certificate, in form and substance satisfactory to the Administrative Agent, certified as accurate by the chief executive officer or chief financial officer of each Credit Party, as applicable, that the applicable Credit Party is Solvent;
- (viii) Financial Statements. Receipt by the Administrative Agent of (A) financial statements which demonstrate, in the Administrative Agent's reasonable judgment, together with all other information then available to the Administrative Agent, that the Borrower can repay its debts and satisfy its other obligations as and when they become due, and that the Borrower and Inergy, L.P. can comply with the applicable financial covenants contained in this Agreement and the other Loan Documents, (B) unaudited consolidated financial statements of the Borrower and its Consolidated Subsidiaries for the fiscal quarter ended March 31, 2004; and (C) such other information as the Administrative Agent, or the Lenders, through the Administrative Agent, may reasonably request;
- (ix) Cleardown Period. Receipt by the Administrative Agent of a certificate, in form and substance satisfactory to the Administrative Agent, certified as accurate by the chief executive officer or chief financial officer of the Borrower, certifying that the cleardown requirement set forth in Section 4.02(b) has been satisfied for the Fiscal Year 2004 Cleardown Period.
- (x) Consents. Receipt by the Administrative Agent of a written representation from the Borrower that (i) all governmental, shareholder, member, partner and third party consents and approvals necessary or, in the reasonable opinion of the Administrative Agent, desirable in connection with the transactions contemplated hereby have been received and are in full force and effect and (ii) no condition or requirement of law exists which could

reasonably be likely to restrain, prevent or impose any material adverse condition on the transactions contemplated hereby;

- (xi) Outstanding Facilities. Receipt by the Administrative Agent of confirmation acceptable to the Administrative Agent that all other credit facilities of the Credit Parties, have been, or will be simultaneously, terminated and paid in full; provided, however, that, with respect to the Existing Senior Debt, this Agreement shall not constitute a novation of such Existing Senior Debt, it being the express intention of the parties to reaffirm such Existing Senior Debt, as amended and restated in its entirety hereby.
- (xii) Notice of Borrowing. Receipt by the Administrative Agent of a Notice of Borrowing from the Borrower in accordance with Section 4.01(a), and a Notice of Account Designation specifying the account or accounts to which the proceeds of any Loans made after the Closing Date are to be disbursed;
- (xiii) No Default; Representations and Warranties. As of the Closing Date (i) there shall exist no Default or Event of Default and (ii) all representations and warranties contained herein and in the other Credit Documents shall be true and correct in all material respects; and
- (xiv) Other. Receipt by the Administrative Agent of all opinions, certificates and other instruments in connection with the transactions contemplated by this Agreement satisfactory in form and substance to the Lenders. The Lenders shall have received copies of all other instruments and such other evidence as the Lenders may reasonably request, in form and substance satisfactory to the Lenders, with respect to the transactions contemplated by this Agreement and the taking of all actions in connection therewith.

SECTION 5.03. Conditions Precedent to All Extensions of Credit.

The obligation of the Lenders and the Issuing Bank to make each Extension of Credit under this Agreement (including, without limitation, the initial Extension of Credit) shall be subject to the further conditions precedent that, on the date of each such Extension of Credit:

(a) Continuation of Representations and Warranties. The representations and warranties contained in Article VI or otherwise made by the Credit Parties in any Credit Document shall be true and correct, in all material respects, on and as of such borrowing or issuance date with the same effect as if made on and as of such date.

(b) No Existing Default. No Default or Event of Default shall have occurred and be continuing hereunder (i) on the borrowing date with respect to such Loan or after giving effect to the Loans to be made on such date or (ii) on the issue date with respect to such Letter of Credit or after giving affect to such Letters of Credit on such date.

(c) Officer's Compliance Certificate; Additional Documents. The Administrative Agent shall have received the current Officer's Compliance Certificate and each additional document, instrument, legal opinion or other item of information reasonably requested by it.

(d) Other. The Administrative Agent shall have received such other approvals, opinions or documents as it may reasonably request.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF THE BORROWER

SECTION 6.01. Representations and Warranties.

To induce the Administrative Agent and the Lenders to enter into this Agreement and the other Credit Documents and to induce the Lenders to make the Extensions of Credit, the Borrower hereby represents and warrants to the Administrative Agent and the Lenders both before and after giving effect to the transactions contemplated hereunder that:

(a) Organization; Power; Qualification.

(i) Each Credit Party is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or formation, has the power and authority to own its properties and to carry on its business as now being and hereafter proposed to be conducted and is duly qualified and authorized to do business in each jurisdiction in which the character of its properties or the nature of its business requires such qualification and authorization, except where the failure to so qualify would not have a Material Adverse Effect. The jurisdictions of formation and the jurisdictions in which Inergy, L.P., the Borrower and each Subsidiary of the Borrower is organized and qualified to do business are described on Part 1 of Schedule 6.01(a) hereto.

(ii) Each Subsidiary of the Borrower is listed on Part 2 of Schedule 6.01(a) hereto.

(b) Ownership.

(i) The capitalization of Inergy, L.P., the Borrower and each Subsidiary of the Borrower consists of the Capital Stock, authorized, issued and outstanding, of such classes and series, with or without par value, described on Schedule 6.01(b) hereto. All such outstanding Capital Stock has been duly authorized and validly issued and are fully paid and nonassessable.

(ii) The owners of the Capital Stock of Inergy, L.P., the Borrower and each Subsidiary of the Borrower and the percentage of Capital Stock owned by each are described on Schedule 6.01(b) hereto.

(iii) There are no outstanding warrants, subscriptions, options, securities, instruments or other rights of any type or nature whatsoever, which are convertible into, exchangeable for or otherwise provide for or permit the issuance of, Capital Stock of the Borrower or any Subsidiary of the Borrower or are otherwise exercisable by any Person.

(c) Authorization of Agreement, Credit Documents and Borrowing. Each of the Credit Parties has the right, power and authority and has taken all necessary corporate and other action to authorize the execution, delivery and performance of this Agreement and each of the other Credit Documents to which it is a party in accordance with their respective terms. This Agreement and each of the other Credit Documents have been duly executed and delivered by the duly authorized officers of each Credit Party thereto, and each such Credit Document constitutes the legal, valid and binding obligation of the Credit Party thereto, enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar state or federal debtor relief laws from time to time in effect which affect the enforcement of creditors' rights in general and the availability of equitable remedies.

(d) Compliance of Agreement, Credit Documents and Borrowing with Laws, Etc. The execution, delivery and performance by the Credit Parties of the Credit Documents to which each such Person is a party, in accordance with their respective terms, the borrowings hereunder and the transactions contemplated hereby and under the other Credit Documents do not and will not, by the passage of time, the giving of notice or otherwise, (i) require any Governmental Approval or violate any Applicable Law relating to any Credit Party, (ii) conflict with, result in a breach of or constitute a default under the articles of incorporation, bylaws or other organizational documents of any Credit Party or any indenture, agreement or other instrument to which such Person is a party or by which any of its properties may be bound or any Governmental Approval relating to such Person, or (iii) result in or require the creation or imposition of any Lien upon or with respect to any property now owned or hereafter acquired by such Person other than Liens arising under the Credit Documents.

(e) Compliance with Law; Governmental Approvals. Each Credit Party (i) has all Governmental Approvals required by any Applicable Law for it to conduct its business, each of which is in full force and effect, is final and not subject to review on appeal and is not the subject of any pending or, to the best of its knowledge, threatened attack by direct or collateral proceeding, and (ii) is in compliance with each Governmental Approval applicable to it and in compliance with all other Applicable Laws, including, without limitation, the BSA, relating to it or any of its respective properties, except, in each case, to the extent that such non-compliance would not have a Material Adverse Effect.

(f) Tax Returns and Payments. Each Credit Party has duly filed or caused to be filed all material federal, state and local tax returns required by Applicable Law to be filed, and has paid, or made adequate provision for the payment of, all federal, state, local and other taxes, assessments and governmental charges or levies upon it and its property, income, profits and assets which are due and payable, other than those the validity of which the applicable Credit Party is contesting in good faith by appropriate proceedings and with respect to which

the applicable Credit Party shall, to the extent required by GAAP, have set aside on its books adequate reserves. No Governmental Authority has asserted any Lien or other claim against any Credit Party with respect to unpaid taxes which has not been discharged or resolved. The charges, accruals and reserves on the books of Credit Parties in respect of federal, state, local and other taxes for all Fiscal Years and portions thereof since the organization of each such Credit Party are in the judgment of the Borrower adequate, and the Borrower does not anticipate any additional taxes or assessments for any of such years.

(g) Intellectual Property Matters. Each Credit Party owns or possesses rights to use all franchises, licenses, copyrights, copyright applications, patents, patent rights or licenses, patent applications, trademarks, trademark rights, trade names, trade name rights, copyrights and rights with respect to the foregoing which are required to conduct its business. No event has occurred which permits, or after notice or lapse of time or both would permit, the revocation or termination of any such rights, and no Credit Party is liable to any Person for infringement under Applicable Law with respect to any such rights as a result of its business operations.

(h) Environmental and Safety Matters. Each Credit Party has complied in all respects with all Environmental Laws except for violations that either alone or in the aggregate could not reasonably be expected to result in a Material Adverse Effect. No Credit Party manages or handles any hazardous wastes, hazardous substances, hazardous materials, toxic substances or toxic pollutants referred to in or regulated by Environmental Laws in violation of such laws or of any other applicable law where such violation could reasonably be expected to result, individually or together with other violations, in a Material Adverse Effect. There are no outstanding or threatened citations, notices or orders of non-compliance issued to any Credit Party or relating to its facilities, leaseholds, assets or other property that either alone or in the aggregate could reasonably be expected to result in a Material Adverse Effect. Each Credit Party has been issued all licenses, certificates, permits or other authorizations required under any Environmental Law or by any federal, state or local governmental or quasi-governmental entity. There are no liabilities or contingent liabilities relating to environmental or employee health and safety matters (including on-site or off-site contamination) relating to any Credit Party or any property owned, leased or used by any Credit Party, which, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect.

(i) ERISA Matters. The Borrower and each ERISA Affiliate is in material compliance with all applicable provisions of ERISA and the regulations and published interpretations thereunder.

(j) Margin Stock. No Credit Party is engaged principally or as one of its activities in the business of extending credit for the purpose of “purchasing” or “carrying” any “margin stock” (as each such term is defined or used in the regulations of the Board of Governors of the Federal Reserve System). No part of the proceeds of any of the Loans will be used for purchasing or carrying margin stock in violation of, or for any purpose which violates, the provisions of Regulation T, U or X of such Board of Governors.

(k) Government Regulation. No Credit Party is an “investment company” or a company “controlled” by an “investment company” (as each such term is defined or used in the Investment Company Act of 1940, as amended) and neither the Borrower nor any of its Subsidiaries is, or after giving effect to any Extension of Credit will be, subject to regulation under the Public Utility Holding Company Act of 1935 or the Interstate Commerce Act, each as amended, or any other Applicable Law which limits its ability to incur or consummate the transactions contemplated hereby.

(l) Agreements. No Credit Party is a party to any agreement or instrument or subject to any restriction in its organizational documents that (i) will have the effect of prohibiting or restraining, or will impose adverse conditions upon, any of the transactions contemplated hereby or in the other Credit Documents or the payment of dividends or the making of any loans, investments or transfers by any Subsidiary to or in the Borrower or (ii) has resulted or could reasonably be expected to result in a Material Adverse Effect.

(m) Absence of Defaults. No event has occurred or is continuing which constitutes a Default or an Event of Default, or which constitutes, or which with the passage of time or giving of notice or both would constitute, a default or event of default by any Credit Party under any material agreement or contract, judgment, decree or order by which any Credit Party or any of their respective properties may be bound or which would require a Credit Party to make any payment thereunder prior to the scheduled maturity date therefore, where such default could reasonably be expected to result in a Material Adverse Effect.

(n) Employee Relations. There are no pending, or to the best knowledge of the Borrower, threatened, material strikes, material work stoppages, material unfair labor practice claims, or other material labor disputes against or affecting any Credit Party or ERISA Affiliate or their respective employees; provided, however, that if any such event is pending, or to the best knowledge of the Borrower, threatened, then the Borrower shall provide prompt written notice of the specifics of such event to the Administrative Agent, and the Administrative Agent, in its reasonable discretion, may waive such representation and warranty as it relates to such event. The hours worked and payments made to employees of each Credit Party and ERISA Affiliate have not been in violation of the Fair Labor Standards Act or any other Applicable Law dealing with such matters except for violations that either alone or in the aggregate could not reasonably be expected to result in a Material Adverse Effect. All material payments due from a Credit Party, or for which any claim may be made against a Credit Party, on account of wages and employee health and welfare insurance and other benefits have been paid or accrued as a liability on the books of the applicable Credit Party, in compliance with GAAP.

(o) Burdensome Provisions. No Credit Party is subject to any Governmental Approval or Applicable Law which is so unusual or burdensome as in the foreseeable future could be reasonably expected to have a Material Adverse Effect. The Borrower does not presently anticipate that future expenditures of the Credit Parties needed to meet the provisions of any statutes, orders, rules or regulations of a Governmental Authority will be so burdensome as to have a Material Adverse Effect.

(p) Financial Statements. (i) The audited consolidated balance sheets of the Borrower and its Consolidated Subsidiaries as of September 30, 2003, and the related statements of income and retained earnings and cash flows for the Fiscal Year then ended, and (ii) the unaudited consolidated balance sheets of the Borrower and its Consolidated Subsidiaries as of March 31, 2004, and the related statements of income and retained earnings and cash flows for the fiscal quarter then ended, copies of which have been furnished to the Administrative Agent and each Lender, are each complete and correct and fairly present the assets, liabilities and financial position of the Borrower and its Consolidated Subsidiaries as of such dates, and the results of the operations and changes of financial position for the periods then ended in accordance with GAAP. All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP. The Borrower and its Subsidiaries have no Debt, obligation or other unusual forward or long-term commitment which is not fairly reflected in the foregoing financial statements or in the notes thereto.

(q) No Material Adverse Change. Since March 31, 2004, no event has occurred or condition arisen that could reasonably be expected to have a Material Adverse Effect.

(r) Solvency. As of the Closing Date and after giving effect to each Extension of Credit made hereunder, Inergy, L.P., the Borrower and each of the Subsidiaries of the Borrower will be Solvent.

(s) Titles to Properties.

(i) Each Credit Party has good and marketable title to all assets and other property purported to be owned by it.

(ii) Set forth on Part 1 of Schedule 6.01(s), hereto is a complete list by Credit Party of each parcel of real property by street address owned or leased by a Credit Party, as of the date of the most recent update to such Schedule delivered by the Borrower with the Officer's Compliance Certificate pursuant to Section 7.01(f).

(iii) Set forth on Part 2 of Schedule 6.01(s), hereto is a complete list by Credit Party of all motor vehicles owned by a Credit Party, as of the date of the most recent update to such Schedule delivered by the Borrower with the Officer's Compliance Certificate pursuant to Section 7.01(f).

(t) Liens. None of the properties and assets of the Credit Parties is subject to any Lien, except Permitted Liens. The Administrative Agent, for the benefit of the Lenders, has a perfected first priority Lien on all of the Collateral subject to no other Liens except for Permitted Liens.

(u) Debt and Permitted Investments. No Credit Party has any Debt other than Permitted Debt. No Credit Party has made any Investments other than Investments permitted under Section 10.03 of this Agreement.

(v) Litigation. There are no actions, suits or proceedings pending nor, to the knowledge of the Borrower, threatened against or in any other way relating adversely to or affecting any Credit Party or any Credit Party's respective properties in any court or before any arbitrator of any kind or before or by any Governmental Authority, except for actions, suits or proceedings that, if adversely determined, could, individually or in the aggregate, not reasonably be expected to result in a Material Adverse Effect.

(w) Fiscal Year. The Fiscal Year of each Credit Party begins on October 1 and ends on September 30 of the following calendar year.

(x) Accuracy and Completeness of Information. All written information, reports and other papers and data produced by or on behalf of each Credit Party and furnished to the Administrative Agent and the Lenders (other than financial projections concerning the Borrower and its Subsidiaries, and Inergy, L.P. and its Subsidiaries, all of which have been prepared in good faith based upon reasonable assumptions) were, at the time the same were so furnished, complete and correct in all material respects. No document furnished or written statement made to the Administrative Agent or the Lenders by any Credit Party in connection with the negotiation, preparation or execution of this Agreement or any of the Credit Documents contains or will contain any untrue statement of a fact material to the creditworthiness of any Credit Party or omits or will omit to state a fact necessary in order to make the statements contained therein not misleading.

SECTION 6.02. Survival of Representations and Warranties, Etc.

All representations and warranties set forth in this Article VI and all representations and warranties contained in any certificate, or any of the Credit Documents (including, but not limited to, any such representation or warranty made in or in connection with any amendment thereto) shall constitute representations and warranties made under this Agreement. All representations and warranties made under this Agreement shall be made or deemed to be made at and as of the Closing Date, shall survive the Closing Date and shall not be waived by the execution and delivery of this Agreement, any investigation made by or on behalf of the Lenders or any borrowing hereunder.

ARTICLE VII

FINANCIAL INFORMATION AND NOTICES

Until all the Obligations have been finally and indefeasibly paid and satisfied in full and the Commitments terminated, unless consent has been obtained in the manner set forth in Section 13.11, the Borrower will furnish or cause to be furnished to the Administrative Agent and to the Lenders at their respective addresses as set forth on Schedule 1.01B hereto, or such other office as may be designated by the Administrative Agent and Lenders from time to time:

SECTION 7.01. *Financial Statements.*

(a) Borrowing Base Certificates; Mark-to-Market Reports.

- (i) Prior to any borrowing hereunder, but at least quarterly, a Borrowing Base Certificate in substantially the form of Exhibit F hereto (a "***Borrowing Base Certificate***") showing, as of the close of business on the day prior to any borrowing, or on the last day of such quarter, the Borrowing Base. No later than thirty (30) days after the end of each quarter, reports, in form and substance satisfactory to the Administrative Agent, of the Borrower's and its Consolidated Subsidiaries' agings of accounts receivable and inventory.
- (ii) Upon request and no later than fifteen (15) days after the end of each quarter, a mark-to-market report of the Borrower and its Consolidated Subsidiaries for such quarter, in form and substance satisfactory to the Administrative Agent.

(b) Quarterly Financial Statements.

- (i) As soon as practicable and in any event within forty-five (45) days after the end of each of the first three fiscal quarters, unaudited consolidated and consolidating balance sheet of Inergy, L.P. and its Consolidated Subsidiaries as of the close of such fiscal quarter and unaudited consolidated and consolidating statements of income, retained earnings and cash flows for the fiscal quarter then ended and that portion of the Fiscal Year then ended, all in reasonable detail setting forth in comparative form the corresponding figures for the preceding Fiscal Year and prepared by Inergy, L.P. in accordance with GAAP other than the absence of footnotes and subject to year-end audit and adjustments and, if applicable, containing disclosure of the effect on the financial position or results of operations of any change in the application of accounting principles and practices during the period, and certified by a Financial Officer of Inergy, L.P. to present fairly in all material respects the financial condition of Inergy, L.P. and its Consolidated Subsidiaries as of their respective dates and the results of operations of Inergy, L.P. and its Consolidated Subsidiaries for the respective periods then ended other than the absence of footnotes and subject to year-end audit and adjustments. For purposes hereof, the delivery of Inergy, L.P.'s appropriately completed Quarterly Report on Form 10-Q will be sufficient in lieu of delivery of the consolidated financial statements of Inergy, L.P. and its Consolidated Subsidiaries.
- (ii) As soon as practicable and in any event within forty-five (45) days after the end of each of the first three fiscal quarters, unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the

close of such fiscal quarter and unaudited consolidated statements of income, retained earnings and cash flows for the fiscal quarter then ended and that portion of the Fiscal Year then ended, all in reasonable detail setting forth in comparative form the corresponding figures for the preceding Fiscal Year and prepared by the Borrower in accordance with GAAP other than the absence of footnotes and subject to year-end audit and adjustments and, if applicable, containing disclosure of the effect on the financial position or results of operations of any change in the application of accounting principles and practices during the period, and certified by a Financial Officer of the Borrower to present fairly in all material respects the financial condition of the Borrower and its Consolidated Subsidiaries as of their respective dates and the results of operations of the Borrower and its Consolidated Subsidiaries for the respective periods then ended other than the absence of footnotes and subject to year-end audit and adjustments.

(c) Applicable Margin Calculation Certificate. As soon as available and in any event within forty-five (45) days after the end of each fiscal quarter, an Applicable Margin Calculation Certificate for the Borrower and its Consolidated Subsidiaries in the form of Exhibit G hereto, for such fiscal quarter.

(d) Annual Financial Statements.

(i) As soon as practicable and in any event within ninety (90) days after the end of each Fiscal Year, audited consolidated balance sheet of Inergy, L.P. and its Consolidated Subsidiaries as of the close of such Fiscal Year and audited consolidated statements of income, retained earnings and cash flows for the Fiscal Year then ended, including the notes thereto, all in reasonable detail setting forth in comparative form the corresponding figures for the preceding Fiscal Year and audited by Ernst & Young, LLP or other independent certified public accountants of national standing reasonably acceptable to the Administrative Agent in accordance with GAAP and, if applicable, containing disclosure of the effect on the financial position or results of operation of any change in the application of accounting principles and practices during the year, and accompanied by a report thereon by such certified public accountants that is not qualified with respect to scope limitations imposed by Inergy, L.P. or any of its Consolidated Subsidiaries or with respect to accounting principles followed by Inergy, L.P. or any of its Consolidated Subsidiaries not in accordance with GAAP and there exists no Event of Default under Article IX of this Agreement. For purposes hereof, the delivery of Inergy, L.P.'s appropriately completed Annual Report on Form 10-K will be sufficient in lieu of delivery of the consolidated financial statements of Inergy, L.P. and its Consolidated Subsidiaries.

- (ii) As soon as practicable and in any event within ninety (90) days after the end of each Fiscal Year, unaudited consolidating balance sheet of Inergy, L.P. and its Consolidated Subsidiaries as of the close of such Fiscal Year and unaudited consolidating statements of income, retained earnings and cash flows for the Fiscal Year then ended, including the notes thereto, all in reasonable detail setting forth in comparative form the corresponding figures for the preceding Fiscal Year, certified by a Financial Officer of Inergy, L.P. as having been prepared in accordance with GAAP.
- (iii) As soon as practicable and in any event within ninety (90) days after the end of each Fiscal Year, audited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the close of such Fiscal Year and audited consolidated statements of income, retained earnings and cash flows for the Fiscal Year then ended, including the notes thereto, all in reasonable detail setting forth in comparative form the corresponding figures for the preceding Fiscal Year, and audited by Ernst & Young, LLP or other independent certified public accountants of national standing reasonably acceptable to the Administrative Agent in accordance with GAAP and, if applicable, containing disclosure of the effect on the financial position or results of operation of any change in the application of accounting principles and practices during the year, and accompanied by a report thereon by such certified public accountants that is not qualified with respect to scope limitations imposed by the Borrower or any of its Consolidated Subsidiaries or with respect to accounting principles followed by the Borrower or any of its Consolidated Subsidiaries not in accordance with GAAP and there exists no Event of Default under Article IX of this Agreement.

(e) Annual Budget. The Borrower shall prepare, for each Fiscal Year, an Annual Budget. As soon as practicable, but in any event no later than August 31 of the preceding Fiscal Year, the Borrower shall submit to the Administrative Agent the Annual Budget for the next Fiscal Year, approved by management of the Borrower. As soon as practicable, but in any event no later than November 30 of the applicable Fiscal Year, the Borrower shall submit to the Administrative Agent the Annual Budget for the then current Fiscal Year, approved by the board of directors (or analogous governing board) of the Borrower.

(f) Officer's Compliance Certificate. At each time financial statements are delivered pursuant to Sections 7.01(b) or (d), a certificate of a Financial Officer of Inergy, L.P. or the Borrower, as applicable, in the form of Exhibit E hereto (an "**Officer's Compliance Certificate**").

SECTION 7.02. Notice of Litigation and Other Matters.

Promptly (but in no event later than ten (10) days after an officer of a Credit Party obtains knowledge thereof) telephonic and written notice of:

(a) the commencement of all proceedings and investigations by or before any Governmental Authority and all actions and proceedings in any court or before any arbitrator against or involving any Credit Party or any of their respective properties, assets or businesses, which, if adversely determined, could reasonably be expected to have a Material Adverse Effect;

(b) any notice of any violation received by any Credit Party from any Governmental Authority including, without limitation, any notice of violation of Environmental Laws or ERISA which, in any such case, could reasonably be expected to have a Material Adverse Effect;

(c) any labor controversy that has resulted in a strike or other work action against any Credit Party that could reasonably be expected to have a Material Adverse Effect;

(d) any dispositions of any Collateral or other assets or property of any Credit Party (other than in the ordinary course of its business) within ten (10) days of the disposition thereof;

(e) any Default or Event of Default;

(f) any event which makes any of the representations set forth in Section 6.01 inaccurate in any respect;

(g) any other development that has resulted in, or could reasonably be expected to result in, a Material Adverse Effect;

(h) promptly upon receipt thereof, copies of all reports, if any, submitted to any Credit Party or its respective board of directors (or analogous governing body) by its respective independent public accountants in connection with their auditing function, including, without limitation, accountant letters, management reports and management responses thereto; and

(i) such other information regarding the operations, business affairs and financial condition of the Credit Parties as the Administrative Agent or any Lender may reasonably request.

SECTION 7.03. Accuracy of Information.

All written information, reports, statements and other papers and data furnished by or on behalf of the Borrower or any of the other Credit Parties to the Administrative Agent or any Lender (other than financial forecasts) whether pursuant to this Article VII or any other provision of this Agreement, or any other of the Credit Documents, shall be, at the time the same is so furnished, complete and correct in all material respects to the extent necessary to give the Administrative Agent or any Lender complete, true and accurate knowledge of the subject matter based on the Borrower's knowledge thereof.

ARTICLE VIII

AFFIRMATIVE COVENANTS

Until the Obligations have been finally and indefeasibly paid and satisfied in full and the Commitments terminated, unless consent has been obtained in the manner provided for in Section 13.11, the Borrower will, and will cause each of its Subsidiaries to:

SECTION 8.01. *Existence; Businesses and Properties.*

(i) Carry on and conduct its principal business substantially as it is now being conducted, (ii) maintain in good standing its existence and its right to transact business in those states in which it is now or may after the Closing Date be doing business, and (iii) maintain all licenses, permits and registrations necessary to the conduct of its business, except where the failure to so maintain its right to transact business or to maintain such licenses, permits or registrations would not have a Material Adverse Effect.

SECTION 8.02. *Insurance.*

Keep insured at all times with financially sound and reputable insurers which are satisfactory to the Administrative Agent (i) all of its property of an insurable nature (other than residential tanks and racks and cylinders on a cylinder exchange program), including, without limitation, all real estate, equipment, fixtures and inventories, against fire and other casualties in such a manner and to the extent that like properties are usually insured by others owning properties of a similar character in a similar locality or as otherwise required by the Administrative Agent, with the proceeds of such casualty insurance payable to the Administrative Agent for the benefit of the Lenders, and (ii) against liability on account of damage to persons or property (including product liability insurance, pollution legal liability insurance and all insurance required under all applicable worker's compensation laws) caused by it or its officers, members, employees, agents or contractors in such a manner and to the extent that like risks are usually insured by others conducting similar businesses in the places where it conducts its business or as otherwise required by the Administrative Agent; provided, however, that the Borrower may self-insure against casualty all of its property of an insurable nature, so long as (y) no Event of Default has occurred and is continuing under this Agreement, and (z) adequate reserves (as are customary in the case of self-insured entities of similarly situated companies engaged in the same or a similar line of business in accordance with GAAP) are maintained for such purpose. Notwithstanding the foregoing, in the event that any property of the Borrower or any of its Subsidiaries is not accepted by the applicable insurer for inclusion under the Borrower's or the applicable Subsidiary's pollution legal liability policy, the Borrower or such Subsidiary shall not be required to maintain pollution legal liability insurance coverage on such property provided that (i) the Borrower provides the Administrative Agent with notice of the rejection of such property by the insurer, and (ii) at the Administrative Agent's option, such property shall not be included in the Collateral.

The Borrower shall cause the insurers under all of its and its Subsidiaries' insurance policies to (a) provide the Administrative Agent at least thirty (30) days prior written notice of

the termination of any such policy before such termination shall be effective and (b) agree to such other matters in respect of any such casualty insurance as provided in the Administrative Agent's loss payee endorsement. In addition, the Borrower will, upon request of the Administrative Agent at any time, furnish a written summary of the amount and type of insurance carried by the Borrower and its Subsidiaries, the names of the insurers and the policy numbers, and deliver to the Administrative Agent certificates with respect thereto.

SECTION 8.03. Payment of Taxes; Etc.

Pay and discharge, before they become delinquent, all taxes, assessments and other governmental charges imposed upon it, its properties, or any part thereof, or upon the income or profits therefrom and all claims for labor, materials or supplies which if unpaid might be or become a Lien or charge upon any of its property and other material obligations, except such items as it is in good faith appropriately contesting and as to which adequate reserves have been provided to the Administrative Agent's satisfaction.

SECTION 8.04. Maintenance of Properties and Leases.

(i) Maintain, preserve and keep its properties and every part thereof in good repair, working order and condition (except for such properties as the Borrower in good faith determines are not useful in the conduct of its or its Subsidiaries' business); (ii) from time to time make all necessary and property repairs, renewals, replacements, additions and improvements thereto so that at all times the efficiency thereof shall be fully preserved and maintained, and (iii) maintain all leases of real or personal property in good standing, free of any defaults by the Credit Party that is party thereto, except, in each case, where the failure to do so could not reasonably be expected to result in a Material Adverse Effect.

SECTION 8.05. Employee Benefits.

(i) Notify the Administrative Agent promptly of the establishment or joinder of any Plan, except that prior to the establishment of any "welfare benefit plan" (as defined in Section 3(1) of ERISA) covering any employee of any Credit Party or ERISA Affiliate for any period after such employee's termination of employment other than such period required by the Consolidated Omnibus Budget Reconciliation Act of 1986 or "defined benefit plan" (as defined in Section 3(35) of ERISA) or joinder of, or contribution to, any "multiemployer plan" (as defined in Section 4001(a)(3) of ERISA, it will obtain the Administrative Agent's prior written approval of such establishment; (ii) at all times make prompt payments or contributions to meet the minimum funding standards of Section 412 of the Code, with respect to each Plan; (iii) promptly after the filing thereof, furnish to the Administrative Agent a copy of any report required to be filed pursuant to Section 103 of ERISA in connection with each Plan for each plan year, including but not limited to the Schedule B attached thereto, if applicable; (iv) notify the Administrative Agent promptly of any "reportable event" (as defined in Section 4043 of ERISA) or any circumstances arising in connection with any Plan that might constitute grounds for the termination thereof by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a trustee to administer the Plan, the initiation of any audit or inquiry by the Internal Revenue Service or the Department of Labor of any Plan or

transaction(s) involving or related to any Plan, or any “prohibited transaction” as defined in Section 406 of ERISA or Section 4975(c) of the Internal Revenue Code of 1986, as amended; (v) notify the Administrative Agent prior to any action that could result in the assertion of liability under Subtitle E of Title IV of ERISA caused by the complete or partial withdrawal from any multiemployer plan or to terminate any defined benefit plan sponsored by a Credit Party or any ERISA Affiliate; and (vi) promptly furnish such additional information concerning any Plan as the Administrative Agent may from time to time request.

SECTION 8.06. Books and Records; Inspection; Audits.

(i) Maintain complete and accurate books and financial records in accordance with GAAP; (ii) during normal working hours permit the Administrative Agent and Persons designated by the Administrative Agent to visit and inspect its properties and to conduct any environmental tests or audits thereon, to perform audits of its accounts receivable and inventory and to inspect its books and financial records (including its journals, orders, receipts and correspondence which relate to its accounts receivable and inventory), to make copies and to take extracts therefrom, and to discuss its affairs, finances and accounts receivable and operations with its members, officers, employees and agents and its independent public accountants at the expense of the Borrower; (iii) permit the Administrative Agent and Persons designated by the Administrative Agent to perform audits of such books and financial records at the expense of the Borrower when and as requested by the Administrative Agent.

SECTION 8.07. Compliance with Laws.

Comply with all applicable laws, rules and regulations, and all orders of any Governmental Authority, applicable to it or any of its property, business, operations or transactions (including ERISA and all Environmental Laws), except where the failure to so comply could not reasonably be expected to result in a Material Adverse Effect, and provide prompt written notice to the Lenders following the receipt of any notice of any violation of any such laws, rules, regulations or orders from any Governmental Authority charged with enforcing the same where such violation could reasonably be expected to result in a Material Adverse Effect.

SECTION 8.08. Use of Proceeds.

Use the proceeds of (i) the Working Capital Loans and Swingline Loans for general corporate purposes of the Borrower and its Subsidiaries, other than Permitted Acquisitions; and (ii) the Permitted Acquisition Loans for refinancing indebtedness of the Borrower under the Existing Credit Agreement, Permitted Acquisitions, Expansion Capital Expenditures and the payment of fees and expenses incurred in connection with this Agreement and the other Credit Documents and the transactions contemplated hereby and thereby.

SECTION 8.09. Preparation of Environmental Reports.

If a Default caused by reason of a breach of Section 8.07 (as such Section relates to Environmental Laws) shall have occurred and be continuing, at the request of the Required Lenders through the Administrative Agent, provide to Lenders within forty-five (45) days after

such request, at the expense of the Borrower, an environmental site assessment report for the properties which are the subject of such Default prepared by an environmental consulting firm acceptable to the Administrative Agent and consented to by the Borrower (which consent shall not be unreasonably withheld or delayed), indicating the presence or absence of hazardous materials and the estimated cost of any compliance or remedial action in connection with such properties.

SECTION 8.10. Location of Collateral.

Keep all Collateral, other than inventory in transit, motor vehicles, residential tanks and bulk storage tanks, at one or more of the locations set forth on Schedule 8.10 hereto and not remove any such Collateral therefrom except for, for so long as there exists no Event of Default, (i) inventory sold in the ordinary course of business; (ii) dispositions of obsolete equipment to the extent permitted under this Agreement and the other Credit Documents; and (iii) the storage of inventory or equipment at locations within the continental United States other than those described on Schedule 8.10 hereto provided that (a) the Borrower shall take all actions necessary for the Administrative Agent's Lien on such inventory and equipment to continue to be a perfected first priority Lien subject to no other Lien other than Permitted Liens and (b) the Administrative Agent shall have received, prior to the relocation of any such equipment or inventory, a landlord's waiver, acceptable in form and content to the Administrative Agent, if the premises are leased, and mortgagee's waivers, in each case acceptable in form and content to the Administrative Agent, from all those who hold a mortgage or like Lien on such premises.

SECTION 8.11. Federal Reserve Regulations.

No proceeds of any Loans shall be used to acquire or carry any Margin Stock.

SECTION 8.12. Administrative Agent May Perform Obligations; Further Assurances.

Permit the Administrative Agent on behalf of the Lenders, if the Administrative Agent or the Required Lenders so elects in their sole discretion, to pay or perform any of the Borrower's Obligations hereunder or under any other Credit Documents and to reimburse the Administrative Agent, on demand, or, if the Administrative Agent so elects, by the Administrative Agent making one or more Loans (as the Administrative Agent may elect) on the Borrower's behalf and charging the accounts of any Credit Party held by the Administrative Agent accordingly, for all amounts expended by or on behalf of the Administrative Agent in connection therewith, and all costs and expenses incurred by or on behalf of the Administrative Agent in connection therewith. Each Borrower further agrees to execute, deliver or perform, or cause to be executed, delivered or performed, all such documents, agreements or acts, as the case may be, as the Administrative Agent may reasonably request from time to time to create, perfect, continue or otherwise assure the Administrative Agent with respect to any Lien on all assets of each Credit Party or created or purported to be created by any of the Credit Documents or to otherwise create, evidence, assure or enhance the Administrative Agent's and the Lender's rights and remedies under, or as contemplated by, the Credit Documents or at law or in equity.

SECTION 8.13. *Risk Management Policy.*

Comply, and require its Subsidiaries to comply, with (i) the retail and wholesale inventory distribution and trading procedures, (ii) the dollar and volume limits, and (iii) all other material provisions of the Risk Management Policy.

SECTION 8.14. *Acquisition of Assets and Properties.*

Subject to the provisions of Section 12.10(b), assets and properties acquired by the Borrower or any of its Subsidiaries after the Closing Date consisting of (i) such real properties as constitute at least seventy-five percent (75%) of the aggregate value of the real properties acquired, as determined by the Administrative Agent in its reasonable discretion, (ii) such motor vehicles as constitute at least seventy-five percent (75%) of the aggregate value of the motor vehicles acquired, as determined by the Administrative Agent in its reasonable discretion, and (iii) all other material personal property assets acquired (to the extent that (a) a Lien can be perfected thereon by the filing of UCC financing statements in the appropriate jurisdictions, and (b) if required by the Administrative Agent, a Lien can be perfected thereon by possession or other methods under the UCC), shall be part of the Collateral securing the payment and performance of the Obligations on which the Administrative Agent shall have a perfected Lien, and the Borrower or such Subsidiary, as applicable, shall execute and deliver, or cause to be executed and delivered, to the Administrative Agent, at the Borrower's reasonable expense, such documents (including, without limitation, mortgages, deeds of trust, deeds to secure debt, guarantees, security agreements, UCC financing statements, fixture filings, opinions of counsel, title insurance and endorsements) and other assurances as the Administrative Agent may request in order to create and perfect Liens in such assets and properties in favor of the Administrative Agent, subject to no other Liens other than Permitted Liens. Notwithstanding anything to the contrary set forth above, the conditions set forth in clauses (i), (ii) and (iii) shall not apply to the acquisition of assets and properties (whether acquired in one or more related or unrelated transactions) to the extent that the aggregate purchase price of such assets and properties does not exceed \$5,000,000.

ARTICLE IX

FINANCIAL COVENANTS

Until all of the Obligations have been finally and indefeasibly paid and satisfied in full and the Commitments terminated, unless consent has been obtained in the manner set forth in Section 13.11, the Borrower will not:

SECTION 9.01. *Consolidated EBITDA/Consolidated Interest Expense.*

Permit, as of the last day of each fiscal quarter, the ratio of (i) Consolidated EBITDA of the Borrower and its Consolidated Subsidiaries to (ii) Consolidated Interest Expense of the Borrower and its Consolidated Subsidiaries, in each case for the four fiscal quarters then most recently ended, to be less than 2.50 to 1.00, for any fiscal quarter.

SECTION 9.02. Consolidated Leverage Ratio.

(a) Permit, as of the last day of each fiscal quarter, the Consolidated Leverage Ratio of the Borrower and its Consolidated Subsidiaries to be more than 4.75 to 1.00, for any fiscal quarter.

(b) Permit, as of the last day of each fiscal quarter, the Consolidated Leverage Ratio of Inergy, L.P. and its Consolidated Subsidiaries to be more than 5.00 to 1.00, for any fiscal quarter.

ARTICLE X

NEGATIVE COVENANTS

Until all of the Obligations have been finally and indefeasibly paid and satisfied in full and the Commitments terminated, unless consent has been obtained in the manner set forth in Section 13.11, the Borrower will not, and will not cause or permit any of its Subsidiaries to:

SECTION 10.01. Liens.

Create or suffer to exist any Lien, except for Permitted Liens, upon or with respect to any of its assets or properties, whether such Person owns or has an interest in such assets or properties on the Closing Date or at any time thereafter.

SECTION 10.02. Debt.

Create or suffer to exist any Debt except for Permitted Debt.

SECTION 10.03. Restricted Investments.

(a) Subject to clause (b) below, make or permit to exist any loans or advances to or any other investment in any Person (including any equity holders of the Borrower or of any of its Affiliates), except investments in (1) interest-bearing United States Government obligations, (2) certificates of deposit issued by or time deposits with any commercial bank organized and existing under the laws of the United States or any state thereof having capital and surplus of not less than \$25,000,000, (3) prime commercial paper rated AAA by Standard and Poor's or Prime P-1 by Moody's Investor Service, Inc., (4) agreements involving the sale and guaranteed repurchase of United States Government securities, or (5) a Subsidiary provided that (i) such Subsidiary is a wholly owned Subsidiary (directly or indirectly) of the Borrower; (ii) such Subsidiary guarantees the Obligations under the Credit Agreement and other Credit Documents pursuant to a Guaranty Agreement in substantially the form of Exhibit I hereto, (iii) such Subsidiary grants to the Administrative Agent for the benefit of the Lenders a first priority security interest in all assets and properties of such Subsidiary (subject only to Permitted Liens) in accordance with Section 8.14 pursuant to a Security Agreement or a Mortgage in form and substance reasonably satisfactory to the Administrative Agent and (iv) the Capital Stock of such Subsidiary is pledged to the Administrative Agent for the benefit of the Lenders pursuant to a Pledge Agreement in form and substance reasonably satisfactory to the Administrative Agent. All instruments and documents evidencing such investments shall be pledged to the Administrative Agent promptly after the relevant Person's receipt thereof, shall be security for the Obligations, and shall be Collateral hereunder.

(b) Acquire any assets or property of any other Person (other than a Credit Party) other than (i) pursuant to a Permitted Acquisition, (ii) subject to Section 8.14, in the ordinary course of business consistent with past practices and (iii) as part of a Capital Expenditure.

SECTION 10.04. Structure; Disposition of Assets.

(i) Except for Permitted Acquisitions, merge or consolidate with or otherwise acquire, or be acquired by, any other Person; and (ii) sell, lease or otherwise transfer all or any part of its assets other than, for so long as there exists no Event of Default, (a) the sale of inventory in the ordinary course of such Person's business, (b) the disposition of obsolete equipment subject to Section 4.02(e) hereof, (c) the sale of motor vehicles in the ordinary course of such Person's business with the consent of the Administrative Agent and (d) the sale of other assets not in the ordinary course of business in an amount not to exceed \$10,000,000 in any Fiscal Year.

SECTION 10.05. Sale-Leasebacks; Subsidiaries; New Business.

(a) Enter into any arrangement with any lender or investor or to which such lender or investor is a party, providing for the leasing by the Borrower or any of its Subsidiaries of real or personal property which has been or is to be sold or transferred by the Borrower or any of its Subsidiaries to such lender or investor or to any Person to whom funds have been or are to be advanced by such lender or investor on the security of such property or rental obligations of the Borrower or any of its Subsidiaries, except for such transactions which, together with all other

such transactions entered into by the Borrower and its Subsidiaries, involve real and personal property having a fair market value not exceeding \$5,000,000 in the aggregate; or

(b) Create any Subsidiary or manufacture any goods, render any services or otherwise enter into any business which is not substantially similar to that existing on the Closing Date; provided, however, that the Borrower or any of its Subsidiaries may engage in, or create one or more Controlled Subsidiaries to engage in, Midstream Business.

SECTION 10.06. Issuance of Securities.

Issue any membership or other equity interests, or create any new class of equity interests, or modify in any material respect the voting, liquidation or other rights of any class of equity interests, or issue any other securities; provided, however, the Borrower may issue Capital Stock.

SECTION 10.07. Conflicting Agreements.

Enter into any agreement any term or condition of which conflicts with any provision of this Agreement or the other Credit Documents.

SECTION 10.08. Changes in Accounting Principles; Fiscal Year.

Make any change in its principles or methods of accounting as currently in effect, except such changes as are required by GAAP, nor, without first obtaining the Administrative Agent's written consent, change its Fiscal Year.

SECTION 10.09. Transactions With Affiliates.

Enter into or be a party to any transaction or arrangement, including without limitation, the purchase, sale or exchange of property of any kind or the rendering of any service, with any Affiliate, except in the ordinary course of and pursuant to the reasonable requirements of such Person's business and upon fair and reasonable terms substantially as favorable to such Person as those which would be obtained in a comparable arms-length transaction with a non-Affiliate. The foregoing shall not prohibit the creation of, or an arrangement with, a Subsidiary or other Affiliate in connection with a Permitted Acquisition or other acquisition of assets and properties pursuant to the terms and conditions of this Agreement, provided, that the structure of any such proposed transaction is disclosed to the Administrative Agent and is acceptable to the Administrative Agent in its reasonable discretion.

SECTION 10.10. Distributions.

Pay any dividends on or make any other distributions in respect of any membership interests or other equity interests or redeem or otherwise acquire any such membership or other equity interests without in each instance obtaining the prior written consent of the Required Lenders; provided, however, that (i) any Credit Party which is a Subsidiary of the Borrower may pay regularly scheduled dividends or make other distributions to the Borrower, and (ii) if no

Default or Event of Default exists or would result therefrom, the Borrower may pay cash distributions, free of any Lien, to Inergy, L.P. in an amount not to exceed Available Cash.

SECTION 10.11. Lease Obligations.

Permit the aggregate obligations that are due and payable during any Fiscal Year under leases or agreements to lease (other than obligations under Capital Leases) to exceed \$7,500,000.

SECTION 10.12. Restrictive Agreements.

Enter into any Debt (other than Permitted Junior Debt) which contains any covenants (including, without limitation, a negative pledge on assets) more restrictive than the provisions of Articles VIII, IX and X, or enter into any Permitted Junior Debt which contains any covenants more restrictive than the provisions of Article IX or any negative pledge on assets.

SECTION 10.13. OFAC.

Permit the transfer of controlling interest in any Credit Party to any Person (or any beneficial owner of such Person) listed on the specifically Designated Nationals and Blocked Persons List maintained by the Office of Foreign Asset Control, Department of the Treasury ("**OFAC**"), pursuant to Executive Order No. 13224, 66 Fed. Reg. 49079 (Sept. 25, 2001) and/or any other list of terrorists or terrorist organizations maintained pursuant to any of the rules and regulations of OFAC or pursuant to any other applicable Executive Orders, or use the proceeds of any Loans to violate any of the foreign asset control regulations of OFAC or any enabling statute or Executive Order relating thereto.

SECTION 10.14. Put Agreements.

Enter into any put agreement or similar agreement with any other Person granting such Person put rights or similar arrangements with respect to the Capital Stock of the Borrower or its Subsidiaries.

SECTION 10.15. Amendments to Organic Documents.

Amend or otherwise modify their respective Organic Documents in any manner that would affect the Administrative Agent or the Lenders without the prior written consent of the Administrative Agent and the Required Lenders, except for amendments or other modifications that modify administrative provisions or amendments that reflect the issuance, redemption or transfer of Capital Stock to the extent permitted by and in accordance with this Agreement and the other Credit Documents.

ARTICLE XI

DEFAULT AND REMEDIES

SECTION 11.01. Events of Default.

Each of the following shall constitute an Event of Default, whatever the reason for such event and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment or order of any court or any order, rule or regulation of any Governmental Authority or otherwise:

(a) Default in Payment of Principal of Loans and Reimbursement Obligations. The Borrower shall default in any payment of principal of any Loan, Note or Reimbursement Obligation when and as due (whether at maturity, by reason of acceleration or otherwise).

(b) Other Payment Default. The Borrower shall default in the payment when and as due (whether at maturity, by reason of acceleration or otherwise) of interest due on any Loan, Note or Reimbursement Obligation or the payment of any other Obligation, and such default shall continue unremedied for three (3) Business Days.

(c) Misrepresentation. Any representation or warranty made or deemed to be made by Inergy, L.P., the Borrower or any Subsidiary of the Borrower under this Agreement, any other Credit Document or any amendment hereto or thereto, shall prove to have been incorrect or misleading in any material respect when made or deemed made.

(d) Default in Performance of Certain Covenants. The Borrower shall default in the performance or observance of any covenant or agreement contained in Sections 4.02, 7.01(b), (c), (d), or (f), 7.02(e), 8.01, 8.02, 8.06(ii), 8.06(iii), 8.08, 8.10, Article IX or Sections 10.01, 10.02, 10.03, 10.04, 10.05, 10.06, 10.10, 10.12, 10.13 or 10.14 of this Agreement.

(e) Default in Performance of Other Covenants and Conditions. The Borrower or any Subsidiary of the Borrower shall default in the performance or observance of any term, covenant, condition or agreement contained in this Agreement (other than as specifically provided for otherwise in this Section 11.01) or any other Credit Document and such default shall continue for a period of thirty (30) days and the Borrower or such Subsidiary of the Borrower, as applicable, continuously and diligently endeavors to cure such default.

(f) Debt Cross-Default. The Borrower, Inergy, L.P. or any Subsidiary of the Borrower shall (i) default in the payment of any Debt (other than that evidenced by the Notes or any Reimbursement Obligation), the aggregate outstanding amount of which Debt is in excess of \$1,000,000, beyond the period of grace if any, provided in the instrument or agreement under which such Debt was created, or (ii) default in the observance or performance, beyond the period of grace if any, of any other agreement or condition relating to any Debt (other than that evidenced by the Notes or any Reimbursement Obligation) the aggregate outstanding amount of which Debt is in excess of \$1,000,000, or contained in any instrument or agreement evidencing, securing or relating thereto or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or holders of such Debt (or a trustee or agent on behalf of such holder or holders) to cause, with the giving of notice if required, any such Debt to become due prior to its stated maturity.

(g) Other Cross-Defaults.

- (i) The Borrower, Inergy, L.P. or any Subsidiary of the Borrower shall default in the payment when due, or in the performance or observance, of any obligation or condition of any material contract or agreement unless, but only as long as, the existence of any such default is being contested by the Borrower, Inergy, L.P. or such Subsidiary of the Borrower, as applicable, in good faith by appropriate proceedings and adequate reserves in respect thereof have been established on the books of the Borrower, Inergy, L.P. or such Subsidiary of the Borrower, as applicable, to the extent required by GAAP.
- (ii) Any "Event of Default" shall have occurred and be continuing under any other Credit Document or any Hedging Agreement.

(h) Voluntary Bankruptcy Proceeding. Inergy, L.P., the Borrower or any Subsidiary of the Borrower shall (i) commence a voluntary case under the federal bankruptcy laws (as now or hereafter in effect), (ii) file a petition seeking to take advantage of any other laws, domestic or foreign, relating to bankruptcy, insolvency, reorganization, winding up or composition for adjustment of debts, (iii) consent to or fail to contest in a timely and appropriate manner any petition filed against it in an involuntary case under such bankruptcy laws or other laws, (iv) apply for or consent to, or fail to contest in a timely and appropriate manner, the appointment of, or the taking of possession by, a receiver, custodian, trustee, or liquidator of itself or of a substantial part of its property, domestic or foreign, (v) admit in writing its inability to pay its debts as they become due, (vi) make a general assignment for the benefit of creditors, or (vii) take any corporate action for the purpose of authorizing any of the foregoing.

(i) Involuntary Bankruptcy Proceeding. A case or other proceeding shall be commenced against Inergy, L.P., the Borrower or any Subsidiary of the Borrower in any court of competent jurisdiction seeking (i) relief under the federal bankruptcy laws (as now or hereafter in effect) or under any other laws, domestic or foreign, relating to bankruptcy, insolvency, reorganization, winding up or adjustment of debts, or (ii) the appointment of a trustee, receiver, custodian, liquidator or the like for Inergy, L.P., the Borrower or any Subsidiary of the Borrower or for all or any substantial part of their respective assets, domestic or foreign, and such case or proceeding shall continue undismissed or unstayed for a period of sixty (60) consecutive days, or an order granting the relief requested in such case or proceeding (including, but not limited to, an order for relief under such federal bankruptcy laws) shall be entered.

(j) Impairment of Security, Etc. Any of the Credit Documents shall cease in any material respect to be in full force and effect or shall be declared to be null and void in whole or in a material part by the final judgment of a court or other governmental or regulatory authority having jurisdiction or the validity or enforceability thereof shall be contested by, or on behalf of, any Credit Party; or any Credit Party shall renounce any of the same or deny that it has any or further liability under any Credit Document to which it is a party; or any security interest purported to be created by any Credit Document shall cease to be, or shall be asserted by any Credit Party not to be, a valid, perfected, first priority (except as expressly otherwise provided in this Agreement or such Credit Document) security interest in the Collateral covered thereby.

(k) Judgment. A final judgment or judgments for the payment of money aggregating in excess of \$2,500,000 are rendered against one or more of the Borrower or any of its Subsidiaries, which are not, within thirty (30) days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within thirty (30) days after the expiration of any such stay.

(l) Change of Control; Ownership. (i) Inergy, L.P. ceases to own and control 100% of the outstanding Capital Stock of the Borrower; (ii) Inergy Holdings ceases to own and control 100% of the outstanding Capital Stock of Inergy GP; (iii) any Person or group of Persons, other than New Inergy Propane, shall acquire, directly or indirectly, more than 30% of the outstanding Capital Stock of Inergy, L.P.; (iv) Inergy GP ceases to be the managing general partner of Inergy, L.P.; (v) a majority of the seats on the board of directors (or other applicable governing body) of Inergy GP shall at any time after the Closing Date be occupied by Persons who were not nominated by Inergy GP or Inergy Holdings, by a majority of the board of directors (or other applicable governing body) of Inergy GP or Inergy Holdings or by Persons so nominated; (vi) a majority of the seats on the board of directors (or other applicable governing body) of the Borrower shall at any time after the Closing Date be occupied by Persons who were not nominated by the Borrower or Inergy Holdings, by a majority of the board of directors (or other applicable governing body) of the Borrower or Inergy Holdings or by Persons so nominated; or (vii) any pledgor under any Pledge Agreement shall grant or suffer to exist any Lien on such pledgor's interest in any Collateral described therein, except in each case for any Permitted Lien.

(m) Material Adverse Effect. In the Required Lender's reasonable judgment, there occurs any condition or event that could have a Material Adverse Effect.

SECTION 11.02. Remedies.

Upon the occurrence of an Event of Default, with the consent of the Required Lenders, the Administrative Agent may, or upon the request of the Required Lenders, the Administrative Agent shall, by notice to the Borrower:

(a) Acceleration; Termination of Credit Facilities. Declare the principal of and interest on the Loans, the Notes and the Reimbursement Obligations at the time outstanding, and all other amounts owed to the Lenders and to the Administrative Agent under this Agreement or any of the other Credit Documents (including, without limitation, all L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder) and all other Obligations (other than any obligations under any Hedging Agreement), to be forthwith due and payable, whereupon the same shall immediately become due and payable without presentment, demand, protest or other notice of any kind, all of which are expressly waived, anything in this Agreement or the other Credit Documents to the contrary notwithstanding, and terminate the Credit Facilities and any right of the Borrower to request borrowings or Letters of Credit thereunder; provided, that upon the occurrence of an Event of Default specified in Section 11.01(h) or (i), the Credit Facilities shall be automatically terminated and all Obligations (other than any obligations under any Hedging Agreement) shall automatically become due and payable without presentment,

demand, protest or other notice of any kind, all of which are expressly waived, anything in this Agreement or in any other Loan Document to the contrary notwithstanding.

(b) Letters of Credit. With respect to all Letters of Credit with respect to which presentment for honor shall not have occurred at the time of an acceleration pursuant to Section 11.02(a), require the Borrower at such time to deposit in a cash collateral account with the Administrative Agent an amount equal to the aggregate then undrawn and unexpired amount of such Letters of Credit. Amounts held in such cash collateral account shall be applied by the Administrative Agent to the payment of drafts drawn under such Letters of Credit, and the unused portion thereof after all such Letters of Credit shall have expired or been fully drawn upon, if any, shall be applied to repay the other Obligations. After all such Letters of Credit shall have expired or been fully drawn upon, the Reimbursement Obligation shall have been satisfied and all other Obligations shall have been paid in full, the balance, if any, in such cash collateral account shall be returned to the Borrower.

(c) Rights of Collection, Etc.

- (i) Exercise all of the rights and remedies of a secured party under the UCC or under other Applicable Law, and all other legal and equitable rights to which the Administrative Agent may be entitled, all of which rights and remedies shall be cumulative, and none of which shall be exclusive, and all of which shall be in addition to any other rights or remedies contained in this Agreement or any of the other Credit Documents.
- (ii) Exercise the right to take immediate possession of the Collateral, and (1) to require the Borrower to assemble the Collateral, at the Borrower's expense, and make it available to the Administrative Agent at a place designated by the Administrative Agent, and (2) to enter upon and use any premises in which the Borrower has an ownership, leasehold or other interest, or wherever any of the Collateral shall be located, and to store, remove, abandon, manufacture, sell, dispose of or otherwise use all or any part of the Collateral on such premises without the payment of rent or any other fees by the Administrative Agent to the Borrower or any other Person for the use of such premises or such Collateral.
- (iii) Exercise the right to sell or otherwise dispose of all or any inventory or equipment in its then condition, or after any further manufacturing or processing thereof, at public or private sale or sales, with such notice as may be required by law, in lots or in bulk, for cash or on credit all as the Administrative Agent, in its sole discretion, may deem advisable. The Borrower agrees that ten (10) days prior written notice to the Borrower of any public or private sale or other disposition of such Collateral shall be reasonable notice thereof and such sale shall be at such locations as the Administrative Agent may designate in such notice. The Administrative Agent shall have the right to conduct such sales on the Borrower's premises, without charge therefor, and such sales may be adjourned from

time to time in accordance with applicable law. The Administrative Agent shall have the right to sell lease or otherwise dispose of such Collateral, or any part thereof for cash, credit or any combination thereof and the Administrative Agent may purchase all or any part of such Collateral at public or, if permitted by law, private sale and, in lieu of actual payment of such purchase price, may set-off or credit the amount of such price against the Obligations.

- (iv) The Administrative Agent is hereby granted a license or other right to use, without charge, all of the Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, and advertising matter, or any property of a similar nature as it pertains to the Collateral or any other property of the Borrower, in storing, removing, transporting, manufacturing, advertising, selling or otherwise using the Collateral, and the Borrower's rights in and under such property shall inure to the Administrative Agent's benefit.
- (v) The proceeds realized from the sale of any Collateral may be applied, after the Administrative Agent is in receipt of good funds, in accordance with Section 4.10. If any deficiency shall arise, the Borrower shall remain liable to the Administrative Agent therefor. Any surplus remaining after payment in full of the Obligations will be returned to the Borrower or to whomever may be legally entitled thereto.

SECTION 11.03. Rights and Remedies Cumulative; Non-Waiver; Etc.

The enumeration of the rights and remedies of the Administrative Agent and the Lenders set forth in this Agreement is not intended to be exhaustive, and the exercise by the Administrative Agent and the Lenders of any right or remedy shall not preclude the exercise of any other rights or remedies, all of which shall be cumulative, and shall be in addition to any other right or remedy given hereunder or under the Credit Documents or that may now or hereafter exist in law or in equity or by suit or otherwise. No delay or failure to take action on the part of the Administrative Agent or any Lender in exercising any right, power or privilege shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or privilege preclude other or further exercise thereof or the exercise of any other right, power or privilege or shall be construed to be a waiver of any Event of Default. No course of dealing between the Borrower, the Administrative Agent and the Lenders or their respective agents or employees shall be effective to change, modify or discharge any provision of this Agreement or any of the other Credit Documents or to constitute a waiver of any Event of Default.

ARTICLE XII

THE ADMINISTRATIVE AGENT

SECTION 12.01. Appointment.

Each of the Lenders hereby irrevocably designates and appoints Wachovia as Administrative Agent of such Lender under this Agreement and the other Credit Documents for the term hereof and each such Lender irrevocably authorizes Wachovia as Administrative Agent for such Lender, to take such action on its behalf under the provisions of this Agreement and the other Credit Documents and to exercise such powers and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and such other Credit Documents, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement or such other Credit Documents, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein and therein, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or the other Credit Documents or otherwise exist against the Administrative Agent. Any reference to the Administrative Agent in this Article XII shall be deemed to refer to the Administrative Agent solely in its capacity as Administrative Agent and not in its capacity as a Lender.

SECTION 12.02. Delegation of Duties.

The Administrative Agent may execute any of its respective duties under this Agreement and the other Credit Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by the Administrative Agent with reasonable care.

SECTION 12.03. Exculpatory Provisions.

Neither the Administrative Agent nor any of its officers, directors, employees, agents, attorneys-in-fact, Subsidiaries or Affiliates shall be (a) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement or the other Credit Documents (except for actions occasioned solely by its or such Person's own gross negligence or willful misconduct), or (b) responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by any Credit Party, or by any officer thereof, contained in this Agreement or the other Credit Documents or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or the other Credit Documents or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or the other Credit Documents or for any failure of any Credit Party to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement, or to inspect the properties, books or records of the Borrower or any of its Subsidiaries.

SECTION 12.04. Reliance by the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall be fully protected in relying upon, any note, writing, resolution, notice, consent, certificate, affidavit, letter,

cablegram, telegram, teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless such Note shall have been transferred in accordance with Section 13.10. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement and the other Credit Documents unless it shall first receive such advice or concurrence of the Required Lenders (or, when expressly required hereby or by the relevant other Credit Document, all the Lenders) as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action except for its own gross negligence or willful misconduct. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the Notes in accordance with a request of the Required Lenders (or, when expressly required hereby, all the Lenders), and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders and all future holders of the Notes.

SECTION 12.05. Notice of Default.

The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless it has received written notice from a Lender or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default." In the event that the Administrative Agent receives such a notice, it shall promptly give notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders (or, when expressly required hereby, all the Lenders); provided that unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Lenders, except to the extent that other provisions of this Agreement expressly require that any such action be taken or not be taken only with the consent and authorization or the request of the Lenders or Required Lenders, as applicable.

SECTION 12.06. Non-Reliance on the Administrative Agent and Other Lenders.

Each Lender expressly acknowledges that neither the Administrative Agent nor any of its respective officers, directors, employees, agents, attorneys-in-fact, Subsidiaries or Affiliates has made any representations or warranties to it and that no act by the Administrative Agent hereinafter taken, including any review of the affairs of the Borrower or any of its Subsidiaries, shall be deemed to constitute any representation or warranty by the Administrative Agent to any Lender. Each Lender represents to the Administrative Agent that it has, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Borrower and its Subsidiaries and made its own decision to make its

Loans and issue or participate in Letter of Credit hereunder and enter into this Agreement. Each Lender also represents that it will, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Credit Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Borrower and its Subsidiaries. Except for notices, reports and other documents expressly required to be furnished to the Lenders by the Administrative Agent hereunder or by the other Credit Documents, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, property, financial and other condition or creditworthiness of the Borrower or any of its Subsidiaries which may come into the possession of the Administrative Agent or any of its respective officers, directors, employees, agents, attorneys-in-fact, Subsidiaries or affiliates.

SECTION 12.07. Indemnification.

The Lenders agree to indemnify the Administrative Agent, in its capacity as such (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably according to the respective amounts of their Commitment Percentages, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the payment of the Notes or any Reimbursement Obligation) be imposed on, incurred by or asserted against the Administrative Agent in any way relating to or arising out of this Agreement or the other Credit Documents, or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by the Administrative Agent under or in connection with any of the foregoing; provided that no Lender shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting solely from the Administrative Agent's bad faith, gross negligence or willful misconduct. The agreements in this Section 12.07 shall survive the payment of the Notes, any Reimbursement Obligation and all other amounts payable hereunder and the termination of this Agreement.

SECTION 12.08. The Administrative Agent in Its Individual Capacity.

The Administrative Agent and its respective Subsidiaries and Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower and its Subsidiaries and Affiliates as though the Administrative Agent were not an Administrative Agent hereunder. With respect to any Loans made or renewed by it and any Note issued to it and with respect to any Letter of Credit issued by it or participated in by it, the Administrative Agent shall have the same rights and powers under this Agreement and the other Credit Documents as any Lender and may exercise the same as though it were not an Administrative Agent, and the terms "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

SECTION 12.09. *Resignation of the Administrative Agent; Successor Administrative Agent.*

Subject to the appointment and acceptance of a successor as provided below, the Administrative Agent may resign at any time or, at the request of the Required Lenders, shall resign, by giving notice thereof to the Lenders and the Borrower. Upon any such resignation, the Required Lenders shall have the right to appoint a successor Administrative Agent, which successor shall have minimum capital and surplus of at least \$500,000,000. If no successor Administrative Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the Administrative Agent's giving of notice of resignation, then the Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which successor shall have minimum capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Section 12.09 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Administrative Agent.

SECTION 12.10. *Collateral Matters.*

(a) The Administrative Agent is authorized on behalf of all the Lenders without the necessity of any notice to or further consent from the Lenders, from time to time to take any action with respect to any Collateral or the Credit Documents which may be necessary to perfect and maintain perfected the security interests in and Liens upon the Collateral granted pursuant to the Credit Documents. The Lenders hereby authorize the Administrative Agent to retain all Credit Documents related to the Collateral and all other documentation evidencing the perfected security interests in and Liens upon the Collateral, copies of which will be provided by the Administrative Agent to any Lender upon such Lender's reasonable request.

(b) If an Event of Default shall have occurred and be continuing, the Administrative Agent may, and at the request of the Required Lenders shall, take a security interest in assets and properties of the Borrower and its Subsidiaries that are not Collateral as the Administrative Agent shall request, in its sole discretion, and all such assets and properties shall be part of the Collateral securing the payment and performance of the Obligations. The Borrower or each Subsidiary of the Borrower, as applicable, shall execute and deliver, or cause to be executed and delivered, to the Administrative Agent, at the Borrower's expense, such documents (including, without limitation, mortgages, deeds of trust, deeds to secure debt, guarantees, security agreements, UCC financing statements, fixture filings, opinions of counsel, title insurance and endorsements) and other assurances as the Administrative Agent may reasonably request in order to create and perfect Liens on such assets and properties in favor of the Administrative Agent, subject to no other Liens other than Permitted Liens.

(c) The Lenders irrevocably authorize the Administrative Agent, at its option and in its discretion, to authorize the release of any Lien granted for the benefit of the Administrative Agent and the Lenders upon any Collateral (i) upon termination of the Commitments and payment in full of all Loans and all other Obligations known to the Administrative Agent and payable under this Agreement or any other Credit Document; (ii) constituting property sold or to be sold or disposed of as part of or in connection with any disposition permitted hereunder; (iii) consisting of an instrument evidencing Debt or other debt instrument, if the indebtedness evidenced thereby has been paid in full; or (iv) if approved, authorized or ratified in writing by the Required Lenders or all the Lenders, as the case may be, as provided in Section 13.11. Upon request by the Administrative Agent at any time, the Lenders will confirm in writing the Administrative Agent's authority to authorize the release of particular types or items of Collateral pursuant to this Section 12.10(c).

(d) In the event that a Credit Party desires to retire or sell any motor vehicle that is part of the Collateral, the Borrower shall submit to the Administrative Agent a Request for Vehicle Lien Release in the form of Exhibit L hereto, and, upon the approval of such request by the Administrative Agent, the Administrative Agent shall release the first priority Lien on such motor vehicle.

(e) The Lenders and the Borrower irrevocably authorize the Administrative Agent, at its option and in its discretion, in the event that, at any time, the Administrative Agent determines that it does not have a perfected Lien on (i) such fee-owned real properties of the Borrower and its Subsidiaries as constitute at least seventy-five percent (75%) of the aggregate value of all fee-owned real properties of the Borrower and its Subsidiaries, and/or (ii) such motor vehicles of the Borrower and its Subsidiaries as constitute at least seventy-five percent (75%) of the aggregate value of motor vehicles of the Borrower and its Subsidiaries, to obtain perfected Liens on such unencumbered fee-owned real properties and/or unencumbered motor vehicles as the Administrative Agent deems necessary to reach the seventy-five percent (75%) aggregate value threshold. Borrower shall provide the Administrative Agent with all information reasonably requested by the Administrative Agent from time to time related to assets owned by the Borrower and its Subsidiaries, shall cooperate fully with the Administrative Agent with respect to the performance of due diligence and the execution of documents necessary to facilitate such Lien perfection and shall pay all reasonable costs and expenses incurred by the Administrative Agent and its counsel in connection therewith.

ARTICLE XIII

MISCELLANEOUS

SECTION 13.01. Notices.

(a) Method of Communication. Except as otherwise provided in this Agreement, all notices and communications hereunder shall be in writing, or by telephone subsequently confirmed in writing. Any notice shall be effective if delivered by hand delivery or sent via telecopy, recognized overnight courier service or certified mail, return receipt requested, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by telecopy, (ii) on the next Business Day if sent by recognized overnight courier service and (iii) on the third Business Day following the date sent by certified mail, return receipt requested. A telephonic notice to the Administrative Agent as understood by the Administrative Agent will be deemed to be the controlling and proper notice in the event of a discrepancy with or failure to receive a confirming written notice.

(b) Addresses for Notices. Notices to any party shall be sent to it at the following addresses, or any other address as to which all the other parties are notified in writing.

If to the Borrower: Inergy Propane, LLC
Two Brush Creek Boulevard, Suite 200
Kansas City, Missouri 64112
Attention: Brooks Sherman
Telephone No.: 816-842-8181
Telecopy No.: 816-531-3685

With copies to: Stinson Morrison Hecker LLP
1201 Walnut Street
Kansas City, Missouri 64141-6251
Attention: Paul McLaughlin, Esq.
Telephone No.: 816-691-3256
Telecopy No.: 816-691-3495

If to Wachovia as
Administrative Agent: Wachovia Bank, National Association
One Wachovia Center
201 South College Street, CP-8
Charlotte, North Carolina 28288
Attn: Syndication Agency Services
Telephone No.: 704-383-7698
Telecopy No.: 704-383-0288

With copies to: Wachovia Bank, National Association
One Wachovia Center, DC-5
301 South College Street
Charlotte, North Carolina 28288-0251
Attn: Mark D. Weir, Director
Telephone No.: 704-383-6610
Telecopy No.: 704-383-6647

With copies to: Parker, Poe, Adams & Bernstein L.L.P.
Three Wachovia Center
401 South Tryon Street, Suite 3000
Charlotte, North Carolina 28202
Attention: P. Neal Cook, Esq.
Telephone No.: 704-335-9878
Telecopy No.: 704-335-9711

If to any Lender: To the address set forth on Schedule 1.01B hereto.

(c) Administrative Agent's Office. The Administrative Agent hereby designates its office located at the address set forth above, or any subsequent office which shall have been specified for such purpose by written notice to the Borrower and the Lenders, as the Administrative Agent's Office referred to herein, to which payments due are to be made and at which Loans will be disbursed and Letters of Credit issued.

SECTION 13.02. Expenses; Indemnity.

The Borrower will (a) pay all out-of-pocket expenses of the Administrative Agent in connection with: (i) the preparation, execution and delivery of this Agreement and each other Credit Document, whenever the same shall be executed and delivered, including without limitation all out-of-pocket syndication and due diligence expenses and reasonable fees and disbursements of counsel for the Administrative Agent and (ii) the preparation, execution and delivery of any waiver, amendment or consent by the Administrative Agent or the Lenders relating to this Agreement or any other Credit Document, including without limitation reasonable fees and disbursements of counsel for the Administrative Agent; (b) pay all out-of-pocket expenses of the Administrative Agent and the Lenders in connection with the administration and enforcement of any rights and remedies of the Administrative Agent and Lenders under the Credit Facilities, including consulting with appraisers, accountants, engineers, attorneys and other Persons concerning the nature, scope or value of any right or remedy of the Administrative Agent or any Lender hereunder or under any other Credit Document or any factual matters in connection therewith, which expenses shall include without limitation the reasonable fees and disbursements of such Persons; and (c) defend, indemnify and hold harmless the Administrative Agent and the Lenders, and their respective parents, Subsidiaries, Affiliates, employees, agents, officers and directors, from and against any losses, penalties, fines, liabilities, settlements, damages, costs and expenses, suffered by any such Person in connection with any claim, investigation, litigation or other proceeding (whether or not the Administrative Agent or any Lender is a party thereto) and the prosecution and defense thereof, arising out of or in any way

connected with the Agreement, any other Credit Document or the Loans, including without limitation reasonable attorney's and consultant's fees, except to the extent that any of the foregoing directly result from the gross negligence or willful misconduct of the party seeking indemnification therefor.

SECTION 13.03. Set-off.

In addition to any rights now or hereafter granted under Applicable Law and not by way of limitation of any such rights, upon and after the occurrence of any Event of Default and during the continuance thereof, the Lenders and any assignee or participant of a Lender in accordance with Section 13.10 are hereby authorized by the Borrower at any time or from time to time, without notice to the Borrower or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and to apply any and all deposits (general or special, time or demand, including, but not limited to, indebtedness evidenced by certificates of deposit, whether matured or unmatured) and any other indebtedness at any time held or owing by the Lenders, or any such assignee or participant to or for the credit or the account of the Borrower against and on account of the Obligations irrespective of whether or not (a) the Lenders shall have made any demand under this Agreement or any of the other Credit Documents or (b) the Administrative Agent shall have declared any or all of the Obligations to be due and payable as permitted by Section 11.02 and although such Obligations shall be contingent or unmatured. Notwithstanding the preceding sentence, each Lender agrees to notify the Borrower and the Administrative Agent after any such set-off and application; provided, that the failure to give such notice shall not affect the validity of such set-off and application.

SECTION 13.04. Governing Law.

This Agreement, the Notes and the other Credit Documents, unless otherwise expressly set forth therein, shall be governed by, construed and enforced in accordance with the laws of the State of Missouri.

SECTION 13.05. Consent to Jurisdiction.

The Borrower (i) submits to personal jurisdiction in the State of North Carolina, the courts thereof and the United States District Courts sitting therein, for the enforcement of this Agreement and the other Credit Documents and (ii) waives any and all personal rights under the law of any jurisdiction to object on any basis (including, without limitation, inconvenience of forum) to jurisdiction or venue within the State of North Carolina for the purpose of litigation to enforce this Agreement and the other Credit Documents. The Borrower hereby irrevocably consents to the service of a summons and complaint and other process in any action, claim or proceeding brought by the Administrative Agent or any Lender in connection with this Agreement, the Notes or the other Credit Documents, any rights or obligations hereunder or thereunder, or the performance of such rights and obligations, on behalf of itself or its property, in the manner specified in Section 13.01. Nothing in this Section 13.05 shall affect the right of the Administrative Agent or any Lender to serve legal process in any other manner permitted by Applicable Law or affect the right of the Administrative Agent or any Lender to bring any action or proceeding against the Borrower or its properties in the courts of any other jurisdictions.

SECTION 13.06. WAIVER OF JURY TRIAL.

TO THE EXTENT PERMITTED BY APPLICABLE LAW, THE ADMINISTRATIVE AGENT, EACH LENDER AND THE BORROWER HEREBY IRREVOCABLY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL WITH RESPECT TO ANY ACTION, CLAIM OR OTHER PROCEEDING ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT, THE NOTES OR THE OTHER CREDIT DOCUMENTS, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR THEREUNDER, OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS.

SECTION 13.07. Reversal of Payments.

To the extent the Borrower makes a payment or payments to the Administrative Agent for the ratable benefit of the Lenders or the Administrative Agent receives any payment or proceeds of the collateral which payments or proceeds or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then, to the extent of such payment or proceeds repaid, the Obligations or part thereof intended to be satisfied shall be revived and continued in full force and effect as if such payment or proceeds had not been received by the Administrative Agent.

SECTION 13.08. Injunctive Relief; Punitive Damages.

The Borrower recognizes that, in the event the Borrower fails to perform, observe or discharge any of its obligations or liabilities under this Agreement, any remedy of law may prove to be inadequate relief to the Lenders. Therefore, the Borrower agrees that the Lenders, at the Lenders' option, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

(a) The Administrative Agent, the Lenders and the Borrower (on behalf of itself and its Subsidiaries) hereby agree that no such Person shall have a remedy of punitive or exemplary damages against any other party to a Loan Document and each such Person hereby waives any right or claim to punitive or exemplary damages that they may now have or may arise in the future in connection with any dispute, whether such dispute is resolved through arbitration or judicially.

(b) The parties agree that they shall not have a remedy of punitive or exemplary damages against any other party in any dispute and hereby waive any right or claim to punitive or exemplary damages they have now or which may arise in the future in connection with any dispute whether the dispute is resolved by arbitration or judicially.

SECTION 13.09. Accounting Matters.

All financial and accounting calculations, measurements and computations made for any purpose relating to this Agreement and the other Credit Documents, including, without limitation, all computations utilized by Inergy, L.P., the Borrower or any of its Subsidiaries to determine compliance with any covenant contained herein or therein, shall, except as otherwise

expressly contemplated hereby or unless there is an express written direction by the Administrative Agent to the contrary agreed to by the Borrower, be performed in accordance with GAAP as in effect on the Closing Date. In the event that changes in GAAP shall be mandated by the Financial Accounting Standards Board, or any similar accounting body of comparable standing, or shall be recommended by the Borrower's certified public accountants, to the extent that such changes would modify such accounting terms or the interpretation or computation thereof, such changes shall be followed in defining such accounting terms only from and after the date the Borrower and the Required Lenders shall have amended this Agreement to the extent necessary to reflect any such changes in the financial covenants and other terms and conditions of this Agreement.

SECTION 13.10. Successors and Assigns; Participations.

(a) **Benefit of Agreement.** This Agreement shall be binding upon and inure to the benefit of the Borrower, the Administrative Agent and the Lenders, all future holders of the Notes, and their respective successors and assigns, except that the Borrower shall not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of each Lender.

(b) **Assignment by Lenders.** Each Lender may, with the consent of the Administrative Agent and the Borrower, which consents shall not be unreasonably withheld and not required of the Borrower upon the occurrence and continuation of a Default or Event of Default, assign to one or more Eligible Assignees all or a portion of its interests, rights and obligations under this Agreement and the other Credit Documents (including, without limitation, all or a portion of the Extensions of Credit at the time owing to it and the Notes held by it); provided that:

- (i) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Lender's rights and obligations under this Agreement;
- (ii) if less than all of the assigning Lender's Commitment is to be assigned, the Commitment so assigned shall not be less than \$5,000,000;
- (iii) the parties to each such assignment shall execute and deliver to the Administrative Agent, for its acceptance and recording in the Register, an Assignment and Acceptance in the form of Exhibit H hereto (an "**Assignment and Acceptance**"), together with any Note or Notes subject to such assignment;
- (iv) such assignment shall not, without the consent of the Borrower, require the Borrower to file a registration statement with the Securities and Exchange Commission or apply to or qualify the Loans or the Notes under the blue sky laws of any state;
- (v) no consent of the Borrower or the Administrative Agent shall be required for an assignment to an affiliate or Subsidiary of the assigning Lender; and

- (vi) the assigning Lender shall pay to the Administrative Agent an assignment fee of \$3,000 upon the execution by such Lender of the Assignment and Acceptance; provided that no such fee shall be payable upon any assignment by a Lender to an Affiliate thereof.

Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five (5) Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Lender hereby and (B) the Lender thereunder shall, to the extent provided in such assignment, be released from its obligations under this Agreement.

(c) Rights and Duties Upon Assignment. By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the assignee thereunder confirm to, and agree with, each other and the other parties hereto as set forth in such Assignment and Acceptance.

(d) Register. The Administrative Agent shall maintain a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders and the amount of the Extensions of Credit with respect to each Lender from time to time (the "**Register**"). The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or the Lenders at any reasonable time and from time to time upon reasonable prior notice.

(e) Issuance of New Notes. Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an Eligible Assignee together with any Note or Notes subject to such assignment and the written consent to such assignment, the Administrative Agent shall, if such Assignment and Acceptance has been completed and is substantially in the form of Exhibit H hereto:

- (i) accept such Assignment and Acceptance;
- (ii) record the information contained therein in the Register;
- (iii) give prompt notice thereof to the Lenders and the Borrower; and
- (iv) promptly deliver a copy of such Assignment and Acceptance to the Borrower.

Within five (5) Business Days after receipt of notice, the Borrower shall execute and deliver to the Administrative Agent, in exchange for the surrendered Note or Notes, a new Note or Notes to the order of such Eligible Assignee in amounts equal to the Commitment assumed by such Eligible Assignee pursuant to such Assignment and Acceptance and a new Note or Notes to the order of the assigning Lender in an amount equal to the Commitment retained by it hereunder. Such new Note or Notes shall be in an aggregate principal amount equal to the aggregate

principal amount of such surrendered Note or Notes, shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of the assigned Notes delivered to the assigning Lender. Each surrendered Note or Notes shall be canceled and returned to the Borrower.

(f) Participations. Each Lender may sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Extensions of Credit and the Notes held by it); provided that:

- (i) each such participation shall be in an amount not less than \$2,000,000;
- (ii) such Lender's obligations under this Agreement (including, without limitation, its Commitment) shall remain unchanged;
- (iii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations;
- (iv) such Lender shall remain the holder of the Notes held by it for all purposes of this Agreement;
- (v) the Borrower, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement;
- (vi) such Lender shall not permit such participant the right to approve any waivers, amendments or other modifications to this Agreement or any other Loan Document other than waivers, amendments or modifications which would reduce the principal of or the interest rate on any Loan or Reimbursement Obligation, extend the term or increase the amount of the Commitment, reduce the amount of any fees to which such participant is entitled, extend any scheduled payment date for principal of any Loan or, except as expressly contemplated hereby or thereby, release substantially all of the Collateral; and
- (vii) any such disposition shall not, without the consent of the Borrower, require the Borrower to file a registration statement with the Securities and Exchange Commission to apply to qualify the Loans or the Notes under the blue sky law of any state.

(g) Disclosure of Information; Confidentiality. The Administrative Agent and the Lenders shall hold all non-public information with respect to the Credit Parties obtained pursuant to the Credit Documents in accordance with their customary procedures for handling confidential information; provided, that the Administrative Agent may disclose information relating to this Agreement to Gold Sheets and other similar bank trade publications, such information to consist of deal terms and other information customarily found in such publications, and provided further, that the Administrative Agent and Lenders may disclose any

such information to the extent such disclosure is required by law or requested by any regulatory authority.

Any Lender may, in connection with any assignment, proposed assignment, participation or proposed participation pursuant to this Section 13.10, disclose to the assignee, participant, proposed assignee or proposed participant, any information relating to the Borrower furnished to such Lender by or on behalf of the Borrower; provided, that prior to any such disclosure, each such assignee, proposed assignee, participant or proposed participant shall agree with the Borrower or such Lender to preserve the confidentiality of any confidential information relating to the Borrower received from such Lender.

(h) Certain Pledges or Assignments. Nothing herein shall prohibit any Lender from pledging or assigning any Note to any Federal Reserve Bank in accordance with Applicable Law.

SECTION 13.11. Amendments, Waivers and Consents.

Except as set forth below or as specifically provided in any Credit Document, any term, covenant, agreement or condition of this Agreement or any of the other Credit Documents may be amended or waived by the Lenders, and any consent given by the Lenders, if, but only if, such amendment, waiver or consent is in writing signed by the Required Lenders (or by the Administrative Agent with the consent of the Required Lenders) and delivered to the Administrative Agent and, in the case of an amendment, signed by the Borrower; provided, that no amendment, waiver or consent shall, without the consent of each Lender affected thereby:

- (a) increase the amount, or extend the time, of the obligation of a Lender to make Loans or issue or participate in Letters of Credit (including without limitation pursuant to Section 3.05);
- (b) reduce or forgive the principal amount of any Loan or Reimbursement Obligation;
- (c) extend the originally scheduled time or times of payment of the principal of any Loan or Reimbursement Obligation or the time or times of payment of interest on any Loan;
- (d) reduce the rate of interest or fees payable on any Loan or Reimbursement Obligation or any fee or commission with respect thereto;
- (e) permit any subordination of the principal or interest on any Loan or Reimbursement Obligation;
- (f) permit any assignment (other than as specifically permitted or contemplated in this Agreement) of the Borrower's rights and obligations hereunder;
- (g) terminate or cancel any Guaranty Agreement, Pledge Agreement, Security Agreement or Mortgage or release Inergy, L.P. or any Subsidiary Guarantor from their respective obligations under a Guaranty Agreement;

(h) release all or substantially all of the Collateral; or

(i) amend the provisions of Section 13.10(a), this Section 13.11 or the definition of Required Lenders, without the prior written consent of each Lender. In addition, no amendment, waiver or consent to the provisions of (a) Article XII shall be made without the written consent of the Administrative Agent and (b) Article III shall be made without the written consent of the Issuing Lender.

The Lenders hereby authorize the Administrative Agent to enter into a Subordination Agreement (that is approved by the Required Lenders) on behalf of the Lenders, with holders of any second Lien Permitted Junior Debt.

SECTION 13.12. *Absolute and Unconditional Liability.*

To the fullest extent permitted by law, the Borrower hereby waives promptness, diligence, note of acceptance, and any other notice of any nature whatsoever with respect to any of the Obligations, and any requirement that the Administrative Agent protect, secure, perfect or insure any security interest or lien or any property subject thereto or exhaust any right to take any action against any Guarantor, any other Person or any Collateral. The liability of the Borrower under this Section shall be absolute and unconditional irrespective of: (a) any change in the time, manner or place of payment of, or in any other term of, any of the Obligations, or any other amendment or waiver of or any consent to departure from this Agreement, any of the Notes or any of the other Credit Documents; (b) any exchange, release or non-perfection of any Collateral or any release or amendment or waiver of or consent to departure from any other guaranty, or any release of any Person liable in whole or in part, for all or any of the Obligations; or (c) any other circumstance which might otherwise constitute a defense available to, or discharge of, the Borrower, a guarantor or a surety.

SECTION 13.13. *Amended and Restated Credit Facility; Liens Unimpaired.*

This Agreement amends and restates the Existing Credit Agreement in its entirety. It is the intention and understanding of the parties hereto that (i) this Agreement shall act as a refinancing of the Debt and other obligations evidenced by the Existing Credit Agreement and that this Agreement shall not act as a novation of such Debt and other obligations, (ii) all Liens securing the Debt and other obligations evidenced by the Existing Credit Agreement remain in full force and effect and secure all Debt and all other Obligations now or hereafter evidenced by or incurred under this Agreement or any of the other Credit Documents, and (iii) the priority of all Liens securing the Debt and other obligations evidenced by the Existing Credit Agreement shall not be impaired by the execution, delivery or performance of this Agreement or the other Credit Documents. The principal amount of loans outstanding under the Existing Credit Agreement owed to the Lenders that are "Lenders" under this Agreement shall be allocated among the Facilities as such Lenders and the Administrative Agent may agree.

SECTION 13.14. Performance of Duties.

The Borrower's obligations under this Agreement and each of the Credit Documents shall be performed by the Borrower at its sole cost and expense.

SECTION 13.15. All Powers Coupled with Interest.

All powers of attorney and other authorizations granted to the Lenders, the Administrative Agent and any Persons designated by the Administrative Agent or any Lender pursuant to any provisions of this Agreement or any of the other Credit Documents shall be deemed coupled with an interest and shall be irrevocable so long as any of the Obligations remain unpaid or unsatisfied or the Credit Facilities have not been terminated.

SECTION 13.16. Survival of Indemnities.

Notwithstanding any termination of this Agreement, the indemnities to which the Administrative Agent and the Lenders are entitled under the provisions of this Article XIII and any other provision of this Agreement and the Credit Documents shall continue in full force and effect and shall protect the Administrative Agent and the Lenders against events arising after such termination as well as before.

SECTION 13.17. Titles and Captions.

Titles and captions of Articles, Sections and subsections in, and the table of contents of, this Agreement are for convenience only, and neither limit nor amplify the provisions of this Agreement.

SECTION 13.18. Severability of Provisions.

Any provision of this Agreement or any other Credit Document which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating the remainder of such provision or the remaining provisions hereof or thereof or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 13.19. Entire Agreement; Counterparts.

This Agreement, together with the other Credit Documents, comprises the complete and integrated agreement of the parties on the subject matter hereof and thereof and supercedes all prior agreements, written or oral, on such subject matter. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and shall be binding upon all parties, their successors and assigns, and all of which taken together shall constitute one and the same agreement.

SECTION 13.20. No Novation.

Notwithstanding anything contained herein, this Agreement is not intended to, and does not serve to effect, a novation of the Existing Senior Debt. Rather, it is the express intention of

the parties hereto to reaffirm the Existing Senior Debt created under the Existing Credit Agreement, as evidenced by the notes provided for therein and secured by the Collateral, as such Existing Senior Debt is amended and restated in its entirety pursuant to this Agreement.

SECTION 13.21. *Term of Agreement.*

This Agreement shall remain in effect from the Closing Date through and including the date upon which all Obligations shall have been indefeasibly and irrevocably paid and satisfied in full and all Commitments shall have been terminated. No termination of this Agreement shall affect the rights and obligations of the parties hereto arising prior to such termination or in respect of any provision of this Agreement which survives such termination.

SECTION 13.22. *Inconsistencies with Other Documents; Independent Effect of Covenants.*

(a) In the event there is a conflict or inconsistency between this Agreement and any other Credit Document, the terms of this Agreement shall control.

(b) The Borrower expressly acknowledges and agrees that each covenant contained in Articles VIII, IX or X shall be given independent effect. Accordingly, the Borrower shall not engage in any transaction or other act otherwise permitted under any covenant contained in Articles VIII, IX or X if, before or after giving effect to such transaction or act, the Borrower shall or would be in breach of any other covenant contained in Articles VIII, IX or X.

SECTION 13.23. *Mo.Rev.Stat. §432.045 Required Notice.*

The following statement is given pursuant to Mo.Rev.Stat. §432.045: **“ORAL AGREEMENTS OR COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBT ARE NOT ENFORCEABLE. TO PROTECT YOU (BORROWER(S)) AND US (CREDITOR) FROM MISUNDERSTANDING OR DISAPPOINTMENT, ANY AGREEMENTS WE REACH COVERING SUCH MATTERS ARE CONTAINED IN THIS WRITING, WHICH IS THE COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENT BETWEEN US, EXCEPT AS WE MAY LATER AGREE IN WRITING TO MODIFY IT.”**

[Signature pages to follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers, all as of the day and year first written above.

INERGY PROPANE, LLC, a Delaware limited liability company

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

Name: R. Brooks Sherman, Jr.
Title: Senior Vice President –
Chief Financial Officer

WACHOVIA BANK, NATIONAL ASSOCIATION, as Administrative Agent, as Lender, as Swingline Lender and as Issuing Lender

By: /s/ Mark D. Weir

Name: Mark D. Weir
Title: Director

FLEET NATIONAL BANK, as Syndication Agent and as Lender

By: /s/ Robert D. Valbona

Name: Robert D. Valbona
Title: Managing Director

BANK OF OKLAHOMA, N.A., as Syndication Agent and as Lender

By: /s/ T. Coy Gallatin

Name: T. Coy Gallatin
Title: Senior Vice President

BANK ONE, NA, as Documentation Agent and as Lender

By: /s/ Jane Bek Keil

Name: Jane Bek Keil

Title: Director

U.S. BANK, N.A., as Documentation Agent and as Lender

By: /s/ Paul A. Tymosko

Name: Paul A. Tymosko

Title: Vice President

WELLS FARGO BANK TEXAS, N.A., as Lender

By: /s/ J. Alan Alexander

Name: J. Alan Alexander

Title: Vice President

LASALLE BANK NATIONAL ASSOCIATION, as Lender

By: /s/ James C. Binz

Name: James C. Binz

Title: First Vice President

UNION BANK OF CALIFORNIA, N.A., as Lender

By: /s/ Sean Murphy

Name: Sean Murphy

Title: Vice President

SUNTRUST BANK, as Lender

By: /s/ Joseph M. McCreery
Name: Joseph M. McCreery
Title: Vice President

FIRST NATIONAL BANK OF KANSAS, as Lender

By: /s/ Barry P. Sullivan
Name: Barry P. Sullivan
Title: Senior Vice President

ALLIED IRISH BANKS, p.l.c., as Lender

By: /s/ Hilary Patterson
Name: Hilary Patterson
Title: Vice President

By: /s/ Rima Terradista
Name: Rima Terradista
Title: Senior Vice President

RAYMOND JAMES BANK, FSB, as Lender

By: /s/ William C. Beiler
Name: William C. Beiler
Title: Executive Vice President

TEAMBANK, N.A., as Lender

By: /s/ Richard B. Erwin
Name: Richard B. Erwin
Title: Senior Vice President

CERTIFICATIONS

I, John J. Sherman, certify that:

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

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

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

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

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

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2004

/s/ John J. Sherman

John J. Sherman
President and Chief Executive Officer

CERTIFICATIONS

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

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

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

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

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

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

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2004

/s/ R. Brooks Sherman, Jr.

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

Certification of the Chief Executive Officer**Pursuant to 18 U.S.C. Section 1350****As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Inergy, L.P. (the "Company") on Form 10-Q for the period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John J. Sherman, Chief Executive Officer of Inergy, L.P., certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John J. Sherman.

John J. Sherman
Chief Executive Officer

August 13, 2004

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Certification of the Chief Executive Officer**Pursuant to 18 U.S.C. Section 1350****As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Inergy, L.P. (the "Company") on Form 10-Q for the period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, R. Brooks Sherman, Jr., Chief Financial Officer of Inergy, L.P., certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ R. Brooks Sherman, Jr.

R. Brooks Sherman, Jr.
Chief Financial Officer

August 13, 2004

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.