INERGY L P
Form 10-Q
August 03, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2012

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	**43-1918951**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
Two Brush Creek Blvd., Suite 200	**64112**

Kansas City, Missouri
(Address of principal executive offices) **(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 past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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INERGY, L.P.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements of Inergy, L.P.

INERGY, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in millions, except unit information)

	June 30, 2012 *(unaudited)*	September 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 4.9	$ 11.5
Accounts receivable, less allowance for doubtful accounts of $0.4 million and $0.2 million at June 30, 2012 and September 30, 2011, respectively	88.5	112.9
Inventories (*Note 3*)	46.3	155.1
Assets from price risk management activities	40.6	17.1
Prepaid expenses and other current assets	23.7	16.1
Current assets held for sale *(Note 5)*	1,174.1	115.2
Total current assets	1,378.1	427.9
Property, plant and equipment (*Note 3*)	2,042.7	1,857.8
Less: accumulated depreciation	411.1	322.8
Property, plant and equipment, net	1,631.6	1,535.0
Intangible assets (*Note 3*):		
Customer accounts	42.5	39.7
Other intangible assets	51.6	56.9
	94.1	96.6
Less: accumulated amortization	27.1	29.0
Intangible assets, net	67.0	67.6
Assets held for sale *(Note 5)*		1,146.7
Goodwill	162.4	162.0
Other assets	1.4	1.7
Total assets	$ 3,240.5	$ 3,340.9
Liabilities and partners capital		
Current liabilities:		
Accounts payable	$ 102.0	$ 145.6
Accrued expenses	84.0	72.1
Liabilities from price risk management activities	13.5	19.0
Current portion of long-term debt (*Note 8*)	1,188.5	3.2
Liabilities held for sale *(Note 5)*	62.0	82.1
Total current liabilities	1,450.0	322.0

Long-term debt, less current portion (*Note 8*)	519.5	1,833.4
Other long-term liabilities	21.4	19.3
Deferred income taxes	19.7	20.2
Partners capital (*Note 9*):		
Limited partner unitholders (125,827,173 and 119,147,858 common units issued and outstanding as of June 30, 2012 and September 30, 2011, respectively, and 5,882,105 and 12,165,499 Class B units issued and outstanding at June 30, 2012 and September 30, 2011, respectively)	1,088.1	1,146.0
Total Inergy, L.P. partners capital	1,088.1	1,146.0
Interest of non-controlling partners in subsidiaries	141.8	
Total partners capital	1,229.9	1,146.0
Total liabilities and partners capital	$ 3,240.5	$ 3,340.9

The accompanying notes are an integral part of these consolidated financial statements.

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INERGY, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except unit and per unit data)

(unaudited)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Nine Months Ended June 30, 2012	Nine Months Ended June 30, 2011
Revenue:				
Propane	$ 203.7	$ 220.4	$ 1,132.3	$ 1,187.9
Other	167.9	168.3	570.3	517.3
	371.6	388.7	1,702.6	1,705.2
Cost of product sold (excluding depreciation and amortization as shown below):				
Propane	148.2	164.0	851.2	819.1
Other	93.3	107.7	340.7	321.4
	241.5	271.7	1,191.9	1,140.5
Expenses:				
Operating and administrative	83.1	77.4	247.1	243.6
Depreciation and amortization	38.2	48.0	136.6	141.8
Loss on disposal of assets	2.2	0.5	5.8	3.1
Operating income (loss)	6.6	(8.9)	121.2	176.2
Other income (expense):				
Interest expense, net	(22.8)	(27.2)	(73.2)	(87.5)
Early extinguishment of debt	(1.7)	(0.2)	(26.6)	(49.6)
Other income	0.1	1.1	1.5	1.2
Income (loss) before income taxes	(17.8)	(35.2)	22.9	40.3
Benefit (provision) for income taxes	0.1	(0.3)	(0.2)	(0.7)
Net income (loss)	(17.7)	(35.5)	22.7	39.6
Net (income) loss attributable to non-controlling partners in subsidiary	(4.1)		(7.8)	28.2
Net income (loss) attributable to partners	$ (21.8)	$ (35.5)	$ 14.9	$ 67.8
Total limited partners interest in net income (loss)	$ (21.8)	$ (35.5)	$ 14.9	$ 67.8
Net income (loss) per limited partner unit:				
Basic	$ (0.15)	$ (0.32)	$ 0.17	$ 0.67
Diluted	$ (0.17)	$ (0.32)	$ 0.11	$ 0.60
Weighted-average limited partners units outstanding (*in thousands*):				
Basic	125,818	112,538	124,698	101,215
Dilutive units			6,858	11,862

Diluted	125,818	112,538	131,556	113,077

The accompanying notes are an integral part of these consolidated financial statements.

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INERGY, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PARTNERS CAPITAL

(in millions)

(unaudited)

	Common Unit Capital	Non-Controlling Partners	Total Partners Capital
Balance at September 30, 2011	$ 1,146.0	$	$ 1,146.0
Net proceeds from issuance of common units by Inergy Midstream, L.P.		292.7	292.7
Net proceeds from common unit options exercised	0.7		0.7
Certain costs related to Inergy Midstream, L.P. s initial public offering	(4.3)		(4.3)
Unit-based compensation charges	9.8		9.8
Retirement of common units	(1.3)		(1.3)
Distributions	(219.7)	(7.6)	(227.3)
Gain (loss) on issuance of Inergy Midstream, L.P. units	133.8	(133.8)	
Gain (loss) associated with contribution of US Salt, LLC	17.3	(17.3)	
Comprehensive income:			
Net income	14.9	7.8	22.7
Change in unrealized fair value on cash flow hedges	(9.1)		(9.1)
Comprehensive income			13.6
Balance at June 30, 2012	$ 1,088.1	$ 141.8	$ 1,229.9

The accompanying notes are an integral part of these consolidated financial statements.

INERGY, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	Nine Months Ended June 30, 2012	Nine Months Ended June 30, 2011
Operating activities		
Net income	$ 22.7	$ 39.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and depletion	115.9	112.3
Amortization	20.7	29.5
Amortization of deferred financing costs, swap premium and net bond discount	3.9	5.7
Unit-based compensation charges	9.8	4.4
Provision for doubtful accounts	1.8	2.6
Loss on disposal of assets	5.8	3.1
Deferred income taxes	(0.5)	(0.2)
Early extinguishment of debt	10.0	11.2
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	40.6	(31.6)
Inventories	128.7	(8.3)
Prepaid expenses and other current assets	(7.4)	(6.7)
Other assets (liabilities)	0.4	(0.2)
Accounts payable and accrued expenses	(44.1)	9.6
Customer deposits	(17.0)	(36.9)
Net liabilities from price risk management activities	(38.1)	(3.6)
Net cash provided by operating activities	253.2	130.5
Investing activities		
Acquisitions, net of cash acquired	(23.4)	(757.4)
Purchases of property, plant and equipment	(168.7)	(126.2)
Proceeds from sale of assets	7.3	20.2
Proceeds from redemption of bond offering escrow		588.0
Net cash used in investing activities	(184.8)	(275.4)

The accompanying notes are an integral part of these consolidated financial statements.

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INERGY, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(in millions)

(unaudited)

	Nine Months Ended June 30, 2012	Nine Months Ended June 30, 2011
Financing activities		
Proceeds from the issuance of Inergy, L.P. long-term debt	$ 887.2	$ 1,837.0
Proceeds from the issuance of Inergy Midstream, L.P. long-term debt	385.8	
Principal payments on Inergy, L.P. long-term debt	(1,344.1)	(1,748.6)
Principal payments on Inergy Midstream, L.P. long-term debt	(61.6)	
Proceeds from the issuance of promissory note	255.0	
Principal payment on promissory note	(255.0)	
Distributions	(219.7)	(176.1)
Distributions paid to non-controlling partners	(7.6)	(51.5)
Payments for deferred financing costs	(6.5)	(17.0)
Proceeds from swap settlement	0.8	
Costs associated with the simplification of capital structure		(1.1)
Net proceeds from issuance of Inergy, L.P. common units		311.4
Net proceeds from issuance of Inergy Midstream, L.P. common units	292.7	
Retirement of common units	(1.3)	
Net proceeds from Inergy, L.P. common unit options exercised	0.7	5.1
Other	(1.4)	(0.1)
Net cash provided by (used in) financing activities	(75.0)	159.1
Net increase (decrease) in cash	(6.6)	14.2
Cash at beginning of period	11.5	144.4
Cash at end of period	$ 4.9	$ 158.6
Supplemental schedule of noncash investing and financing activities		
Change in the value of intangible assets and equity	$ (3.0)	$
Net change to property, plant and equipment through accounts payable and accrued expenses	$ 11.9	$ 8.7
Change in the fair value of interest rate swap liability and related long-term debt	$	$ 4.8
Acquisitions, net of cash acquired:		
Current assets	$ 5.2	$ 5.0
Property, plant and equipment	12.4	436.2
Contractual rights		266.9
Intangible assets	6.1	9.7
Goodwill	0.4	51.9
Other assets	0.1	1.0
Current liabilities	0.3	(12.3)
Debt	(1.1)	(1.0)

Total acquisitions, net of cash acquired	$ 23.4	$ 757.4

The accompanying notes are an integral part of these consolidated financial statements.

INERGY, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1 Partnership Organization and Basis of Presentation

Organization

On August 7, 2010, Inergy, L.P. (Inergy) and Inergy Holdings, L.P. (Holdings) entered into an Agreement and Plan of Merger, which was amended and restated by the First Amended and Restated Agreement and Plan of Merger, dated as of September 3, 2010, as part of a plan to simplify the capital structures of Inergy and Holdings (the Merger Agreement). Pursuant to the steps contemplated by the Merger Agreement (the Simplification Transaction), Holdings merged into a wholly owned subsidiary of its general partner (the Merger) and the outstanding common units in Holdings were cancelled. The Merger closed on November 5, 2010, resulting in Holdings unitholders receiving 0.77 Inergy units for each Holdings unit. Cash was paid to Holdings unitholders in lieu of any fractional units that resulted from the exchange. As a result of the closing, Holdings common units discontinued trading on the New York Stock Exchange as of the close of business on November 5, 2010. Holdings continues to own the general partner of Inergy subsequent to the Merger.

The Simplification Transaction was accounted for in accordance with Accounting Standards Codification (ASC) 810. Under ASC 810, the exchange of Holdings units for Inergy units was accounted for as a Holdings equity issuance and Holdings was the surviving entity. Although Holdings was the surviving entity for accounting purposes, Inergy was the surviving entity for legal purposes as provided for by the Merger Agreement; consequently, the name on these financial statements was changed from Inergy Holdings, L.P. to Inergy, L.P.

Historically, Holdings ownership of Inergy s general partner, Inergy GP, LLC (Inergy GP), provided Holdings with an approximate 0.6% general partner interest in Inergy. Holdings also owned an approximate 6.0% limited partner interest in Inergy at September 30, 2010.

Because of the changes the Simplification Transaction has had on these financial statements and Inergy s organizational structure, and because the nature of the pre-simplification and post-simplification Inergy entities are significantly different, these notes to consolidated financial statements refer to specific Inergy entities, with Inergy, L.P. prior to the simplification referred to as Holdings and after the simplification as Inergy , and the controlled operating subsidiary of Inergy, L.P. prior to the Merger is referred to as Inergy . References to the Company or Inergy in the footnotes related to the policies and procedures of Inergy, L.P. refer to Inergy, L.P. subsequent to the simplification. Other references to the Company or we , our and us throughout the document refer to the controlled subsidiary of Inergy, L.P. prior to the simplification if the timin of the statement is prior to November 5, 2010, and to Inergy, L.P. subsequent to the simplification if the timing of the statement is subsequent to November 5, 2010. The operating activities of the Inergy, L.P. controlled subsidiary prior to the Merger and Inergy, L.P. subsequent to the Merger are identical.

Inergy Midstream

On November 14, 2011, Inergy Midstream, LLC converted into a Delaware limited partnership and changed its name to Inergy Midstream, L.P. (Inergy Midstream). Inergy Midstream converted into a limited partnership in connection with the initial public offering (IPO) of its common units representing limited partnership interests. Inergy Midstream was formed by Inergy to acquire, develop, own and operate midstream energy assets.

On November 25, 2011, Inergy Midstream assigned 100% of its membership interests in each of US Salt, LLC (US Salt) and Tres Palacios Gas Storage LLC to Inergy.

On December 21, 2011, Inergy Midstream completed its IPO. Inergy Midstream sold 16,000,000 common units to public investors and the underwriters exercised their option to purchase an additional 2,400,000 common units. Prior to this offering, there had been no public market for Inergy Midstream s common units. The Inergy Midstream common units began trading on the New York Stock Exchange on December 16, 2011, under the symbol NRGM. Upon completion of the offering, Inergy owned, directly or indirectly, an approximate 75.2% limited partner interest and all of the incentive distribution rights, or IDRs, in Inergy Midstream. The IDRs entitle Inergy to receive 50% of all Inergy Midstream s distributions in excess of the initial quarterly distribution of $0.37 per unit. Additionally, Inergy indirectly owns NRGM GP, LLC, the general partner of Inergy Midstream, which entitles the general partner to management but no economic rights in Inergy Midstream.

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INERGY, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

On May 14, 2012, Inergy contributed 100% of the membership interests in US Salt to Inergy Midstream (US Salt Contribution) for $182.5 million of cash and 473,707 Inergy Midstream common units issued directly to Inergy. The cash proceeds were used to repay outstanding borrowings under Inergy s revolving credit facility. Following the US Salt Contribution, Inergy owns approximately 56.4 million limited partner units of NRGM, representing an approximate 75% ownership interest. In connection with the US Salt Contribution, (i) US Salt s guarantee of Inergy s senior notes, as well as the lien granted to the lenders of Inergy s credit agreement on US Salt s membership interest and substantially all of its assets, were released; and (ii) US Salt s membership interests and substantially all of its assets were pledged as collateral under the Inergy Midstream credit facility.

NRGM GP, LLC Change of Control Event

In connection with the IPO, Inergy and Inergy Holdings GP, LLC (Holdings GP), the indirect owner of Inergy s general partner, entered into a membership interest purchase agreement under which, under certain circumstances, Holdings GP will be required to purchase from Inergy, and Inergy will be required to sell to Holdings GP, all of the membership interests in MGP GP, LLC, the entity that controls Inergy Midstream s general partner, for nominal consideration. MGP GP, LLC is a wholly owned subsidiary of Inergy and the general partner of Inergy Midstream Holdings, L.P., which is the sole member of Inergy Midstream s general partner and direct holder of all of its incentive distribution rights. Under the agreement, Holdings GP is required to purchase MGP GP, LLC in the event that (i) a change of control of Inergy occurs at a time when Inergy is entitled to receive less than 50% of all cash distributed with respect to Inergy Midstream s limited partner interests and incentive distribution rights or (ii) through dilution or a distribution to the Inergy common unitholders of Inergy s interests in Inergy Midstream, Inergy is entitled to receive less than 25% of all cash distributed with respect to Inergy Midstream s limited partner interests and incentive distribution rights.

Nature of Operations

Inergy s financial statements reflect two operating and reportable segments: propane operations and midstream operations. Inergy s propane operations include propane sales to end users, the sale of propane-related appliances and service work for propane-related equipment, the sale of distillate products and wholesale distribution of propane and marketing and price risk management services to other users, retailers and resellers of propane. Inergy s midstream operations include storage and transportation of natural gas and natural gas liquids (NGL) for third parties, NGL fractionation and distribution, processing of natural gas and the production and sale of salt products.

Following the Inergy Midstream IPO and US Salt contribution, Inergy s midstream assets include the Tres Palacios natural gas storage facility in Texas and the West Coast NGL business. Through Inergy s ownership interest in Inergy Midstream, Inergy has an investment in midstream assets including four natural gas storage facilities in New York (Stagecoach, Thomas Corners, Steuben and Seneca Lake), natural gas transportation assets in New York and Pennsylvania, an NGL storage facility in New York (Bath storage facility), and a solution-mining and salt production company (US Salt).

Basis of Presentation

The financial information contained herein as of June 30, 2012, and for the three-month and nine-month periods ended June 30, 2012 and 2011, 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 propane 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, 2012, are not indicative of the results of operations that may be expected for the entire fiscal year.

The accompanying consolidated financial statements include the accounts of Inergy, L.P. and its wholly owned subsidiaries, Inergy Propane, LLC (Inergy Propane), Inergy Partners, LLC (Partners), IPCH Acquisition Corp. (IPCHA), Tres Palacios Gas Storage LLC and Inergy Finance Corp. The accompanying consolidated financial statements also include the accounts of our majority-owned subsidiary, Inergy Midstream, and its wholly-owned subsidiaries. All significant intercompany transactions, including distribution income, and balances have been eliminated in consolidation.

INERGY, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

On April 25, 2012, Inergy entered into a definitive agreement to contribute its retail propane operations to Suburban Propane Partners, L.P. (SPH). ASC 205 requires that in order for a transaction to be considered discontinued operations, the gross cash flows related to the continuing involvement with the discontinued operations must be immaterial. The financial statements do not report the retail propane operations as discontinued as the involvement of Inergy with the retail propane operations subsequent to the close of this transaction, although sold, is expected to be material due to a propane supply arrangement expected to be executed between Inergy and SPH; however, this continues to be evaluated. The assets and liabilities associated with the retail propane operations have accordingly been classified as held for sale in these financial statements. See Note 5 for a discussion of the amounts related to the assets and liabilities held for sale.

The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements of Inergy, L.P. and subsidiaries and the notes thereto included in Form 10-K as filed with the Securities and Exchange Commission for the fiscal year ended September 30, 2011.

Note 2 Summary of Significant Accounting Policies

Financial Instruments and Price Risk Management

Inergy utilizes certain derivative financial instruments to (i) manage its exposure to commodity price risk, specifically, the related change in the fair value of inventories, as well as the variability of cash flows related to forecasted transactions; (ii) ensure adequate physical supply of commodity will be available; and (iii) manage its exposure to interest rate risk associated with fixed and variable rate borrowings. Inergy records all derivative instruments on the balance sheet as either assets or liabilities measured at fair value. Changes in the fair value of these derivative financial instruments are recorded either through current earnings or as other comprehensive income, depending on the type of transaction.

Inergy is party to certain commodity derivative financial instruments that are designated as hedges of selected inventory positions, and qualify as fair value hedges. Inergy is also periodically party to certain interest rate swap agreements designed to manage interest rate risk exposure. Inergy s overall objective for entering into fair value hedges is to manage its exposure to fluctuations in commodity prices and changes in the fair market value of its inventories and fixed and variable rate borrowings. The commodity derivatives are recorded at fair value on the balance sheets as price risk management assets or liabilities and the related change in fair value is recorded to earnings in the current period as cost of product sold. The interest rate derivatives are recorded at fair value on the balance sheets in other assets or liabilities and the related change in fair value is recorded to earnings in the current period as interest expense.

Any ineffective portion of the fair value hedges is recognized as cost of product sold in the current period. Inergy recognized a net loss of $0.6 million and a net gain of $0.3 million in the three months ended June 30, 2012 and 2011, respectively, and a net loss of $0.1 million and a net gain of $0.3 million in the nine months ended June 30, 2012 and 2011, respectively, related to the ineffective portion of its fair value hedging instruments. In addition, Inergy recognized no gain or loss for the three and nine months ended June 30, 2012 and 2011, related to the portion of fair value hedging instruments that it excluded from its assessment of hedge effectiveness.

Inergy also enters into derivative financial instruments that qualify as cash flow hedges, which hedge the exposure of variability in expected future cash flows predominantly attributable to forecasted purchases to supply fixed price sale contracts and variable interest payments. The commodity derivatives are recorded on the balance sheet at fair value as price risk management assets or liabilities, and the interest rate swaps are recorded as other assets or liabilities. The effective portion of the gain or loss on these cash flow hedges is recorded in other comprehensive income in partner s capital and reclassified into earnings as a component of cost of product sold or interest expense, as applicable, in the same period in which the hedged transaction affects earnings. In certain situations under the rules, the ineffective portion of the gain or loss is recognized as cost of product sold in the current period. Accumulated other comprehensive loss was $15.8 million and $6.7 million at June 30, 2012 and September 30, 2011, respectively. Included in accumulated other comprehensive loss at June 30, 2012 was a loss of $9.4 million attributable to commodity instruments and a loss of $6.4 million attributable to interest rate swaps. Included in accumulated other comprehensive loss at September 30, 2011 was a loss of $2.4 million attributable to commodity instruments and a loss of $4.3 million attributable to interest rate swaps. Approximately $8.7 million is expected to be reclassified to earnings from other comprehensive income over the next twelve months. Inergy s comprehensive income (loss) was $(27.1) million and $(38.3) million for the three months ended June 30, 2012 and 2011, respectively, and $13.6 million and $33.2 million for the nine months ended June 30, 2012 and 2011, respectively.

INERGY, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Inergy s policy is to offset fair value amounts of derivative instruments and cash collateral paid or received with the same counterparty under a master netting arrangement.

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

Revenue Recognition

Sales of propane, other liquids and salt are recognized at the time product is shipped or delivered to the customer depending on the sales terms. 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 later of the time of sale or installation. Revenue from repairs and maintenance is recognized upon completion of the service. Revenue from storage contracts is recognized during the period in which storage services are provided.

Expense Classification

Cost of product sold consists of tangible products sold including all propane and other natural gas liquids, salt and all propane related appliances, as well as certain direct costs incurred in providing storage services. Operating and administrative expenses consist of all expenses incurred other than those described above in cost of product sold and depreciation and amortization. Certain operating and administrative expenses and depreciation and amortization are incurred in the distribution of product and storage sales but are not included in cost of product sold. These amounts were $47.0 million and $51.7 million for the three months ended June 30, 2012 and 2011, respectively, and $157.2 million for both the nine months ended June 30, 2012 and 2011.

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 and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ from those estimates.

Inventories

Inventories for propane operations, which mainly consist of propane gas and other liquids, are stated at the lower of cost or market and are computed using the average cost method. Substantially all wholesale propane and other liquids inventories are designated under a fair value hedge program and are consequently marked to market. The remaining portion is stated at the lower of cost or market and is computed predominantly using the average cost method. Propane and other liquids inventories being hedged and adjusted for market value at June 30, 2012 and September 30, 2011, amount to $35.5 million and $147.7 million, respectively. Inventories for midstream operations are stated at the lower of cost or market and are computed predominantly using the average cost method.

Shipping and Handling Costs

Shipping and handling costs are recorded as part of cost of product sold at the time product is shipped or delivered to the customer except as discussed in Expense Classification.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Inergy capitalizes all construction-related direct labor and material costs as well as the cost of funds used during construction. Amounts capitalized for cost of funds used during construction amounted to $4.2 million and $3.3 million for the three months ended

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INERGY, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

June 30, 2012 and 2011, respectively, and $11.8 million and $11.4 million for the nine months ended June 30, 2012 and 2011, respectively. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, as follows:

	Years
Buildings and improvements	15-25
Office furniture and equipment	3 7
Vehicles	5 10
Tanks and plant equipment	5 30
Base gas	10

Salt deposits are depleted on a unit of production method.

Identifiable Intangible Assets

The Company has recorded certain identifiable intangible assets, including customer accounts, covenants not to compete, trademarks and deferred financing costs. Customer accounts, covenants not to compete and trademarks have arisen from acquisitions. Deferred financing costs represent financing costs incurred in obtaining financing and are being amortized over the term of the related debt. Additionally, an acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the acquirer s intent to do so.

Certain intangible assets are amortized on a straight-line basis over their estimated economic lives, as follows:

	Years
Customer accounts	15 20
Covenants not to compete	2 10
Deferred financing costs	4 10

Trademarks have been assigned an indefinite economic life and are not being amortized, but are subject to an annual impairment evaluation.

Goodwill

Goodwill is recognized for various acquisitions as the excess of the cost of the acquisitions over the fair value of the related net assets at the date of acquisition. Goodwill is subject to at least an annual assessment for impairment by applying a fair-value-based test.

In connection with the goodwill impairment evaluation, the Company identified five reporting units. The carrying value of each reporting unit is determined by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of the evaluation on a specific identification basis. To the extent a reporting unit s carrying value exceeds its fair value, an indication exists that the reporting unit s goodwill may be impaired and the second step of the impairment test must be performed. In the second step, the implied fair value of the goodwill is determined by allocating the fair value to all of its assets (recognized and unrecognized) and liabilities to its carrying amount.

Inergy completed its annual impairment test for each of its reporting units and determined that no impairment existed as of September 30, 2011. No indicators of impairment were identified requiring an interim impairment test during the nine-month period ended June 30, 2012.

Income Taxes

Inergy is a publicly-traded master limited partnership. Partnerships are generally not subject to federal income tax, although publicly-traded partnerships are treated as corporations for federal income tax purposes and therefore are subject

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to federal income tax, unless the partnership generates at least 90% of its gross income from qualifying sources. If the qualifying income requirement is satisfied, the publicly-traded partnership will be treated as a partnership for federal income tax purposes. Inergy Sales and Service, Inc. (Services), a subsidiary of Inergy, does not generate at least 90% of its gross income from qualifying sources, and as such, federal and state income taxes are provided on the taxable income of Services. The earnings of the Company and its limited liability subsidiaries are included in the Federal and state income tax returns of the individual members or partners. However, legislation in certain states allows for taxation of partnerships, and as such, certain state taxes for Inergy have been included in the accompanying financial statements as income taxes due to the nature of the tax in those particular states. In addition, Federal and state income taxes are provided on the earnings of the subsidiaries incorporated as taxable entities (IPCHA and Services). The Company is required to recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities using expected rates in effect for the year in which differences are expected to reverse.

Net earnings for financial statement purposes may differ significantly from taxable income reportable to unitholders as a result of differences between the tax basis and the financial reporting basis of assets and liabilities and the taxable income allocation requirements under the partnership agreement.

Sales Tax

Inergy accounts for the collection and remittance of sales tax on a net tax basis. As a result, these amounts are not reflected in the consolidated statements of operations.

Income Per Unit

Inergy calculates basic net income per limited partner unit by dividing net income applicable to partners common interest by the weighted-average number of units outstanding. Basic net income applicable to partners common interest is increased for the disproportionate ownership of Class B units in the undistributed earnings relative to their ownership of distributed earnings. This impact resulted in an increase to basic net income per limited partner unit of $0.02 and $0.05 for the three and nine month periods ended June 30, 2012, respectively. Diluted net income per limited partner unit is computed by dividing net income by the weighted-average number of units outstanding and the effect of dilutive units granted under the Long Term Incentive Plan and the Class B units. Diluted net income per limited partner unit is not adjusted for the above described difference in Class B units share of undistributed and distributed earnings as the calculation assumes full conversion of the Class B units, which results in the most dilutive earnings per unit.

As the effect of including incremental units associated with options were anti-dilutive for the three months ended June 30, 2012 and 2011 due to the net loss reported for that period, no unit options or other dilutive units were reflected in the applicable dilutive earnings per unit computation. As a result, both basic earnings per unit and dilutive earnings per unit reflect the same calculation for the three-month period ended June 30, 2012 and 2011. Anti-dilutive unit options and Class B units outstanding totaled 5,891,953 and 12,041,942 for the three months ended June 30, 2012 and 2011, respectively.

Asset Retirement Obligations

An asset retirement obligation (ARO) is an estimated liability for the cost to retire a tangible asset. The fair value of certain AROs could not be made as settlement dates (or range of dates) associated with these assets were not estimable.

Accounting for Unit-Based Compensation

Inergy sponsors a Long Term Incentive Plan and all share-based payments to employees, including grants of employee stock options, are recognized in the consolidated statements of operations based on their fair values.

The amount of compensation expense recorded by the Company was $3.6 million and $1.5 million during the three months ended June 30, 2012 and 2011, respectively, and $9.8 million and $4.4 million during the nine months ended June 30, 2012 and 2011, respectively.

Segment Information

There are certain accounting requirements that establish standards for reporting information about operating segments, as well as related disclosures about products and services, geographic areas and major customers. Further, they define operating segments as components of an enterprise for which separate financial information is available that is evaluated

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regularly by the chief operating decision maker in deciding how to allocate resources and assessing performance. In determining its reportable segments, Inergy examined the way it organizes its business internally for making operating decisions and assessing business performance. See Note 11 for disclosures related to Inergy s propane and midstream segments.

Fair Value

Cash and cash equivalents, accounts receivable (net of allowance for doubtful accounts) and payables are carried at cost, which approximates fair value due to their liquid and short-term nature. As of June 30, 2012, the estimated fair value of the Company s fixed-rate Senior Notes, based on available trading information, totaled $1,214.3 million compared with the aggregate principal amount at maturity of $1,200.8 million. The fair value of debt was determined based on market quotes from Bloomberg. This is considered a level 1 pricing source within the fair value hierarchy. At June 30, 2012, the Company s credit agreement (Credit Agreement) consisted of a $550 million revolving loan facility (Revolving Loan Facility). The carrying value at June 30, 2012, of amounts outstanding under the Credit Agreement of $170.2 million approximated fair value due primarily to the floating interest rate associated with the Credit Agreement. At June 30, 2012, Inergy Midstream s $600 million revolving credit facility (NRGM Credit Facility) had amounts outstanding of $324.2 million, which approximated fair value due primarily to the floating interest rate associated with borrowings under the NRGM Credit Facility. See Note 8 for a discussion of the Company s debt.

Recently Issued Accounting Pronouncements

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income (ASU 2011-05). Under ASU 2011-05, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under both options, an entity will be required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. Furthermore, regardless of the presentation methodology elected, the entity will be required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income. The amendments contained in ASU 2011-05 do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments also do not affect how earnings per share is calculated or presented. ASU 2011-05 is effective for the Company on October 1, 2012. The Company does not currently anticipate the adoption of ASU 2011-05 will impact comprehensive income, however it will require the Company to change its historical practice of showing these items within the Consolidated Statement of Partners Capital.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, Improving Disclosures about Fair Value Measurements (ASU 2010-06), which is included in the ASC Topic 820 (Fair Value Measurements and Disclosures). ASU 2010-06 requires new disclosures on the amount and reason for transfers in and out of level 1 and level 2 fair value measurements. ASU 2010-06 also requires disclosure of activities, including purchases, sales, issuances and settlements within the level 3 fair value measurements and clarifies existing disclosure requirements on levels of disaggregation and disclosures about inputs and valuation techniques. The Company has previously adopted the new disclosures on the reason for transfers in and out of level 1 and level 2. The new disclosures for level 3 were adopted on October 1, 2011, and are disclosed in Note 7.

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Note 3 Certain Balance Sheet Information

Inventories consisted of the following at June 30, 2012 and September 30, 2011, respectively (*in millions*):

	June 30, 2012	September 30, 2011
Propane gas and other liquids	$ 40.7	$ 149.8
Appliances, parts, supplies and other	5.6	5.3
Total inventory	$ 46.3	$ 155.1

Property, plant and equipment consisted of the following at June 30, 2012 and September 30, 2011, respectively (*in millions*):

	June 30, 2012	September 30, 2011
Tanks and plant equipment	$ 624.2	$ 531.1
Buildings, land and improvements	884.4	840.7
Vehicles	34.8	25.0
Construction in process	307.0	271.7
Base gas	134.0	132.1
Salt deposits	41.6	41.6
Office furniture and equipment	16.7	15.6
	2,042.7	1,857.8
Less: accumulated depreciation	411.1	322.8
Total property, plant and equipment, net	$ 1,631.6	$ 1,535.0

Intangible assets consisted of the following at June 30, 2012 and September 30, 2011, respectively (*in millions*):

	June 30, 2012	September 30, 2011
Customer accounts	$ 42.5	$ 39.7
Covenants not to compete	9.1	7.4
Deferred financing and other costs	42.5	49.5
	94.1	96.6
Less: accumulated amortization	27.1	29.0

Total intangible assets, net	$ 67.0	$ 67.6

Note 4 Business Acquisitions

On November 11, 2011, Inergy completed the acquisition of substantially all the assets of Papco, LLC / South Jersey Terminal, LLC (Papco), located in Bridgeton, New Jersey.

On January 13, 2012, Inergy completed the acquisition of substantially all the assets of Baker-Doucette, Inc. (d/b/a Woodstock Oil Company) and Rising Moon, LLC (d/b/a Woodstock Propane Company) (Woodstock), located in Bryant Pond, Maine.

On February 13, 2012, Inergy completed the acquisition of all operating assets at the Aztec, New Mexico location of Alliance Propane, LLC (d/b/a Mesa Propane).

The above described acquisitions are not material to the financial statements.

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The purchase price allocation for these acquisitions has been prepared on a preliminary basis pending final asset valuation and asset rationalization. Changes to reflect final asset valuation of prior fiscal year acquisitions have been included in the Company s consolidated financial statements but are not material.

Note 5 Assets Held for Sale

As discussed in Note 1, the assets and liabilities associated with the retail propane operations have been classified as held for sale in these financial statements.

The following table details the assets and liabilities held for sale at June 30, 2012 and September 30, 2011, respectively (*in millions*):

	June 30, 2012	September 30, 2011
Assets held for sale		
Accounts receivable, less allowance for doubtful accounts of $1.9 million and $2.4 million at June 30, 2012 and September 30, 2011, respectively	$ 42.8	$ 54.8
Inventories	38.1	57.8
Prepaid expenses and other current assets	1.9	2.1
Property, plant and equipment, net	460.8	
Intangible assets, net	293.7	
Goodwill	336.1	
Other assets	0.7	0.5
Current assets held for sale	1,174.1	115.2
Property, plant and equipment, net		494.4
Intangible assets, net		316.2
Goodwill		336.1
Total assets held for sale	$ 1,174.1	$ 1,261.9
Liabilities held for sale		
Accounts payable	$ 0.2	$ 0.6
Accrued expenses	12.9	13.1
Customer deposits	34.9	52.0
Obligations under noncompetition agreements and notes to former owners of businesses acquired	14.0	16.4
Total liabilities held for sale	$ 62.0	$ 82.1

Note 6 Risk Management

The Company is exposed to certain market risks related to its ongoing business operations. These risks include exposure to changing commodity prices as well as fluctuations in interest rates. The Company utilizes derivative instruments to manage its exposure to fluctuations in commodity prices, which is discussed more fully below. The Company also periodically utilizes derivative instruments to manage its exposure to fluctuations in interest rates, which is discussed more fully in Note 8. Additional information related to derivatives is provided in Note 2 and Note 7.

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Commodity Derivative Instruments and Price Risk Management

Risk Management Activities

Inergy sells propane and other commodities to energy related businesses and may use a variety of financial and other instruments including forward contracts involving physical delivery of propane. Inergy will enter into offsetting positions to hedge against the exposure its customer contracts create. Inergy does not designate these instruments as hedging instruments. These instruments are marked to market with the changes in the market value reflected in cost of product sold. Inergy attempts to balance its contractual portfolio in terms of notional amounts and timing of performance and delivery obligations. This balance in the contractual portfolio significantly reduces the volatility in cost of product sold related to these instruments. However, immaterial net unbalanced positions can exist or are established based on assessment of anticipated short-term needs or market conditions.

Cash Flow Hedging Activity

Inergy sells propane and heating oil to certain of its retail customers at fixed prices. Inergy will enter into derivative instruments to hedge a significant portion of its exposure to fluctuations in commodity prices as a result of selling these fixed price contracts. These instruments are identified and qualify to be treated as cash flow hedges. This accounting treatment requires the effective portion of the gain or loss on the derivative to be reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Fair Value Hedging Activity

Inergy will enter into derivative instruments to hedge its exposure to fluctuating commodity prices that results from maintaining its wholesale inventory. The instruments hedging wholesale inventory qualify to be treated as fair value hedges. This accounting treatment requires the fair value changes in both the derivative instruments and the hedged inventory to be recorded in cost of product sold.

A significant amount of inventory held in bulk storage facilities is hedged as it is not expected to be sold in the immediate future and is therefore exposed to fluctuations in commodity prices. Commodity inventory held at retail locations is not hedged as this inventory is expected to be sold in the immediate future and is therefore not exposed to fluctuations in commodity prices over an extended period of time.

Commodity Price and Credit Risk

Notional Amounts and Terms

The notional amounts and terms of the Company s derivative financial instruments include the following at June 30, 2012 and September 30, 2011, respectively (*in millions*):

	June 30, 2012		**September 30, 2011**	
	Fixed Price Payor	**Fixed Price Receiver**	**Fixed Price Payor**	**Fixed Price Receiver**
Propane, crude and heating oil (*barrels*)	6.9	6.4	10.1	10.6
Natural gas (*MMBTUs*)	8.1	7.8	0.1	

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 reflect the Company s monetary exposure to market or credit risks.

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Fair Value of Derivative Instruments

The following tables detail the amount and location on the Company s consolidated balance sheets and consolidated statements of operations related to all of its commodity derivatives (*in millions*):

	Amount of Gain (Loss) Recognized in Net Income from Derivatives			
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Derivatives in fair value hedging relationships:				
Commodity [(a)]	$ 2.9	$ 0.2	$ 10.7	$ 9.5
Debt [(b)]	(0.3)	6.8		4.8
Total fair value of derivatives	$ 2.6	$ 7.0	$ 10.7	$ 14.3

	Amount of Gain (Loss) Recognized in Net Income on Item Being Hedged			
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Derivatives in fair value hedging relationships:				
Commodity [(a)]	$ (3.5)	$ 0.1	$ (10.8)	$ (9.2)
Debt [(b)]	0.3	(6.8)		(4.8)
Total fair value of derivatives	$ (3.2)	$ (6.7)	$ (10.8)	$ (14.0)

	Amount of Gain (Loss) Recognized in OCI on Effective Portion of Derivatives			
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Derivatives in cash flow hedging relationships:				
Commodity [(c)]	$ (8.5)	$ 0.1	$ (8.8)	$ 0.5
Debt [(e)]	(1.0)	(2.0)	(2.1)	(2.0)
Total fair value of derivatives	$ (9.5)	$ (1.9)	$ (10.9)	$ (1.5)

Amount of Gain (Loss) Reclassified from OCI to Net Income

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Derivatives in cash flow hedging relationships:				
Commodity [c]	$ (0.3)	$ 1.0	$ (1.9)	$ 4.9
Debt [e]	0.1		0.1	
Total fair value of derivatives	$ (0.2)	$ 1.0	$ (1.8)	$ 4.9

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	Amount of Gain (Loss) Recognized in Net Income on Ineffective Portion of Derivatives and Amount Excluded from Testing			
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Derivatives in cash flow hedging relationships:				
Commodity [c]	$	$	$	$

	Amount of Gain (Loss) Recognized in Net Income from Derivatives			
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Derivatives not designated as hedging instruments:				
Commodity [d]	$ 6.9	$ 5.5	$ 11.4	$ 11.2

(a) The gain (loss) on both the derivative and the item being hedged are located in cost of product sold in the consolidated statements of operations.
(b) The gain (loss) on both the derivative and the item being hedged are located in interest expense in the consolidated statements of operations.
(c) The gain (loss) on the amount reclassified from OCI into income, the ineffective portion and the amount excluded from effectiveness testing are included in cost of product sold.
(d) The gain (loss) is recognized in cost of product sold.
(e) The gain (loss) on the amount reclassified from OCI into income, the ineffective portion and the amount excluded from effectiveness testing are included in interest expense.

All contracts subject to price risk had a maturity of twenty-seven months or less; however, approximately 98% of the contracts expire within twelve months.

Credit Risk

Inherent in the Company s contractual portfolio are certain credit risks. Credit risk is the risk of loss from nonperformance by suppliers, customers or financial counterparties to a contract. Inergy takes an active role in managing credit risk and has established control procedures, which are reviewed on an ongoing basis. The Company attempts to minimize credit risk exposure through credit policies and periodic monitoring procedures as well as through customer deposits, letters of credit and entering into netting agreements that allow for offsetting counterparty receivable and payable balances for certain financial transactions, as deemed appropriate. The counterparties associated with assets from price risk management activities as of June 30, 2012 and September 30, 2011, were energy marketers and propane retailers, resellers and dealers.

Certain of the Company s derivative instruments have credit limits that require the Company to post collateral. The amount of collateral required to be posted is a function of the net liability position of the derivative as well as the Company s established credit limit with the respective counterparty. If the Company s credit rating were to change, the counterparties could require the Company to post additional collateral. The amount of additional collateral that would be required to be posted would vary depending on the extent of change in the Company s credit rating as well as the requirements of the individual counterparty. The aggregate fair value of all commodity derivative instruments with credit-risk-related contingent features that are in a liability position on June 30, 2012, is $20.4 million for which the Company has posted collateral of $13.1 million. In addition, the Company has made an initial margin deposit of $13.3 million to NYMEX in the normal course of business. The Company has received collateral of $11.7 million in the normal course of business. All collateral amounts have been netted against the asset or liability with the respective counterparty.

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Note 7 Fair Value Measurements

FASB Accounting Standards Codification Subtopic 820-10 (ASC 820-10) establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy are as follows:

Level 1 Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, listed equities and US government treasury securities.

Level 2 Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange-traded derivatives such as over the counter (OTC) forwards, options and physical exchanges.

Level 3 Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management s best estimate of fair value.

As of June 30, 2012, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis. These included the Company s derivative instruments related to propane, heating oil, crude oil, natural gas liquids and interest rates as well as the portion of inventory that is hedged in a qualifying fair value hedge. The Company s derivative instruments consist of forwards, swaps, futures, physical exchanges and options.

Certain of the Company s derivative instruments are traded on the NYMEX. These instruments have been categorized as level 1.

The Company s derivative instruments also include OTC contracts, which are not traded on a public exchange. The fair values of these derivative instruments are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. These instruments have been categorized as level 2.

The Company s inventory that is the hedged item in a qualifying fair value hedge is valued based on prices quoted from observable sources and verified with broker quotes. This inventory has been categorized as level 2.

The Company s OTC options are valued based on an internal option model. The inputs utilized in the model are based on publicly available information as well as broker quotes. These options have been categorized as level 3.

No changes in valuation techniques were made by the Company during the nine months ended June 30, 2012.

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The assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. The following table sets forth by level within the fair value hierarchy the Company s assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2012 and September 30, 2011 (*in millions*):

	June 30, 2012							
	Fair Value of Derivatives							
	Level 1	Level 2	Level 3	Total	Designated as Hedges	Not Designated as Hedges	Netting Agreements[a]	Total
Assets								
Assets from price risk management	$ 1.7	$ 37.8	$ 7.6	$ 47.1	$ 10.0	$ 37.1	$ (6.5)	$ 40.6
Inventory		35.5		35.5				35.5
Interest rate swaps								
Total assets at fair value	$ 1.7	$ 73.3	$ 7.6	$ 82.6	$ 10.0	$ 37.1	$ (6.5)	$ 76.1
Liabilities								
Liabilities from price risk management	$ 1.2	$ 30.5	$ 0.4	$ 32.1	$ 11.5	$ 20.6	$ (18.6)	$ 13.5
Interest rate swaps		6.4		6.4	6.4			6.4
Total liabilities at fair value	$ 1.2	$ 36.9	$ 0.4	$ 38.5	$ 17.9	$ 20.6	$ (18.6)	$ 19.9

	September 30, 2011							
	Fair Value of Derivatives							
	Level 1	Level 2	Level 3	Total	Designated as Hedges	Not Designated as Hedges	Netting Agreements[a]	Total
Assets								
Assets from price risk management	$ 1.2	$ 23.4	$ 4.0	$ 28.6	$ 8.8	$ 19.8	$ (11.5)	$ 17.1
Inventory		147.7		147.7				147.7
Interest rate swap		0.5		0.5	0.5			0.5
Total assets at fair value	$ 1.2	$ 171.6	$ 4.0	$ 176.8	$ 9.3	$ 19.8	$ (11.5)	$ 165.3
Liabilities								
Liabilities from price risk management	$ 0.9	$ 15.4	$ 2.7	$ 19.0	$ 5.4	$ 13.6	$	$ 19.0
Interest rate swap		4.3		4.3	4.3			4.3
Total liabilities at fair value	$ 0.9	$ 19.7	$ 2.7	$ 23.3	$ 9.7	$ 13.6	$	$ 23.3

(a) Amounts represent the impact of legally enforceable master netting agreements that allow the Company to settle positive and negative positions as well as cash collateral held or placed with the same counterparties.

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For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, ASC 820-10 requires a reconciliation of the beginning and ending balances, separated for each major category of assets. The reconciliation is as follows (*in millions*):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Nine Months Ended June 30, 2012
Assets	
Beginning balance	$ 4.0
Beginning balance recognized during the period as a component of cost of product sold	(3.7)
Change in value of contracts executed during the period	7.3
Ending balance	$ 7.6
Liabilities	
Beginning balance	$ (2.7)
Beginning balance recognized during the period as a component of cost of product sold	2.5
Change in value of contracts executed during the period	(0.2)
Ending balance	$ (0.4)

Note 8 Long-Term Debt

Long-term debt consisted of the following at June 30, 2012 and September 30, 2011, respectively (*in millions*):

	June 30, 2012	September 30, 2011
Inergy credit agreement:		
Revolving loan facility	$ 170.2	$ 81.2
Term loan facility		300.0
Inergy senior unsecured notes	1,200.8	1,445.1
Inergy fair value hedge adjustment on senior unsecured notes		0.5
Inergy bond/swap premium	10.8	13.8
Inergy bond discount		(5.3)
	2.0	1.3

Inergy obligations under noncompetition agreements and notes to former owners of businesses acquired		
NRGM credit facility	324.2	
Total debt	1,708.0	1,836.6
Less: current portion	1,188.5	3.2
Total long-term debt	$ 519.5	$ 1,833.4

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Included in the current portion of long-term debt is $1,187.0 million of senior notes tendered as of July 26, 2012. On August 1, 2012, these senior notes were exchanged for approximately $1,000.0 million in SPH senior notes and cash from SPH in conjunction with the contribution of Inergy s retail propane operations to SPH discussed in Notes 1, 5 and 13. These senior notes were cancelled and are no longer on the consolidated balance sheet at August 1, 2012. In accordance with ASC 210, the full amount of the debt tendered has been classified as current on the June 30, 2012 consolidated balance sheet due to the intent at June 30, 2012 to use the retail propane assets held for sale of $1,174.1 million in part to effectuate the exchange of the senior notes.

On November 24, 2009, Inergy entered into a secured credit facility (Credit Agreement) which provided borrowing capacity of up to $525 million in the form of a $450 million revolving general partnership credit facility (General Partnership Facility) and a $75 million working capital credit facility (Working Capital Facility). This facility was to mature on November 22, 2013. Borrowings under these secured facilities are available for working capital needs, future acquisitions, capital expenditures and other general partnership purposes, including the refinancing of existing indebtedness under the former credit facility.

On February 2, 2011, Inergy amended and restated the Credit Agreement to add a $300 million term loan facility (the Term Loan Facility). The term loan was to mature on February 2, 2015, and bear interest, at Inergy s option, subject to certain limitations, at a rate equal to the following:

- the Alternate Base Rate, which is defined as the higher of (i) the federal funds rate plus 0.50%; (ii) JP Morgan s prime rate; or (iii) the Adjusted LIBO Rate plus 1%; plus a margin varying from 1.00% to 2.25%; or

- the Adjusted LIBO Rate, which is defined as the LIBO Rate plus a margin varying from 2.00% to 3.25%.

On July 28, 2011, Inergy further amended its amended and restated Credit Agreement to (i) raise the aggregate revolving commitment from $525 million to $700 million (Revolving Loan Facility) with the amount existing as a singular tranche, (ii) reduce the applicable rate on revolving loans and commitment fees, (iii) modify and refresh certain covenants and covenant baskets, and (iv) extend the maturity date from November 22, 2013 to July 28, 2016.

On April 13, 2012, Inergy further amended its amended and restated Credit Agreement. This amendment, among other things, (i) permits Inergy to sell up to 5,000,000 Inergy Midstream common units, (ii) permits Inergy to sell all of the assets or capital stock of US Salt pursuant to which US Salt will be released as a subsidiary guarantor under the Credit Agreement, (iii) decreases the aggregate revolving commitment and general partnership commitment from $700 million to $550 million, and (iv) adjusts several of the financial covenants.

On July 26, 2012, Inergy further amended its amended and restated Credit Agreement in order to: (i) permit Inergy to enter into a series of transactions as described in the Contribution Agreement dated as of April 25, 2012 among Inergy and Suburban Propane Partners, L.P, (ii) permit Inergy to repurchase, repay or redeem all or any portion of the senior notes that remain outstanding after the closing of the Contribution Agreement, (iii) modify certain negative and financial covenants under the Credit Agreement, and (iv) allow Inergy to redeem, buy back or otherwise acquire up to $100,000,000 of its common units on or prior to March 31, 2013 subject to meeting certain financial covenant requirements. This amendment did not become effective until the contribution of Inergy s retail propane assets to SPH closed on August 1, 2012. In conjunction with the close of this transaction, $1,187.0 million in Inergy senior notes were exchanged for SPH senior notes, thereby eliminating the senior notes from Inergy s consolidated balance sheet on August 1, 2012.

The Credit Agreement contains various covenants and restrictive provisions that limit its ability to, among other things:

- incur additional debt;

make distributions on or redeem or repurchase units;

make certain investments and acquisitions;

incur or permit certain liens to exist;

enter into certain types of transactions with affiliates;

merge, consolidate or amalgamate with another company; and

transfer or otherwise dispose of assets.

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The Credit Agreement (as of June 30, 2012) contains the following financial covenants:

- the ratio of Inergy s total funded debt (as defined in the Credit Agreement) to consolidated EBITDA (as defined in the Credit Agreement) for the four fiscal quarters most recently ended must be no greater than 5.75 to 1.0;

- the ratio of Inergy s senior secured funded debt (as defined in the Credit Agreement) to consolidated EBITDA (as defined in the Credit Agreement) for the four fiscal quarters most recently ended must be no greater than 2.75 to 1.0; and

- the ratio of Inergy s consolidated EBITDA to consolidated interest expense (as defined in the Credit Agreement), for the four fiscal quarters then most recently ended, must not be less than 2.25 to 1.0.

If Inergy should fail to perform its obligations under these and other covenants, the Revolving Loan Facility could be terminated and any outstanding borrowings, together with accrued interest, under the Credit Agreement could be declared immediately due and payable. The Credit Agreement also has cross default provisions that apply to any other material indebtedness of Inergy.

All borrowings under the Credit Agreement are generally secured by all of Inergy s assets and the equity interests in all of Inergy s wholly owned subsidiaries, and loans thereunder bear interest, at Inergy s option, subject to certain limitations, at a rate equal to the following:

- the Alternate Base Rate, which is defined as the higher of (i) the federal funds rate plus 0.50%; (ii) JP Morgan s prime rate; or (iii) the Adjusted LIBO Rate plus 1%; plus a margin varying from 0.75% to 2.00%; or

- the Adjusted LIBO Rate, which is defined as the LIBO Rate plus a margin varying from 1.75% to 3.00%.

In conjunction with the Inergy Midstream IPO, on December 21, 2011, Inergy entered into the following transactions:

- Entered into a $255 million unsecured promissory note with JPMorgan Chase Bank (Promissory Note). The promissory note was assumed by Inergy Midstream and paid in full utilizing proceeds from the IPO.

- Paid in full the $300 million balance outstanding on the Term Loan Facility.

- Tendered for substantially all the $95 million outstanding on the 2015 Senior Notes.

- Tendered for $150 million of the $750 million outstanding on the 2021 Senior Notes.

The debt payments described above were funded by the $255 million proceeds from the Promissory Note, $80 million borrowing on the NRGM Credit Facility (discussed below) and borrowings on the Revolving Loan Facility.

At June 30, 2012, the balance outstanding under the Credit Agreement was $170.2 million. At September 30, 2011, the balance outstanding under the Credit Agreement was $381.2 million, of which $300.0 million was borrowed under the Term Loan Facility and $81.2 million under the Revolving Loan Facility. The interest rates of the Revolving Loan Facility are based on prime rate and LIBOR plus the applicable spreads, resulting in interest rates which were between 3.25% and 5.25% at June 30, 2012, and 2.73% and 4.75% at September 30, 2011. The interest rate on the Term Loan Facility was based on LIBOR plus the applicable spread, resulting in an interest rate that was 3.23% at September 30, 2011. Availability under the Credit Agreement amounted to $325.5 million and $575.3 million at June 30, 2012 and September 30, 2011, respectively. Outstanding standby letters of credit under the Credit Agreement amounted to $54.3 million and $43.5 million at June 30, 2012 and September 30, 2011, respectively.

During fiscal year 2011, Inergy entered into eleven interest rate swaps, one of which was scheduled to mature in 2015 (notional amount of $25 million) and the remaining ten were scheduled to mature in 2018 (aggregate notional amount of $250 million). In August 2011, Inergy s ten interest rate swaps maturing in 2018 were terminated. In December 2011, the remaining interest rate swap maturing in 2015 was terminated and the Company entered into a new interest rate swap scheduled to mature in 2018 (notional amount of $50 million). This swap agreement, which was to expire on the same date as the maturity date of the related senior unsecured notes and contained call provisions consistent with the underlying senior unsecured notes, required the counterparty to pay Inergy an amount based on the stated fixed interest rate due every nine months. In exchange, Inergy was required to make semi-annual floating interest rate payments on the same dates to the counterparty based on an annual interest rate equal to the one-month LIBOR interest rate plus a spread of 5.218%

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applied to the same aggregate notional amount of $50 million. This swap agreement had been accounted for as a fair value hedge. Amounts received or paid under the agreement were accrued and recognized over the life of the agreement as an adjustment to interest expense. In May 2012, this interest rate swap was terminated.

Inergy is party to six interest rate swap agreements scheduled to mature in 2015 to hedge its exposure to variable interest payments due under the Credit Agreement. Certain of these swap agreements with a notional amount of $100.0 million do not commence quarterly settlements until October 1, 2012. These swap agreements require Inergy to pay the counterparty an amount based on fixed rates from 0.84% to 2.43% due quarterly. In exchange, the counterparty is required to make quarterly floating interest rate payments on the same date to Inergy based on the three-month LIBOR applied to the same aggregate notional amount of $225 million. These swap agreements have been accounted for as cash flow hedges.

At June 30, 2012, the Company was in compliance with the debt covenants in the Credit Agreement and senior unsecured notes.

Inergy Midstream s Credit Facility

On December 21, 2011, Inergy Midstream entered into a new $500 million revolving credit facility (NRGM Credit Facility) with a December 2016 maturity date. The NRGM Credit Facility is available to fund acquisitions, working capital and internal growth projects and for general partnership purposes. The NRGM Credit Facility has an accordion feature that allows Inergy Midstream to increase loan commitments by up to $250 million, subject to the lenders agreement and the satisfaction of certain conditions. In addition, its credit facility includes a sub-limit up to $10 million for same-day swing line advances and a sub-limit up to $100 million for letters of credit.

On April 16, 2012, Inergy Midstream exercised a portion of its accordion feature under the NRGM Credit Facility and increased the loan commitments thereunder by $100 million. The aggregate amount of revolving loan commitments under the NRGM Credit Facility now equals $600 million. Inergy Midstream may continue to increase the loan commitments by up to $150 million, subject to the lenders agreement and the satisfaction of certain conditions.

At June 30, 2012, the balance outstanding under the NRGM Credit Facility was $324.2 million. Outstanding standby letters of credit under the NRGM Credit Facility amounted to $2.1 million at June 30, 2012. As a result, Inergy Midstream has approximately $273.7 million of remaining capacity at June 30, 2012, subject to compliance with any applicable covenants under such facility.

Inergy and its wholly owned subsidiaries do not provide credit support or guarantee any amounts outstanding under the NRGM Credit Facility.

The NRGM Credit Facility contains various covenants and restrictive provisions that limit its ability to, among other things:

- incur additional debt;
- make distributions on or redeem or repurchase units;
- make certain investments and acquisitions;
- incur or permit certain liens to exist;

enter into certain types of transactions with affiliates;

merge, consolidate or amalgamate with another company; and

transfer or otherwise dispose of assets.

If Inergy Midstream fails to perform its obligations under these and other covenants, the lenders credit commitment could be terminated and any outstanding borrowings, together with accrued interest, under its credit facility could be declared immediately due and payable. The NRGM Credit Facility also has cross default provisions that apply to any other material indebtedness of Inergy Midstream.

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Borrowings under the NRGM Credit Facility are generally secured by pledges of the equity interests in Inergy Midstream s wholly owned subsidiaries, and guarantees issued by all of Inergy Midstream s subsidiaries. Borrowings under the NRGM Credit Facility (other than swing line loans) will bear interest at its option at either:

- the Alternate Base Rate, which is defined as the highest of (i) the federal funds rate plus 0.50%; (ii) JP Morgan s prime rate; or (iii) the Adjusted LIBO Rate plus 1%; plus a margin varying from 0.75% to 1.75% depending on our most recent total leverage ratio; or

- the Adjusted LIBO Rate, which is defined as the LIBO Rate plus a margin varying from 1.75% to 2.75% depending on Inergy Midstream s most recent total leverage ratio.

Swing line loans bear interest at the Alternate Base Rate plus a margin varying from 0.75% to 1.75%. The unused portion of the NRGM Credit Facility is subject to a commitment fee ranging from 0.30% to 0.50% per annum according to its most recent total leverage ratio. Interest on Alternative Base Rate loans is payable quarterly or, if the Adjusted LIBO Rate applies, it may be paid at more frequent intervals.

The NRGM Credit Facility requires maintenance of a consolidated leverage ratio (as defined in its credit agreement) of not more than 5.00 to 1.00 and an interest coverage ratio (as defined in its credit agreement) of not less than 2.50 to 1.00.

Note 9 Partners Capital

Inergy Midstream

On December 21, 2011, Inergy Midstream completed its IPO. Inergy Midstream sold 16,000,000 common units to public investors and the underwriters exercised their option to purchase an additional 2,400,000 common units.

On May 14, 2012, Inergy Midstream issued 473,707 shares directly to Inergy in conjunction with the contribution of US Salt.

Merger Conversion of Units

All unit and per unit amounts have been revised to reflect the conversion of Holdings common units to 0.77 Inergy common units as a result of the Merger (discussed in Note 1), which closed on November 5, 2010.

Class B Units

The Class B units have similar rights and obligations of Inergy common units except that the units will pay distributions in kind rather than in cash for a certain period of time. During the three-month period ended December 31, 2011, Inergy distributed 205,748 Class B units. Immediately following this distribution, 50% of the Class B units outstanding that were held by each holder of a Class B unit, and all of the additional Class B units issued in kind as a distribution during the four-quarter period following the Merger, converted into Inergy common units at a conversion ratio of one Class B unit for one Inergy common unit. This resulted in the conversion of 6,586,968 Class B units into Inergy common units. For a complete description of the Class B units, please see the Third Amended and Restated Agreement of Limited Partnership of Inergy, filed on Form 8-K on November 5, 2010.

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Quarterly Distributions of Available Cash

A summary of the Company s post-simplification limited partner quarterly distribution for the nine months ended June 30, 2012, is presented below:

Nine Months Ended June 30, 2012			
Record Date	**Payment Date**	**Per Unit Rate**	**Distribution Amount *(in millions)***
November 7, 2011	November 14, 2011	$ 0.705	$ 83.9
February 7, 2012	February 14, 2012	$ 0.705	88.7
May 8, 2012	May 15, 2012	$ 0.375	47.1
			$ 219.7

On July 26, 2012, Inergy declared a distribution of $0.375 per limited partner unit to be paid on August 14, 2012, to unitholders of record on August 7, 2012.

Note 10 Commitments and Contingencies

Inergy s propane operations periodically enter into agreements with suppliers to purchase fixed quantities of propane, distillates, natural gas and liquids at fixed prices. At June 30, 2012, the total of these firm purchase commitments was $259.0 million, approximately 98% of which will occur over the course of the next twelve months. The Company also enters into non-binding agreements with suppliers to purchase quantities of propane, distillates, natural gas and liquids at variable prices at future dates at the then prevailing market prices.

Inergy s midstream operations have entered into certain purchase commitments in connection with the identified growth projects primarily related to the Watkins Glen NGL development project and the MARC I pipeline. The Watkins Glen NGL development project entails the conversion of certain caverns created by US Salt into 2.1 million barrels of NGL storage. The MARC I pipeline project is a 39 mile, 30 bi-directional pipeline that will extend between our Stagecoach south lateral interconnect with Tennessee Gas Pipeline Company s (TGP) 300 Line near its compressor station 319 and Transco s Leidy Line near its compressor station 517, and is expected to have a minimum of 550,000 dekatherms per day of firm transportation capacity. At June 30, 2012, the total of Inergy s midstream operations firm purchase commitments was approximately $50.8 million, and the majority of the purchases associated with these commitments are expected to occur over the course of the next twelve months.

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

Following the announcement of the Merger Agreement, two class action lawsuits were filed by unitholders of Inergy (the Inergy Unitholder Lawsuits) as described in Item 3 of form 10-K as filed with the Securities and Exchange Commission for the fiscal year ended September 30, 2010. The parties to the Inergy Unitholder Lawsuits have entered into a Memorandum of Understanding whereby in consideration for the settlement and dismissal of the claims, the individual Class B unitholders will forego and relinquish a total of 135,539 Class B units to be received as distributions following the date on which the settlement and dismissal become final and no longer appealable. On March 29, 2012, the court approved the terms of the settlement, which included the certification of a settlement class and the dismissal with prejudice of all claims. Also as part of the settlement, the defendants in the Inergy Unitholder Lawsuits other than Inergy must pay fees and expenses to counsel for the plaintiffs in the amount of $1.8 million, which amount is covered by insurance.

Inergy utilizes third-party insurance subject to varying retention levels of self-insurance, which management considers prudent. Such self-insurance relates to losses and liabilities primarily associated with medical claims, workers compensation claims and general, product, vehicle and environmental liability. Losses are accrued based upon management s estimates of the aggregate liability for claims incurred using certain assumptions followed in the insurance

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industry and based on past experience. The primary assumption utilized is actuarially determined loss development factors. The loss development factors are based primarily on historical data. Inergy s self insurance reserves could be affected if future claims development differs from the historical trends. Inergy believes changes in health care costs, trends in health care claims of its employee base, accident frequency and severity and other factors could materially affect the estimate for these liabilities. Inergy continually monitors changes in employee demographics, incident and claim type and evaluates its insurance accruals and adjusts its accruals based on its evaluation of these qualitative data points. At June 30, 2012 and September 30, 2011, Inergy s self-insurance reserves were $25.2 million and $20.6 million, respectively. Inergy estimates that $14.1 million of this balance will be paid subsequent to June 30, 2013. As such, $14.1 million has been classified in other long-term liabilities on the consolidated balance sheets.

Note 11 Segments

Inergy s financial statements reflect two operating and reportable segments: propane operations and midstream operations. Inergy s propane operations include propane sales to end users, the sale of propane-related appliances and service work for propane-related equipment, the sale of distillate products and wholesale distribution of propane and marketing and price risk management services to other users, retailers and resellers of propane. Inergy s midstream operations include storage and transportation of natural gas and NGL for third parties, NGL fractionation and distribution, processing of natural gas and the production and sale of salt products. Results of operations for the current year acquisitions are included in the propane segment.

The identifiable assets associated with each reportable segment include accounts receivable and inventories. Goodwill, property, plant and equipment and expenditures for property, plant and equipment are also presented for each segment. The net asset/liability from price risk management, as reported in the accompanying consolidated balance sheets, is primarily related to the propane segment. Assets and liabilities held for sale are related entirely to the propane segment.

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Revenues, gross profit, identifiable assets, goodwill, property, plant and equipment and expenditures for property, plant and equipment for each of Inergy s reportable segments are presented below (*in millions*):

	Three Months Ended June 30, 2012				
	Propane Operations	Midstream Operations	Intersegment Operations	Corporate Assets	Total
Retail propane revenues	$ 96.3	$	$	$	$ 96.3
Wholesale propane revenues	100.6	6.8			107.4
Storage, fractionation and other midstream revenues		120.4	(3.3)		117.1
Transportation revenues	14.9	4.9			19.8
Propane-related appliance sales revenues	3.3				3.3
Retail service revenues	3.6				3.6
Rental service and other revenues	5.2				5.2
Distillate revenues	18.9				18.9
Gross profit (excluding depreciation and amortization)	73.2	56.9			130.1
Identifiable assets	81.9	52.9			134.8
Goodwill	0.4	141.8		20.2	162.4
Property, plant and equipment	26.0	2,010.8		5.9	2,042.7
Expenditures for property, plant and equipment	2.4	62.2		0.2	64.8

	Three Months Ended June 30, 2011				
	Propane Operations	Midstream Operations	Intersegment Operations	Corporate Assets	Total
Retail propane revenues	$ 120.1	$	$	$	$ 120.1
Wholesale propane revenues	88.8	11.5			100.3
Storage, fractionation and other midstream revenues		123.1	(1.9)		121.2
Transportation revenues	6.7	4.1			10.8
Propane-related appliance sales revenues	4.1				4.1
Retail service revenues	3.9				3.9
Rental service and other revenues	5.7				5.7
Distillate revenues	22.6				22.6
Gross profit (excluding depreciation and amortization)	72.2	46.9	(2.1)		117.0
Identifiable assets	98.7	80.7			179.4
Goodwill		141.3		20.2	161.5
Property, plant and equipment	14.9	1,707.4		12.0	1,734.3
Expenditures for property, plant and equipment	3.8	60.1			63.9

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	Nine Months Ended June 30, 2012				
	Propane Operations	Midstream Operations	Intersegment Operations	Corporate Assets	Total
Retail propane revenues	$ 601.1	$	$	$	$ 601.1
Wholesale propane revenues	494.4	37.1	(0.3)		531.2
Storage, fractionation and other midstream revenues		381.0	(8.7)		372.3
Transportation revenues	41.1	14.4			55.5
Propane-related appliance sales revenues	13.3				13.3
Retail service revenues	11.8				11.8
Rental service and other revenues	21.2				21.2
Distillate revenues	96.2				96.2
Gross profit (excluding depreciation and amortization)	346.7	164.0			510.7
Identifiable assets	81.9	52.9			134.8
Goodwill	0.4	141.8		20.2	162.4
Property, plant and equipment	26.0	2,010.8		5.9	2,042.7
Expenditures for property, plant and equipment	10.7	168.4		0.5	179.6

	Nine Months Ended June 30, 2011				
	Propane Operations	Midstream Operations	Intersegment Operations	Corporate Assets	Total
Retail propane revenues	$ 747.2	$	$	$	$ 747.2
Wholesale propane revenues	413.8	27.0	(0.1)		440.7
Storage, fractionation and other midstream revenues		329.7	(2.6)		327.1
Transportation revenues	15.0	13.1			28.1
Propane-related appliance sales revenues	15.5				15.5
Retail service revenues	13.1				13.1
Rental service and other revenues	21.4				21.4
Distillate revenues	112.1				112.1
Gross profit (excluding depreciation and amortization)	431.6	136.0	(2.9)		564.7
Identifiable assets	98.7	80.7			179.4
Goodwill		141.3		20.2	161.5
Property, plant and equipment	14.9	1,707.4		12.0	1,734.3
Expenditures for property, plant and equipment	11.4	123.1		0.4	134.9

Note 12 Condensed Consolidating Financial Information

Inergy is a holding company and owns no operating assets and has no significant operations independent of its subsidiaries. Obligations under its outstanding senior notes listed in Note 8 are jointly and severally guaranteed by Inergy s wholly owned domestic subsidiaries. Subsequent to Inergy Midstream s IPO on December 21, 2011, Inergy Midstream and its wholly owned subsidiaries no longer guarantee Inergy s senior notes.

The tables below present condensed consolidated financial statements for Inergy (parent) on a stand-alone, unconsolidated basis, and its combined guarantor and combined non-guarantor subsidiaries as of June 30, 2012, and for the three and nine months ended June 30, 2012. Comparative financial statements have not been provided as Inergy Midstream was a guarantor of the senior notes in the prior period. The financial information may not necessarily be indicative of the results of operations, cash flows or financial position had the subsidiaries operated as independent entities.

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Condensed Consolidating Balance Sheet

As of June 30, 2012

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 3.0	$ 1.9	$	$	$ 4.9
Accounts receivable		67.0	21.5		88.5
Inventories		41.3	5.0		46.3
Other		58.6	5.8	(0.1)	64.3
Current assets held for sale		1,174.1			1,174.1
Total current assets	3.0	1,342.9	32.3	(0.1)	1,378.1
Property, plant and equipment, net		854.7	776.9		1,631.6
Goodwill and intangible assets, net	20.2	82.6	126.6		229.4
Investment in subsidiary	2,468.6			(2,468.6)	
Other assets		1.4			1.4
Total assets	$ 2,491.8	$ 2,281.6	$ 935.8	$ (2,468.7)	$ 3,240.5
Liabilities and partners capital					
Current liabilities:					
Accounts payable	$	$ 88.8	$ 13.2	$	$ 102.0
Other	1,188.5	67.2	30.4	(0.1)	1,286.0
Liabilities held for sale		62.0			62.0
Total current liabilities	1,188.5	218.0	43.6	(0.1)	1,450.0
Long-term liabilities:					
Long-term debt, less current portion	195.5		324.0		519.5
Other long-term liabilities	19.7	20.5	0.9		41.1
Total long-term liabilities	215.2	20.5	324.9		560.6
Partners capital	1,088.1	2,043.1	425.5	(2,468.6)	1,088.1
Interest of non-controlling partners in subsidiary			141.8		141.8
Total partners capital	1,088.1	2,043.1	567.3	(2,468.6)	1,229.9

Total liabilities and partners capital	$ 2,491.8	$ 2,281.6	$ 935.8	$ (2,468.7)	$ 3,240.5

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Condensed Consolidating Statements of Operations

Three Months Ended June 30, 2012

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue:					
Propane	$	$ 203.7	$	$	$ 203.7
Other		122.6	48.6	(3.3)	167.9
		326.3	48.6	(3.3)	371.6
Cost of product sold (excluding depreciation and amortization as shown below):					
Propane		148.2			148.2
Other		87.6	9.0	(3.3)	93.3
		235.8	9.0	(3.3)	241.5
Expenses:					
Operating and administrative		75.0	8.1		83.1
Depreciation and amortization		25.4	12.8		38.2
Loss on disposal of assets		2.2			2.2
Operating income (loss)		(12.1)	18.7		6.6
Other income (expense):					
Interest expense, net	(22.1)		(0.7)		(22.8)
Early extinguishment of debt	(1.7)				(1.7)
Other income		0.1			0.1
Equity in net income of subsidiary	2.0			(2.0)	
Income (loss) before income taxes	(21.8)	(12.0)	18.0	(2.0)	(17.8)
Benefit for income taxes		0.1			0.1
Net income (loss)	(21.8)	(11.9)	18.0	(2.0)	(17.7)
Net income attributable to non-controlling partners in subsidiary			(4.1)		(4.1)
Net income (loss) attributable to partners	$ (21.8)	$ (11.9)	$ 13.9	$ (2.0)	$ (21.8)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Condensed Consolidating Statements of Operations

Nine Months Ended June 30, 2012

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue:					
Propane	$	$ 1,132.3	$	$	$ 1,132.3
Other		436.5	142.3	(8.5)	570.3
		1,568.8	142.3	(8.5)	1,702.6
Cost of product sold (excluding depreciation and amortization as shown below):					
Propane		851.2			851.2
Other		318.1	31.1	(8.5)	340.7
		1,169.3	31.1	(8.5)	1,191.9
Expenses:					