

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM S-3  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933  
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FERRELLGAS PARTNERS, L.P.  
FERRELLGAS PARTNERS FINANCE CORP.  
(Exact name of registrants as specified in their charters)  
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Delaware  
Delaware  
(State or other jurisdiction  
of incorporation or organization)

43-1698480  
43-1742520  
(I.R.S. Employer  
Identification Numbers)

One Liberty Plaza  
Liberty, Missouri 64068  
(816) 792-1600  
(Address, including zip code, and telephone  
number, including area code, of registrant's  
principal executive offices)

Kevin T. Kelly  
One Liberty Plaza  
Liberty, Missouri 64068  
(816) 792-1600  
(Name, address, including zip code, and  
telephone number, including area code, of  
agent for service)

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Copies to:  
William N. Finnegan, IV  
Andrews & Kurth L.L.P.  
4200 Chase Tower  
600 Travis  
Houston, Texas 77002  
(713) 220-4200  
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Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement, as determined in light of market conditions and other factors.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Proposed maximum aggregate offering price(1)(2)(3)	Amount of registration fee
Common Units.....		
Deferred Participation Units.....		
Warrants.....		
Debt Securities (4).....		
Total.....	\$300,000,000	\$83,400

(1) We have estimated the proposed maximum aggregate offering price solely to calculate the registration fee under Rule 457(o). In no event will the aggregate initial offering price of all securities issued exceed \$300,000,000. To the extent applicable, the aggregate amount of Common Units registered is further limited to that which is permissible under Rule 415(a)(4) under the Securities Act. The registered securities may be sold separately or as units with other registered securities.

(2) There are being registered hereunder such presently indeterminate number of Common Units, Deferred Participation Units, Warrants and principal amount of Debt Securities.

- (3) The proposed maximum aggregate offering price for each class of securities to be registered is not specified pursuant to General Instruction, II.D. of Form S-3.
- (4) If any Debt Securities are issued at an original issue discount, then the offering price of such Debt Securities shall be in such amount as shall result in an aggregate initial offering price not to exceed \$300,000,000 less the dollar amount of any registered securities previously issued.

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THE REGISTRANTS HEREBY AMEND THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANTS SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

Subject to completion. Dated January 25, 1999

PROSPECTUS

Ferrellgas Partners, L.P.  
Ferrellgas Partners Finance Corp.

\$300,000,000

Common Units  
Deferred Participation Units  
Warrants  
Debt Securities

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

The Common Units are traded on the New York Stock Exchange under the symbol "FGP".

We will provide information in the prospectus supplement for the expected trading market, if any, for the Deferred Participation Units, Warrants and Debt Securities.

Our executive offices are located at One Liberty Plaza, Liberty, Missouri 64068, and our telephone number is (816) 792-1600.

See "Risk Factors" beginning on page 5 of this prospectus for a discussion of the material risks involved in investing in our securities.

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

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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.  
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The date of this Prospectus is \_\_\_\_\_, 1999.

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### WHO WE ARE

We are a publicly traded Delaware limited partnership engaged in the sale, distribution, marketing and trading of propane and other natural gas liquids in the United States. We believe that we are the second largest retail marketer of propane in the United States (as measured by retail gallons sold). We currently serve more than 800,000 residential, industrial/commercial and agricultural customers in 45 states and the District of Columbia through approximately 563 retail outlets with 302 satellite locations in 38 states. Our retail propane business consists of selling propane to retail (primarily residential) customers. We purchase this propane in the contract and spot markets, primarily from major oil companies, and then transport it to our retail distribution outlets and then to tanks located on our customers' premises and to portable propane cylinders. Through our natural gas liquids trading operations and wholesale marketing, we believe that we are one of the largest independent marketers of propane and natural gas liquids in the United States.

As used in this prospectus, "we," "us," "our," "Ferrellgas," and the "Partnership" means Ferrellgas Partners, L.P. and, unless the context requires otherwise, includes our subsidiary operating partnership, Ferrellgas, L.P., and our wholly owned subsidiary Ferrellgas Partners Finance Corp. Our subsidiary operating partnership is sometimes referred to in this prospectus as the "Operating Partnership."

### ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission ("SEC") using a "shelf" registration process. Under this shelf registration process, we may sell the Common Units, Deferred Participation Units, Warrants and Debt Securities described in this prospectus, in one or more offerings up to a total dollar amount of \$300,000,000. The Common Units, Deferred Participation Units, Warrants and Debt Securities are sometimes referred to in this prospectus as the "Securities." This prospectus provides you with a general description of us and the Securities. Each time we sell Securities with this prospectus, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add to, update or change information in this prospectus. The information in this prospectus is accurate as of \_\_\_\_\_, 1999. You should carefully read this prospectus, the prospectus supplement and the documents we have incorporated by reference under the heading "Where You Can Find More Information."

#### WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and other reports and other information with the SEC. You may read and download our SEC filings over the Internet at the SEC's website at <http://www.sec.gov>. You may also read and copy our SEC filings at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. You may also access additional information about us at our website at <http://www.ferrellgas.com>.

Because the Common Units are traded on the New York Stock Exchange ("NYSE"), we also provide information to the NYSE. You may obtain our reports and other information at the offices of the NYSE at 20 Broad Street, New York, New York 10002.

The SEC allows us to "incorporate by reference" the information we have filed with them, which means that we can disclose important information to you without actually including the specific information in this prospectus by referring you to those documents. The information incorporated by reference is an important part of this prospectus. Information that we file later with the SEC will automatically update and may supersede information in this prospectus and information previously filed with the SEC. The documents listed below are incorporated by reference:

- . our annual report on Form 10-K for the year ended July 31, 1998;
- . our quarterly report on Form 10-Q for the quarter ended October 31, 1998;
- . our current report on Form 8-K dated August 5, 1998;
- . the description of the Common Units in our registration statement on Form 8-A filed on May 12, 1994 and any amendments or reports filed to update the description;
- . all documents that we file under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of the initial registration statement and before the registration statement becomes effective; and
- . all documents that we file under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 between the date of this prospectus and the termination of the registration statement.

If information in incorporated documents conflicts with information in this prospectus you should rely on the most recent information. If information in an incorporated document conflicts with information in another incorporated document, you should rely on the most recent incorporated document.

You may request a copy of these filings at no cost, by writing or telephoning us at the following address:

Ferrellgas Partners, L.P.  
One Liberty Plaza  
Liberty, MO 64068  
Attention: Theresa A. Schekirke  
(816) 792-0203

You should rely only on the information contained in this prospectus, the prospectus supplement and the documents we have incorporated by reference. We have not authorized anyone else to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus, the prospectus supplement or any documents incorporated by reference is accurate as of any date other than the date on the front of those documents.

#### FORWARD-LOOKING STATEMENTS

Some information in this prospectus, the prospectus supplement and the documents we have incorporated by reference may contain forward-looking statements. Such statements use forward-looking words such as "anticipate," "continue," "estimate," "expect," "may," "will," or other similar words. These statements discuss future expectations or contain projections. Specific factors which could cause actual results to differ from those in the forward-looking statements, include:

- . the effect of weather conditions on demand for propane;
- . price and availability of propane supplies;
- . the availability of capacity to transport propane to market areas;
- . competition from other energy sources and within the propane industry;
- . operating risks incidental to transporting, storing, and distributing propane;
- . changes in interest rates;
- . governmental legislation and regulations;
- . energy efficiency and technology trends;
- . our ability to acquire other retail propane distributors and successfully integrate them into our existing operations and make cost saving changes;
- . our ability to obtain new customers and retain existing customers;
- . the condition of the capital markets in the United States; and
- . the political and economic stability of the oil producing nations of the world.

In addition, our classification as a partnership for federal income tax purposes means that generally we do not pay federal income taxes on our net income. We are relying on a legal opinion from our counsel, and not a ruling from the Internal Revenue Service, as to our proper classification for federal income tax purposes. See "Tax Considerations."

When considering forward-looking statements, you should keep in mind the risk factors described in "Risk Factors" below. The risk factors could cause our actual results to differ materially from those contained in any forward-looking statement. We disclaim any obligation to update any forward-looking statement or to announce publicly the result of any revisions to any of the forward-looking statements to reflect future events or developments.

You should consider the above information when reviewing any forward-looking statements in:

- . this prospectus;
- . the prospectus supplement;
- . any documents incorporated in this prospectus by reference;
- . press releases; or
- . oral statements made by us or any of our officers or other persons acting on our behalf.

## RISK FACTORS

Before you invest in our Securities, you should be aware that there are various risks, including those described below. You should consider carefully these risk factors together with all of the other information included in this prospectus, any prospectus supplement and the documents we have incorporated by reference before buying our Securities.

If any of the following risks actually occurs, then our business, financial condition or results of operations could be materially adversely affected. In such event, we may be unable to make distributions to our unitholders or pay interest on or the principal of any Debt Securities, the trading price of our Securities could decline, and you may lose all or part of your investment.

### Risks Inherent in Our Business

#### Weather Conditions Affect the Demand for Propane

Weather conditions have a significant impact on the demand for propane for both heating and agricultural purposes. Many of our customers rely heavily on propane as a heating fuel. Accordingly, the volume of retail propane sold is highest during the six-month peak heating season of October through March and is directly affected by the severity of the winter weather. During fiscal 1998, approximately 67% of our retail propane volume was attributable to sales during the peak heating season. Actual weather conditions can vary substantially from year to year, which may significantly affect our financial performance. Furthermore, variations in weather in one or more regions in which we operate can significantly affect the total volume of propane that we sell and the profits realized on these sales. A negative effect on our sales volume may in turn affect our results of operations. The agricultural demand for propane is also affected by weather, as dry weather during the harvest season will reduce the demand for propane used in crop drying.

#### We are Subject to Pricing and Inventory Risk

We believe that one of the primary reasons we have been able to retain our retail customers has been our ability to deliver propane during periods of extreme demand. We engage in the brokerage and trading of propane and other natural gas liquids primarily to generate profit in addition to our retail and wholesale operations. We also engage in such activities to help insure the availability of propane during periods of short supply. Our trading policy places certain restrictions on our trading activity such as volume limitations, stop loss limits, time limits on contracts, and limitations on the ability to enter into certain derivative contracts. The volume and stop loss limits are applicable to both the individual product level and to our trading as a whole. Our trading policy also dictates that reports on our current trading positions are to be provided to management on a daily basis. In addition, our bank credit facility places limitations on our ability to modify our trading policy. Certain of these limits may be waived on a case by case basis with the authorization of senior management of our general partner. From time to time, such authorization has been obtained to allow certain trading positions to exceed our trading policy limits. If we sustain material losses from our trading operations, our ability to make distributions to our unitholders or pay interest on or principal of any Debt Securities may be adversely affected.

While we generally attempt to minimize our inventory risk by purchasing propane on a short-term basis, depending on inventory and price outlooks, we may purchase and store propane or other natural gas liquids. We may purchase large volumes of propane during periods of low demand and accordingly, low prices, which generally occur during the summer months, at the then current market price. Because of the potential volatility of propane prices, if we make such purchases, the market price for propane could fall below the price at which we made the purchases which would adversely affect our profits or cause sales from such inventory to be unprofitable.

In the retail propane business, the amount of gross profit we make depends on the excess of the sales price over our propane supply costs. Consequently, our profitability is sensitive to changes in wholesale propane prices. Propane is a commodity, the market price of which can be subject to volatile changes in response to changes in supply or other market conditions. We have no control over these market conditions. Consequently, the unit price for the propane we purchase can change rapidly over a short period of time. A percentage of our propane sales (approximately 15% in fiscal 1998 based on total retail gallons sold) are pursuant to fixed-price contracts. In order to manage these fixed price sale commitments, we enter into certain propane purchase contracts with our suppliers whereby the volume, price and date of delivery have been mutually determined. We enter into these agreements to purchase propane at volume levels that we believe are necessary to mitigate the price risk related to our anticipated fixed price sales volumes. If our retail customers do not purchase volumes that are anticipated pursuant to their fixed price sales contracts, we will still be obligated to purchase the volumes established under the purchase contracts we have entered into with our suppliers. Such a scenario may cause us to incur losses if the price of propane declines prior to the sale to other retail customers. In general, product supply contracts permit suppliers to charge posted prices (plus transportation costs) at the time of delivery or the current prices established at major delivery points. As it may not be possible to immediately pass on to customers any rapid increases in the wholesale cost of propane, such increases could reduce our gross profit.

#### The Retail Propane Business is Highly Competitive

Our profitability is affected by the competition for customers among all of the participants in the retail propane business. We compete with a number of large national and regional firms and several thousand small independent firms. Because of the relatively low barriers to entry into the retail propane market, there is potential for small independent propane retailers, as well as other companies (not necessarily then engaged in retail propane distribution) to compete with our retail outlets. As a result, we are always subject to the risk of additional competition in the future. Certain of our competitors may have greater financial resources than we do. Should a competitor attempt to increase market share by reducing prices, our financial condition and results of operations could be materially adversely affected. Generally, warmer-than-normal weather further intensifies competition. We believe that our ability to compete effectively depends on the reliability of our service, our responsiveness to customers and our ability to maintain competitive retail propane prices.

#### The Retail Propane Industry is a Mature One

The retail propane industry is a mature one, with only limited growth in total demand for the product foreseen. Based on information available from the Energy Information Administration, we believe the overall demand for propane has remained relatively constant over the past several years, with year-to-year industry volumes being impacted primarily by weather patterns. Therefore, our ability to grow within the industry is dependent upon our ability to acquire other retail distributors and the success of our marketing efforts to acquire new customers.

#### We May Not Be Successful in Growing Through Acquisitions

While our business strategy includes internal growth and start-ups of new customer service locations, our ability to grow our retail propane business will depend principally upon our ability to acquire other retail propane distributors and successfully integrate them into our existing operations and make cost saving changes. We cannot guarantee that we will be able to identify attractive acquisition candidates in the future, that we will be able to acquire such businesses on economically acceptable terms or successfully integrate them into our existing operations and make cost saving changes, that any acquisitions will not be dilutive to earnings and distributions to unitholders or that any additional debt incurred to finance acquisitions will not adversely affect our ability to make distributions to unitholders or service our existing debt. We are subject to certain covenants contained in our debt agreements that restrict our ability to incur indebtedness. In addition, to the extent that warm weather or other factors adversely affect our operating and financial results, our access to capital to finance acquisitions may be further limited.

#### The Retail Propane Business Faces Competition from Other Energy Sources

Propane competes with other sources of energy, some of which are less costly for equivalent energy value. We compete for customers against suppliers of electricity, natural gas and fuel oil. Electricity is a major competitor of propane, but propane generally enjoys a competitive price advantage over electricity. Except for certain industrial and commercial applications, propane is generally not competitive with natural gas in areas where natural gas pipelines already exist because natural gas is generally a less expensive source of energy than propane. The gradual expansion of the nation's natural gas distribution systems has resulted in the availability of natural gas in many areas that were previously dependent upon propane. Although propane is similar to fuel oil in certain applications and market demand, propane and fuel oil compete to a lesser extent primarily because of the cost of converting from one to the other. We cannot predict the effect that the development of alternative energy sources might have on our operations.

#### Energy Efficiency and Technology Advances May Affect Demand

The national trend toward increased conservation and technological advances, including installation of improved insulation and the development of more efficient furnaces and other heating devices, has adversely affected the demand for propane by retail customers. We cannot predict the materiality of the effect of future conservation measures or the effect that any technological advances in heating, conservation, energy generation or other devices might have on our operations.

#### We are Subject to Operating and Litigation Risks Which May Not Be Covered by Insurance

Our operations are subject to all operating hazards and risks normally incidental to the handling, storing and delivering of combustible liquids such as propane. As a result, we have been, and are likely to be, a defendant in various legal proceedings arising in the ordinary course of business. We will maintain insurance policies with insurers in such amounts and with such coverages and deductibles as we believe are reasonable and prudent. However, we cannot guarantee that such insurance will be adequate to protect us from all material expenses related to potential future claims for personal injury and property damage or that such levels of insurance will be available in the future at economical prices.

#### Risks Inherent in an Investment in Us

##### The Distribution Priority of Holders of Common Units Terminates at the End of the Subordination Period

Assuming that the restrictions under our debt agreements are met, our partnership agreement requires us to distribute, on a quarterly basis, 100% of our "Available Cash" to our partners. "Available Cash" is generally all of our cash receipts, less cash disbursements and adjustments for net changes in reserves. Currently the Common Units have the right to receive distributions of Available Cash from our operations in an amount equal to \$0.50 per unit before any distributions of such Available Cash are made on our Subordinated Units. This priority right is scheduled to end when certain financial tests, which are related to generating cash from operations and distributing at least \$0.50 per unit on all Common Units and Subordinated Units, are satisfied for each of three consecutive four quarter periods ending on or after July 31, 1999. If these financial tests are met, the Common Units and the Subordinated Units will thereafter share equally in distributions of Available Cash. We met these financial tests for the four quarter periods ended July 31, 1997 and July 31, 1998, however, there can be no assurance that we will meet the remaining financial tests in the four quarter period ended July 31, 1999. The period during which the Common Units have a priority right to distributions and in which the right of the Subordinated Units to distributions is subordinate is referred to as the subordination period.

We May Sell Additional Limited Partner Interests, Diluting Existing Interests of Unitholders

Our partnership agreement generally allows us to issue additional limited partner interests and other equity securities. During the subordination period, however, the number of Common Units that we may issue is subject to certain limitations. These limitations do not apply to issuances in connection with acquisitions that are accretive. When we issue additional equity securities, your proportionate partnership interest will decrease. Such an issuance could negatively affect the amount of cash distributed to unitholders and the market price of Common Units. Issuance of additional Common Units will also diminish the relative voting strength of the previously outstanding units. Following the end of the subordination period there are no limits on the total number of Common Units or other equity securities that we may issue.

Substantial Leverage

As of October 31, 1998, we had an aggregate of \$546 million of long-term indebtedness (excluding current maturities). Our leverage could have important consequences to investors in the Securities. Our ability to make scheduled payments on, or refinance our existing indebtedness, or our ability to obtain additional financing in the future will depend on our financial and operating performance, which, in turn, is subject to prevailing economic conditions and to financial, business and other factors beyond our control. We believe that we will have sufficient cash flow from operations and available borrowings under our credit facility to service our indebtedness, although the principal amount of the Senior Notes and the Senior Secured Notes will likely need to be refinanced at maturity in whole or in part. A significant downturn in the propane industry or other development adversely affecting our cash flow, however, could materially impair our ability to service our indebtedness. If our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to refinance all or a portion of our debt or sell assets. We cannot guarantee that we will be able to refinance our existing indebtedness or sell assets on terms that are commercially reasonable. As of October 31, 1998, on a consolidated basis, we had outstanding approximately \$70 million of indebtedness bearing interest at floating rates. In addition, pursuant to our credit facility, we had available an additional \$52 million of borrowings, all of which would have borne interest at floating rates. Increases in interest rates following an offering of Debt Securities, if material, could adversely impact our ability to make payments in respect of the Debt Securities. We have entered into an interest rate collar agreement with a major bank effectively fixing the LIBOR component of \$25.0 million notional principal amount of floating rate debt between 5.05% and 6.5%. This agreement expires in January 2001.

We May Have to Refinance Our Indebtedness; Our Existing Indebtedness Must be Repaid Upon the Occurrence of Certain Change of Control Events

The \$350 million in principal amount of Senior Notes issued by the Operating Partnership do not contain any sinking fund provision. Such indebtedness will be due according to the following schedule:

- . \$109 million due 2005;
- . \$37 million due 2006;
- . \$52 million due 2008;
- . \$82 million due 2010; and
- . \$70 million due 2013.

The \$160 million in principal amount of Senior Secured Notes issued by the Partnership also contain no sinking fund provisions and such indebtedness will be due in 2006. Our Senior Secured Notes and the Senior Notes of the Operating Partnership are sometimes referred to in this prospectus as the "Notes." The Senior Secured Notes also provide that upon the occurrence of certain change of control events (including the failure by certain affiliates to

control the General Partner, the removal of the General Partner as the sole general partner of the Partnership or the Operating Partnership, the liquidation or dissolution of the Partnership, the Operating Partnership or the General Partner or the transfer of all or substantially all the assets of the Partnership or the Operating Partnership to another entity), the holders of the Senior Secured Notes have the right to require the issuer to repurchase any or all of the outstanding Senior Secured Notes at 101% of the aggregate principal amount thereof plus accrued and unpaid interest and liquidated damages, if any, to the date of purchase. The Operating Partnership's bank credit facility also contains a provision requiring the Operating Partnership to repay all outstanding amounts under the credit facility within 30 days after the occurrence of certain change of control events similar to those contained in the Notes.

#### Our Debt Agreements May Limit Our Ability to Make Distributions to Unitholders and Our Financial Flexibility

The Indenture governing our Senior Secured Notes (the "Senior Secured Note Indenture") contains restrictive covenants that may limit or prohibit distributions to unitholders under certain circumstances. This agreement generally prohibit us from:

- . distributing amounts in excess of 100% of Available Cash for the immediately preceding fiscal quarter plus the lesser of (a) Available Cash for the 45 days following such fiscal quarter and (b) the amount of working capital that could have been borrowed on the last day of such fiscal quarter;
- . making any distributions to unitholders if an event of default exists or would exist when such distribution is made; and
- . making any distributions to unitholders if the fixed charge coverage ratio as defined in the indenture for the preceding four fiscal quarters is less than or equal to 2.0 to 1.0.

As of October 31, 1998, the Partnership's fixed charge coverage ratio as defined in the indenture was 2.2 to 1.0.

The Senior Secured Note Indenture also requires us to maintain certain financial ratios and contain restrictions on:

- . incurring additional debt;
- . entering into mergers, consolidations and sales of assets;
- . making investments; and
- . granting liens.

The restrictive covenants in the indenture may prevent us from engaging in certain beneficial transactions.

#### Holding Company Structure and Ability to Repay Debt Securities

We are a holding company and have no material operations and only limited assets. Accordingly, our ability to service our debt obligations will be entirely dependent upon the receipt of distributions from our subsidiary operating partnership. The Operating Partnership is restricted under the terms of its debt agreements from making distributions to us in the following situations, among others:

- . if a default or event of default exists or would result therefrom;

- . if its fixed charge coverage ratio as defined in the agreements for the preceding four fiscal quarters is less than or equal to 2.25 to 1.0;
- . if the amount of the distribution exceeds 100% of Available Cash for the immediately preceding fiscal quarter plus the lesser of (a) Available Cash for the 45 days following such fiscal quarter and (b) the amount of working capital that could have been borrowed on the last day of such fiscal quarter; or
- . if the Operating Partnership fails to meet the aggregate restricted payments test as defined in the agreements.

As of October 31, 1998, the Operating Partnership's fixed charge coverage ratio as defined in such agreements was 3.27 to 1.0.

#### Effective Subordination to Indebtedness and Liabilities of Operating Partnership

The Debt Securities will be effectively subordinated to claims of creditors (other than the Partnership) of the Operating Partnership. Claims of creditors (other than the Partnership) of the Operating Partnership, including trade creditors, secured creditors, taxing authorities and creditors holding guarantees, will generally have priority as to assets of the Operating Partnership over the claims and equity interests of the Partnership and, thereby indirectly, the holders of indebtedness of the Partnership, including the Debt Securities.

#### We are Required to Distribute Available Cash, Limiting Cash Reserves Available to Service Debt Securities

Assuming that the restrictions under our debt agreements are met, our partnership agreement requires us to distribute, on a quarterly basis, 100% of our "Available Cash" to our partners. The timing and amount of distributions to our partners could significantly reduce the cash available to us to meet our future business needs and to pay future principal, interest and premium (if any), including liquidated damages, if any, on the Debt Securities. Prior to making any distribution on the Common Units, we must reimburse our general partner and its affiliates at cost for all expenses that they have incurred on our behalf. The reimbursement of such expenses and the payment of any such fees could adversely affect our ability to make distributions to our unitholders. The General Partner will determine the amount and timing of such distributions and has broad discretion to establish and make additions to our reserves for any proper purpose, including but not limited to reserves for the purpose of:

- . complying with the terms of any agreement or obligation of the Partnership (including the establishment of reserves to fund the payment of interest and principal in the future;
- . providing for level distributions of cash notwithstanding the seasonality of our business; and
- . providing for future capital expenditures and other payments deemed by the General Partner to be necessary or advisable.

#### Cash Distributions Are Not Guaranteed and May Fluctuate with Our Performance and Other External Factors

Although we distribute all of our Available Cash, we cannot guarantee the amounts of Available Cash that will be distributed to our unitholders. The actual amounts of Available Cash will depend upon numerous factors, including:

- . cash flow generated by operations;

- . required principal and interest payments on our debt;
- . the costs of acquisitions (including related debt service payments);
- . restrictions contained in debt instruments;
- . issuances of debt and equity securities;
- . fluctuations in working capital;
- . capital expenditures;
- . adjustments in reserves;
- . prevailing economic conditions and
- . financial, business and other factors, a number of which will be beyond our control.

Cash distributions are dependent primarily on cash flow, including from reserves and, subject to certain limitations, working capital borrowings and not on profitability, which is affected by non-cash items. Therefore, cash distributions might be made during periods when we record losses and might not be made during periods when we record profits.

#### Potential Change of Control if Ferrell Companies, Inc. Defaults on Debt

Ferrell Companies, Inc. ("FCI") owns all of the outstanding capital stock of the General Partner in addition to Common Units and Subordinated Units in the Partnership. FCI has pledged these securities to secure some of its debt. Presently, FCI's only source of income to pay such debt is dividends that FCI receives from the General Partner and distributions received on the Common Units and Subordinated Units. If FCI defaults on its debt, the lenders could acquire control of the General Partner and the Common Units and Subordinated Units owned by FCI.

#### Risks Arising from Our Partnership Structure and Relationships with Our General Partner

##### Unitholders Have Certain Limits on their Voting Rights; The General Partner Manages and Operates the Partnership

The General Partner manages and operates the Partnership. Unlike the holders of common stock in a corporation, unitholders will have only limited voting rights on matters affecting our business. Unitholders will have no right to elect the General Partner on an annual or other continuing basis, and the General Partner may not be removed except pursuant to the vote of the holders of at least 66 2/3% of the outstanding units (including Common Units and Subordinated Units owned by the General Partner and its affiliates) and upon the election of a successor general partner by the vote of the holders of not less than a majority of the outstanding Common Units. Because the General Partner and its affiliates own approximately 57% of the outstanding units, the General Partner cannot be removed without its consent.

##### The General Partner Will Have a Limited Call Right With Respect to the Limited Partner Interests

If at any time less than 20% of the then-issued and outstanding limited partner interests of any class are held by persons other than the General Partner and its affiliates, the General Partner will have the right, which it may assign to any of its affiliates or to the Partnership, to acquire all, but not less than all, of the remaining limited partner interests of such class held by such unaffiliated persons at a price generally equal to the then-current market price of limited partner interests of such class. As a consequence, a unitholder may be required to sell his Common

Units at a time when he may not desire to sell them or at a price that is less than the price he would desire to receive upon such sale.

**Unitholders May Not Have Limited Liability in Certain Circumstances;  
Liability for Return of Certain Distributions**

The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some states. If it were determined that we had been conducting business in any state without compliance with the applicable limited partnership statute, or that the right, or the exercise of the right by the unitholders as a group, to: (1) remove or replace the General Partner, (2) make certain amendments to our partnership agreement, or (3) take other action pursuant to our partnership agreement constituted participation in the "control" of our business, then the unitholders could be held liable in certain circumstances for our obligations to the same extent as a general partner.

In addition, under certain circumstances a unitholder may be liable to us for the amount of a distribution for a period of three years from the date of the distribution. Unitholders will not be liable for assessments in addition to their initial capital investment in the Common Units. Under Delaware General Corporate Law, we may not make a distribution to you if the distribution causes all liabilities of the Partnership to exceed the fair value of the partnership's assets. Liabilities to partners on account of their partnership interests and non-recourse liabilities are not counted for purposes of determining whether a distribution is permitted. Delaware law provides that a limited partner who receives such a distribution and knew at the time of the distribution that the distribution violated the Delaware law will be liable to the limited partnership for the distribution amount for three years from the distribution date. Under Delaware law, an assignee who becomes a substituted limited partner of a limited partnership is liable for the obligations of the assignor to make contributions to the partnership. However, such an assignee is not obligated for liabilities unknown to him at the time he or she became a limited partner if the liabilities could not be determined from the partnership agreement.

**Persons Owning 20% or More of the Common Units Cannot Vote**

Any Common Units held by a person that owns 20% or more of the Common Units cannot be voted. This limitation does not apply to the General Partner and its affiliates. This provision may:

- . discourage a person or group from attempting to remove the General Partner or otherwise change management; and
- . reduce the price at which the Common Units will trade under certain circumstances.

**The General Partner's Liability to the Partnership and Unitholders May Be Limited**

Our partnership agreement contains language limiting the liability of the General Partner to the Partnership and the unitholders. For example, our partnership agreement provides that:

- . the General Partner does not breach any duty to the Partnership or the unitholders by borrowing funds or approving any borrowing. The General Partner is protected even if the purpose or effect of the borrowing is to increase incentive distributions to the General Partner;
- . the General Partner does not breach any duty to the Partnership or the unitholders by taking any actions consistent with the standards of reasonable discretion outlined in the definitions of Available Cash and Cash from Operations contained in our partnership agreement; and
- . the General Partner does not breach any standard of care or duty by resolving conflicts of interest unless the General Partner acts in bad faith.

The modifications of state law standards of fiduciary duty contained in our partnership agreement may significantly limit the ability of unitholders to successfully challenge the actions of the general partner as being a breach of what would otherwise have been a fiduciary duty. These standards include the highest duties of good faith, fairness and loyalty to the limited partners. Such a duty of loyalty would generally prohibit a general partner of a Delaware limited partnership from taking any action or engaging in any transaction for which it has a conflict of interest. Under our partnership agreement, the General Partner may exercise its broad discretion and authority in the management of the Partnership and the conduct of its operations as long as the General Partner's actions are in the best interest of the Partnership.

#### The General Partner and Its Affiliates May Have Conflicts With the Partnership

The directors and officers of the General Partner and its affiliates have fiduciary duties to manage the General Partner in a manner that is beneficial to its shareholder. At the same time, the General Partner has fiduciary duties to manage the Partnership in a manner that is beneficial to the Partnership. Therefore, the General Partner's duties to us may conflict with the duties of its officers and directors to its shareholder. Such conflicts of interest may arise with respect to the following matters, among others.

- . Decisions of the General Partner with respect to the amount and timing of cash expenditures, borrowings, issuances of additional Common Units and other securities, and changes in reserves in any quarter can affect the amount of incentive distributions we pay to the General Partner.
- . We do not have any employees and rely solely on employees of the General Partner.
- . Under the terms of our partnership agreement, we will reimburse the General Partner and its affiliates for costs incurred in managing and operating our business, including costs incurred in rendering corporate staff and support services to us.
- . Our partnership agreement permits the General Partner to limit the liability of the Partnership in contractual arrangements to all or particular assets of the Partnership, thereby providing no recourse against the General Partner, even if we could have obtained more favorable terms without such limitations on the General Partner's liability.
- . Our partnership agreement provides that it is not a breach of the General Partner's fiduciary duties to us or our partners for affiliates of the General Partner to engage in activities, other than retail propane sales to end users in the continental United States, that compete with us.

#### General Partner Can Protect Itself Against Dilution

Whenever we issue equity securities to any person other than the General Partner and its affiliates, the General Partner has the right to purchase additional limited partnership interests on the same terms. This allows the General Partner to maintain its partnership interest in the Partnership. No other unitholder has a similar right. Therefore, only the General Partner may protect itself against dilution caused by issuance of additional equity securities.

#### Tax Risks

For a general discussion of the expected federal income tax consequences of owning and disposing of Common Units, see "Tax Considerations."

#### Tax Treatment is Dependent on Partnership Status

The availability to a unitholder of the federal income tax benefits of an investment in the Common Units depends, in large part, on our classification as a partnership for federal income tax purposes (unless the context otherwise requires, references in this subdivision to "us" are references to the Partnership and the Operating Partnership and not to Ferrellgas Partners Finance Corp.). Based on certain representations of the General Partner and the Partnership, Counsel is of the opinion that, under current law, we have been and will continue to be classified as a partnership for federal income tax purposes. However, no ruling from the IRS as to such status has been or is expected to be requested. One of the representations on which the opinion of counsel is based is that at least 90% of our gross income for each taxable year has been and will be "qualifying income" within the meaning of Section 7704 of the Code. Whether we will continue to be classified as a partnership in part depends on our ability to meet this qualifying income test in the future. See "Tax Considerations--Partnership Status."

If we were classified as a corporation for federal income tax purposes, we would pay tax on our income at corporate rates (currently a 35% federal rate), distributions would generally be taxed a second time in the hands of the unitholders as corporate distributions, and no income, gains, losses or deductions would flow through to the unitholders. Because a tax would be imposed upon us as an entity, the cash available for distribution to the holders of Common Units would be substantially reduced. Our treatment as a taxable entity would result in a material reduction in the anticipated cash flow and after-tax return to the unitholders and this would likely result in a substantial reduction in the value of the Common Units. See "Tax Considerations--Partnership Status."

No assurance can be given that the law will not be changed so as to cause us to be treated as an association taxable as a corporation for federal income tax purposes or otherwise to be subject to entity-level taxation. Our partnership agreement provides that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, certain provisions of our partnership agreement will be subject to change. Such changes would include a decrease in the Minimum Quarterly Distribution and the Target Distribution Levels to reflect the impact of such law on us.

#### No IRS Ruling With Respect to Tax Consequences Leaves Uncertainty

We have not requested a ruling from the IRS with respect to our classification as a partnership for federal income tax purposes, whether our propane operations generate "qualifying income" under Section 7704 of the Code or any other matters affecting us. Accordingly, the IRS may adopt positions that differ from counsel's conclusions. It may be necessary to resort to administrative or court proceedings in an effort to sustain some or all of counsel's conclusions, and some or all of those conclusions ultimately may not be sustained. Any such contest with the IRS may materially and adversely impact the market for the Common Units and the prices at which the Common Units trade. In addition, the costs of any contest with the IRS will be borne directly or indirectly by some or all of the unitholders and the General Partner.

#### Risk of Tax Liability Exceeding Cash Distributions

A unitholder will be required to pay federal income taxes and, in certain cases, state and local income taxes on his allocable share of our income, even if he receives no cash distributions from us. We cannot guarantee that a unitholder will receive cash distributions equal to his allocable share of our taxable income or even the tax liability to him resulting from that income. Further, a unitholder may incur a tax liability, in excess of the amount of cash received, upon the sale of his Common Units. See "Tax Considerations --Tax Treatment of Unitholders" and "Tax Considerations--Disposition of Units."

## Ownership of Common Units Raises Issues for Tax-Exempt Organizations and Certain Other Investors

Investment in Common Units by certain tax-exempt entities, regulated investment companies and foreign persons raises issues unique to such persons. For example, virtually all of the taxable income derived by most organizations exempt from federal income tax (including IRAs and other retirement plans) from the ownership of a Common Unit will be unrelated business taxable income and thus will be taxable to such a unitholder. See "Tax Considerations--Tax-Exempt Organizations and Certain Other Investors."

### There Are Limits on the Deductibility of Losses

In the case of taxpayers subject to the passive loss rules (generally, individuals and closely held corporations), any losses generated by us will only be available to offset our future income and cannot be used to offset income from other activities, including passive activities or investments. Unused losses may be deducted when the unitholder disposes of his entire investment in us in a fully taxable transaction with an unrelated party. A unitholder's share of our net passive income may be offset by unused losses carried over from prior years, but not by losses from other passive activities, including losses from other publicly traded partnerships. See "Tax Considerations--Tax Treatment of Unitholders--Limitations on Deductibility of Partnership Losses."

### Tax Gain or Loss on Disposition of Common Units Could Be Different Than Expected

A unitholder who sells Common Units will recognize gain or loss equal to the difference between the amount realized (including his share of our nonrecourse liabilities) and his adjusted tax basis in such Common Units. Thus, prior distributions in excess of cumulative net taxable income in respect of a Common Unit which decreased a unitholder's tax basis in such Common Unit will, in effect, become taxable income if the Common Unit is sold at a price greater than the unitholder's tax basis in such Common Unit, even if the price is less than his original cost. A portion of the amount realized (whether or not representing gain) may be ordinary income. Furthermore, should the IRS successfully contest certain conventions that we use, a unitholder could realize more gain on the sale of Common Units than would be the case under such conventions without the benefit of decreased income in prior years.

### Reporting of Partnership Tax Information Is Complicated and Subject to Audits

We will furnish each unitholder with a Schedule K-1 that sets forth his allocable share of income, gains, losses and deductions. In preparing these schedules, we will use various accounting and reporting conventions and adopt various depreciation and amortization methods. We cannot guarantee that these schedules will yield a result that conforms to statutory or regulatory requirements or to administrative pronouncements of the IRS.

### Tax Shelter Registration Could Increase Risk of Potential IRS Audit

We are registered with the Secretary of the Treasury as a "tax shelter." The IRS has issued to us the following tax shelter registration number: 94201000010. Issuance of the registration number does not indicate that an investment in us or the claimed tax benefits have been reviewed, examined or approved by the IRS. We cannot guarantee that we will not be audited by the IRS or that tax adjustments will not be made. The rights of a unitholder owning less than a 1% profits interest in us to participate in the income tax audit process are very limited. Further, any adjustments in our tax returns will lead to adjustments in the unitholders' tax returns and may lead to audits of unitholders' tax returns and adjustments of items unrelated to us. Each unitholder would bear the cost of any expenses incurred in connection with an examination of such unitholder's personal tax return.

#### There is a Possibility of Loss of Tax Benefits Relating to Non-uniformity of Common Units and Nonconforming Depreciation Conventions

Because we cannot match transferors and transferees of Common Units, uniformity of the economic and tax characteristics of the Common Units to a purchaser of Common Units of the same class must be maintained. To maintain uniformity and for other reasons, we have adopted certain depreciation and amortization conventions that do not conform with all aspects of certain proposed and final Treasury Regulations. A successful challenge to those conventions by the IRS could adversely affect the amount of tax benefits available to a purchaser of Common Units and could have a negative impact on the value of the Common Units. See "Tax Considerations--Tax Treatment of Operations--Uniformity of Units."

#### There Are State, Local and Other Tax Considerations

In addition to federal income taxes, unitholders will likely be subject to other taxes, such as state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property. A unitholder will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of the various jurisdictions in which we do business or own property and may be subject to penalties for failure to comply with those requirements. We currently conduct business in 45 states. It is the responsibility of each unitholder to file all United States federal, state and local tax returns that may be required of such unitholder. Counsel has not rendered an opinion on the state or local tax consequences of an investment in us. See "Tax Considerations--State, Local and Other Tax Considerations."

#### Unitholders May Have Negative Tax Consequences if We Default on Our Debt or Sell Assets

If we default on any of our debt, the lenders will have the right to sue us for non-payment. Such an action could cause an investment loss and negative tax consequences for unitholders through the realization of taxable income by unitholders without a corresponding cash distribution. Likewise, if we were to dispose of assets and realize a taxable gain while there is substantial debt outstanding and proceeds of the sale were applied to the debt, unitholders could have increased taxable income without a corresponding cash distribution.

FERRELLGAS

We are a publicly traded Delaware limited partnership engaged in the sale, distribution, marketing and trading of propane and other natural gas liquids in the United States. We believe that we are the second largest retail marketer of propane in the United States (as measured by retail gallons sold). We currently serve more than 800,000 residential, industrial/commercial and agricultural customers in 45 states and the District of Columbia through approximately 563 retail outlets with 302 satellite locations in 38 states. Our retail propane business consists of selling propane to retail (primarily residential) customers. We purchase this propane in the contract and spot markets, primarily from major oil companies, and then transport it to our retail distribution outlets and then to tanks located on our customers' premises and to portable propane cylinders.

In the residential and commercial markets, propane is primarily used for space heating, water heating and cooking. In the agricultural market, propane is primarily used for crop drying, space heating, irrigation and weed control. In addition, propane is used for certain industrial applications, including use as an engine fuel, which is burned in internal combustion engines that power vehicles and forklifts, and as a heating or energy source in manufacturing and drying processes.

We also trade propane and other natural gas liquids and are engaged in chemical feedstocks marketing and wholesale propane marketing. Through our natural gas liquids trading operations and wholesale marketing, we believe that we are one of the largest independent marketers of propane and natural gas liquids in the United States.

We trade propane and other natural gas liquids for our account and for supplying our retail and wholesale propane operations. We primarily trade products purchased from our over 110 suppliers; however, we also conduct transactions on the New York Mercantile Exchange. Trading of products is conducted primarily to generate a profit independent of the retail and wholesale operations, but is also conducted to help insure the availability of propane during periods of short supply. We attempt to minimize trading risk through the enforcement of our trading policies, which include total inventory limits and loss limits, and attempt to minimize credit risk through credit checks and application of its credit policies. However, we cannot guarantee that historical experience or the existence of such policies will prevent trading losses in the future. We regularly evaluate potential acquisitions of assets and businesses that would complement our existing business. Our general partner receives incentive distributions that provide it with a strong incentive to increase unitholder distributions through successful management and growth of our business.

## CONFLICTS OF INTEREST AND FIDUCIARY RESPONSIBILITIES

Conflicts of interest could arise as a result of the relationships between the Partnership, on the one hand, and our general partner and its affiliates, on the other. The directors and officers of the General Partner have fiduciary duties to manage the General Partner in a manner beneficial to its stockholder. At the same time, the General Partner has fiduciary duties to manage the Partnership in a manner beneficial to the Partnership and the unitholders. The duties of the General Partner to the Partnership and the unitholders, therefore, may come into conflict with the duties of management of the General Partner to its stockholder.

Conflicts of interest might arise with respect to the following matters, among others:

- (i) Decisions of the General Partner with respect to the amount and timing of cash expenditures, borrowings, issuances of additional Common Units and changes in reserves in any quarter can affect the amount of incentive distributions the Partnership pays to the General Partner.
- (ii) The Partnership does not have any employees and relies solely on employees of the General Partner and its affiliates.
- (iii) Under the terms of the Partnership Agreement, the Partnership will reimburse the General Partner and its affiliates for costs incurred in managing and operating the Partnership, including costs incurred in rendering corporate staff and support services to the Partnership. The General Partner is not restricted from causing the Partnership to pay the General Partner or its affiliates for any services rendered on terms that are fair and reasonable to the Partnership or causing the Partnership to enter into additional contractual arrangements with any of such entities. Neither the Partnership Agreement nor any of the other agreements, contracts and arrangements between the Partnership, on the one hand, and the General Partner and its affiliates, on the other, are or will be the result of arm's-length negotiations.
- (iv) Whenever possible, the General Partner limits the liability of the Partnership under contractual arrangements to all or particular assets of the Partnership, with the other party thereto having no recourse against the General Partner or its assets. The Partnership Agreement permits the General Partner to do this even if the Partnership could have obtained more favorable terms if it had not limited the General Partner's liability.
- (v) Any agreements between the Partnership and the General Partner and its affiliates will not grant to the unitholders, separate and apart from the Partnership, the right to enforce the obligations of the General Partner and such affiliates in favor of the Partnership. Therefore, the General Partner, in its capacity as the general partner of the Partnership, will be primarily responsible for enforcing such obligations.
- (vi) The General Partner may exercise its right to call for and purchase Common Units as provided in the Partnership Agreement or assign such right to one of its affiliates or to the Partnership.
- (vii) The Partnership Agreement provides that it will not constitute a breach of the General Partner's fiduciary duties to the Partnership for affiliates of the General Partner to engage in certain activities of the type conducted by the Partnership, other than retail propane sales to end users in the continental United States, even if in direct competition with the Partnership. In addition, the General Partner and such affiliates have no obligation to present business opportunities to the Partnership.

Unless otherwise provided for in a partnership agreement, Delaware law generally requires a general partner of a Delaware limited partnership to adhere to fiduciary duty standards under which it owes its limited partners the highest duties of good faith, fairness and loyalty and which generally prohibit the general partner from taking any action or engaging in any transaction as to which it has a conflict of interest. The Partnership Agreement expressly permits the General Partner to resolve conflicts of interest between itself or its affiliates, on the one hand,

and the Partnership or the unitholders, on the other, and to consider, in resolving such conflicts of interest, the interests of other parties in addition to the interests of the unitholders. In addition, the Partnership Agreement provides that a purchaser of Common Units is deemed to have consented to certain conflicts of interest and actions of the General Partner and its affiliates that might otherwise be prohibited, including those described above, and to have agreed that such conflicts of interest and actions do not constitute a breach by the General Partner of any duty stated or implied by law or equity. The General Partner will not be in breach of its obligations under the Partnership Agreement or its duties to the Partnership or the unitholders if the resolution of such conflict is fair and reasonable to the Partnership. Any resolution of a conflict approved by the Audit Committee of the General Partner is conclusively deemed fair and reasonable to the Partnership. The latitude given in the Partnership Agreement to the General Partner in resolving conflicts of interest may significantly limit the ability of a unitholder to challenge what might otherwise be a breach of fiduciary duty.

The Partnership Agreement expressly limits the liability of the General Partner by providing that the General Partner, its affiliates and their officers and directors will not be liable for monetary damages to the Partnership, the limited partners or assignees for errors of judgment or for any acts or omissions if the General Partner and such other persons acted in good faith. In addition, the Partnership is required to indemnify the General Partner, its affiliates and their respective officers, directors, employees, agents and trustees to the fullest extent permitted by law against liabilities, costs and expenses incurred by the General Partner or such other persons, if the General Partner or such persons acted in good faith and in a manner they reasonably believed to be in, or (in the case of a person other than the General Partner) not opposed to, the best interests of the Partnership and, with respect to any criminal proceedings, had no reasonable cause to believe the conduct was unlawful.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for each of the periods indicated is as follows:

Historical Eleven Months Ended June 30, 1994	Historical One Month Ended July 31, 1994 /(1)/	Pro Forma Year Ended July 31, 1994/(2)/	Historical Year Ended July 31,				Historical Three Months October 31,	
			1995	1996	1997	1998	1997/(3)/	1998/(3)/
1.2	-	2.4	1.7	1.6	1.5	1.1	-	-

- (1) For the one month ended July 31, 1994, earnings were inadequate to cover fixed charges by \$5.0 million.
- (2) The pro forma year ended July 31, 1994 includes the eleven months ended June 30, 1994 for our predecessor, Ferrellgas, Inc. and its subsidiaries, and our historical financial data for the period from inception (July 5, 1994) to July 31, 1994 (adjusted principally for the pro forma effect on interest expense resulting from the early retirement of debt net of additional borrowings).
- (3) For the three months ended October 31, 1997 and 1998, earnings were inadequate to cover fixed charges by \$13.3 million and \$11.2 million, respectively.

These computations include the Partnership and the Operating Partnership on a consolidated basis. For these ratios, "earnings" is the amount resulting from adding the following items:

- . pre-tax income from continuing operations; and
- . fixed charges.

The term "fixed charges" means the sum of the following:

- . interest expensed;
- . amortized premiums, discounts and capitalized expenses related to indebtedness; and
- . an estimate of the interest within rental expenses.

Earnings from continuing operations for the periods presented were reduced by certain non-cash expenses, consisting principally of depreciation and amortization and a non-cash employee stock ownership plan charge. Such non-cash charges totaled \$26.5 million for the eleven months ended June 30, 1994, \$2.4 million for the one month ended July 31, 1994, \$28.8 million for the pro forma year ended July 31, 1994, \$32.0 million for the year ended July 31, 1995, \$37.0 million for the year ended July 31, 1996, \$43.8 million for the year ended July 31, 1997, \$45.4 million for the year ended July 31, 1998, and \$11.5 million and \$12.2 million for the three months ended October 31, 1997 and 1998, respectively.

## DESCRIPTION OF UNITS

### General

As of October 31, 1998, we had 14,703,298 Common Units outstanding, representing a 46% limited partner interest in the Partnership, and 16,593,721 Subordinated Units outstanding, representing a 52% limited partner interest in the Partnership. All of the Subordinated Units are currently held by FCI, the parent company of our general partner. The Common Units and the Subordinated Units represent limited partner interests in the Partnership, which entitle the holders thereof to participate in distributions and exercise the rights and privileges available to limited partners under our partnership agreement. A copy of our partnership agreement is filed as an exhibit to the registration statement of which this prospectus is a part. A summary of the important provisions of our partnership agreement is included in our reports filed with the SEC.

Under our partnership agreement we may issue, without further unitholder action, an unlimited number of additional limited partner interests and other equity securities with such rights, preferences and privileges as shall be established by the General Partner in its sole discretion, subject to the following exceptions:

(1) during the subordination period, we may not issue limited partner interests or other equity securities ranking prior or senior to the Common Units or an aggregate of more than 7,000,000 additional Common Units or an equivalent amount of other equity securities having rights to distributions or in liquidation ranking on a parity with the Common Units, in either case without the approval of two-thirds of the outstanding Common Units; provided that we may issue an unlimited number of additional Common Units or parity securities prior to the end of the subordination period and without unitholder approval in connection with accretive acquisitions; and

(2) during the subordination period, we may not issue limited partner interests or other equity securities with rights to distributions or in liquidation ranking prior or senior to the Common Units, without the approval of two-thirds of the outstanding Common Units.

### Common Units

#### Listing

Our outstanding Common Units are listed on the NYSE under the symbol "FGP". Any additional Common Units we issue will also be listed on the NYSE.

#### Voting

Each holder of Common Units is entitled to one vote for each Common Unit on all matters submitted to a vote of the unitholders; provided that, if at any time any person or group (other than FCI and its affiliates) owns beneficially 20% or more of all Common Units, such Common Units so owned shall not be voted on any matter and shall not be considered to be outstanding when sending notices of a meeting of unitholders (unless otherwise required by law), calculating required votes, determining the presence of a quorum or for other similar purposes under our partnership agreement. Except as otherwise provided by law or our partnership agreement, the holders of Common Units and Subordinated Units vote as one class.

#### Distributions

Our partnership agreement requires us to distribute 100% of our "Available Cash" to our unitholders and our general partner within 45 days following the end of each fiscal quarter. "Available Cash" consists generally of all of our cash receipts, less cash disbursements and adjustments for net changes to reserves.

Currently the Common Units have the right to receive distributions of Available Cash from our operations in an amount equal to \$0.50 per unit before any distributions of such Available Cash are made on the Subordinated Units. This priority right is scheduled to end when certain financial tests, which are related to generating cash from operations and distributing at least \$0.50 per unit on all Common Units and Subordinated Units, are satisfied for each of three consecutive four quarter periods ending on or after July 31, 1999. If these financial tests are met, the Common Units and the Subordinated Units will thereafter share equally in distributions of Available Cash. We met these financial tests for the four quarter periods ended July 31, 1997 and July 31, 1998, however, there can be no assurance that we will meet the remaining financial tests in the four quarter period ended July 31, 1999. The period during which the Common Units have a priority right to distributions and in which the right of the Subordinated Units to distributions is subordinate is referred to as the subordination period.

During the subordination period we distribute Available Cash from our operations as follows:

- . first, 98% to the holders of Common Units and 2% to the General Partner, until the holders of Common Units have received \$0.50 per Common Unit for such quarter and any prior quarter in which they failed to receive \$0.50 per Common Unit;
- . second, 98% to the holders of Subordinated Units and 2% to the General Partner, until the holders of Subordinated Units have received \$0.50 per Subordinated Unit for such quarter;
- . third, 98% to all unitholders and 2% to the General Partner, until all unitholders have received \$0.55 per unit for such quarter;
- . fourth, 85% to all unitholders and 15% to the General Partner, until all unitholders have received \$0.63 per unit for such quarter;
- . fifth, 75% to all unitholders and 25% to the General Partner, until all unitholders have received \$0.82 per unit for such quarter; and
- . sixth, thereafter 50% to all unitholders and 50% to the General Partner.

Following the end of the subordination period Available Cash from our operations will be distributed as follows:

- . first, 98% to all unitholders and 2% to the General Partner, until all unitholders have received \$0.55 per unit for such quarter;
- . second, 85% to all unitholders and 15% to the General Partner, until all unitholders have received \$0.63 per unit for such quarter;
- . third, 75% to all unitholders and 25% to the General Partner, until all unitholders have received \$0.82 per unit for such quarter; and
- . fourth, thereafter 50% to all unitholders and 50% to the General Partner.

Transfer Agent and Registrar

Our transfer agent and registrar for the Common Units is Bank Boston, N.A. You may contact our transfer agent and registrar at the following address:

Bank Boston, N.A.  
c/o Boston EquiServe  
Attn: Investor Relations/Shareholder Services  
P. O. Box 8040  
Boston, Massachusetts 02266-8040  
Telephone: (781) 575-3120

#### Deferred Participation Units

No Deferred Participation Units ("DPUs") are issued or outstanding. The General Partner has the authority, without further unitholder action, to establish one or more series of DPUs and to determine the rights, preferences and privileges of each such series of DPUs.

The Prospectus Supplement relating to a particular series of DPUs offered thereby will include the specific terms of such DPUs, including the following:

- (1) the designation, stated value and liquidation preference of such DPUs and the number of DPUs offered;
- (2) the initial public offering price at which such DPUs will be issued;
- (3) the conversion or exchange provisions of such DPUs;
- (4) any redemption or sinking fund provisions of such DPUs;
- (5) the distribution rights of such DPUs, if any; and
- (6) any additional rights, preferences, privileges, limitations and restrictions of such DPUs.

## DESCRIPTION OF WARRANTS

We may issue warrants to purchase Debt Securities (the "Debt Warrants"), Common Units (the "Common Unit Warrants") or other securities issued by us or another issuer (the "Other Warrants," collectively with the Debt Warrants and the Common Unit Warrants, the "Warrants"). Warrants may be issued independently or together with any Securities and may be attached to or separate from such Securities. The Warrants are to be issued under warrant agreements (each a "Warrant Agreement") to be entered into between us and a bank or trust company, as warrant agent (the "Warrant Agent"), all as shall be set forth in the Prospectus Supplement relating to the Warrants being offered pursuant thereto.

### Debt Warrants

The applicable Prospectus Supplement will describe the terms of the Debt Warrants offered thereby, the Warrant Agreement relating to such Debt Warrants and the debt warrant certificates representing such Debt Warrants, including the following:

- (1) the title of such Debt Warrants;
- (2) the aggregate number of such Debt Warrants;
- (3) the price or prices at which such Debt Warrants will be issued;
- (4) the designation, aggregate principal amount and terms of the Debt Securities purchasable upon exercise of such Debt Warrants;
- (5) the principal amount of Debt Securities purchasable upon exercise of each Debt Warrant, and the price at which such principal amount of Debt Securities may be purchased upon such exercise;
- (6) the date, if any, on and after which such Debt Warrants and the related Debt Securities will be separately transferable;
- (7) the date on which the right to exercise such Debt Warrants shall commence, and the date on which such right shall expire;
- (8) the maximum or minimum number of such Debt Warrants that may be exercised at any time;
- (9) a discussion of material federal income tax considerations, if any; and
- (10) any other terms of such Debt Warrants, including terms, procedures and limitations relating to the exchange and exercise of such Debt Warrants.

Debt Warrant certificates will be exchangeable for new Debt Warrant certificates of different denominations and Debt Warrants may be exercised at the corporate trust office of the Warrant Agent or any other office indicated in the Prospectus Supplement. Prior to the exercise of their Debt Warrants, holders of Debt Warrants will not have any of the rights of holders of the Debt Securities purchasable upon such exercise and will not be entitled to payments of principal of (or premium, if any) or interest, if any, on the Debt Securities purchasable upon such exercise.

## Common Unit Warrants and Other Warrants

The applicable Prospectus Supplement will describe the terms of the Common Unit Warrants and Other Warrants offered thereby, the Warrant Agreement relating to such Warrants and the warrant certificates representing such Warrants, including the following:

- (1) the title of such Warrants;
- (2) the aggregate number of such Warrants;
- (3) the price or prices at which such Warrants will be issued;
- (4) the securities for which such Warrants are exercisable, and the price at which such securities may be purchased upon such exercise;
- (5) any provisions for adjustment of the number of Common Units or number or amount of other securities of ours or another issuer receivable upon exercise of such Warrants or the exercise price of such Warrants;
- (6) the date, if any, on and after which such Warrants and the related Common Units or other securities of the Company or another issuer will be separately transferable;
- (7) the date on which the right to exercise such Warrants shall commence, and the date on which such right shall expire;
- (8) the maximum or minimum number of such Warrants that may be exercised at any time;
- (9) a discussion of material federal income tax considerations, if any; and
- (10) any other terms of such Warrants, including terms, procedures and limitations relating to the exchange and exercise of such Warrants.

Warrant certificates will be exchangeable for new Warrant certificates of different denominations and Warrants may be exercised at the corporate trust office of the Warrant Agent or any other office indicated in the Prospectus Supplement. Prior to the exercise of their Warrants, holders of Warrants will not have any of the rights of holders of the securities purchasable upon such exercise and will not be entitled to any distributions or dividends on the securities purchasable upon exercise.

## Exercise of Warrants

Each Warrant will entitle the holder of the Warrant to purchase for cash such principal amount of Debt Securities, number of Common Units, or number or amount of other securities at such exercise price as shall in each case be set forth in, or be determinable as set forth in, the Prospectus Supplement relating to the Warrants offered thereby. Warrants may be exercised at any time up to the close of business on the expiration date set forth in the Prospectus Supplement relating to the Warrants offered thereby. After the close of business on the expiration date, unexercised Warrants will become void.

Warrants may be exercised as set forth in the Prospectus Supplement relating to the Warrants offered thereby. Upon receipt of payment and the warrant certificate properly completed and duly executed at the corporate trust office of the Warrant Agent or any other office indicated in the Prospectus Supplement, we will, as soon as practicable, forward the Debt Securities, Common Units or other securities purchasable upon such exercise. If less than all of the Warrants represented by such warrant certificate are exercised, a new warrant certificate will be issued for the remaining Warrants.

## DESCRIPTION OF DEBT SECURITIES

The Debt Securities will be:

- . direct secured or unsecured general obligations of Ferrellgas Partners, L.P. and Ferrellgas Partners Finance Corp. as co-obligors; and
- . either senior debt securities or subordinated debt securities.

Senior Debt Securities will be issued under a Senior Indenture and Subordinated Debt Securities will be issued under a Subordinated Indenture. The Senior Indenture and the Subordinated Indenture are each referred to as an "Indenture" and collectively referred to as the "Indentures." We will enter into the Indentures with a trustee that is qualified to act under the Trust Indenture Act of 1939, as amended (the "TIA") (together with any other trustee(s) chosen by us and appointed in a supplemental indenture with respect to a particular series of Debt Securities, the "Trustee"). The Trustee for each series of Debt Securities will be identified in the applicable Prospectus Supplement. The form of Indentures and any supplemental indentures will be filed by us from time to time by means of an exhibit to a Current Report on Form 8-K and will be available for inspection at the corporate trust office of the Trustee, or as described above under "Where You Can Find More Information." The Indentures will be subject to, and governed by, the TIA. We will execute an Indenture and supplemental indenture if and when we issue any Debt Securities.

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

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

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

In this section, references to the Partnership relate only to Ferrellgas Partners, L.P., the issuer of the Debt Securities, and not to our Subsidiaries. In the Indentures, the term "Subsidiary" means, with respect to any person:

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

At present, our only Subsidiaries are Ferrellgas, L.P., our subsidiary operating partnership, and Ferrellgas Partners Finance Corp.

#### Specific Terms of Each Series of Debt Securities in the Prospectus Supplement

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

- . the form and title of the Debt Securities;
- . the total principal amount of the Debt Securities;
- . the assets, if any, that are pledged as security for the payment of the Debt Securities;
- . the portion of the principal amount that will be payable if the maturity of the Debt Securities is accelerated;
- . the currency or currency unit in which the Debt Securities will be payable, if not U.S. dollars;
- . any right we may have to defer payments of interest by extending the dates payments are due whether interest on those deferred amounts will be payable as well;
- . the dates on which the principal of the Debt Securities will be payable;
- . the interest rate that the Debt Securities will bear and the interest payment dates for the Debt Securities;
- . any conversion or exchange provisions;
- . any optional redemption provisions;
- . any sinking fund or other provisions that would obligate us to repurchase or otherwise redeem the Debt Securities;
- . any changes to or additional Events of Default or covenants; and
- . any other terms of the Debt Securities.

#### Provisions Only in the Senior Indenture

##### Summary

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

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

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

## Limitations on Liens

The Senior Indenture will provide that the Partnership will not, nor will it permit any Subsidiary to, create, assume, incur or suffer to exist any lien upon any property or assets, whether owned or leased on the date of the Senior Indenture or thereafter acquired, to secure any debt of the Partnership or any other person (other than the Senior Debt Securities issued thereunder), without in any such case making effective provision whereby all of the Senior Debt Securities outstanding thereunder shall be secured equally and ratably with, or prior to, such debt so long as such debt shall be so secured.

There is excluded from this restriction:

1. Permitted Liens (as defined below);
2. with respect to any series, any lien upon any property or assets of the Partnership or any Subsidiary in existence on the date the Senior Debt Securities of such series are first issued or provided for pursuant to agreements existing on such date;
3. any lien upon any property or assets created at the time of acquisition of such property or assets by the Partnership or any Subsidiary or within one year after such time to secure all or a portion of the purchase price for such property or assets or debt incurred to finance such purchase price, whether such debt was incurred prior to, at the time of or within one year after the date of such acquisition;
4. any lien upon any property or assets existing thereon at the time of the acquisition thereof by the Partnership or any Subsidiary; provided, however, that such lien only encumbers the property or assets so acquired;
5. any lien upon any property or assets of a person existing thereon at the time such person becomes a Subsidiary by acquisition, merger or otherwise; provided, however, that such lien only encumbers the property or assets of such person at the time such person becomes a Subsidiary;
6. any lien upon any property or assets to secure all or part of the cost of construction, development, repair or improvements thereon or to secure debt incurred prior to, at the time of, or within one year after completion of such construction, development, repair or improvements or the commencement of full operations thereof (whichever is later), to provide funds for any such purpose;
7. liens imposed by law or order as a result of any proceeding before any court or regulatory body that is being contested in good faith, and liens which secure a judgment or other court-ordered award or settlement as to which the Partnership or the applicable Subsidiary has not exhausted its appellate rights;
8. any lien upon any additions, improvements, replacements, repairs, fixtures, appurtenances or component parts thereof attaching to or required to be attached to property or assets pursuant to the terms of any mortgage, pledge agreement, security agreement or other similar instrument, creating a lien upon such property or assets permitted by clauses (1) through (7) above; or
9. any extension, renewal, refinancing, refunding or replacement (or successive extensions, renewals, refinancing, refunding or replacements) of liens, in whole or in part, referred to in clauses (1) through (8) above; provided, however, that any such extension, renewal, refinancing, refunding or replacement lien shall be limited to the property or assets covered by the lien extended, renewed, refinanced, refunded or replaced and that the obligations secured by any such extension, renewal, refinancing, refunding or replacement lien shall be in an amount not greater than the amount of the obligations secured by the lien extended, renewed, refinanced, refunded or replaced and any expenses of the Partnership and its subsidiaries (including any premium) incurred in connection with such extension, renewal, refinancing, refunding replacement; or

10. any lien resulting from the deposit of moneys or evidence of indebtedness in trust for the purpose of defeasing debt of the Partnership or any Subsidiary.

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

"Permitted Liens" means:

- (1) zoning restrictions, easements, licenses, covenants, reservations, restrictions on the use of real property or minor irregularities of title incident thereto that do not, in the aggregate, materially detract from the value of the property or the assets of the Partnership or any of its Subsidiaries or impair the use of such property in the operation of the business of the Partnership or any of its Subsidiaries;
- (2) any statutory or governmental lien or lien arising by operation of law, or any mechanics', repairmen's, materialmen's, suppliers', vendors', carriers', landlords', warehousemen's or similar lien incurred in the ordinary course of business which is not yet due or which is being contested in good faith by appropriate proceedings and any undetermined lien which is incidental to construction, development, improvement or repair;
- (3) the right reserved to, or vested in, any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or by any provision of law, to purchase or recapture or to designate a purchaser of, any property;
- (4) liens of taxes and assessments which are (A) for the then current year, (B) not at the time delinquent, or (C) delinquent but the validity of which is being contested at the time by the Partnership or any Subsidiary in good faith;
- (5) liens of, or to secure performance of, leases, other than capital leases;
- (6) any lien upon, or deposits of, any assets in favor of any surety company or clerk of court for the purpose of obtaining indemnity or stay of judicial proceedings;
- (7) any lien upon property or assets acquired or sold by the Partnership or any Subsidiary resulting from the exercise of any rights arising out of defaults on receivables;
- (8) any lien incurred in the ordinary course of business in connection with workmen's compensation, unemployment insurance, temporary disability, social security, retiree health or similar laws or regulations or to secure obligations imposed by statute or governmental regulations;
- (9) any lien in favor of the Partnership or any Subsidiary;
- (10) any lien in favor of the United States of America or any state thereof, or any department, agency or instrumentality or political subdivision of the United States of America or any state thereof, to secure partial, progress, advance, or other payments pursuant to any contract or statute, or any

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

- (11) any lien securing industrial development, pollution control or similar revenue bonds;
- (12) any lien securing debt of the Partnership or any Subsidiary, all or a portion of the net proceeds of which are used, substantially concurrent with the funding thereof (and for purposes of determining such "substantial concurrence," taking into consideration, among other things, required notices to be given to holders of outstanding securities under the Indenture (including the Debt Securities) in connection with such refunding, refinancing or repurchase, and the required corresponding durations thereof), to refinance, refund or repurchase all outstanding securities under the Indenture (including the Debt Securities), including the amount of all accrued interest thereon and reasonable fees and expenses and premium, if any, incurred by the Partnership or any Subsidiary in connection therewith;
- (13) liens in favor of any person to secure obligations under the provisions of any letters of credit, bank guarantees, bonds or surety obligations required or requested by any governmental authority in connection with any contract or statute; or
- (14) any lien upon or deposits of any assets to secure performance of bids, trade contracts, leases or statutory obligations.

"Consolidated Net Tangible Assets" means, at any date of determination, the total amount of assets after deducting therefrom:

- (1) all current liabilities (excluding (A) any current liabilities that by their terms are extendable or renewable at the option of the obligor thereon to a time more than 12 months after the time as of which the amount thereof is being computed, and (B) current maturities of debt), and
- (2) the value (net of any applicable reserves) of all goodwill, trade names, trademarks, patents and other like intangible assets, all as set forth, or on a proforma basis would be set forth, on the consolidated balance sheet of the Partnership and its consolidated subsidiaries for the Partnership's most recently completed fiscal quarter, prepared in accordance generally accepted accounting principles.

#### Restriction on Sale-Leasebacks

The Senior Indenture will provide that the Partnership will not, and will not permit any Subsidiary to, engage in the sale or transfer by the Partnership or any Subsidiary of any property or assets to a person (other than the Partnership or a Subsidiary) and the taking back by the Partnership or any Subsidiary, as the case may be, of a lease of such property or assets (a "Sale-Leaseback Transaction"), unless:

- (1) such Sale-Leaseback Transaction occurs within one year from the date of completion of the acquisition of the property or assets subject thereto or the date of the completion of construction, development or substantial repair or improvement, or commencement of full operations on such property or assets, whichever is later;
- (2) the Sale-Leaseback Transaction involves a lease for a period, including renewals, of not more than the lesser of (A) three years and (B) 60% of the useful remaining life of such property;

- (3) the Partnership or such Subsidiary would be entitled to incur debt secured by a lien on the property or assets subject thereto in a principal amount equal to or exceeding the Attributable Indebtedness from such Sale-Leaseback Transaction without equally and ratably securing the Senior Debt Securities; or
- (4) the Partnership or such Subsidiary, within a one-year period after such Sale-Leaseback Transaction, applies or causes to be applied an amount not less than the Attributable Indebtedness from such Sale-Leaseback Transaction to (A) the prepayment, repayment, redemption, reduction or retirement of any debt of the Partnership or any Subsidiary that is not subordinated to the Senior Debt Securities, or (B) the expenditure or expenditures for property or assets used or to be used in the ordinary course of business of the Partnership or its Subsidiaries.

Notwithstanding the foregoing, the Indenture will permit the Partnership and its Subsidiaries to enter into Sale-Leaseback Transactions relating to propane tanks up to an aggregate principal amount of \$25 million at any time, provided that such transactions would not cause a default.

"Attributable Indebtedness," when used with respect to any to any Sale-Leaseback Transaction, means, as at the time of determination, the present value (discounted at the rate set forth or implicit in the terms of the lease included in such transaction) of the total obligations of the lessee for rental payments (other than amounts required to be paid on account of property taxes, maintenance, repairs, insurance, assessments, utilities, operating and labor costs and other items that do not constitute payments for property rights) during the remaining term of the lease included in such Sale-Leaseback Transaction (including any period for which such lease has been extended). In the case of any lease that is terminable by the lessee upon the payment of a penalty or other termination payment, such amount shall be the lesser of the amount determined assuming termination upon the first date such lease may be terminated (in which case the amount shall also include the amount of the penalty or termination payment, but no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be so terminated) or the amount determined assuming no such termination.

Notwithstanding the foregoing, under the Senior Indenture the Partnership may, and may permit any Subsidiary to, effect any Sale-Leaseback Transaction that is not excepted by clauses (1) through (4), inclusive, of the above paragraph, provided that the Attributable Indebtedness from such Sale-Leaseback Transaction, together with the aggregate principal amount of outstanding debt (other than the Senior Debt Securities) secured by liens upon property and assets not excepted by clauses (1) through (10), inclusive, of the second paragraph of the limitation on liens covenant described above, do not exceed 10% of Consolidated Net Tangible Assets.

#### Provisions Only in the Subordinated Indenture

##### Subordinated Debt Securities Subordinated to Senior Debt

The Subordinated Debt Securities will rank junior in right of payment to all of our Senior Debt. "Senior Debt" is defined to include all notes or other evidences of indebtedness, including guarantees of the Partnership for money borrowed by the Partnership, not expressed to be subordinate or junior in right of payment to any other indebtedness of the Partnership.

##### Payment Blockages

The Subordinated Indenture will provide that no payment of principal, interest and any premium on the Subordinated Debt Securities may be made in the event:

- . we or our property are involved in any voluntary or involuntary liquidation or bankruptcy;

- . we fail to pay the principal, interest, any premium or any other amounts on any Senior Debt when due; or
- . we have a nonpayment default on any Senior Debt that imposes a payment blockage on the Subordinated Debt Securities for a maximum of 179 days at any one time.

#### No Limitation on Amount of Senior Debt

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

#### Consolidation, Merger or Asset Sale

Each Indenture will, in general, allow us to consolidate or merge with a domestic partnership or corporation. They will also allow us to sell, lease or transfer all or substantially all of our property and assets to a domestic partnership or corporation. If this happens, the remaining or acquiring partnership or corporation must assume all of our responsibilities and liabilities under the Indentures including the payment of all amounts due on the Debt Securities and performance of the covenants in the Indentures.

However, we will only consolidate or merge with or into a partnership or corporation or sell, lease or transfer all or substantially all of our assets according to the terms and conditions of the Indentures, which will include the following requirements:

- . the remaining or acquiring partnership or corporation is organized under the laws of the United States, any state or the District of Columbia;
- . the remaining or acquiring partnership or corporation assumes the Partnership's obligations under the Indentures; and
- . immediately after giving effect to the transaction no Default or Event of Default (as defined below) exists.

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

#### Modification of Indentures

Under each Indenture, generally we and the Trustee may modify our rights and obligations and the rights of the holders with the consent of the holders of a majority in aggregate principal amount of the outstanding Debt Securities of each series affected by the modification. No modification of the principal or interest payment terms, and no modification reducing the percentage required for modifications, is effective against any holder without its consent. In addition, the Partnership and the Trustee may amend the Indentures without the consent of any holder of the Debt Securities to make certain technical changes, such as:

- . correcting errors;
- . providing for a successor trustee;
- . qualifying the Indentures under the Trust Indenture Act; or

- . adding provisions relating to a particular series of Debt Securities.

#### Events of Default and Remedies

"Event of Default" when used in an Indenture, will mean any of the following:

- . failure to pay the principal of or any premium on any Debt Security when due;
- . failure to pay interest on any Debt Security for 30 days;
- . failure to perform any other covenant in the Indenture that continues for 60 days after being given written notice;
- . certain events of bankruptcy, insolvency or reorganization of the Partnership; or
- . any other Event of Default included in any Indenture or supplemental indenture.

An Event of Default for a particular series of Debt Securities does not necessarily constitute an Event of Default for any other series of Debt Securities issued under an Indenture. The Trustee may withhold notice to the holders of Debt Securities of any default (except in the payment of principal or interest) if it considers such withholding of notice to be in the best interests of the holders.

If an Event of Default for any series of Debt Securities occurs and continues, the Trustee or the holders of at least 25% in aggregate principal amount of the Debt Securities of the series may declare the entire principal of all the Debt Securities of that series to be due and payable immediately. If this happens, subject to certain conditions, the holders of a majority of the aggregate principal amount of the Debt Securities of that series can void the declaration.

Other than its duties in case of a default, a Trustee is not obligated to exercise any of its rights or powers under any Indenture at the request, order or direction of any holders, unless the holders offer the Trustee reasonable indemnity. If they provide this reasonable indemnification, the holders of a majority in principal amount of any series of Debt Securities may direct the time, method and place of conducting any proceeding or any remedy available to the Trustee, or exercising any power conferred upon the Trustee, for any series of Debt Securities.

#### No Limit on Amount of Debt Securities

Neither of the Indentures will limit the amount of Debt Securities that we may issue. Each Indenture allows us to issue Debt Securities up to the principal amount that we authorize.

#### Registration of Notes

We may issue Debt Securities of a series in registered, bearer, coupon or global form.

#### Minimum Denominations

Unless the prospectus supplement for each issuance of Debt Securities states otherwise the securities will be issued in registered form in amounts of \$1,000 each or multiples of \$1,000.

#### No Personal Liability of General Partner

Unless otherwise stated in a prospectus supplement and supplemental indenture relating to a series of Debt Securities being offered, the General Partner and its directors, officers, employees and shareholders will not have

any liability for our obligations under the Indentures or the Debt Securities. Each holder of Debt Securities by accepting a Debt Security waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Debt Securities.

#### Payment and Transfer

Principal, interest and any premium on fully registered securities will be paid at designated places. Payment will be made by check mailed to the persons in whose names the Debt Securities are registered on days specified in the Indentures or any prospectus supplement. Debt Securities payments in other forms will be paid at a place designated by us and specified in a prospectus supplement.

Fully registered securities may be transferred or exchanged at the corporate trust office of the Trustee or at any other office or agency maintained by us for such purposes, without the payment of any service charge except for any tax or governmental charge.

#### Discharging Our Obligations

We may choose to either discharge our obligations on the Debt Securities of any series in a legal defeasance, or to release ourselves from our covenant restrictions on the Debt Securities of any series in a covenant defeasance. We may do so at any time on the 91st day after we deposit with the Trustee sufficient cash or government securities to pay the principal, interest, any premium and any other sums due to the stated maturity date or a redemption date of the Debt Securities of the series. If we choose the legal defeasance option, the holders of the Debt Securities of the series will not be entitled to the benefits of the Indenture except for registration of transfer and exchange of Debt Securities, replacement of lost, stolen or mutilated Debt Securities conversion or exchange of Debt Securities, sinking fund payments and receipt of principal and interest on the original stated due dates or specified redemption dates.

We may discharge our obligations under the Indentures or release ourselves from covenant restrictions only if we meet certain requirements. Among other things, we must deliver an opinion of our legal counsel that the discharge will not result in holders of Debt Securities having to recognize taxable income or loss or subject then to different tax treatment. In the case of legal defeasance, this opinion must be based on either an IRS letter ruling or change in federal tax law. We may not have a default on the Debt Securities discharged on the date of deposit. The discharge may not violate any of our agreements. The discharge may not result in our becoming an investment company in violation of the Investment Company Act of 1940.

#### Book Entry, Delivery and Form

The Debt Securities of a series may be issued in whole or in part in the form of one or more global certificates that will be deposited with a depository identified in a prospectus supplement.

Unless otherwise stated in any prospectus supplement, The Depository Trust Company, New York, New York ("DTC") will act as depository. Book-entry notes of a series will be issued in the form of a global note that will be deposited with DTC. This means that we will not issue certificates to each holder. One global note will be issued to DTC who will keep a computerized record of its participants (for example, your broker) whose clients have purchased the notes. The participant will then keep a record of its clients who purchased the notes. Unless it is exchanged in whole or in part for a certificate note, a global note may not be transferred; except that DTC, its nominees and their successors may transfer a global note as a whole to one another.

Beneficial interests in global notes will be shown on, and transfers of global notes will be made only through, records maintained by DTC and its participants.

DTC has provided us the following information: DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered under the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also records the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through computerized records for Direct Participant's accounts. This eliminates the need to exchange certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

DTC's book-entry system is also used by other organizations such as securities brokers and dealers, banks and trust companies that work through a Direct Participant. The rules that apply to DTC and its participants are on file with the SEC.

DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., The American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc.

We will wire principal and interest payments to DTC's nominee. We and the Trustee will treat DTC's nominee as the owner of the global notes for all purposes. Accordingly, we, the Trustee and any paying agent will have no direct responsibility or liability to pay amounts due on the global notes to owners of beneficial interests in the global notes.

It is DTC's current practice, upon receipt of any payment of principal or interest, to credit Direct Participants' accounts on the payment date according to their respective holdings of beneficial interests in the global notes as shown on DTC's records. In addition, it is DTC's current practice to assign any consenting or voting rights to Direct Participants whose accounts are credited with notes on a record date, by using an omnibus proxy. Payments by participants to owners of beneficial interests in the global notes, and voting by participants, will be governed by the customary practices between the participants and owners of beneficial interests, as is the case with notes held for the account of customers registered in "street name." However, payments will be the responsibility of the participants and not of DTC, the Trustee or us.

Notes represented by a global note will be exchangeable for certificated notes with the same terms in authorized denominations only if:

- . DTC notifies us that it is unwilling or unable to continue as depositary or if DTC ceases to be a clearing agency registered under applicable law and a successor depositary is not appointed by us within 90 days; or
- . we determine not to require all of the notes of a series to be represented by a global note and notify the Trustee of our decision.

The Trustee

#### Resignation or Removal of Trustee

Under provisions of the Indentures and the Trust Indenture Act of 1939, as amended, governing trustee conflicts of interest, any uncured Event of Default with respect to any series of Senior Debt Securities will force the trustee to resign as trustee under either the Subordinated Indenture or the Senior Indenture. Also, any uncured Event of Default with respect to any series of Subordinated Debt Securities will force the trustee to resign as trustee under either the Senior Indenture or the Subordinated Indenture. Any resignation will require the appointment of a successor trustee under the applicable Indenture in accordance with the terms and conditions of such Indenture.

The Trustee may resign or be removed by us with respect to one or more series of Debt Securities and a successor trustee may be appointed to act with respect to any such series. The holders of a majority in aggregate principal amount of the Debt Securities of any series may remove the Trustee with respect to the Debt Securities of such series.

#### Limitations on Trustee if it is a Creditor of the Partnership

Each Indenture will contain certain limitations on the right of the Trustee thereunder, in the event that it becomes a creditor of the Partnership, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise.

#### Annual Trustee Report to Holders of Debt Securities

The Trustee is required to submit an annual report to the holders of the Debt Securities regarding, among other things, the Trustee's eligibility to serve as such, the priority of the Trustee's claims regarding certain advances made by it, and any action taken by the Trustee materially affecting the Debt Securities.

#### Certificates and Opinions to Be Furnished to Trustee

Each Indenture will provide that, in addition to other certificates or opinions that may be specifically required by other provisions of an Indenture, every application by us for action by the Trustee shall be accompanied by a certificate of certain of our officers and an opinion of counsel (who may be our counsel) stating that, in the opinion of the signers, all conditions precedent to such action have been complied with by us.

## TAX CONSIDERATIONS

This section is a summary of material tax considerations that may be relevant to prospective unitholders and, to the extent set forth below under "-- Legal Opinions and Advice," expresses the opinion of Andrews & Kurth L.L.P. ("Counsel"), insofar as it relates to matters of law and legal conclusions. This section is based upon current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), existing and proposed regulations thereunder and current administrative rulings and court decisions, all of which are subject to change. Subsequent changes in such authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to "us" are references to the Partnership and the Operating Partnership and not to Ferrellgas Partners Finance Corp.

No attempt has been made in the following discussion to comment on all federal income tax matters affecting us or the unitholders. Moreover, the discussion focuses on unitholders who are individual citizens or residents of the United States and has only limited application to corporations, estates, trusts, non-resident aliens or other unitholders subject to specialized tax treatment (such as tax-exempt institutions, foreign persons, individual retirement accounts, REITs or mutual funds). Accordingly, each prospective unitholder should consult, and should depend on, his own tax advisor in analyzing the federal, state, local and foreign tax consequences peculiar to him of the ownership or disposition of Common Units.

### Legal Opinions and Advice

Counsel is of the opinion that, based on the accuracy of the representations and subject to the qualifications set forth in the detailed discussion that follows, for federal income tax purposes (i) we and the Operating Partnership will each be treated as a partnership, and (ii) owners of Common Units (with certain exceptions, as described in "--Limited Partner Status" below) will be treated as partners of the Partnership (but not the Operating Partnership). In addition, all statements as to matters of law and legal conclusions contained in this section, unless otherwise noted, reflect the opinion of Counsel. (All references to "us," "we" or "our" are to the Partnership and not Counsel.)

We have not requested, and do not expect to request a ruling from the Internal Revenue Service (the "IRS") with respect to our classification as a partnership for federal income tax purposes, whether our propane operations generate "qualifying income" under Section 7704 of the Code or any other matter affecting us or prospective unitholders. Instead, we have relied, and will rely, on the opinions of counsel as to these matters stated here.

An opinion of counsel represents only that counsel's best legal judgment and does not bind the IRS or the courts. No assurance can be provided that the opinions and statements set forth herein would be sustained by a court if contested by the IRS. Any such contest with the IRS may materially and adversely impact the market for the Common Units and the prices at which Common Units trade even if we prevail. In addition, the costs of any contest with the IRS will be borne directly or indirectly by the unitholders and the General Partner. Furthermore, no assurance is given that our treatment or an investment in us will not be significantly modified by future legislative or administrative changes or court decisions. Any such modification may even be retroactively applied.

For the reasons hereinafter described, Counsel has not rendered an opinion with respect to the following specific federal income tax issues: (i) the treatment of a unitholder whose Common Units are loaned to a short seller to cover a short sale of Common Units (see "--Tax Treatment of Unitholders-- Treatment of Short Sales"), (ii) whether a unitholder acquiring Common Units in separate transactions must maintain a single aggregate adjusted tax basis in his Common Units (see "--Disposition of Common Units-- Recognition of Gain or Loss"), (iii) whether our monthly convention for allocating taxable income and losses is permitted by existing Treasury Regulations (see "--Disposition of Common Units--Allocations Between Transferors and Transferees"), (iv) whether our method for depreciating Section 743 adjustments is sustainable (see "--Disposition of Common Units--Section 754 Election") and (v) whether the allocations of recapture income contained in the Partnership Agreement will be respected for federal income tax purposes (see "--Tax Treatment of Unitholders-- Allocation of Partnership Income, Gain, Loss and Deduction").

## Partnership Status

A partnership is not a taxable entity and incurs no federal income tax liability. Instead, each partner is required to take into account his allocable share of items of income, gain, loss and deduction of the partnership in computing his federal income tax liability, regardless of whether cash distributions are made. Distributions by a partnership to a partner are generally not taxable unless the amount of any cash distributed is in excess of the partner's adjusted basis in his partnership interest.

As we said earlier, we have not requested, and do not expect to request any ruling from the IRS as to our status or that of the Operating Partnership for federal income tax purposes. Instead we have relied on the opinion of Counsel that, based upon the Code, the regulations thereunder, published revenue rulings and court decisions, we and the Operating Partnership have been and will each be classified as a partnership for federal income tax purposes.

In rendering its opinion with respect to taxable years beginning before January 1, 1997, Counsel relied on different factual matters which the General Partner believes are true. In rendering its opinion as to taxable years beginning after December 31, 1996, Counsel has relied on certain factual representations made by us and the General Partner. Such factual matters are as follows:

(a) Neither we nor the Operating Partnership has elected nor will elect to be treated as an association or corporation;

(b) We and the Operating Partnership have been and will be operated in accordance with (i) all applicable partnership statutes, (ii) the Partnership Agreement or Operating Partnership Agreement (whichever is applicable), and (iii) the description of the applicable agreement in this Prospectus; and

(c) For each taxable year, more than 90% of our gross income will be (i) derived from the exploration, development, production, processing, refining, transportation or marketing of any mineral or natural resource, including oil, gas or products thereof, or (ii) other items of "qualifying income" within the meaning of Section 7704(d) of the Code.

Section 7704 of the Code provides that publicly-traded partnerships will, as a general rule, be taxed as corporations. However, an exception (the "Qualifying Income Exception") exists with respect to publicly-traded partnerships of which 90% or more of the gross income for every taxable year consists of "qualifying income." Qualifying income includes interest (from other than a financial business), dividends and income and gains from the processing, transportation and marketing of crude oil, natural gas, and products thereof, including the retail and wholesale marketing of propane, certain hedging activities and the transportation of propane and natural gas liquids.

If we fail to meet the Qualifying Income Exception (other than a failure which is determined by the IRS to be inadvertent and which is cured within a reasonable time after discovery), we will be treated as if we transferred all of our assets (subject to liabilities) to a newly formed corporation (on the first day of the year in which we fail to meet the Qualifying Income Exception) in return for stock in that corporation, and then distributed that stock to the partners in liquidation of their interests in us. This contribution and liquidation should be tax-free to unitholders and us, so long as we, at that time, do not have liabilities in excess of the tax basis of our assets. Thereafter, we would be treated as a corporation for federal income tax purposes.

If we or the Operating Partnership were treated as an association taxable as a corporation in any taxable year, either as a result of a failure to meet the Qualifying Income Exception or otherwise, our items of income, gain, loss and deduction would be reflected only on our tax return rather than being passed through to the unitholders, and our net income would be taxed to us or the Operating Partnership at corporate rates. In addition, any distributions we made to a unitholder would be treated as either taxable dividend income (to the extent of our current or accumulated earnings and profits) or (in the absence of earnings and profits) a nontaxable return of capital (to the

extent of the unitholder's tax basis in his Common Units) or taxable capital gain (after the unitholder's tax basis in the Common Units is reduced to zero). Accordingly, treatment of either us or the Operating Partnership as an association taxable as a corporation would result in a material reduction in a unitholder's cash flow and after-tax return and thus would likely result in a substantial reduction of the value of the Common Units.

The discussion below is based on the assumption that we will be classified as a partnership for federal income tax purposes.

#### Tax Treatment of Unitholders

##### Limited Partner Status

Unitholders who have become our limited partners will be treated as our partners for federal income tax purposes. Assignees who have executed and delivered Transfer Applications, and are awaiting admission as limited partners and unitholders whose Common Units are held in street name or by a nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their Common Units will be treated as our partners for federal income tax purposes. Because there is no direct authority addressing assignees of Common Units who are entitled to execute and deliver Transfer Applications and thereby become entitled to direct the exercise of attendant rights, but who fail to execute and deliver Transfer Applications, it is not clear whether that conclusion extends to them. Income, gain, deductions or losses would not appear to be reportable by a unitholder who is not a partner for federal income tax purposes, and any cash distributions received by such a unitholder would therefore be fully taxable as ordinary income. These holders should consult their own tax advisors with respect to their status as our partners for federal income tax purposes. Furthermore, a purchaser or other transferee of Common Units who does not execute and deliver a Transfer Application may not receive certain federal income tax information or reports furnished to record holders of Common Units unless the Common Units are held in a nominee or street name account and the nominee or broker has executed and delivered a Transfer Application with respect to such Common Units. A beneficial owner of Common Units whose Common Units have been transferred to a short seller to complete a short sale would appear to lose his status as a partner with respect to such Common Units for federal income tax purposes. These holders should consult their own tax advisors with respect to their status as our partners for federal income tax purposes. See "--Tax Treatment of Unitholders--Treatment of Short Sales."

##### Flow-through of Taxable Income

We will pay no federal income tax. Instead, each unitholder will be required to report on his income tax return his allocable share of our income, gains, losses and deductions without regard to whether corresponding cash distributions are received by such unitholder. Consequently, a unitholder may be allocated a share of our income even if he has not received a cash distribution. Each unitholder will be required to include in income his allocable share of our income, gain, loss and deduction for our taxable year ending with or within his taxable year.

##### Treatment of Partnership Distributions

Our distributions to a unitholder generally will not be taxable to the unitholder for federal income tax purposes to the extent of his tax basis in his Common Units immediately before the distribution. Our cash distributions in excess of a unitholder's tax basis generally will be considered to be gain from the sale or exchange of the Common Units, taxable in accordance with the rules described under "--Disposition of Common Units" below. Any reduction in a unitholder's share of our liabilities for which no partner, including the General Partner, bears the economic risk of loss ("nonrecourse liabilities") will be treated as a distribution of cash to that unitholder. To the extent that our distributions cause a unitholder's "at risk" amount to be less than zero at the end of any taxable year, he must recapture any losses deducted in previous years. See "--Tax Treatment of Unitholders --Limitations on Deductibility of Partnership Losses."

A decrease in a unitholder's percentage interest in us because of our issuance of additional Common Units will decrease such unitholder's share of nonrecourse liabilities, and thus will result in a corresponding deemed distribution of cash. Our non-pro rata distribution of money or property may result in ordinary income to a unitholder, regardless of his tax basis in his Common Units, if such distribution reduces the unitholder's share of our "unrealized receivables" (including depreciation recapture) and/or substantially appreciated "inventory items" (both as defined in Section 751 of the Code) (collectively, "Section 751 Assets"). To that extent, the unitholder will be treated as having been distributed his proportionate share of the Section 751 Assets and having exchanged such assets with us in return for the non-pro rata portion of the actual distribution made to him. This latter deemed exchange will generally result in the unitholder's realization of ordinary income under Section 751(b) of the Code. Such income will equal the excess of (1) the non-pro rata portion of such distribution over (2) the unitholder's tax basis for the share of such Section 751 Assets deemed relinquished in the exchange.

#### Alternative Minimum Tax

Each unitholder will be required to take into account his distributive share of any of our items of income, gain, deduction or loss for purposes of the alternative minimum tax. A portion of our depreciation deductions may be treated as an item of preference for this purpose. A unitholder's alternative minimum taxable income derived from us may be higher than his share of our net income because we may use accelerated methods of depreciation for purposes of computing federal taxable income or loss. The minimum tax rate for noncorporate taxpayers is 26% on the first \$175,000 of alternative minimum taxable income in excess of the exemption amount and 28% on any additional alternative minimum taxable income. Prospective unitholders should consult with their tax advisors as to the impact of an investment in Common Units on their liability for the alternative minimum tax.

#### Basis of Common Units

A unitholder will have an initial tax basis for his Common Units equal to the amount he paid for the Common Units plus his share of our nonrecourse liabilities. His basis will be increased by his share of our income and by any increases in his share of our nonrecourse liabilities. His basis will be decreased (but not below zero) by his share of our distributions, our losses, any decrease in our nonrecourse liabilities and our expenditures that are not deductible in computing our taxable income and are not required to be capitalized. A limited partner will have no share of our debt which is recourse to the General Partner, but will have a share, generally based on his share of profits, of our debt which is not recourse to any partner. See "--Disposition of Common Units--Recognition of Gain or Loss."

#### Limitations on Deductibility of Partnership Losses

The deduction by a unitholder of his share of our losses will be limited to his tax basis in his Common Units and, in the case of an individual unitholder or a corporate unitholder (if more than 50% of the value of its stock is owned directly or indirectly by five or fewer individuals or certain tax-exempt organizations), to the amount for which the unitholder is considered to be "at risk" with respect to our activities, if that is less than the unitholder's tax basis. A unitholder must recapture losses deducted in previous years to the extent that our distributions cause the unitholder's at risk amount to be less than zero at the end of any taxable year. Losses disallowed to a unitholder or recaptured as a result of these limitations will carry forward and will be allowable to the extent that the unitholder's tax basis or at risk amount (whichever is the limiting factor) subsequently increases. Upon the taxable disposition of a Common Unit, any gain recognized by a unitholder can be offset by losses that were previously suspended by the at risk limitation but may not be offset by losses suspended by the basis limitation. Any excess loss (above such gain) previously suspended by the at risk or basis limitations is no longer utilizable.

In general, a unitholder will be at risk to the extent of his tax basis in his Common Units, excluding any portion of that basis attributable to his share of our nonrecourse liabilities, reduced by any amount of money the unitholder borrows to acquire or hold his Common Units if the lender of such borrowed funds owns an interest in us, is related to such a person or can look only to Common Units for repayment. A unitholder's at risk amount

will increase or decrease as the tax basis of the unitholder's Common Units increases or decreases (other than tax basis increases or decreases attributable to increases or decreases in his share of our nonrecourse liabilities).

The passive loss limitations generally provide that individuals, estates, trusts and certain closely-held corporations and personal service corporations can deduct losses from passive activities (generally, activities in which the taxpayer does not materially participate) only to the extent of the taxpayer's income from those passive activities. The passive loss limitations are applied separately with respect to each publicly-traded partnership. Consequently, any passive losses generated by us will only be available to offset future income generated by us and will not be available to offset income from other passive activities or investments (including other publicly-traded partnerships) or salary or active business income. Passive losses which are not deductible because they exceed a unitholder's share of our income may be deducted in full when he disposes of his entire investment in us in a fully taxable transaction to an unrelated party. The passive activity loss rules are applied after other applicable limitations on deductions such as the at risk rules and the basis limitation.

A unitholder's share of our net income may be offset by any suspended passive losses from us, but it may not be offset by any other current or carryover losses from other passive activities, including those attributable to other publicly-traded partnerships. The IRS has announced that Treasury Regulations will be issued which characterize net passive income from a publicly-traded partnership as investment income for purposes of the limitations on the deductibility of investment interest.

#### Limitations on Interest Deductions

The deductibility of a non-corporate taxpayer's "investment interest expense" is generally limited to the amount of such taxpayer's "net investment income." As noted, a unitholder's net passive income from us will be treated as investment income for this purpose. In addition, the unitholder's share of our portfolio income will be treated as investment income. Investment interest expense includes (i) interest on indebtedness properly allocable to property held for investment, (ii) our interest expense attributed to portfolio income, and (iii) the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income. The computation of a unitholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a Common Unit. Net investment income includes gross income from property held for investment and amounts treated as portfolio income pursuant to the passive loss rules less deductible expenses (other than interest) directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment.

#### Allocation of Partnership Income, Gain, Loss and Deduction

In general, if we have a net profit, our items of income, gain, loss and deduction will be allocated among the General Partner and the unitholders in accordance with their respective percentage interests in us. At any time that distributions are made to the Common Units and not to the Subordinated Units, or that Incentive Distributions are made to the General Partner, gross income will be allocated to the recipients to the extent of such distributions. If we have a net loss, our items of income, gain, loss and deduction will generally be allocated first, to the General Partner and the unitholders in accordance with their respective Percentage Interests to the extent of their positive capital accounts (as maintained under the Partnership Agreement) and, second, to the General Partner.

As required by Section 704(c) of the Code and as permitted by Regulations thereunder, certain items of our income, deduction, gain and loss will be allocated to account for the difference between the tax basis and fair market value of property contributed to us by the General Partner or any other person contributing property to us ("Contributed Property"), and to account for the difference between the fair market value of our assets and their carrying value on our books at the time of any offering made pursuant to this prospectus. The effect of these allocations to a unitholder purchasing Common Units pursuant to this prospectus will be essentially the same as if the tax basis of our assets were equal to their fair market value at the time of purchase. In addition, certain items of recapture income will be allocated to the extent possible to the partner allocated the deduction or curative allocation

giving rise to the treatment of such gain as recapture income in order to minimize the recognition of ordinary income by some unitholders. Finally, although we do not expect that our operations will result in the creation of negative capital accounts, if negative capital accounts nevertheless result, items of our income and gain will be allocated in an amount and manner sufficient to eliminate the negative balance as quickly as possible.

Regulations provide that an allocation of items of partnership income, gain, loss or deduction, other than an allocation required by Section 704(c) of the Code to eliminate the difference between a partner's "book" capital account (credited with the fair market value of Contributed Property) and "tax" capital account (credited with the tax basis of Contributed Property) (the "Book-Tax Disparity"), will generally be given effect for federal income tax purposes in determining a partner's distributive share of an item of income, gain, loss or deduction only if the allocation has substantial economic effect. In any other case, a partner's distributive share of an item will be determined on the basis of the partner's interest in the partnership, which will be determined by taking into account all the facts and circumstances, including the partner's relative contributions to the partnership, the interests of the partners in economic profits and losses, the interest of the partners in cash flow and other nonliquidating distributions and rights of the partners to distributions of capital upon liquidation. Counsel is of the opinion that, with the exception of the allocation of recapture income discussed above, allocations under our partnership agreement will be given effect for federal income tax purposes in determining a partner's distributive share of an item of income, gain, loss or deduction.

#### Entity-Level Collections

If we are required or elect under applicable law to pay any federal, state or local income tax on behalf of any unitholder or the General Partner or any former unitholder, we are authorized to pay those taxes from our funds. Such payment, if made, will be treated as a distribution of cash to the partner on whose behalf the payment was made. If the payment is made on behalf of a person whose identity cannot be determined, we are authorized to treat the payment as a distribution to current unitholders. We are authorized to amend our partnership agreement in the manner necessary to maintain uniformity of intrinsic tax characteristics of Common Units and to adjust subsequent distributions, so that after giving effect to such distributions, the priority and characterization of distributions otherwise applicable under our partnership agreement is maintained as nearly as is practicable. Payments by us as described above could give rise to an overpayment of tax on behalf of an individual partner in which event the partner could file a claim for credit or refund.

#### Treatment of Short Sales

A unitholder whose Common Units are loaned to a "short seller" to cover a short sale of Common Units may be considered as having disposed of ownership of those Common Units. If so, he would no longer be a partner with respect to those Common Units during the period of the loan and may recognize gain or loss from the disposition. As a result, during this period, any of our income, gain, deduction or loss with respect to those Common Units would not be reportable by the unitholder, any cash distributions received by the unitholder with respect to those Common Units would be fully taxable and all of such distributions would appear to be treated as ordinary income. Unitholders desiring to assure their status as partners and avoid the risk of gain recognition should modify any applicable brokerage account agreements to prohibit their brokers from borrowing their Common Units. The IRS has announced that it is actively studying issues relating to the tax treatment of short sales of partnership interests. See also "--Disposition of Common Units--Recognition of Gain or Loss."

#### Tax-Exempt Organizations and Certain Other Investors

Ownership of Common Units by employee benefit plans, other tax-exempt organizations, nonresident aliens, foreign corporations, other foreign persons and regulated investment companies raises issues unique to such persons and, as described below, may have substantially adverse tax consequences. Employee benefit plans and most other organizations exempt from federal income tax (including individual retirement accounts ("IRAs") and other retirement plans) are subject to federal income tax on unrelated business taxable income. Much of the taxable

income derived by such an organization from the ownership of a Common Unit will be unrelated business taxable income and thus will be taxable to such a unitholder.

A regulated investment company or "mutual fund" is required to derive 90% or more of its gross income from interest, dividends, gains from the sale of stocks or securities or foreign currency or certain related sources. It is not anticipated that any significant amount of our gross income will include that type of income.

Non-resident aliens and foreign corporations, trusts or estates which hold Common Units will be considered to be engaged in business in the United States on account of ownership of Common Units. As a consequence they will be required to file federal tax returns in respect of their share of our income, gain, loss or deduction and pay federal income tax at regular rates on any net income or gain. Generally, a partnership is required to pay a withholding tax on the portion of the partnership's income which is effectively connected with the conduct of a United States trade or business and which is allocable to the foreign partners, regardless of whether any actual distributions have been made to such partners. However, under rules applicable to publicly-traded partnerships, we will withhold (currently at the rate of 39.6%) on actual cash distributions made quarterly to foreign unitholders. Each foreign unitholder must obtain a taxpayer identification number from the IRS and submit that number to our Transfer Agent on a Form W-8 in order to obtain credit for the taxes withheld. A change in applicable law may require us to change these procedures.

Because a foreign corporation which owns Common Units will be treated as engaged in a United States trade or business, such a corporation may be subject to United States branch profits tax at a rate of 30%, in addition to regular federal income tax, on its allocable share of our income and gain (as adjusted for changes in the foreign corporation's "U.S. net equity") which are effectively connected with the conduct of a United States trade or business. An income tax treaty between the United States and the country with respect to which the foreign corporate unitholder is a "qualified resident" may reduce or eliminate this tax. In addition, such a unitholder is subject to special information reporting requirements under Section 6038C of the Code.

Under a ruling of the IRS a foreign unitholder who sells or otherwise disposes of a Common Unit will be subject to federal income tax on gain realized on the disposition of such Common Unit to the extent that such gain is effectively connected with a United States trade or business of the foreign unitholder. Apart from the ruling, a foreign unitholder will not be taxed upon the disposition of a Common Unit if that foreign unitholder has held less than 5% in value of the Common Units during the five-year period ending on the date of the disposition and if the Common Units are regularly traded on an established securities market at the time of the disposition.

#### Tax Treatment of Operations

##### Accounting Method and Taxable Year

We currently use the fiscal year ending July 31 as our taxable year and we have adopted the accrual method of accounting for federal income tax purposes. We have requested permission from the IRS to continue using a fiscal year ending July 31 as our taxable year but if that permission is not granted, we may be required to use the calendar year. Each unitholder will be required to include in income his allocable share of our income, gain, loss and deduction for our fiscal year ending within or with his taxable year. In addition, a unitholder who disposes of Common Units following the close of our taxable year but before the close of his taxable year must include his allocable share of our income, gain, loss and deduction in income for his taxable year with the result that he will be required to report in income for his taxable year his distributive share of more than one year of our income, gain, loss and deduction. See "--Disposition of Common Units--Allocations Between Transferors and Transferees." In view of our publicly-traded nature, it may be impossible to determine our appropriate taxable year. If, as a result, we failed to timely provide information to unitholders, we could be exposed to certain penalties. We do not expect to incur such penalties and, even if incurred, do not expect that such penalties would be material.

## Initial Tax Basis, Depreciation and Amortization

We will use the tax basis of our various assets for purposes of computing depreciation and cost recovery deductions and, ultimately, gain or loss on the disposition of such assets. Our assets initially had an aggregate tax basis equal to the tax basis of the assets in the possession of the General Partner immediately prior to our formation. The federal income tax burden associated with the difference between the fair market value of our property and its tax basis immediately prior to this offering will be borne by partners holding interests in us prior to this offering. See "--Tax Treatment of Unitholders--Allocation of Partnership Income, Gain, Loss and Deduction." If we dispose of depreciable property by sale, foreclosure, or otherwise, all or a portion of any gain (determined by reference to the amount of depreciation previously deducted and the nature of the property) may be subject to the recapture rules and taxed as ordinary income rather than capital gain. Similarly, a partner who has taken cost recovery or depreciation deductions with respect to property owned by us may be required to recapture such deductions as ordinary income upon a sale of his interest in us. See "--Tax Treatment of Unitholders--Allocation of Partnership Income, Gain, Loss and Deduction" and "--Disposition of Common Units--Recognition of Gain or Loss." Costs incurred in our organization are being amortized over a period of 60 months. The costs incurred in promoting the issuance of Common Units (i.e. syndication expenses) must be capitalized and cannot be deducted currently, ratably or upon our termination. Uncertainties exist regarding the classification of costs as organization expenses, which may be amortized, and as syndication expenses, which may not be amortized. Under recently adopted regulations, underwriting discounts and commissions are treated as a syndication cost.

## Uniformity of Common Units

Because we cannot match transferors and transferees of Common Units, uniformity of the economic and tax characteristics of the Common Units to a purchaser of such Common Units must be maintained. In the absence of uniformity, compliance with a number of federal income tax requirements, both statutory and regulatory, could be substantially diminished. A lack of uniformity can result from a literal application of Treasury Regulation Section 1.167(c)-1(a)(6) and Proposed Treasury Regulation Section 1.197-2(g)(3). Any non-uniformity could have a negative impact on the value of the Common Units. See "--Disposition of Common Units--Section 754 Election."

We intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of contributed property or adjusted property (to the extent of any unamortized Book-Tax Disparity) using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the basis of such property, or treat that portion as nonamortizable, to the extent attributable to property the basis of which is not amortizable consistent with the proposed regulations under Section 743 (but despite its apparent inconsistency with Treasury Regulation Section 1.167(c)-1(a)(6) (which is not expected to directly apply to a material portion of our assets) and Proposed Treasury Regulation Section 1.197-2(g)(3)). See "--Disposition of Common Units--Section 754 Election." To the extent such Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Regulations and legislative history. If we determine that such a position cannot reasonably be taken, we may adopt a depreciation and amortization convention under which all purchasers acquiring Common Units in the same month would receive depreciation and amortization deductions, whether attributable to Basis or Section 743(b) basis, based upon the same applicable rate as if they had purchased a direct interest in our property. If such an aggregate approach is adopted, it may result in lower annual depreciation and amortization deductions than would otherwise be allowable to certain unitholders and risk the loss of depreciation and amortization deductions not taken in the year that such deductions are otherwise allowable. This convention will not be adopted if we determine that the loss of depreciation and amortization deductions will have a material adverse effect on the unitholders. If we choose not to utilize this aggregate method, we may use any other reasonable depreciation and amortization convention to preserve the uniformity of the intrinsic tax characteristics of any Common Units that would not have a material adverse effect on the unitholders. The IRS may challenge any method of depreciating the Section 743(b) adjustment described in this paragraph. If such a challenge were sustained, the uniformity of Common Units might

be affected, and the gain from the sale of Common Units might be increased without the benefit of additional deductions. See "-- Disposition of Common Units--Recognition of Gain or Loss."

#### Valuation of Partnership Property and Basis of Properties

The federal income tax consequences of the ownership and disposition of Common Units will depend in part on our estimates as to the relative fair market values, and determinations of the initial tax bases, of our assets. Although we may from time to time consult with professional appraisers with respect to valuation matters, we will make many of the relative fair market value estimates. These estimates and determinations of basis are subject to challenge and will not be binding on the IRS or the courts. If the estimates of fair market value or determinations of basis are subsequently found to be incorrect, the character and amount of items of income, gain, loss or deductions previously reported by unitholders might change, and unitholders might be required to adjust their tax liability for prior years.

#### State and Local Tax Considerations

For a discussion of the state and local tax considerations arising from an investment in Common Units, see "-- State, Local and Other Tax Considerations."

#### Administrative Matters

##### Information Returns and Audit Procedures

We intend to furnish to each unitholder, within 60 days after the close of each calendar year, certain tax information, including a Substitute Schedule K-1, which sets forth each unitholder's share of our income, gain, loss and deduction for our preceding taxable year. In preparing this information, which will generally not be reviewed by counsel, we will use various accounting and reporting conventions, some of which have been mentioned in the previous discussion, to determine the unitholder's share of income, gain, loss and deduction. There is no assurance that any of those conventions will yield a result which conforms to the requirements of the Code, regulations or administrative interpretations of the IRS. We cannot assure prospective unitholders that the IRS will not successfully contend in court that such accounting and reporting conventions are impermissible. Any such challenge by the IRS could negatively affect the value of the Common Units.

The IRS may audit our federal income tax information returns. Adjustments resulting from any such audit may require each unitholder to adjust a prior year's tax liability, and possibly may result in an audit of the unitholder's own return. Any audit of a unitholder's return could result in adjustments not related to our returns as well as those related to our returns.

Partnerships generally are treated as separate entities for purposes of federal tax audits, judicial review of administrative adjustments by the IRS and tax settlement proceedings. The tax treatment of partnership items of income, gain, loss and deduction are determined in a partnership proceeding rather than in separate proceedings with the partners. The Code provides for one partner to be designated as the "Tax Matters Partner" for these purposes. Our partnership agreement appoints the General Partner as our Tax Matters Partner.

The Tax Matters Partner will make certain elections on our behalf and on behalf of the unitholders and can extend the statute of limitations for assessment of tax deficiencies against unitholders with respect to items in our returns. The Tax Matters Partner may bind a unitholder with less than a 1% profits interest in us to a settlement with the IRS unless that unitholder elects, by filing a statement with the IRS, not to give such authority to the Tax Matters Partner. The Tax Matters Partner may seek judicial review (by which all the unitholders are bound) of a final partnership administrative adjustment and, if the Tax Matters Partner fails to seek judicial review, such review may be sought by any unitholder having at least a 1% interest in our profits and by the unitholders having in the aggregate at least a 5% profits interest. However, only one action for judicial review will go forward, and each

unitholder with an interest in the outcome may participate. However, if we elect to be treated as a large partnership (which we do not intend to do because of the costs of application), a unitholder will not have a right to participate in settlement conferences with the IRS or to seek a refund.

A unitholder must file a statement with the IRS identifying the treatment of any item on his federal income tax return that is not consistent with the treatment of the item on our return. Intentional or negligent disregard of the consistency requirement may subject a unitholder to substantial penalties. Partners in electing large partnerships are required to treat all items from the partnership's return in a manner consistent with such return.

If we elect to be treated as a large partnership, each partner would take into account separately his share of the following items, determined at the partnership level: (1) taxable income or loss from passive loss limitation activities; (2) taxable income or loss from other activities (such as portfolio income or loss); (3) net capital gains to the extent allocable to passive loss limitation activities and other activities; (4) tax exempt interest; (5) a net alternative minimum tax adjustment separately computed for passive loss limitation activities and other activities; (6) general credits; (7) low-income housing credit; (8) rehabilitation credit; (9) foreign income taxes; (10) credit for producing fuel from a nonconventional source; and (11) any other items the Secretary of Treasury deems appropriate. Moreover, miscellaneous itemized deductions would not be passed through to the partners and 30% of such deductions would be used at the partnership level.

Currently adjustments relating to partnership items for a previous taxable year are taken into account by those persons who were partners in the previous taxable year. If we elect to be treated as a large partnership, our partners would each take into account their share of any adjustments to partnership items in the year such adjustments are made. Alternatively, a large partnership could elect to or, in some circumstances, could be required to directly pay the tax resulting from any such adjustments. In either case, therefore, unitholders of an electing large partnership could bear significant economic burdens associated with tax adjustments relating to periods predating their acquisition of units.

#### Nominee Reporting

Persons who hold an interest in us as a nominee for another person are required to furnish to us (a) the name, address and taxpayer identification number of the beneficial owner and the nominee; (b) whether the beneficial owner is (i) a person that is not a United States person, (ii) a foreign government, an international organization or any wholly-owned agency or instrumentality of either of the foregoing, or (iii) a tax-exempt entity; (c) the amount and description of Common Units held, acquired or transferred for the beneficial owner; and (d) certain information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales. Brokers and financial institutions are required to furnish additional information, including whether they are United States persons and certain information on Common Units they acquire, hold or transfer for their own account. A penalty of \$50 per failure (up to a maximum of \$100,000 per calendar year) is imposed by the Code for failure to report such information to us. The nominee is required to supply the beneficial owner of the Common Units with the information furnished to us.

#### Registration as a Tax Shelter

The Code requires that "tax shelters" be registered with the Secretary of the Treasury. The temporary Treasury Regulations interpreting the tax shelter registration provisions of the Code are extremely broad. It is arguable that we are not subject to the registration requirement on the basis that it will not constitute a tax shelter. However, the General Partner, as our principal organizer, has registered us as a tax shelter with the Secretary of the Treasury in the absence of assurance that we will not be subject to tax shelter registration and in light of the substantial penalties which might be imposed if registration is required and not undertaken. The IRS has issued us the following tax shelter registration number: 94201000010. ISSUANCE OF THE REGISTRATION NUMBER DOES NOT INDICATE THAT AN INVESTMENT IN US OR THE CLAIMED TAX BENEFITS HAVE BEEN REVIEWED, EXAMINED OR APPROVED BY THE IRS. We must furnish the registration number to the

unitholders, and a unitholder who sells or otherwise transfers a Common Unit in a subsequent transaction must furnish the registration number to the transferee. The penalty for failure of the transferor of a Common Unit to furnish the registration number to the transferee is \$100 for each such failure. The unitholders must disclose our tax shelter registration number on Form 8271 to be attached to the tax return on which any deduction, loss or other benefit generated by us is claimed or our income is included. A unitholder who fails to disclose the tax shelter registration number on his return, without reasonable cause for that failure, will be subject to a \$250 penalty for each failure. Any penalties discussed herein are not deductible for federal income tax purposes. Registration as a tax shelter may increase the risk of an audit.

#### Accuracy-Related Penalties

An additional tax equal to 20% of the amount of any portion of an underpayment of tax which is attributable to one or more of certain listed causes, including negligence or disregard of rules or regulations, substantial understatements of income tax and substantial valuation misstatements, is imposed by the Code. No penalty will be imposed, however, with respect to any portion of an underpayment if it is shown that there was a reasonable cause for that portion and that the taxpayer acted in good faith with respect to that portion.

A substantial understatement of income tax in any taxable year exists if the amount of the understatement exceeds the greater of 10% of the tax required to be shown on the return for the taxable year or \$5,000 (\$10,000 for most corporations). The amount of any understatement subject to penalty generally is reduced if any portion is attributable to a position adopted on the return (i) with respect to which there is, or was, "substantial authority" or (ii) as to which there is a reasonable basis and the pertinent facts of such position are disclosed on the return. Certain more stringent rules apply to "tax shelters," a term that in this context does not appear to include us. If any item of our income, gain, loss or deduction included in the distributive shares of unitholders might result in such an "understatement" of income for which no "substantial authority" exists, we must disclose the pertinent facts on our return. In addition, we will make a reasonable effort to furnish sufficient information for unitholders to make adequate disclosure on their returns to avoid liability for this penalty.

A substantial valuation misstatement exists if the value of any property (or the adjusted basis of any property) claimed on a tax return is 200% or more of the amount determined to be the correct amount of such valuation or adjusted basis. No penalty is imposed unless the portion of the underpayment attributable to a substantial valuation misstatement exceeds \$5,000 (\$10,000 for most corporations). If the valuation claimed on a return is 400% or more than the correct valuation, the penalty imposed increases to 40%.

#### Disposition of Common Units

##### Recognition of Gain or Loss

Gain or loss will be recognized on a sale of Common Units equal to the difference between the amount realized and the unitholder's tax basis for the Common Units sold. A unitholder's amount realized will be measured by the sum of the cash or the fair market value of other property received plus his share of our nonrecourse liabilities. Because the amount realized includes a unitholder's share of our nonrecourse liabilities, the gain recognized on the sale of Common Units could result in a tax liability in excess of any cash received from such sale.

Prior distributions from us in excess of cumulative net taxable income in respect of a Common Unit which decreased a unitholder's tax basis in such Common Unit will, in effect, become taxable income if the Common Unit is sold at a price greater than the unitholder's tax basis in such Common Unit, even if the price is less than his original cost.

Should the IRS successfully contest our convention to amortize only a portion of the Section 743(b) adjustment (described under "--Disposition of Common Units--Section 754 Election") attributable to an amortizable Section 197 intangible after a sale by the General Partner of Common Units, a unitholder could realize

additional gain from the sale of Common Units than had such convention been respected. In that case, the unitholder may have been entitled to additional deductions against income in prior years but may be unable to claim them, with the result to him of greater overall taxable income than appropriate. Counsel is unable to opine as to the validity of the convention but believes such a contest by the IRS to be unlikely because a successful contest could result in substantial additional deductions to other unitholders.

Gain or loss recognized by a unitholder (other than a "dealer" in Common Units) on the sale or exchange of a Common Unit will generally be taxable as capital gain or loss. Capital gain recognized on the sale of Common Units held for more than 12 months will generally be taxed at a maximum rate of 20%. A portion of this gain or loss (which could be substantial), however, will be separately computed and taxed as ordinary income or loss under Section 751 of the Code to the extent attributable to assets giving rise to depreciation recapture or other "unrealized receivables" or to "inventory items" owned by us. The term "unrealized receivables" includes potential recapture items, including depreciation recapture. Ordinary income attributable to unrealized receivables, inventory items and depreciation recapture may exceed net taxable gain realized upon the sale of the Common Unit and may be recognized even if there is a net taxable loss realized on the sale of the Common Unit. Thus, a unitholder may recognize both ordinary income and a capital loss upon a disposition of Common Units. Net capital loss may offset no more than \$3,000 of ordinary income in the case of individuals and may only be used to offset capital gain in the case of corporations.

The IRS has ruled that a partner who acquires interests in a partnership in separate transactions must combine those interests and maintain a single adjusted tax basis. Upon a sale or other disposition of less than all of such interests, a portion of that tax basis must be allocated to the interests sold using an "equitable apportionment" method. The ruling is unclear as to how the holding period of these interests is determined once they are combined. If this ruling is applicable to the holders of Common Units, a unitholder will be unable to select high or low basis Common Units to sell as would be the case with corporate stock. It is not clear whether the ruling applies to us because, similar to corporate stock, our interests are evidenced by separate certificates. Accordingly, Counsel is unable to opine as to the effect such ruling will have on the unitholders. A unitholder considering the purchase of additional Common Units or a sale of Common Units purchased in separate transactions should consult his tax advisor as to the possible consequences of such ruling.

Certain provisions of the Code affect the taxation of certain financial products and securities, including partnership interests by treating a taxpayer as having sold an "appreciated" partnership interest (one in which gain would be recognized if it were sold, assigned or otherwise terminated at its fair market value) if the taxpayer or related persons enter into (i) a short sale, (ii) an offsetting notional principal contract or (iii) a futures or forward contract with respect to the same or substantially identical property. The Secretary of the Treasury is also authorized to issue regulations that treat a taxpayer that enters in transactions or positions that have substantially the same effect as the preceding transactions as having constructively sold the financial position.

#### Allocations Between Transferors and Transferees

In general, our taxable income and losses will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the unitholders in proportion to the number of Common Units owned by each of them as of the opening of the principal national securities exchange on which the Common Units are then traded on the first business day of the month (the "Allocation Date"). However, gain or loss realized on a sale or other disposition of our assets other than in the ordinary course of business will be allocated among the unitholders on the Allocation Date in the month in which that gain or loss is recognized. As a result, a unitholder transferring Common Units in the open market may be allocated income, gain, loss and deduction accrued after the date of transfer.

The use of this method may not be permitted under existing Treasury Regulations. Accordingly, Counsel is unable to opine on the validity of this method of allocating income and deductions between the transferors and the transferees of Common Units. If this method is not allowed under the Treasury Regulations (or only applies to

transfers of less than all of the unitholder's interest), our taxable income or losses might be reallocated among the unitholders. We are authorized to revise its method of allocation between transferors and transferees (as well as among partners whose interests otherwise vary during a taxable period) to conform to a method permitted under future Treasury Regulations.

A unitholder who owns Common Units at any time during a quarter and who disposes of such Common Units prior to the record date set for a cash distribution with respect to such quarter will be allocated items of Partnership income, gain, loss and deductions attributable to such quarter but will not be entitled to receive that cash distribution.

#### Section 754 Election

We have made the election permitted by Section 754 of the Code. The election is irrevocable without the consent of the IRS. The election generally permits us to adjust a Common Unit purchaser's tax basis in our assets ("inside basis") pursuant to Section 743(b) of the Code to reflect his purchase price. The Section 743(b) adjustment belongs to the purchaser and not to other partners. (For purposes of this discussion, a partner's inside basis in our assets will be considered to have two components: (1) his share of our tax basis in such assets ("common basis") and (2) his Section 743(b) adjustment to that basis.)

Proposed Treasury Regulations promulgated under Section 743 of the Code would require, if adopted in their current form, if the remedial allocation method is adopted (which we have done), a portion of the Section 743(b) adjustment attributable to recovery property to be depreciated over the remaining cost recovery period for the Section 704(c) built-in gain. Nevertheless, the proposed regulations under Section 197 indicate that the Section 743(b) adjustment attributable to an amortizable Section 197 intangible should be treated as a newly-acquired asset placed in service in the month when the purchaser acquires the Common Unit. Under Treasury Regulation Section 1.167(c)-1(a)(6), a Section 743(b) adjustment attributable to property subject to depreciation under Section 167 of the Code rather than cost recovery deductions under Section 168 is generally required to be depreciated using either the straight-line method or the 150% declining balance method. Although the proposed regulations under Section 743 will likely eliminate many of the apparent inconsistencies if finalized in their current form, the depreciation and amortization methods and useful lives associated with the Section 743(b) adjustment may differ from the methods and useful lives generally used to depreciate the basis in such properties. Pursuant to our Partnership Agreement, we are authorized to adopt a convention to preserve the uniformity of Common Units even if such convention is not consistent with certain Treasury Regulations. See "--Tax Treatment of Operations--Uniformity of Common Units."

Although Counsel is unable to opine as to the validity of such an approach, we intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property (to the extent of any unamortized Book-Tax Disparity) using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the Basis of such property, or treat that portion as non-amortizable to the extent attributable to property the Basis of which is not amortizable. This method is consistent with the proposed regulations under Section 743 but is arguably inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6) (which is not expected to directly apply to a material portion of our assets) and Proposed Treasury Regulation Section 1.197-2(g)(3). To the extent such Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Regulations and legislative history. If we determine that such position cannot reasonably be taken, we may adopt a depreciation or amortization convention under which all purchasers acquiring Common Units in the same month would receive depreciation or amortization, whether attributable to Basis or Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our assets. Such an aggregate approach may result in lower annual depreciation or amortization deductions than would otherwise be allowable to certain unitholders. See "--Tax Treatment of Operations--Uniformity of Common Units."

The allocation of the Section 743(b) adjustment must be made in accordance with the Code. The IRS may seek to reallocate some or all of any Section 743(b) adjustment not so allocated by us to goodwill which, as an intangible asset, would be amortizable over a longer period of time than our tangible assets.

A Section 754 election is advantageous if the transferee's tax basis in his Common Units is higher than such Common Units' share of the aggregate tax basis of our assets immediately prior to the transfer. In such a case, as a result of the election, the transferee would have a higher tax basis in his share of our assets for purposes of calculating, among other items, his depreciation and depletion deductions and his share of any gain or loss on a sale of our assets. Conversely, a Section 754 election is disadvantageous if the transferee's tax basis in such Common Units is lower than such Common Unit's share of the aggregate tax basis of our assets immediately prior to the transfer. Thus, the fair market value of the Common Units may be affected either favorably or adversely by the election.

The calculations involved in the Section 754 election are complex and will be made by us on the basis of certain assumptions as to the value of our assets and other matters. There is no assurance that the determinations made by us will not be successfully challenged by the IRS and that the deductions resulting from them will not be reduced or disallowed altogether. Should the IRS require a different basis adjustment to be made, and should, in our opinion, the expense of compliance exceed the benefit of the election, we may seek permission from the IRS to revoke our Section 754 election. If such permission is granted, a subsequent purchaser of Common Units may be allocated more income than he would have been allocated had the election not been revoked.

#### Notification Requirements

A unitholder who sells or exchanges Common Units is required to notify us in writing of that sale or exchange within 30 days after the sale or exchange and in any event by no later than January 15 of the year following the calendar year in which the sale or exchange occurred. We are required to notify the IRS of that transaction and to furnish certain information to the transferor and transferee. However, these reporting requirements do not apply with respect to a sale by an individual who is a citizen of the United States and who effects the sale or exchange through a broker. Additionally, a transferee of a Common Unit will be required to furnish a statement to the IRS, filed with its income tax return for the taxable year in which the sale or exchange occurred, that sets forth the amount of the consideration paid for the Common Unit. Failure to satisfy these reporting obligations may lead to the imposition of substantial penalties.

#### Constructive Termination

We will be considered to have been terminated if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. Our termination will result in the closing of our taxable year for all unitholders. In the case of a unitholder reporting on a taxable year other than a fiscal year ending July 31 (or other than a calendar year ending December 31 if we are required to change our taxable year to a calendar year), the closing of our taxable year may result in more than 12 months of our taxable income or loss being includable in his taxable income for the year of termination. New tax elections required to be made by us, including a new election under Section 754 of the Code, must be made subsequent to a termination, and a termination could result in a deferral of our deductions for depreciation. A termination could also result in penalties if we were unable to determine that the termination had occurred. Moreover, a termination might either accelerate the application of, or subject us to, any tax legislation enacted prior to the termination.

#### State, Local and Other Tax Considerations

In addition to federal income taxes, unitholders will be subject to other taxes, such as state and local income taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which we do business or own property. Although an analysis of those various taxes is not presented here, each prospective unitholder should consider their potential impact on his investment in us. We

currently conduct business in 45 states. A unitholder will be required to file state income tax returns and to pay state income taxes in some or all of the states in which we do business or own property and may be subject to penalties for failure to comply with those requirements. In certain states, tax losses may not produce a tax benefit in the year incurred (if, for example, we have no income from sources within that state) and also may not be available to offset income in subsequent taxable years. Some of the states may require that we, or we may elect to, withhold a percentage of income from amounts to be distributed to a unitholder who is not a resident of the state. Withholding, the amount of which may be greater or less than a particular unitholder's income tax liability to the state, generally does not relieve the non-resident unitholder from the obligation to file an income tax return. Amounts withheld may be treated as if distributed to unitholders for purposes of determining the amounts distributed by us. See "--Tax Treatment of Unitholders--Entity-Level Collections." Based on current law and our estimate of future operations, we anticipate that any amounts required to be withheld will not be material.

It is the responsibility of each unitholder to investigate the legal and tax consequences, under the laws of pertinent states and localities of his investment in us. Accordingly, each prospective unitholder should consult, and must depend upon, his own tax counsel or other advisor with regard to those matters. Further, it is the responsibility of each unitholder to file all state and local, as well as U.S. federal, tax returns that may be required of such unitholder. Counsel has not rendered an opinion on the state or local tax consequences of an investment in us.

## USE OF PROCEEDS

Unless otherwise specified in a related prospectus supplement, the net proceeds received by us from the sale of the Securities will be used for general business purposes, including debt repayment, the financing of future acquisitions, capital expenditures and working capital.

## PLAN OF DISTRIBUTION

We may sell the Securities directly, through agents, or to or through underwriters or dealers (possibly including our affiliates). The prospectus supplement contains the specific information about the terms of the Securities offering, including:

- . the names of any underwriters, dealers or agents;
- . the offering price;
- . underwriting discounts;
- . sales agents' commissions;
- . other forms of underwriter or agent compensation;
- . discounts, concessions or commissions that underwriters may pass on to other dealers; and
- . any exchange on which the Securities are listed.

We may change the offering price, underwriter discounts or concessions, or the price to dealers when necessary. Discounts or commissions received by underwriters or agents and any profits on the resale of Securities by them may constitute underwriting discounts and commissions under the Securities Act of 1933.

Unless we state otherwise in the prospectus supplement, underwriters will need to meet certain requirements before purchasing Securities. Underwriters will be required to purchase all of the Securities offered if any are purchased. Agents will act on a "best efforts" basis during their appointment. We will also state the net proceeds from the sale in the prospectus supplement.

Any brokers or dealers that participate in the distribution of the Securities may be "underwriters" within the meaning of the Securities Act of 1933 for such sales. Profits, commissions, discounts or concessions received by any such broker or dealer may be underwriting discounts and commissions under the Securities Act of 1933.

When necessary, we may fix Securities distribution using changeable, fixed prices, market prices at the time of sale, prices related to market prices, or negotiated prices.

We may agree to indemnify underwriters, dealers or agents who participate in the distribution of the Securities against certain liabilities including liabilities under the Securities Act of 1933. We may also reimburse underwriters, dealers or agents for payments they are required to make in connection with the offering, or we may make such payments directly. Underwriters, dealers and agents, and their affiliates may conduct business with us and our affiliates in the ordinary course of their business.

#### LEGAL MATTERS

Andrews & Kurth L.L.P., our counsel, will issue an opinion for us about the legality of the Securities and the material federal income tax considerations regarding the Common Units. Any underwriter will be advised about other issues relating to any offering by their own legal counsel.

#### EXPERTS

The consolidated financial statements and the related financial statement schedules incorporated in this prospectus by reference from Ferrellgas Partners, L.P. Annual Report on Form 10-K for the year ended July 31, 1998, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports, which are incorporated herein by reference, and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The consolidated balance sheet of Ferrellgas, Inc. and Subsidiaries as of July 31, 1998, included in this prospectus has been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein and is included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

\$300,000,000

Common Units

Deferred Participation Units

Warrants

Debt Securities

Ferrellgas Partners, L.P.

Ferrellgas Partners Finance Corp.

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PROSPECTUS

, 1999  
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INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution

We will incur and pay the following costs of this transaction. All amounts other than the Securities and Exchange Commission registration fee are estimated.

Securities and Exchange Commission registration fee	\$ 83,400
Legal fees and expenses	*
Accounting fees and expenses	*
Printing expenses	*
Rating agency fees	*
Trustee's fees & expenses	*
Miscellaneous	*
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Total	\$ *
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\*To be filed by amendment.

Item 15. Indemnification of Directors and Officers

The Partnership Agreements of the Partnership and the Operating Partnership provide that the Partnership or the Operating Partnership, as the case may be, will indemnify (to the fullest extent permitted by applicable law) certain persons from and against any and all losses, claims, damages, liabilities (joint or several), expenses (including, without limitation, legal fees and expenses), judgements, fines and amounts paid in settlement actually and reasonably incurred by such Indemnitee in connection with any claim, demand, action, suit or proceeding to which the Indemnitee is or was an actual or threatened party and which relates to the Partnership Agreement or the Operating Partnership Agreement or the property, business, affairs or management of the Partnership or the Operating Partnership. This indemnity is available only if the Indemnitee acted in good faith, in a manner in which such Indemnitee believed to be in, or not opposed to, the best interests of the Partnership and, with respect to any criminal proceeding, had no reasonable cause to believe its conduct was unlawful. Indemnitees include the General Partner, any departing partner, any affiliate of the General Partner or any departing partner, any person who is or was a director, officer, employee or agent of the General Partner or any departing partner or any affiliate of either, or any person who is or was serving at the request of the General Partner, any, or any such affiliate as a director, officer, partner, trustee, employee or agent of another person. Expenses subject to indemnity will be paid by the applicable partnership to the Indemnitee in advance, subject to receipt of an undertaking by or on behalf of the Indemnitee to repay such amount if it is ultimately determined by a court of competent jurisdiction that the Indemnitee is not entitled to indemnification. The Partnership will, to the extent commercially reasonable, purchase and maintain insurance on behalf of the Indemnitees, whether or not the Partnership would have the power to indemnify such Indemnitees against liability under the applicable partnership agreement.

Item 16. Exhibits

- \*1.1 - Form of Underwriting Agreement
- \*\*3.1 - Agreement of Limited Partnership dated as of July 5, 1994 (Exhibit 3.1 to the Partnership's Current Report on Form 8-K filed August 16, 1994)
- \*\*4.1 - Specimen Certificate representing Common Units (Exhibit A to Exhibit 3.1 to the Partnership's Current Report on Form 8-K filed August 16, 1994)
- \*4.2 - Specimen Certificate representing Deferred Participation Units
- \*4.3 - Form of Senior Indenture

*4.4	-	Form of Subordinated Indenture
*4.5	-	Form of Note
*4.6	-	Form of Warrant
*4.7	-	Form of Warrant Agreement
**5.1	-	Opinion of Andrews & Kurth L.L.P. as to the legality of the securities registered hereby
***8.1	-	Opinion of Andrews & Kurth L.L.P. as to tax matters
12.1	-	Calculation of Ratio of Earnings to Fixed Charges
***23.1	-	Consent of Andrews & Kurth L.L.P. (included in Exhibits 5.1 and 8.1)
23.2	-	Consent of Deloitte & Touche LLP
24.1	-	Power of Attorney (included on signature page)
*25.1	-	Statement of Eligibility of Trustee on Form T-1
99.1	-	Balance Sheet of Ferrellgas, Inc. as of July 31, 1998

\* To be filed as an exhibit to a Current Report on Form 8-K or a post-effective amendment to this registration statement.

\*\* Incorporated by reference.

\*\*\* To be filed by amendment.

#### Item 17. Undertakings

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers and controlling persons of the Registrants pursuant to the foregoing provisions or otherwise, the Registrants have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

In the event that a claim for indemnification against such liabilities (other than the payment by the Registrants of expenses incurred or paid by a director, officer or controlling person of the Registrants in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrants will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by them is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned Registrants hereby undertake:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

i) To include any prospectus required by section 10(a)(3) of the Act;

ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement;

iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided, however, that paragraphs (1)(i) and 1(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by

the Registrants pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") that are incorporated by reference into the registration statement;

- (2) That, for the purpose of determining any liability under the Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- (3) To remove from registration by means of a post-effective amendment any of the Securities which remain unsold at the termination of the offering.

The undersigned Registrants hereby undertake that, for purposes of determining any liability under the Act, each filing of the Registrants' annual reports pursuant to Section 13(a) or Section 15(d) of the Exchange Act that are incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The undersigned Registrants hereby undertake to file an application for the purpose of determining the eligibility of the trustee to act under subsection (a) of section 310 of the Trust Indenture Act (the "Act") in accordance with the rules and regulations prescribed by the Commission under Section 305(b)(2) of the Act.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Liberty, State of Missouri, on January 25, 1999.

FERRELLGAS PARTNERS, L.P.  
(A Delaware Limited Partnership)

By: FERRELLGAS, INC.  
as General Partner

By: /s/ Danley K. Sheldon  
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Danley K. Sheldon,  
President, Chief Executive Officer and Director

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Danley K. Sheldon and Kevin T. Kelly, and each of them, either of whom may act without the joinder of the other, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities to sign any or all amendments (including post-effective amendments) to this registration statement or any registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, and each of them, or the substitute or substitutes of any or all of them, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933 this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Name	Title	Date
<u>/s/ James E. Ferrell</u> James E. Ferrell	Chairman of the Board of Ferrellgas, Inc.	January 25, 1999
<u>/s/ Danley K. Sheldon</u> Danley K. Sheldon	President, Chief Executive Officer and Director of Ferrellgas, Inc. (principal executive officer)	January 25, 1999
<u>/s/ A. Andrew Levison</u> A. Andrew Levison	Director of Ferrellgas, Inc.	January 25, 1999
<u>/s/ Elizabeth T. Solberg</u> Elizabeth T. Solberg	Director of Ferrellgas, Inc.	January 25, 1999
<u>/s/ Kevin T. Kelly</u> Kevin T. Kelly	Vice President, Chief Financial Officer of Ferrellgas, Inc. (principal financial officer and principal accounting officer)	January 25, 1999

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Liberty, State of Missouri, on January 25, 1999.

FERRELLGAS PARTNERS FINANCE CORP

By: /s/ Danley K. Sheldon

-----  
Danley K. Sheldon,  
President, Chief Executive Officer and Director

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Danley K. Sheldon and Kevin T. Kelly, and each of them, either of whom may act without the joinder of the other, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities to sign any or all amendments (including post-effective amendments) to this registration statement or any registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, and each of them, or the substitute or substitutes of any or all of them, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933 this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Name	Title	Date
<u>/s/ Danley K. Sheldon</u> Danley K. Sheldon	Chairman of the Board, Chief Executive Officer and Sole Director (principal executive officer)	January 25, 1999
<u>/s/ Kevin T. Kelly</u> Kevin T. Kelly	Chief Financial Officer (principal financial officer and principal accounting officer)	January 25, 1999

INDEX TO EXHIBITS

Exhibit  
Number

- \*1.1 - Form of Underwriting Agreement
  - \*\*3.1 - Agreement of Limited Partnership dated as of July 5, 1994  
(Exhibit 3.1 to the Partnership's Current Report on Form  
8-K filed August 16, 1994)
  - \*\*4.1 - Specimen Certificate representing Common Units (Exhibit A to  
Exhibit 3.1 to the Partnership's Current Report on Form 8-K filed  
August 16, 1994)
  - \*4.2 - Specimen Certificate representing Deferred Participation Units
  - \*4.3 - Form of Senior Indenture
  - \*4.4 - Form of Subordinated Indenture
  - \*4.5 - Form of Note
  - \*4.6 - Form of Warrant
  - \*4.7 - Form of Warrant Agreement
  - \*\*5.1 - Opinion of Andrews & Kurth L.L.P. as to the legality of the  
securities registered hereby
  - \*\*\*8.1 - Opinion of Andrews & Kurth L.L.P. as to tax matters
  - 12.1 - Calculation of Ratio of Earnings to Fixed Charges
  - \*\*\*23.1 - Consent of Andrews & Kurth L.L.P. (included in Exhibits 5.1 and  
8.1)
  - 23.2 - Consent of Deloitte & Touche LLP
  - 24.1 - Power of Attorney (included on signature page)
  - \*25.1 - Statement of Eligibility of Trustee on Form T-1
  - 99.1 - Balance Sheet of Ferrellgas, Inc. as of July 31, 1998
- 

- \* To be filed as an exhibit to a Current Report on Form 8-K or a post-effective amendment to this registration statement.
- \*\* Incorporated by reference.
- \*\*\* To be filed by amendment.

FERRELLGAS PARTNERS, L. P. AND SUBSIDIARIES  
 CALCULATION OF EARNINGS TO FIXED CHARGES  
 (in thousands, except ratios)

	Eleven Months Ended June 30, 1994	One Month Ended July 31, 1994	Pro Forma Year Ended July 31, 1994	Year ended July 31,			
				1995	1996	1997	1998
<b>Earnings</b>							
Pre-tax income from continuing operations	\$ 12,337	\$(5,026)	\$39,909	\$23,280	\$24,312	\$23,218	\$ 4,943
Fixed charges (see below)	55,005	2,779	29,559	33,415	39,686	48,244	52,501
Income as adjusted (a)	67,342	(2,247)	69,468	56,695	63,998	71,462	57,444
<b>Fixed Charges</b>							
Interest expensed and amortized capitalized expenses related to indebtedness	53,693	2,662	28,130	31,993	37,983	45,769	49,129
An estimate of the interest within lease expense	1,312	117	1,429	1,422	1,703	2,475	3,372
Fixed Charges (b)	\$ 55,005	\$ 2,779	\$29,559	\$33,415	\$39,686	\$48,244	\$52,501
Ratio of Earnings to Fixed Charges (a/b)	1.2	-	2.4	1.7	1.6	1.5	1.1
<b>Three Months ended October 31,</b>							
-----							
1997                      1998							
<b>Earnings</b>							
Pre-tax income from continuing operations	\$(13,311)	\$(11,221)					
Fixed charges (see below)	12,894	12,606					
Income as adjusted (a)	(417)	1,385					
<b>Fixed Charges</b>							
Interest expensed and amortized capitalized expenses related to indebtedness	12,124	11,618					
An estimate of the interest within lease expense	770	988					
Fixed Charges (b)	\$ 12,894	\$12,606					
Ratio of Earnings to Fixed Charges (a/b)	---	---					

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in this Registration Statement of Ferrellgas Partners, L.P. on Form S-3 of our reports dated September 24, 1998, appearing in the Annual Report on Form 10-K of Ferrellgas Partners, L.P. for the year ended July 31, 1998. We also consent to the use in this Registration Statement of Ferrellgas Partners, L.P. on Form S-3 of our report relating to Ferrellgas, Inc. and Subsidiaries dated October 2, 1998, appearing in the Prospectus, which is part of this Registration Statement and to the reference to us under the heading "Experts" in the Prospectus, which is part of this Registration Statement.

DELOITTE & TOUCHE LLP  
Kansas City, Missouri  
January 22, 1999

FERRELLGAS, INC. AND SUBSIDIARIES  
Consolidated Balance Sheet as of July 31, 1998, and Independent  
Auditors' Report

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NOTES TO CONSOLIDATED BALANCE SHEET	3-12

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Ferrellgas, Inc. and Subsidiaries  
Liberty, Missouri

We have audited the accompanying consolidated balance sheet of Ferrellgas, Inc. and subsidiaries (the "Company") as of July 31, 1998. This balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated balance sheet presents fairly, in all material respects, the financial position of the Company as of July 31, 1998, in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP  
October 2, 1998

FERRELL GAS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
JULY 31, 1998  
(in thousands, except share data)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents.....	\$ 16,961
Accounts and notes receivable (net of allowance for doubtful accounts of \$1,381)...	50,097
Inventories.....	34,727
Prepaid expenses and other current assets.....	8,706

-----  
Total current assets..... 110,491

PROPERTY, PLANT AND EQUIPMENT, NET..... 469,345

INTANGIBLE ASSETS, NET..... 362,454

OTHER ASSETS, NET..... 9,222

TOTAL ASSETS..... \$ 951,512  
=====

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES:

Accounts payable.....	\$ 48,017
Other current liabilities.....	41,752
Short-term borrowings.....	21,150

-----  
Total current liabilities..... 110,919

LONG-TERM DEBT..... 507,222

DEFERRED INCOME TAXES..... 134,941

OTHER LIABILITIES..... 12,640

CONTINGENCIES AND COMMITMENTS

MINORITY INTEREST..... 23,050

PARENT INVESTMENT IN SUBSIDIARY..... 300,859

SHAREHOLDER'S EQUITY:

Common stock, one dollar par value; 10,000 shares authorized; 990 shares issued....	1
Additional paid-in capital.....	10,007
Note receivable from parent.....	(147,821)
Accumulated deficit.....	(306)

-----  
Total stockholder's equity..... (138,119)  
-----

TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY..... \$ 951,512  
=====

See notes to consolidated balance sheet.

## 1. BASIS OF PRESENTATION

The accompanying consolidated balance sheet and related notes present the consolidated financial position of Ferrellgas, Inc. (the "Company"), its subsidiaries and its partnership interest in Ferrellgas Partners, L.P. and subsidiaries. The Company is a wholly-owned subsidiary of Ferrell Companies, Inc. ("Ferrell" or "Parent").

On July 5, 1994, Ferrellgas Partners, L.P. (the "Partnership" or "MLP") completed an initial public offering of 13,100,000 common units representing limited partner interests (the "Common Units") at \$21 per Common Unit. As of the date of the offering, the 13,100,000 Common Units represented a 41.8% limited partner interest in the Partnership. Ferrellgas Partners, L.P. was formed April 19, 1994, owning a 99% limited partner interest in Ferrellgas, L.P. (the "Operating Partnership" or "OLP"). Ferrellgas Partners, L.P. was formed to acquire and hold a limited partner interest in the Operating Partnership. The Operating Partnership was formed to own and operate the propane business and substantially all of the assets of the Company. Both are Delaware limited partnerships, and are collectively known as the Partnership.

Concurrent with the closing of the offering, the Company contributed all of its propane business and assets to the Partnership in exchange for 1,000,000 Common Units, 16,593,721 subordinated units and incentive distribution rights representing a 56.2% limited partner interest in the Partnership as well as a 2% general partner interest in the Partnership and the Operating Partnership on a combined basis.

In July 1998, the Company transferred its entire limited partnership ownership of the MLP to Ferrell. Also during July, 100% of the outstanding common stock of Ferrell was purchased from Mr. James E. Ferrell and his family by a newly established leveraged employee stock ownership trust (the "ESOT") established pursuant to the Ferrell Companies, Inc. Employee Stock Ownership Plan (the "ESOP"). The purpose of the ESOP is to provide employees of the Company an opportunity for ownership in Ferrell and indirectly in the Partnership. As contributions are made by Ferrell to the ESOP in the future, shares of Ferrell will be allocated to employees' ESOP accounts. As a result of these transactions, the Parent no longer intends to repay its intercompany note with the Company. The note receivable from Parent is therefore reported in stockholder's equity as of July 31, 1998.

As a result of the 100% change in ownership of Ferrell, effective July 17, 1998, the Company established a new basis in the net assets of the Company based on the purchase price paid by the ESOT for the common stock of its parent, Ferrell. The new basis in the equity of the Company was established at \$10,000,000 which resulted in an increase in the basis of property, plant and equipment of \$73,692,000, and goodwill of \$198,620,000. Amortization on the goodwill related to the purchase price allocation is calculated using the straight-line method based on an estimated useful life of forty years. The accumulated deficit reflected herein represents the net loss of the Company subsequent to the July 17, 1998 change in ownership.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**NATURE OF OPERATIONS** - The Company's operations are limited to those activities associated with the Partnership. The Partnership is engaged primarily in the sale, distribution, marketing and trading of propane and other natural gas liquids throughout the United States. The retail market is seasonal because propane is used primarily for heating in residential and commercial buildings. The Partnership serves more than 800,000 residential, industrial/commercial and agricultural customers.

ACCOUNTING ESTIMATES - The preparation of the balance sheet in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the balance sheet. Actual results could differ from these estimates. Significant estimates impacting the balance sheet include reserves that have been established for product liability and other claims.

PRINCIPLES OF CONSOLIDATION - The consolidated balance sheet includes the accounts of the Company, its subsidiaries and the Partnership. The 56.5% limited partner interest contributed to Ferrell is reflected as "Parent investment in subsidiary" in the accompanying balance sheet. All material intercompany transactions and balances have been eliminated.

INVENTORIES - Inventories are stated at the lower of cost or market using average cost and actual cost methods.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS - Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets ranging from two to thirty years. Intangible assets, consisting primarily of customer location values and goodwill, are stated at cost, net of amortization calculated using the straight-line method over periods ranging from 5 to 40 years. Accumulated amortization of intangible assets totaled \$123,896,000 as of July 31, 1998. The Company, using its best estimates based on reasonable and supportable assumptions and projections, reviews for impairment of long-lived assets and certain identifiable intangibles to be held and used whenever events or changes in circumstances indicate that the carrying amount of its assets might not be recoverable and has concluded no balance sheet adjustment is required.

ACCOUNTING FOR DERIVATIVE COMMODITY CONTRACTS - The Partnership enters into commodity forward and futures purchase/sale agreements and commodity options involving propane and related products which are used both for trading and overall risk management purposes. To the extent such contracts are entered into at fixed prices and thereby subject the Partnership to market risk, the contracts are accounted for using the fair value method. Under the fair value method, derivatives are carried on the balance sheet at fair value with changes in that value recognized in earnings.

INCOME TAXES - The Company files a consolidated Federal income tax return with its parent and affiliates. Income taxes are computed as though each company filed its own income tax return in accordance with the Company's tax sharing agreement. Deferred income taxes are provided as a result of temporary differences between financial and tax reporting as described in Note 5, using the asset/liability method. See Note 5 for the accounting treatment for deferred income taxes subsequent to the Subchapter S Corporation election that was made by Ferrell for the tax year ended July 31, 1999.

UNIT-BASED COMPENSATION - The Company accounts for its Unit Option Plan under the provisions of Accounting Principles Board ("APB") No. 25, "Accounting for Stock Issued to Employees."

ADOPTION OF NEW ACCOUNTING STANDARDS - The Financial Standards Accounting Board recently issued the following new accounting standards: SFAS No. 130, "Reporting Comprehensive Income", SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" and SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS Nos. 130, 131 and 132 are required to be adopted by the Company for the fiscal year ended July 31, 1999. The adoption of SFAS Nos. 130 and 132 is not expected to have a material effect on the Company's financial position or results of operations. The Company is currently assessing the impact of SFAS No. 131 on disclosure requirements for the next fiscal year. SFAS No. 133 is required to be adopted by the Company for the fiscal year ended July 31, 2000. The Company is currently assessing the impact of SFAS No. 133 on its financial position and results of operations.

3. SUPPLEMENTAL BALANCE SHEET INFORMATION

Inventories consist of (in thousands):

Liquefied propane gas and related products.....	\$26,316
Appliances, parts and supplies.....	8,411
	-----
Total inventories.....	\$34,727
	=====

In addition to inventories on hand, the Partnership enters into contracts to buy product for supply purposes. Nearly all such contracts have terms of less than one year and most call for payment based on market prices at the date of delivery. All fixed price contracts have terms of less than one year. As of July 31, 1998, in addition to the inventory on hand, the Partnership had committed to purchase approximately 20,812,000 gallons of its estimated future retail propane sales at a fixed price.

Property, plant and equipment consist of (in thousands):

Land and improvements.....	\$ 30,368
Buildings and improvements.....	40,557
Vehicles.....	50,810
Furniture and fixtures.....	22,397
Bulk equipment and district facilities.....	66,150
Tanks and customer equipment.....	478,224
Other.....	5,969
	-----
	694,475
Less accumulated depreciation.....	225,130
	-----
Total Property, Plant and Equipment.....	\$469,345
	=====

Other current liabilities consist of (in thousands):

Accrued insurance.....	\$ 4,563
Accrued interest.....	12,914
Accrued payroll.....	8,635
Other.....	15,640
	-----
Total Other Current Liabilities.....	\$41,752
	=====

4. LONG-TERM DEBT

Long-term debt consists of (in thousands):

Senior Notes:	
Fixed rate, 10%, due 2001 (1).....	\$200,000
Fixed rate, 9.375%, due 2006 (2).....	160,000
Credit Agreement:	
Term loan, 8.5%, due 2001 (3).....	50,000
Revolving credit loan, 8.5%, due 1999 (3)..	85,850
Notes payable, 6.7% weighted average interest rate, due 1998 to 2007 (4).....	13,558
	-----
	509,408
Less current portion.....	2,186
	-----
Total Long-Term Debt.....	\$507,222
	=====

- (1) The OLP fixed rate Senior Notes ("OLP Senior Notes"), issued in June 1994, are general unsecured obligations of the OLP and rank on an equal basis in right of payment with all senior indebtedness of the OLP and senior to all subordinated indebtedness of the OLP. The OLP Senior Notes were redeemed at the option of the OLP on August 5, 1998 with a 5% premium payable concurrent with the issuance of \$350,000,000 of new unsecured OLP Senior Notes ("New OLP Senior Notes").
- (2) The MLP fixed rate Senior Secured Notes ("MLP Senior Secured Notes") issued in April 1996, will be redeemable at the option of the MLP, in whole or in part, at any time on or after June 15, 2001. The notes are secured by the MLP's partnership interest in the OLP. The MLP Senior Secured Notes bear interest from the date of issuance, payable semi-annually in arrears on June 15 and December 15 of each year. Due to a change of control in the ownership of the Company on July 17, 1998, as a result of the ESOP transaction as described in Note 1, the MLP was required, pursuant to the MLP fixed rate Senior Secured Note Indenture, to offer to purchase the outstanding MLP fixed rate Senior Secured Notes at a price of 101% of the principal amount thereof plus accrued and unpaid interest. The offer to purchase was made on July 27, 1998 and expired August 26, 1998. Upon the expiration of the offer, the MLP accepted for purchase \$65,000 of the notes which were all of the notes tendered pursuant to the offer. The MLP assigned its right to purchase the notes to a third party.
- (3) On July 31, 1998, the unsecured \$255,000,000 Credit Facility ("OLP Credit Facility") consisted of a \$50,000,000 term loan facility, a \$185,000,000 revolving credit facility for general corporate,

working capital and acquisition purposes (of which \$50,000,000 is available to support letters of credit) and a \$20,000,000 revolving working capital facility, which is subject to an annual reduction in outstanding borrowings to zero for thirty consecutive days. On August 4, 1998, outstanding borrowings under the OLP Credit Facility were refinanced with the issuance of New Senior Notes and the refinancing with existing lenders of the existing OLP Credit Facility with a new \$145,000,000 revolving credit facility ("New OLP Credit Facility"). All borrowings under the current pricing arrangement bear interest at either LIBOR plus an applicable margin varying from 0.425% to 1.375% or the bank's base rate, depending on the nature of the borrowing. The bank's base rate at July 31, 1998 was 8.50%. To offset the variable rate characteristic of the OLP Credit Facility and the New OLP Credit Facility, the OLP entered into interest rate collar agreements, expiring between October 1998 and December 2001, with two major banks limiting the floating rate portion of LIBOR-based loan interest rates on a notional amount of \$100,000,000 to between 4.9% and 6.5%.

- (4) The notes payable are secured by approximately \$3,729,000 of property and equipment at July 31, 1998.

On July 1, 1998, the OLP entered into an agreement for the issuance of \$350 million of privately placed fixed rate senior notes ("New OLP Senior Notes") funded August 4, 1998 in five series with maturities ranging from year 2005 through 2013. The proceeds of the offering were used to redeem the fixed rate OLP Senior Notes issued in June 1994, and to repay outstanding indebtedness under the OLP Credit Facility.

The OLP also entered into an agreement on July 2, 1998 with the lenders under the existing OLP Credit Facility for a New OLP Credit Facility effective August 4, 1998. The New OLP Credit Facility provides for (i) a \$40,000,000 unsecured working capital facility subject to an annual reduction in borrowings to zero for thirty consecutive days, (ii) a \$50,000,000 unsecured working capital and general corporate facility, including a letter of credit facility, and (iii) a \$55,000,000 unsecured general corporate and acquisition facility. The New OLP Credit Facility matures July 2, 2001.

At July 31, 1998, \$21,150,000 of short-term borrowings were outstanding under the revolving line of credit and letters of credit outstanding, used primarily to secure obligations under certain insurance arrangements, totaled \$29,056,000.

The MLP Senior Secured Notes, the OLP Senior Notes and the OLP Credit Facility Agreement contain various restrictive covenants applicable to the MLP and OLP and its subsidiaries, the most restrictive relating to additional indebtedness, sale and disposition of assets, and transactions with affiliates. In addition, the Partnership is prohibited from making cash distributions if a default or event of default exists or would exist upon making such distribution, or if the Operating Partnership fails to meet certain coverage tests. The Partnership is in compliance with all requirements, tests, limitations and covenants related to the Senior Secured Note Indenture, the Senior Note Indenture, the OLP Indenture and the Credit Facility agreement. The New OLP Senior Notes and New OLP Credit Facility agreements have similar restrictive covenants to the OLP Senior Note Indenture and OLP Credit Facility Agreement that were replaced.

Taking into account the effects of the New OLP Senior Note and New OLP Credit Facility, the annual principal payments on long-term debt for each of the next five fiscal years are \$2,186,000 in 1999, \$2,269,000 in 2000, \$3,145,000 in 2001, \$1,037,000 in 2002 and \$1,114,000 in 2003.

## 5. INCOME TAXES

The significant components of the net deferred tax asset (liability) included in the Consolidated Balance Sheet are as follows (in thousands):

Deferred tax liabilities:	
Partnership basis difference.....	\$(165,443)
Other.....	(3,663)
	-----
Total deferred tax liabilities.....	(169,106)
Deferred tax assets:	
Operating loss and credit carryforwards....	39,951
Valuation allowance.....	(5,786)
	-----
Total deferred tax assets.....	34,165
	-----
Net deferred tax liability.....	\$(134,941)
	=====

In connection with the public offering described in Note 1, the Company's tax basis in the assets and liabilities contributed became its tax basis in the units received. Partnership basis differences are primarily attributable to differences in the tax and book basis of fixed assets and amortizable intangibles.

For Federal income tax purposes, the Company has net operating loss carryforwards of approximately \$100,000,000 at July 31, 1998 available to offset future taxable income. These net operating loss carryforwards expire at various dates through 2011.

The Company's parent, Ferrell, elected Subchapter S status for federal income tax purposes, effective August 1, 1998. In conjunction with this election, Ferrell elected to treat the Company as a qualified Subchapter S subsidiary. For income tax purposes, the Company is deemed liquidated into the Parent on July 31, 1998. As a result of these elections, Ferrell and its subsidiaries will no longer be liable for federal income tax. Thus, the deferred tax balance of \$134,941,000 as of July 31, 1998 will be eliminated and recognized as income from continuing operations during fiscal 1999.

#### 6. CONTINGENCIES AND COMMITMENTS

The Company is threatened with or named as a defendant in various lawsuits which, among other items, claim damages for product liability. It is not possible to determine the ultimate disposition of these matters; however, management is of the opinion that there are no known claims or known contingent claims that are likely to have a material adverse effect on the results of operations or financial condition of the Company.

Certain property and equipment is leased under noncancellable operating leases that require fixed monthly rental payments which expire at various dates through 2017. Future minimum lease commitments for such leases are \$14,949,000 in 1999, \$13,128,000 in 2000, \$10,940,000 in 2001, \$7,749,000 in 2002, \$3,014,000 in 2003 and \$533,000 thereafter.

#### 7. EMPLOYEE BENEFITS

On July 17, 1998, Ferrell formed an Employee Stock Ownership Plan ("ESOP"). Ferrell is expected to make future contributions to the Ferrell Companies, Inc. Employee Stock Ownership Trust ("ESOT") which will cause a release of a portion of the shares of Ferrell owned by the ESOT to be allocated to employees' accounts over time. The release of Ferrell shares to employee accounts will cause a non-cash compensation charge to be incurred by Ferrell, equivalent to the fair value of such shares allocated.

The Company and its parent have a defined contribution profit-sharing plan (the "Plan") which covers substantially all employees with more than one year of service. Contributions are made to the Plan at the discretion of Ferrell's Board of Directors. With the establishment of the ESOP in July 1998, the Board of Directors decided to suspend future contributions to the Plan beginning with fiscal year 1998. This Plan, which qualifies under section 401(k) of the Internal Revenue Code, also provides for matching contributions under a cash or deferred arrangement based upon participant salaries and employee contributions to the Plan.

8. UNIT OPTIONS

The Ferrellgas, Inc. Unit Option Plan (the "Unit Option Plan") currently authorizes the issuance of options (the "Unit Options") covering up to 850,000 of the MLP's Subordinated Units to certain officers and employees of the Company. The Unit Options are exercisable beginning after July 31, 1999, assuming the Subordination Period has elapsed, at exercise prices ranging from \$16.80 to \$21.67 per unit, which is an estimate of the fair market value of the Subordinated Units at the time of the grant. The options vest immediately or over a one to five year period, and expire on the tenth anniversary of the date of the grant. Upon conversion of the Subordinated Units held by the Company and its affiliates, outstanding Subordinated Unit Options granted will convert to the MLP's Common Unit Options.

	NUMBER OF UNITS
Outstanding, July 31, 1998.....	782,000
Options exercisable, July 31, 1998...	0
OPTIONS OUTSTANDING AT JULY 31, 1998	
Range of option prices at end of year.....	\$16.80-\$21.67
Weighted average remaining contractual life.	7.8 years

9. TRANSACTIONS WITH RELATED PARTIES

The Company has two notes receivable from Ferrell on an unsecured basis. These notes are due on demand and bear interest at the prime rate (8.5% at July 31, 1998). The balances outstanding on these notes at July 31, 1998 were \$147,821,000. As discussed in Note 1, the note receivable from Parent is reported in stockholder's equity as of July 31, 1998.

10. DISCLOSURES ABOUT OFF BALANCE SHEET RISK AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of current financial instruments approximates fair value because of the short maturity of the instruments. The estimated fair value of the Partnership's long-term debt was \$524,612,000, as of July 31, 1998. The fair value is estimated based on quoted market prices.

INTEREST RATE COLLAR AGREEMENTS - The Partnership has entered into various interest rate collar agreements involving the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts. At July 31, 1998, the total notional principal amount of these agreements was \$100,000,000, and the fair value of these agreements was immaterial to the financial position of the Company. The counterparties to these agreements are large financial institutions. The interest rate collar agreements

subject the Partnership to financial risk that will vary during the life of these agreements in relation to market interest rates. The mark to market adjustment applicable to the portion of the notional amount in excess of variable rate indebtedness at July 31, 1998 was not material to the financial position of the Company.

OPTION COMMODITY CONTRACTS - The Partnership is a party to certain option contracts, involving various energy commodities, for overall risk management purposes in connection with its supply and trading activities. Contracts are executed with private counterparties and to a lesser extent on national mercantile exchanges. Open contract positions are summarized below.

FORWARD, FUTURES AND SWAPS COMMODITY CONTRACTS - The Partnership is a party to certain forward, futures and swaps contracts for trading purposes. Such contracts permit settlement by delivery of the commodity. Open contract positions are summarized below (assets are defined as purchases or long positions and liabilities are sales or short positions).

(IN THOUSANDS, EXCEPT PRICE PER GALLON DATA)

	DERIVATIVE COMMODITY INSTRUMENTS HELD FOR PURPOSES OTHER THAN TRADING (OPTIONS)		DERIVATIVE COMMODITY INSTRUMENTS HELD FOR TRADING PURPOSES (FORWARD, FUTURES AND SWAPS)	
	ASSET	LIABILITY	ASSET	LIABILITY
Volume (gallons).....	3,927	(13,444)	568,949	(628,573)
Price (cents/gallon).....	22-18	49-19	36-23	35-24
Maturity Dates.....	8/98-12/98	8/98-2/99	8/98-12/99	8/98-12/99
Contract Amounts (\$ ).....	8,295	(19,757)	181,541	(201,497)
	DERIVATIVE COMMODITY INSTRUMENTS HELD FOR PURPOSES OTHER THAN TRADING (OPTIONS)		DERIVATIVE COMMODITY INSTRUMENTS HELD FOR TRADING PURPOSES (FORWARD, FUTURES AND SWAPS)	
	ASSET	LIABILITY	ASSET	LIABILITY
Fair Value (\$ ).....	7,901	(19,538)	186,696	(203,162)
Unrealized gain(loss) (\$ )....	(394)	219	5,155	(1,665)

Risks related to these contracts arise from the possible inability of counterparties to meet the terms of their contracts and changes in underlying product prices. The Partnership attempts to minimize market risk through the enforcement of its trading policies, which include total inventory limits and loss limits, and attempts to minimize credit risk through application of its credit policies.

11. SUPPLEMENTAL INFORMATION

The following balance sheet of the Company includes its investment in the Partnership on an equity basis. Such presentation is included to provide additional information with respect to the Company's financial position on a stand alone basis (dollars in thousands):

ASSETS	
INVESTMENT IN SUBSIDIARIES.....	\$ (3,193)
OTHER ASSETS, NET.....	235
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TOTAL ASSETS.....	\$ (2,958)
	=====
LIABILITIES AND STOCKHOLDER'S EQUITY	
CURRENT LIABILITIES.....	\$ 220
DEFERRED INCOME TAXES.....	134,941
CONTINGENCIES AND COMMITMENTS	
STOCKHOLDER'S EQUITY:	
Common stock, one dollar par value; 10,000 shares authorized; 990 shares issued..	1
Additional paid-in-capital.....	10,007
Note receivable from parent.....	(147,821)
Accumulated deficit.....	(306)
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Total stockholder's equity.....	(138,119)
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TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY.....	\$ (2,958)
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