INERGY L P
Form 425
September 07, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

September 7, 2010 (September 3, 2010)

Date of Report (Date of earliest event reported)

INERGY HOLDINGS, L.P.

(Exact name of registrant as specified in its charter)

Delaware	001-34663	43-1792470
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

Two Brush Creek Boulevard, Suite 200

Kansas City, Missouri 64112

(Address of principal executive offices)

(816) 842-8181

(Registrant s telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

x Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 1.01 Entry into a Material Definitive Agreement.

Agreement and Plan of Merger

Inergy, L.P. (the Partnership) previously disclosed that on August 7, 2010, the Partnership had entered into an Agreement and Plan of Merger (the Original Merger Agreement), by and among the Partnership, Inergy GP, LLC, the managing general partner of the Partnership (Inergy GP), Inergy Holdings, L.P. (Holdings), Inergy Holdings GP, LLC, the general partner of Holdings (Holdings GP), NRGP Limited Partner, LLC, a wholly owned subsidiary of Holdings GP (New NRGP LP), and NRGP MS, LLC, a wholly owned subsidiary of Holdings GP (MergerCo). Pursuant to the terms of the Original Merger Agreement, among other things, pursuant to which MergerCo will be merged into Holdings, with Holdings as the surviving entity (the Merger), the incentive distribution rights in Inergy held by Inergy GP will be extinguished, and Inergy will acquire the approximate 0.7% economic general partner interest in Inergy that is held by its non-managing general partner. After the merger, Holdings will continue to control Inergy through Holdings ownership of Inergy s managing general partner.

First Amended and Restated Agreement and Plan of Merger

On September 3, 2010, the Partnership, Inergy GP, Holdings, Holdings GP, New NRGP LP and MergerCo entered into a First Amended and Restated Agreement and Plan of Merger (the Amended Merger Agreement). The terms of the Amended Merger Agreement were approved by an independent committee (the Partnership Committee) appointed by the board of directors of Inergy GP, and by an independent committee (the Holdings Committee) appointed by the board of directors of Holdings GP. Subsequent to receiving the recommendations of their respective committees, the board of directors of Inergy GP and the board of directors of Holdings GP each approved the terms of the Amended Merger Agreement (in each case with the board members who are also members of management recusing themselves).

The Amended Merger Agreement amends and restates the Original Merger Agreement to, among other things, provide that prior to the effective time of the merger:

- The existing partnership agreement of Holdings will be amended to create a new class of nonparticipating limited partner units;
- Holdings GP will contribute to Holdings $1,000 in exchange for 1,000 nonparticipating limited partner units;
- Holdings GP will contribute 10 nonparticipating limited partner units to NRGP Limited Partner LLC; and
- NRGP Limited Partner LLC and Holdings GP will be admitted as limited partners in Holdings.

The Amended Merger Agreement further provides that after the effective time of the merger, NRGP Limited Partner LLC and Holdings GP will be the sole limited partners, and Holdings GP will be the sole general partner, of Holdings.

Capitalized terms used herein that are not defined have the meanings given to them in the Amended Merger Agreement. The foregoing description of the Amended Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the Amended Merger Agreement, which is filed as Exhibit 2.1 hereto and is incorporated into this report by reference.

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The following text is required by SEC rules:

The Partnership and Holdings have filed a proxy statement/prospectus and other documents with the SEC in relation to the Merger. Investors are urged to read these documents carefully because they contain important information regarding the Partnership, Holdings, and the transaction. Once finalized, a definitive proxy statement/prospectus will be sent to unitholders of Holdings seeking their approvals as contemplated by the Merger Agreement. Once available, investors may obtain a free copy of the proxy statement/prospectus and other documents containing information about the Partnership and Holdings, without charge, at the SEC s website at www.sec.gov. Copies of the proxy statement/prospectus and the SEC filings incorporated by reference in the proxy statement/prospectus may also be obtained free of charge by contacting Investor Relations at 816-842-8181, or by accessing www.inergylp.com.

The Partnership, Holdings, and the officers and directors of the Inergy GP and Holdings GP may be deemed to be participants in the solicitation of proxies from their security holders. Information about these entities and persons can be found in the Partnership s and Holdings Annual Reports on Form 10-K for the year ended September 30, 2009. Additional information about such entities and persons may also be obtained from the proxy statement/prospectus.

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Item 8.01 Other Events.

Security holders and potential investors in our securities should carefully consider the risk factors set forth below and in Part 1, Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended September 30, 2009 in addition to other information in such report. In connection the Amended Amended Merger Agreement, we have identified these risk factors as important factors that could cause our actual results to differ materially from those contained in any written or oral forward-looking statements made by us or on our behalf.

Because the exchange ratio is fixed, the market value of the merger consideration to our unitholders will be determined by the price of Inergy LP units, the value of which will decrease if the market value of Inergy LP units decreases, and our unitholders cannot be sure of the market value of Inergy LP units that will be issued.

Pursuant to the merger agreement, the 0.77 exchange ratio is fixed. As a result, the merger consideration will consist of (i) approximately 35.1 million common units in Inergy (Inergy LP units) that will be issued by Inergy to the our unitholders, (ii) 1,080,453 Inergy LP units directly owned by us that we will distribute to our unitholders, and (iii) 11,568,560 Class B units that will be issued by Inergy to certain members of senior management and directors of our general partner and other beneficial owners of our common units (the PIK Recipients). The aggregate market value of Inergy LP units that our unitholders will receive in the merger and the aggregate market value of the Class B units that the PIK Recipients will receive in the merger will fluctuate with any changes in the trading price of Inergy LP units. This means there is no price protection mechanism contained in the merger agreement that would adjust the number of Inergy LP units that our unitholders will receive or the number of Class B units that the PIK Recipients will receive based on any decreases in the trading price of Inergy LP units. If the Inergy LP unit price decreases, the market value of the merger consideration received by our unitholders (including the PIK Recipients) will also decrease. Consider the following example:

Example: Pursuant to the merger agreement, our unitholders will be entitled to receive 0.77 Inergy LP units for each Holdings common unit, subject to receipt of cash in lieu of any fractional Inergy LP units and Class B units. Based on the closing sales price of Inergy LP units on August 6, 2010 of $43.37 per unit, the market value of the Inergy LP units to be received by our unitholders (including the 1,080,453 Inergy LP units that we will distribute to our unitholders but excluding the Class B units) would be approximately $1,568 million. If the trading price for Inergy LP units decreased 10% from $43.37 to $39.03, then the market value of the Inergy LP units to be received by our unitholders (including the 1,080,453 Inergy LP units that we will distribute to our unitholders but excluding the Class B units) would be approximately $1,411 million. Any decline in the price of Inergy LP units may not be matched by a similar decline in the price of Holdings common units absent the merger.

Accordingly, there is a risk that the premium to our unitholders of approximately 8.9%, based upon the 20-trading day average closing prices of the Holdings common units and Inergy LP units ending August 6, 2010, the last trading day before the public announcement of the proposed merger, will not be realized by our unitholders at the time the merger is completed. Inergy LP unit price changes may result from a variety of factors, including general market and economic conditions, changes in its business, operations and prospects, and regulatory considerations. Many of these factors are beyond Inergy s control.

The right of our unitholders to distributions will be changed following the merger.

We are entitled to receive approximately 7.8% of all distributions made by Inergy based on its current direct and indirect ownership of 4,706,689 Inergy LP units and an approximate 0.7% economic general partner interest in Inergy. In addition, under Inergy s current partnership agreement, we are also entitled to receive, pursuant to our ownership of the incentive distribution rights in Inergy, or IDRs, increasing percentages, up to a maximum of 48%, of the amount of incremental cash distributed by Inergy in respect of Inergy LP units as certain target distribution levels are reached in excess of $0.33 per Inergy LP unit in any quarter. As a result, we are currently entitled to receive approximately 33.2% of the aggregate amount of cash distributed by Inergy to its partners based on our current direct and indirect ownership of 4,706,689 Inergy LP units, the approximate 0.7% economic general partner interest in Inergy and all of the IDRs. After the merger, our former unitholders as a group will be entitled to receive approximately 37.1% of the aggregate amount of cash distributed by Inergy to its partners prior to the conversion of any Class B units. However, the distributions received by our former unitholders could be significantly different in

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the future. While our former unitholders as a group will be entitled to a larger percentage of the amount of cash distributed by Inergy in the near term, if distributions from Inergy were to increase significantly in the future, the distributions to our former unitholders could be significantly less than they would be if the merger is not completed because our former unitholders will no longer be entitled to an increasing percentage of distributions attributable to the IDRs, which will be cancelled in connection with the merger.

The transactions contemplated by the Amended Merger Agreement may not be consummated.

The Amended Merger Agreement contains conditions that, if not satisfied or waived, would result in the merger not occurring. The conditions include:

- the continued accuracy of the representations and warranties contained in the Amended Merger Agreement;
- the performance in all material respects by each party of its obligations under the Amended Merger Agreement;
- the absence of any decree, order, injunction or law that prohibits the merger or makes the merger unlawful;
- the receipt of legal opinions from counsel for each of us and Holdings as to the treatment of the merger for U.S. federal income tax purposes.

In addition, we and Inergy can agree to terminate the Amended Merger Agreement at any time without completing the merger, even after unitholder approval has been obtained. Further, we or Inergy could terminate the Amended Merger Agreement without the other party s agreement and without completing the merger if:

- the merger is not completed by December 31, 2010, other than due to a breach of the Amended Merger Agreement by the terminating party;
- the conditions to the merger cannot be satisfied; or
- any legal prohibition to completing the merger has become final and non-appealable.

The number of outstanding Inergy common units will increase as a result of the merger, which could make it more difficult to pay the current level of quarterly distributions.

As of September 3, 2010, there were approximately 65.9 million Inergy common units outstanding. Inergy will issue approximately 35.1 million Inergy common units and 11,568,560 Class B units in connection with the merger. Although the Class B units will not receive cash distributions, they will receive distributions in additional Class B units and will convert into an equal number of common units in two installments over two years. Accordingly, the dollar amount required to pay the current per unit quarterly distributions will increase, which will increase the likelihood that Inergy will not have sufficient funds to pay the current level of quarterly distributions to all Inergy unitholders. Using the amount of $0.705 per Inergy common unit paid with respect to the third quarter of fiscal 2010, the aggregate cash distribution paid to Inergy unitholders totaled approximately $64.6 million, including a distribution of $21.4 million to us in respect of our direct and indirect ownership of Inergy common units, the approximate 0.7% economic general partner interest in Inergy and incentive distribution rights. The combined pro forma Inergy distribution with respect to the third quarter of fiscal 2010, had the merger been completed prior to such distribution and assuming the full conversion of all Class B units into Inergy common units, would result in $0.705 per unit being distributed on approximately 108.9 million Inergy common units, or a total of approximately $76.8 million, with our partnership no longer receiving any distributions. As a result, Inergy would be required to distribute an additional $12.2 million per quarter in order to maintain the distribution level of $0.705 per Inergy common unit paid with respect to the third quarter of fiscal 2010.

Although the elimination of the incentive distribution rights may increase the cash available for distribution to Inergy common units in the future, this source of funds may not be sufficient to meet the overall increase in cash required to maintain the current level of quarterly distributions to holders of Inergy LP units.

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While the Amended Merger Agreement is in effect, we may be limited in our ability to pursue other attractive business opportunities.

Commencing on the sixty-first (61st) calendar day after the first filing of the proxy statement/prospectus with the SEC and while the Amended Merger Agreement is in effect, we are prohibited from knowingly initiating, soliciting or encouraging the submission of any acquisition proposal or from participating in any discussions or negotiations regarding any acquisition proposal, subject to certain exceptions, without the consent of the special committee of Inergy s board of directors. As a result of these provisions in the Amended Merger Agreement, our opportunities to enter into more favorable transactions may be limited. Likewise, if we were to sell directly to a third party, we might have received more value with respect to the approximate 0.7% economic general partner interest in Inergy, the Inergy LP units directly and indirectly owned by us and the IDRs in Inergy based on the value of the business at such time.

Moreover, the Amended Merger Agreement provides for the payment of up to $20.0 million in termination fees under specified circumstances, which may discourage other parties from proposing alternative transactions that could be more favorable to our unitholders.

Both we Inergy have agreed to refrain from taking certain actions with respect to our business and financial affairs pending completion of the merger or termination of the Amended Merger Agreement. These restrictions could be in effect for an extended period of time if completion of the merger is delayed. These limitations do not preclude us from conducting our business in the ordinary or usual course or from acquiring assets or businesses so long as such activity does not have a material adverse effect as such term is defined in the Amended Merger Agreement or materially affect our ability to complete the transactions contemplated by the Amended Merger Agreement.

In addition to the economic costs associated with pursuing the merger, our management will continue to devote substantial time and other human resources to the proposed merger, which could limit our ability to pursue other attractive business opportunities, including potential joint ventures, stand-alone projects and other transactions. If we are unable to pursue such other attractive business opportunities, then our growth prospects and the long-term strategic position of their businesses following consummation of the merger could be adversely affected.

Failure to complete the merger or delays in completing the merger could negatively impact our common unit price.

If the merger is not completed for any reason, we and Inergy may be subject to a number of material risks, including the following:

- Inergy will not realize the benefits expected from the merger, including a potentially enhanced financial and competitive position;
- the price of Inergy s common units or our common units may decline to the extent that the current market price of Inergy s common units or our units reflect a market assumption that the merger will be completed; and
- some costs relating to the merger, such as certain investment banking fees and legal and accounting fees, must be paid even if the merger is not completed.

We are subject to litigation related to the transactions contemplated by the Amended Merger Agreement.

Since we first announced on August 9, 2010 our entry into the original merger agreement, four unitholder class action lawsuits have been filed by our unitholders against us, Inergy, our general partner, the managing general partner of Inergy, certain other parties to the Amended Merger Agreement, certain of our executive officers, and the members of the board of directors of our general partner.

These lawsuits are as follows: (i) *Daniel Himmel v. John J. Sherman et al.*, In the Circuit Court of Jackson County, Missouri, at Kansas City; (ii) *John Oliver v. Inergy Holdings, L.P. et al.*, In the Circuit Court of Jackson County, Missouri, at Kansas City; (iii) *Peter D Orazio v. John J. Sherman et al.*, In the Circuit Court of Jackson County, Missouri, at Kansas City; and (iv) *Harvey Silver v. John Sherman et al*., In the Circuit Court of Jackson County, Missouri, at Kansas City.

The lawsuits allege a variety of causes of action challenging the proposed merger, including that the named directors and officers have breached their fiduciary duties in connection with the proposed merger and that the named entities have aided and abetted in these breaches of the directors and officers fiduciary duties. The class action complaints allege, among other things, that (i) the consideration offered by us is unfair and

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inadequate, (ii) the merger is structured to preclude other potential purchasers of our partnership from proposing a competing transaction and (iii) the named directors and officers have engaged in self-dealing and, through the merger, will obtain benefits not equally shared by our public unitholders.

Based on these allegations, the plaintiffs seek to enjoin the defendants from proceeding with or consummating the proposed merger until a procedure is adopted and implemented that will result in maximization of value for our unitholders. To the extent that the merger is implemented before relief is granted, the plaintiffs seek to have the merger rescinded. The plaintiffs also seek damages and attorneys fees.

It is possible that additional claims will be brought by the current plaintiffs or by others in an effort to enjoin the transactions contemplated by the Amended Merger Agreement or seek monetary relief from us.

We have not yet answered these lawsuits. While we do not believe the lawsuits have merit and we intend to defend the lawsuits vigorously, we cannot predict the outcome of the lawsuits, or other potential lawsuits related to the transactions contemplated by the Amended Merger Agreement, nor can we predict the amount of time and expense that will be required to resolve the lawsuits. An unfavorable resolution of any such litigation surrounding the transactions contemplated by the Amended Merger Agreement could delay or prevent the consummation of such transactions. In addition, the cost to us of defending the litigation, even if resolved in our favor, could be substantial. Such litigation could also divert the attention of our management and our resources in general from day-to-day operations.

The costs of the merger could adversely affect Inergy s operations and cash flows available for distribution to its unitholders.

We and Inergy estimate the total costs of the merger will be approximately $10 million, primarily consisting of investment banking and legal advisors fees, accounting fees, financial printing and other related costs. These costs could adversely affect Inergy s operations and cash flows available for distributions to Inergy s unitholders. The foregoing estimate is preliminary and is subject to change.

If the Amended Merger Agreement were terminated, we may be obligated to pay Inergy for costs incurred related to the transactions contemplated by the Amended Merger Agreement. These costs could require us to use our available cash that would have otherwise been available for distributions.

Upon termination of the Amended Merger Agreement, and depending upon the circumstances leading to that termination, we could be responsible for reimbursing Inergy for expenses related to the transactions contemplated by the Amended Merger Agreement (the Transactions) that Inergy has paid.

If the Amended Merger Agreement is terminated, the expense reimbursements required by us under the Amended Merger Agreement may require us to seek loans, borrow amounts under our revolving credit facility or use cash received from distributions we receive from Inergy to reimburse these expenses. In either case, reimbursement of these costs could reduce the cash we have available to make quarterly distributions.

No ruling has been obtained with respect to the tax consequences of the transactions contemplated by the Amended Merger Agreement.

No ruling has been or will be requested from the IRS with respect to the tax consequences of the Transactions. Instead, we are relying on the opinion of counsel to our Conflicts Committee as to the tax consequences of the Transactions, and counsel s conclusions may not be sustained if challenged by the IRS.

The intended tax consequences of the Transactions are dependent upon our and Inergy being treated as a partnership for tax purposes.

The treatment of the Transactions to our unitholders is dependent upon each of us and Inergy being treated as a partnership for U.S. federal income tax purposes. If either we or Inergy were treated as a corporation for U.S. federal income tax purposes, the consequences of the Transactions would be materially different, and the Transactions would likely be fully taxable to our unitholders.

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The tax treatment of the Transactions is subject to potential legislative change and differing judicial or administrative interpretations.

The U.S. federal income tax consequences of the Transactions depend in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law. The U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to Treasury regulations and other modifications and interpretations. Any modification to the U.S. federal income tax laws or interpretations thereof may or may not be applied retroactively and could change the tax treatment of the Transactions to our unitholders and Inergy unitholders. For example, the U.S. House of Representatives has passed legislation relating to the taxation of carried interests that would treat transactions, such as the Transactions, occurring on or after an effective date of January 1, 2011, as a taxable exchange to our unitholders. The U.S. Senate is considering legislation that would have a similar effect. We are unable to predict whether this proposed legislation or any other proposals will ultimately be enacted, and if so, whether any such proposed legislation would be applied retroactively.

An existing holder of our common units may be required to recognize gain as a result of the decrease in its allocable share of our nonrecourse liabilities as a result of the Transactions.

As a result of the Transactions, the share of nonrecourse liabilities allocated to our existing unitholders will be recalculated to take into account the common units issued by us in the Transactions. If an existing holder of our common units experiences a reduction in its share of our nonrecourse liabilities as a result of the Transactions, which is referred to as a reducing debt shift, such holder will be deemed to have received a cash distribution equal to the amount of the reduction. A reduction in a unitholder s share of our liabilities will result in a corresponding basis reduction in such unitholder s common units. A reducing debt shift and the resulting deemed cash distribution may, under certain circumstances, result in the recognition of taxable gain by a holder of our common units, to the extent that the deemed cash distribution exceeds such unitholder s tax basis in its common units. Although we have not received an opinion with respect to the shift of nonrecourse liabilities, we do not expect that any constructive cash distribution will exceed any existing unitholder s tax basis in its common units.

We estimate that the Transactions will result in an increase in the amount of net income (or decrease in the amount of net loss) allocable to all of our existing unitholders.

We estimate that the consummation of the Transactions will result in an increase in the amount of net income (or decrease in the amount of net loss) allocable to all of our existing unitholders. In addition, the federal income tax liability of an existing unitholder could be further increased if we make a future offering of common units and use the proceeds of the offering in a manner that does not produce substantial additional deductions, such as to repay indebtedness currently outstanding or to acquire property that is not eligible for depreciation or amortization for federal income tax purposes or that is depreciable or amortizable at a rate significantly slower than the rate currently applicable to our assets.

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Item 9.01 Financial Statements and Exhibits.
(a) Financial statements of businesses acquired.

INERGY, L.P. AND SUBSIDIARIES

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INERGY, L.P. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Inergy, L.P. (Inergy), Inergy GP, LLC, the managing general partner of Inergy (Inergy GP), Inergy Holdings, L.P. (Holdings), Inergy Holdings GP, LLC, the general partner of Holdings (Holdings GP), NRGP Limited Partner, LLC, a wholly owned subsidiary of Holdings GP (New NRGP LP), and NRGP MS, LLC, a wholly owned subsidiary of Holdings GP (MergerCo), have entered into the First Amended and Restated Agreement and Plan of Merger dated as of September 3, 2010 (the merger agreement) as part of a plan to simplify the capital structures of Inergy and Holdings. Through a number of steps, MergerCo will merge with and into Holdings, the separate existence of MergerCo will cease and Holdings will survive and continue to exist as a Delaware limited partnership (the merger). In connection with and immediately following consummation of the merger, Holdings GP will continue to be the sole general partner of Holdings, and Holdings GP and New NRGP LP will remain as the only holders of limited partner interests in Holdings. As a result of the transactions contemplated by the merger agreement, the outstanding common units representing limited partner interests in Holdings (the Holdings common units) and the IDRs in Inergy that Holdings owns will be cancelled.

In connection with the merger, Holdings will, as a component of the merger consideration, distribute to the holders of Holdings common units (the Holdings unitholders) 1,080,453 common units representing limited partner interests in Inergy (the Inergy LP units) that Holdings owns (the Holdings LP units). In addition, Holdings will (i) exchange with Inergy the incentive distribution rights in Inergy (the IDRs) owned by Holdings and (ii) contribute to Inergy all of Holdings ownership interests in IPCH Acquisition Corp. (IPCH), a wholly owned subsidiary of Holdings, and Inergy Partners, LLC (Inergy Partners), a direct and indirect wholly owned subsidiary of Holdings and the non-managing general partner of Inergy. The contribution and exchange described in (i) and (ii) above are collectively referred to as the GP Exchange. As consideration for the GP Exchange, Inergy (i) will deposit or cause to be deposited with an exchange agent, for the benefit of Holdings unitholders, approximately 35.1 million Inergy LP units (together with the Holdings LP units, the New LP units) and 11,568,560 Class B units in Inergy, (ii) will provide cash to be paid in lieu of any fractional New LP unit or Class B unit, as applicable, issuable upon exchange and (iii) has agreed to assume all of Holdings indebtedness under its credit agreements, of which approximately $26.0 million was outstanding as of August 30, 2010. Upon the GP Exchange, the IDRs will be cancelled and have no further force or effect, and the 789,202 Inergy LP units owned by IPCH and the 2,837,034 Inergy LP units and the approximate 0.7% economic general partner interest in Inergy owned by Inergy Partners will be converted into Class A units in Inergy of equivalent value. Class A units will not participate in the distributions or allocations from Inergy that are attributable to Inergy s interests in IPCH and Inergy Partners and will have no voting rights.

Holdings will be treated as the surviving consolidated entity of the merger for accounting purposes. The unaudited pro forma financial information for Holdings presented below consists of the Unaudited Pro Forma Condensed Consolidated Balance Sheet as of June 30, 2010 and the Unaudited Pro Forma Condensed Consolidated Income Statement for the year ended September 30, 2009 and the nine months ended June 30, 2010. The unaudited pro forma financial information for Holdings has been prepared giving effect to the merger agreement as if this transaction had occurred as of October 1, 2008 and October 1, 2009 for the Unaudited Pro Forma Condensed Consolidated Income Statement for the year ended September 30, 2009 and the nine months ended June 30, 2010, respectively, and as of June 30, 2010 for the Unaudited Pro Forma Condensed Consolidated Balance Sheet.

These unaudited pro forma condensed consolidated financial statements should be read in conjunction with the historical audited consolidated financial information and accompanying notes of Holdings and Inergy, which are included in our Annual Report on Form 10-K for the year ended September 30, 2009. These unaudited pro forma condensed consolidated financial statements do not reflect the effects of any cost savings or other synergies that may be achieved as a result of this transaction, are based on assumptions that Inergy and Holdings believe are reasonable under the circumstances and are intended for informational purposes only. These statements do not necessarily reflect the results of operations or financial position of Inergy that would have resulted had the transaction actually been consummated as of the indicated dates, and are not necessarily indicative of the future results of operations or the future financial position of Inergy.

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INERGY, L.P. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

June 30, 2010

(In millions)

	Inergy Holdings, L.P. Historical	Pro Forma Adjustments	Inergy, L.P. Pro Forma
Assets			
Current assets:			
Cash	$ 5.6	(10.0)(a)	$ 5.6
		10.0(a)	
Accounts receivable, net	105.8		105.8
Inventories	89.0		89.0
Prepaid expenses and other current assets	17.0		17.0
Assets from price risk management activities	22.7		22.7
Total current assets	240.1		240.1
Property, plant and equipment, net	1,302.0		1,302.0
Net intangible assets	334.7		334.7
Goodwill	483.7		483.7
Other assets	5.2		5.2
Total assets	$ 2,365.7		$ 2,365.7
Liabilities & Partners Capital			
Current liabilities:			
Accounts payable	63.1		63.1
Accrued expenses	69.2		69.2
Customer deposits	29.4		29.4
Liabilities from price risk management activities	10.1		10.1
Current portion of long term debt	33.5		33.5
Total current liabilities	205.3		205.3
Long term debt, less current portion	1,269.1	10.0(a)	1,279.1
Other long-term liabilities	0.9		0.9
Deferred tax liability, net	21.0		21.0
		(10.0)(a)	
Controlling partners capital / members equity	45.1	823.2(b)	858.3
Interest on non-controlling partners in Inergy, L.P.	823.2	(823.2)(b)	
Interest on non-controlling partners in ASC s subsidiaries	1.1		1.1
Total partners capital	869.4	(10.0)	859.4
Total liabilities and partners capital	$ 2,365.7		$ 2,365.7

(See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements)

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INERGY, L.P. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT

For the Twelve Months Ended September 30, 2009

(In millions, except per unit amounts)

	Inergy Holdings, L.P. Historical	Pro Forma Adjustments	Inergy, L.P. Pro Forma
Revenue	$ 1,570.6		$ 1,570.6
Cost of product sold (excluding depreciation and amortization, as shown below)	996.9		996.9
Gross profit	573.7		573.7
Expenses:			
Operating and administrative	280.5		280.5
Depreciation and amortization	115.8		115.8
Loss on disposal of assets	5.2		5.2
Operating income	172.2		172.2
Other income (expense):			
Interest expense, net	(70.5)		(70.5)
Other income	0.1		0.1
Income before gain on issuance of units in Inergy, LP and income taxes	101.8		101.8
Gain on issuance of units in Inergy, L.P.	8.0		8.0
Provision for income taxes	(1.7)		(1.7)
Net income	108.1		108.1
Net income attributable to non-controlling partners in Inergy, L.P. s net income	(49.6)	49.6(c)	
Net income attributable to non-controlling partners in ASC s consolidated net income	(1.4)		(1.4)
Net income attributable to partners	$ 57.1	$ 49.6	$ 106.7
Net income per limited partner unit			
Basic	$ 0.94		$ 1.25
Diluted	$ 0.93		$ 1.10
Weighted average limited partners units outstanding (in thousands)			
Basic	60,752		85,509(d)
Dilutive units	351		11,596(e)
Diluted	61,103		97,105

(See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements)

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INERGY, L.P. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT

For the Nine Months Ended June 30, 2010

(In millions, except per unit amounts)

	Inergy Holdings, L.P. Historical	Pro Forma Adjustments	Inergy, L.P. Pro Forma
Revenue	$ 1,484.4		$ 1,484.4
Cost of product sold (excluding depreciation and amortization as shown below)	965.0		965.0
Gross profit	519.4		519.4
Expenses:			
Operating and administrative	231.2		231.2
Depreciation and amortization	117.7		117.7
Loss on disposal of assets	5.8		5.8
Operating income	164.7		164.7
Other income (expense):			
Interest expense, net	(67.4)		(67.4)
Other income	0.9		0.9
Income before gain on issuance of units in Inergy, L.P. and income taxes	98.2		98.2
Gain on issuance of units in Inergy, L.P.			
Provision for income taxes	(0.3)		(0.3)
Net income	97.9		97.9
Net income attributable to non-controlling partners in Inergy, L.P. s net income	(47.0)	47.0(c)	
Net income attributable to non-controlling partners in ASC s net income	(0.7)		(0.7)
Net income attributable to partners	$ 50.2	$ 47.0	$ 97.2
Net income per limited partner unit			
Basic	$ 0.82		$ 1.03
Diluted	$ 0.81		$ 0.91
Weighted average limited partners units outstanding (in thousands)			
Basic	61,292		94,767(d)
Dilutive units	956		11,607(e)
Diluted	62,248		106,374

(See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements)

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

These unaudited pro forma condensed consolidated financial statements and underlying pro forma adjustments are based upon currently available information and certain estimates and assumptions made by the management of Inergy and Holdings; therefore, actual results could differ materially from the pro forma information. However, management believes the assumptions provide a reasonable basis for presenting the significant effects of the merger. Inergy and Holdings believe the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the pro forma information.

The merger results in Holdings being considered the surviving consolidated entity for accounting purposes rather than Inergy, which is the surviving consolidated entity for legal and reporting purposes. As a result, the merger will be accounted for in Holdings consolidated financial statements as an equity transaction in accordance with Financial Accounting Standards Board Accounting Standards Codification 810-10-45, Consolidation Overall Changes in Parent s Ownership Interest in a Subsidiary (FASB ASC 810). As a result, non-controlling owners interest will be eliminated and replaced with an equal amount of owners equity on the balance sheet. Consequently, no fair value adjustment will be made to the assets or liabilities of Holdings and no gain or loss will be recognized in Holdings net income. In addition, costs incurred to complete the merger will be charged to partners capital. Because Inergy is the surviving entity for legal purposes, the pro forma condensed consolidated balance sheet and statements of operations are entitled Inergy, L.P. Pro Forma.

The unaudited pro forma condensed consolidated financial information reflects the issuance of approximately 35.1 million Inergy LP units and 11,568,560 Class B units in Inergy. Upon completion of the merger, the holders of Holdings common units will receive 0.77 Inergy LP units for each Holdings common unit that they own. The exchange ratio includes 1,080,453 Inergy LP units that are currently owned by Holdings that will be distributed to the Holdings unitholders as part of the merger consideration.

Note 2. Pro Forma Adjustments

The pro forma adjustments included in the unaudited pro forma condensed consolidated financial statements are as follows:

(a) To reflect the amount borrowed for, and the payment of, the estimated incremental costs associated with completing the merger including the payment of legal fees, opinion fees and other professional fees and expenses.

(b) To reclassify to partners capital the non-controlling owners interests in consolidated subsidiaries previously reported by Holdings related primarily to Inergy s public limited partner unitholders.

(c) To reclassify to limited partners interest the net income previously allocated to noncontrolling owner s interest in consolidated subsidiaries previously reported by Holdings related primarily to Inergy s public limited partner unitholders.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(d) The Partnership s pro forma basic weighted average number of LP units outstanding was calculated as follows:

	Year Ended September 30, 2009	Nine Months Ended June 30, 2010
	(in thousands)	
Basic weighted average number of Inergy units outstanding as reported	54,036(f)	63,294
Inergy units issued in exchange for Holdings units (net of 790 units and 2,837 units held by IPCH and Inergy Partners, respectively, converted into Class A units)	31,473	31,473
Pro Forma basic weighted average number of Inergy units outstanding	85,509	94,767

(e) The Partnership s pro forma diluted weighted average number of LP units outstanding was calculated as follows:

	Year Ended September 30, 2009	Nine Months Ended June 30, 2010
	(in thousands)	
Diluted weighted average number of Inergy units outstanding as reported	54,063(f)	63,332
Inergy units issued in exchange for Holdings units (net of 790 units and 2,837 units held by IPCH and Inergy Partners, respectively, converted into Class A units)	31,473	31,473
Class B units issued	11,569	11,569
Pro Forma diluted weighted average number of Inergy units outstanding	97,105	106,374

(f) Restated to reflect changes applicable to Financial Accounting Standards Board Accounting Standards Codification Subtopic 260-10 (260-10) which required that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividends equivalents be accounted for as participating securities and shall be included in the computation of earnings per share pursuant to the two-class method.

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(d) Exhibits.

Exhibit Number	Description
2.1	First Amended and Restated Agreement and Plan of Merger, dated September 3, 2010, by and among Inergy, L.P., Inergy GP, LLC, Inergy Holdings, L.P., Inergy Holdings GP, LLC, NRGP Limited Partner, LLC and NRGP MS, LLC

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Signatures

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

INERGY HOLDINGS, L.P.

By: INERGY HOLDINGS GP, LLC,

its General Partner

Date: September 7, 2010

By: /s/ LAURA L. OZENBERGER
Laura L. Ozenberger

Senior Vice President, General Counsel and Secretary

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