

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended July 31, 1996

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file numbers 1-11331  
333-06693

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

(Exact name of registrants as specified in their charters)

Delaware 43-1698480  
Delaware 43-1742520

-----  
(State or other jurisdictions of (I.R.S. Employer Identification Nos.)  
incorporation or organization)

One Liberty Plaza, Liberty, Missouri 64068

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (816) 792-1600

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
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Common Units	New York Stock Exchange
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Securities registered pursuant to section 12(g) of the Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value as of September 16, 1996, of the registrant's Common Units held by nonaffiliates of the registrant, based on the reported closing price of such units on the New York Stock Exchange on such date, was approximately \$309,414,998.

At September 16, 1996, the registrant had units outstanding as follows:  
Ferrellgas Partners, L.P. 14,612,580 Common Units  
16,593,721 Subordinated Units  
Documents Incorporated by Reference: None

FERRELLGAS PARTNERS, L.P.  
FERRELLGAS PARTNERS FINANCE CORP.

1996 FORM 10-K ANNUAL REPORT

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PART I

ITEM 1. BUSINESS.

Business of Ferrellgas Partners, L.P.

Ferrellgas Partners, L.P. (the "Master Limited Partnership" or the "MLP"), a publicly traded Delaware limited partnership, was formed April 19, 1994. The MLP's activities are conducted through its subsidiary Ferrellgas, L.P. (the "Operating Partnership" or the "OLP"). The MLP, with a 99% limited partner interest, is the sole limited partner of the Operating Partnership. The MLP and the Operating Partnership are together referred to herein as the "Partnership". The Operating Partnership accounts for nearly all of the MLP's consolidated assets, sales and operating earnings. The MLP's consolidated net earnings also reflects interest expense related to \$160 million of 9 3/8% Senior Secured Notes issued by the MLP in April 1996.

Business of Ferrellgas, L.P.

The Operating Partnership, a Delaware limited partnership, was formed April 22, 1994, to acquire, own and operate the propane business and assets of Ferrellgas, Inc. (the "Company", "Ferrellgas", and "General Partner"). The Company has retained a 1% general partner interest in the MLP and also holds a 1.0101% general partner interest in the Operating Partnership, representing a 2% general partner interest in the Partnership on a combined basis. As General Partner of the Partnership, the Company performs all management functions required for the Partnership.

General

The Partnership is engaged in the sale, distribution, marketing and trading of propane and other natural gas liquids. The discussion that follows focuses on the Partnership's retail operations and its other operations, which consist primarily of propane and natural gas liquids trading operations, chemical feedstocks marketing and wholesale propane marketing, all of which were conveyed to the Partnership on July 5, 1994. All historical references prior to July 5, 1994 relate to the operations as conducted by the Company.

The General Partner believes that the Partnership is the second largest retail marketer of propane in the United States (as measured by gallons sold), serving more than 800,000 residential, industrial/commercial and agricultural customers in 45 states and the District of Columbia through approximately 523 retail outlets with 283 satellite locations in 38 states (some outlets serve interstate markets). For the Partnership's fiscal years ended July 31, 1996 and 1995 and the pro forma year ended July 31, 1994, annual retail propane sales volumes were 650 million, 576 million and 564 million gallons, respectively. The retail propane business of the Partnership consists principally of transporting propane purchased through various suppliers to its retail distribution outlets, then to tanks located on its customers' premises, as well as to portable propane cylinders.

The General Partner also believes that the Partnership is a leading natural gas liquids trading company. Annual propane and natural gas liquids trading, chemical feedstocks and wholesale propane sales volumes were approximately 1.7 billion, 1.5 billion and 1.7 billion gallons during the fiscal years ended July 31, 1996 and 1995 and the pro forma year ended July 31, 1994, respectively.

## Retail Operations

### Formation

Ferrell Companies, Inc. ("Ferrell"), the parent of Ferrellgas, was founded in 1939 as a single retail propane outlet in Atchison, Kansas and was incorporated in 1954. In 1984, a subsidiary was formed under the name Ferrellgas, Inc. to operate the retail propane business previously conducted by Ferrell. Ferrell is primarily owned by James E. Ferrell and his family. The Company's initial growth largely resulted from small acquisitions in the rural areas of eastern Kansas, northern and central Missouri, Iowa, Western Illinois, Southern Minnesota, South Dakota and Texas. In July 1984, the Company acquired propane operations with annual retail sales volumes of approximately 33 million gallons and in December 1986, the Company acquired propane operations with annual retail sales volumes of approximately 395 million gallons. These major acquisitions and many other smaller acquisitions significantly expanded and diversified the Company's geographic coverage. In July 1994, the propane business and assets of the Company were contributed to the Partnership.

### Business Strategy

The Partnership's business strategy is to continue Ferrellgas' historical focus on residential and commercial retail propane operations and to expand its operations through strategic acquisitions of smaller retail propane operations located throughout the United States and through increased competitiveness and efforts to acquire new customers. The propane industry is relatively fragmented, with the ten largest retail distributors possessing approximately 33% of the total retail propane market and much of the industry consisting of over 5,000 local or regional companies. The Partnership's retail operations account for approximately 8% of the retail propane purchased in the United States, as measured by gallons sold. Since 1986, and as of July 31, 1996, Ferrellgas has acquired 100 smaller independent propane retailers which Ferrellgas believes were not individually material, except for the acquisition of Skelgas Propane, Inc. ("Skelgas") in May 1996 and Vision Energy Resources, Inc. ("Vision") in November 1994. For the fiscal years ended July 31, 1996 to 1992, the Partnership or its Predecessor invested approximately \$108.8 million, \$70.1 million, \$3.4 million, \$0.9 million and, \$10.1 million, respectively, to acquire operations with annual retail sales of approximately 111.8 million, 70.0 million, 2.9 million, 0.7 million, and 8.6 million gallons of propane, respectively.

The Partnership intends to concentrate its acquisition activities in geographical areas in close proximity to the Company's existing operations and to acquire propane retailers that can be efficiently combined with such existing operations to provide an attractive return on investment after taking into account the efficiencies which may result from such combination. However, the Partnership will also pursue acquisitions which broaden its geographic coverage. The Partnership's goal in any acquisition will be to improve the operations and profitability of these smaller companies by integrating them into the Partnership's established supply network. The General Partner regularly evaluates a number of propane distribution companies which may be candidates for acquisition. The General Partner believes that there are numerous local retail propane distribution companies that are possible candidates for acquisition by the Partnership and that the Partnership's geographic diversity of operations helps to create many attractive acquisition opportunities. The Partnership intends to fund acquisitions through internal cash flow, external borrowings or the issuance of additional Common Units. The Partnership's ability to accomplish these goals will be subject to the continued availability of acquisition candidates at prices attractive to the Partnership. There is no assurance the Partnership will be successful in sustaining the recent level of acquisitions or that any acquisitions that are made will prove beneficial to the Partnership.

In addition to growth through acquisitions, the General Partner believes that the Partnership may also achieve growth within its existing propane operations. As a result of its experience in responding to competition and in implementing more efficient operating standards, the General Partner believes that it has positioned the Partnership to be more successful in direct competition for customers. The Partnership currently has marketing programs underway which focus specific resources toward this effort.

## Marketing

Natural gas liquids are derived from petroleum products and sold in compressed or liquefied form. Propane, the predominant type of natural gas liquid, is typically extracted from natural gas or separated during crude oil refining. Although propane is gaseous at normal pressures, it is compressed into liquid form at relatively low pressures for storage and transportation. Propane is a clean-burning energy source, recognized for its transportability and ease of use relative to alternative forms of stand alone energy sources.

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 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.

The retail propane marketing business generally involves large numbers of small volume deliveries averaging approximately 200 gallons each. The market areas are generally rural but also include suburban areas where natural gas service is not available.

The Partnership utilizes marketing programs targeting both new and existing customers emphasizing its superior ability to deliver propane to customers as well as its training and safety programs. The Partnership sells propane primarily to four specific markets: residential, industrial/commercial, agricultural and other (principally to other propane retailers and as engine fuel.) During the fiscal year ended July 31, 1996, sales to residential customers accounted for 60% of retail gross profit, sales to industrial and other commercial customers accounted for 28% of retail gross profit, sales to agricultural and other customers accounted for 12% of retail gross profit. Residential sales have a greater profit margin, more stable customer base and tend to be less sensitive to price changes than the other markets served by the Partnership. No single customer of the Partnership accounts for 10% or more of the Partnership's consolidated revenues.

Profits in the retail propane business are primarily based on margins, the cents-per-gallon difference between the purchase price and the sales price of propane. The Partnership generally purchases propane in the contract and spot markets, primarily from natural gas processing plants and major oil companies, on a short-term basis, therefore, its supply costs fluctuate with market price fluctuations. Should wholesale propane prices decline in the future, the Partnership's margins on its retail propane distribution business should increase in the short-term because retail prices tend to change less rapidly than wholesale prices. Should the wholesale cost of propane increase, for similar reasons retail margins and profitability would likely be reduced at least for the short-term until retail prices can be increased. Retail propane customers typically lease their storage tanks from their propane distributors. Approximately 70% of the Partnership's customers lease their tank from the Partnership. The lease terms and, in some states, certain fire safety regulations, restrict the filling of a leased tank solely to the propane supplier that owns the tank. The cost and inconvenience of switching tanks minimizes a customers tendency to switch among suppliers of propane on the basis of minor variations in price.

The retail market for propane is seasonal because it is used primarily for heating in residential and commercial buildings. Consequently, sales and operating profits are concentrated in the second and third fiscal quarters (November through April). To the extent necessary, the Partnership will reserve cash inflows from the second and third quarters for distribution to holders of Common Units in the first and fourth fiscal quarters. In addition, sales volume traditionally fluctuates from year to year in response to variations in weather, prices and other factors, although the Partnership believes that the broad geographic distribution of its operations helps to minimize exposure to regional weather or economic patterns. Long-term, historic weather data from the National Climatic Data Center indicate that the average annual temperatures have remained relatively constant over the last 30 years with fluctuations occurring on a year-to-year basis only. During times of colder-than-normal winter weather, the Company has been able to take advantage of its large, efficient distribution network to help avoid supply disruptions such as those experienced by some of its competitors, thereby broadening its long-term customer base.

## Supply and Distribution

The Partnership purchases propane primarily from major domestic oil companies. Supplies of propane from these sources have traditionally been readily available, although no assurance can be given that supplies of propane will be readily available in the future. As a result of (i) the Partnership's ability to buy large volumes of propane and (ii) the Partnership's large distribution system and underground storage capacity, the General Partner believes that the Partnership is in a position to achieve product cost savings and avoid shortages during periods of tight supply to an extent not generally available to other retail propane distributors. The Partnership is not dependent upon any single supplier or group of suppliers, the loss of which would have a material adverse effect on the Partnership. For the year ended July 31, 1996, no supplier at any single delivery point provided more than 10% of the Partnership's total domestic propane supply. A portion of the Partnership's propane inventory is purchased under supply contracts which typically have a one year term and a fluctuating price relating to spot market prices. Certain of the Partnership's contracts specify certain minimum and maximum amounts of propane to be purchased thereunder. The Partnership may purchase and store inventories of propane in order to help insure uninterrupted deliverability during periods of extreme demand. The Partnership owns three underground storage facilities with an aggregate capacity of approximately 184 million gallons. Currently, approximately 111 million gallons of this capacity is leased to third parties. The remaining space is available for the Partnership's use.

Propane is generally transported from natural gas processing plants and refineries, pipeline terminals and storage facilities to retail distribution outlets and wholesale customers by railroad tank cars leased by the Partnership and highway transport trucks owned or leased by the Partnership. The Partnership operates a fleet of transport trucks to transport propane from refineries, natural gas processing plants or pipeline terminals to its retail distribution outlets. Common carrier transport trucks may be used during the peak delivery season in the winter months or to provide service in areas where economic considerations favor common carrier use. Propane is then transported from the Partnership's retail distribution outlets to customers by its fleet of 1,435 bulk delivery trucks, which are fitted generally with 2,000 to 3,000 gallon propane tanks. Propane storage tanks located on the customers' premises are then filled from the delivery truck. Propane is also delivered to customers in portable cylinders.

## Industry and Competition

### Industry

Based upon information contained in the Energy Information Administration's Annual Energy Review 1995 magazine, propane accounts for approximately 3-4% of household energy consumption in the United States, an average level which has remained relatively constant for the past 19 years. It competes primarily with natural gas, electricity and fuel oil as an energy source principally on the basis of price, availability and portability. Propane serves as an alternative to natural gas in rural and suburban areas where natural gas is unavailable or portability of product is required. Propane is generally more expensive than natural gas on an equivalent BTU basis in locations served by natural gas, although propane is often sold in such areas as a standby fuel for use during peak demands and during interruption in natural gas service. The expansion of natural gas into traditional propane markets has historically been inhibited by the capital costs required to expand distribution and pipeline systems. Although the extension of natural gas pipelines tends to displace propane distribution in the neighborhoods affected, the Partnership believes that new opportunities for propane sales arise as more geographically remote neighborhoods are developed. Propane is generally less expensive to use than electricity for space heating, water heating and cooking and competes effectively with electricity in those parts of the country where propane is cheaper than electricity on an equivalent BTU basis. Although propane is similar to fuel oil in application, market demand and price, propane and fuel oil have generally developed their own distinct geographic markets. Because residential furnaces and appliances that burn propane will not operate on fuel oil, a conversion from one fuel to the other requires the installation of new equipment. The Partnership's residential retail propane customers, therefore, will have an incentive to switch to fuel oil only if fuel oil becomes significantly less expensive than propane. Likewise, the Partnership may be unable to expand its customer base in areas where fuel oil is widely used, particularly the Northeast, unless propane becomes significantly less expensive than fuel oil. Alternatively, many industrial customers who use propane as a heating fuel have the capacity to switch to other fuels, such as fuel oil, on the basis of availability or minor variations in price. Propane generally is becoming increasingly favored over fuel oil and other alternative sources of fuel as an environmentally preferred energy source.

## Competition

In addition to competing with marketers of other fuels, the Partnership competes with other companies engaged in the retail propane distribution business. Competition within the propane distribution industry stems from two types of participants: the larger multi-state marketers, and the smaller, local independent marketers. Based upon information contained in the National Propane Gas Association's LP-Gas Market Facts and the June 1996 issue of LP Gas magazine, the Partnership believes that the ten largest multi-state retail marketers of propane, including the Partnership, account for approximately 33% of the total retail sales of propane in the United States. Based upon information contained in industry publications, the Partnership also believes no single marketer has a greater than 10% share of the total market in the United States and that the Partnership is the second largest retail marketer of propane in the United States, with a market share of approximately 8% as measured by volume of national retail propane sales.

Most of the Partnership's retail distribution outlets compete with three or more marketers or distributors. The principal factors influencing competition among propane marketers are price and service. The Partnership competes with other retail marketers primarily on the basis of reliability of service and responsiveness to customer needs, safety and price. Each retail distribution outlet operates in its own competitive environment because retail marketers locate in close proximity to customers to lower the cost of providing service. The typical retail distribution outlet has an effective marketing radius of approximately 25 miles.

## Other Operations

The other operations of the Partnership consist principally of: (1) trading, (2) chemical feedstocks marketing and (3) wholesale propane marketing. The Partnership, through its natural gas liquids trading operations and wholesale marketing, has become one of the largest independent traders of propane and natural gas liquids in the United States. The Partnership owns no properties that are material to these operations. These operations may utilize available space in the Partnership's underground storage facilities in the furtherance of these businesses. Because the Partnership possesses a large distribution system, underground storage capacity and the utility to buy large volumes of propane, the General Partner believes that the Partnership is in a position to achieve product cost savings and avoid shortages during periods of tight supply to an extent not generally available to other retail propane distributions.

## Trading

The Partnership's traders are engaged in trading propane and other natural gas liquids for the Partnership's account and for supplying the Partnership's retail and wholesale propane operations. The Partnership primarily trades products purchased from its over 150 suppliers, however, it also conducts transactions on the New York Mercantile Exchange. Trading activity is conducted primarily to generate a profit independent of the retail and wholesale operations, but is also conducted to insure the availability of propane during periods of short supply. Propane represents over 44% of the Partnership's total trading volume, with the remainder consisting principally of various other natural gas liquids. The Partnership attempts to minimize trading risk through the enforcement of its trading policies, which include total inventory limits and loss limits, and attempts to minimize credit risk through credit checks and application of its credit policies. However, there can be no assurance that historical experience or the existence of such policies will prevent trading losses in the future. For the Partnership's fiscal years ended July 31, 1996 and 1995 and the pro forma fiscal year ended July 31, 1994 net revenues of \$7.3 million, \$5.8 million and \$6.8 million, respectively, were derived from trading activities.

#### Chemical Feedstocks Marketing

The Partnership is also involved in the marketing of refinery and petrochemical feedstocks. Petroleum by-products are purchased from refineries and sold to petrochemical plants. The Partnership leases 320 railroad tank cars to facilitate product delivery. Revenues of \$44.4 million, \$91.9 million and \$43.0 million were derived from such activities for the Partnership's fiscal years ended July 31, 1996 and 1995 and the pro forma fiscal year ended July 31, 1994, respectively.

#### Wholesale Marketing

The Partnership engages in the wholesale distribution of propane to other retail propane distributors. During the fiscal years ended July 31, 1996 and 1995 and the pro forma year ended July 31, 1994 the Partnership sold 104 million, 96 million and 61 gallons, respectively, of propane to wholesale customers and had revenues attributable to such sales of \$42.6 million, \$33.5 million and \$22.5 million, respectively.

#### Employees

The Partnership has no employees and is managed by the General Partner pursuant to the Partnership Agreement. At July 31, 1996, the General Partner had 3,370 full-time employees and 770 temporary and part-time employees. The number of temporary and part-time employees is generally higher by approximately 350-500 people during the winter heating season. At July 31, 1996, the General Partner's full-time employees were employed in the following areas:

Retail Locations	2,817
Transportation and Storage	197
Corporate Offices (Liberty, MO & Houston, TX)	356
	=====
Total	3,370
	=====

Approximately one percent of the General Partner's employees are represented by seven local labor unions, which are all affiliated with the International Brotherhood of Teamsters. The General Partner has not experienced any significant work stoppages or other labor problems.

The Partnership's supply, trading, chemical feedstocks marketing, distribution scheduling and product accounting functions are operated primarily out of the Partnership's offices located in Houston, by a total full-time corporate staff of 94 people.

#### Governmental Regulation; Environmental and Safety Matters

From August 1971 until January 1981, the United States Department of Energy regulated the price and allocation of propane. The Partnership is no longer subject to any similar regulation.

Propane is not a hazardous substance within the meaning of federal and state environmental laws. In connection with all acquisitions of retail propane businesses that involve the purchase of real estate, the Partnership conducts a due diligence investigation to attempt to determine whether any substance other than propane has been sold from or stored on any such real estate prior to its purchase. Such due diligence includes questioning the sellers, obtaining representations and warranties concerning the sellers' compliance with environmental laws and visual inspections of the properties, whereby employees of the General Partner look for evidence of hazardous substances or the existence of underground storage tanks.



With respect to the transportation of propane by truck, the Partnership is subject to regulations promulgated under the Federal Motor Carrier Safety Act. These regulations cover the transportation of hazardous materials and are administered by the United States Department of Transportation. National Fire Protection Association Pamphlet No. 58, which establishes a set of rules and procedures governing the safe handling of propane, or comparable regulations, have been adopted as the industry standard in a majority of the states in which the Partnership operates. There are no material environmental claims pending and the Partnership complies in all material respects with all material governmental regulations and industry standards applicable to environmental and safety matters.

#### Service Marks and Trademarks

The Partnership markets retail propane under the "Ferrellgas" tradename and uses the tradename "Ferrell North America" for its other operations. In addition, the Partnership has a trademark on the name "FerrellMeter," its patented gas leak detection device. The Company contributed all of its rights, title and interest in such tradenames and trademark in the continental United States to the Partnership. The General Partner will have an option to purchase such tradenames and trademark from the Partnership for a nominal value if the General Partner is removed as general partner of the Partnership other than for cause. If the General Partner ceases to serve as the general partner of the Partnership for any other reason, it will have the option to purchase such tradenames and trademark from the Partnership for fair market value.

#### Business of Ferrellgas Finance Corp. and Ferrellgas Partners Finance Corp.

Ferrellgas Finance Corp. (the "OLP Finance Corp."), a Delaware corporation, was formed April 28, 1994, and is a wholly-owned subsidiary of the Operating Partnership. Ferrellgas Partners Finance Corp. (the "MLP Finance Corp.") a Delaware corporation (together with the OLP Finance Corp., the "Finance Corps.") was formed on March 28, 1996, and is a wholly-owned subsidiary of the MLP. The Finance Corps. have nominal assets and do not conduct any operations, but serve as co-obligors for securities issued by the Operating Partnership and the MLP. Certain institutional investors that might otherwise be limited in their ability to invest in securities issued by partnerships by reasons of the legal investment laws of their states of organization or their charter documents, may be able to invest in the Operating Partnership's or MLP's securities because the Finance Corps. are co-obligors. Accordingly, a discussion of the results of operations, liquidity and capital resources of the Finance Corps. are not presented. See the Finance Corp's. notes to financial statements for a discussion of the securities with respect to which the Finance Corps. are serving as co-obligor.

ITEM 2. PROPERTIES.

The Partnership owns or leases the following transportation equipment which is utilized primarily in retail operations, except for railroad tank cars, which are used primarily by chemical feedstocks operations.

	Owned	Leased	Total
Truck tractors .....	89	42	131
Transport trailers.....	118	10	128
Bulk delivery trucks.....	954	481	1,435
Pickup and service trucks.....	1,066	381	1,447
Railroad tank cars.....	-	320	320

The highway transport trailers have an average capacity of approximately 9,000 gallons. The bulk delivery trucks are generally fitted with 2,000 to 3,000 gallon propane tanks. Each railroad tank car has a capacity of approximately 30,000 gallons.

A typical retail distribution outlet is located on one to three acres of land and includes a small office, a workshop, bulk storage capacity of 18,000 gallons to 60,000 gallons and a small inventory of stationary customer storage tanks and portable propane cylinders that the Partnership provides to its retail customers for propane storage. The Partnership owns the land and buildings of about 50% of its retail outlets and leases the remaining facilities on terms customary in the industry and in the applicable local markets.

Approximately 675,000 propane tanks are owned by the Partnership, most of which are located on customer property and leased to those customers. The Partnership also owns approximately 650,000 portable propane cylinders, most of which are leased to industrial and commercial customers for use in manufacturing and processing needs, including forklift operations, and to residential customers for home heating and cooking, and to local dealers who purchase propane from the Partnership for resale.

The Partnership owns underground storage facilities at Hutchinson, Kansas; Adamana, Arizona; and Moab, Utah. At July 31, 1996, the capacity of these facilities approximated 88 million gallons, 88 million gallons and 8 million gallons, respectively (an aggregate of approximately 184 million gallons). Currently, approximately 111 million gallons of this capacity is leased to third parties. The remaining space is available for the Partnership's use.

The Partnership owns the land and two buildings (50,245 square feet of office space) comprising its corporate headquarters in Liberty, Missouri, and leases the 18,124 square feet of office space in Houston, Texas, where its trading, chemical feedstocks marketing and wholesale marketing operations are primarily located.

The Partnership believes that it has satisfactory title to or valid rights to use all of its material properties and, although some of such properties are subject to liabilities and leases and, in certain cases, liens for taxes not yet currently due and payable and immaterial encumbrances, easements and restrictions, the Partnership does not believe that any such burdens will materially interfere with the continued use of such properties in its business, taken as a whole. In addition, the Partnership believes that it has, or is in the process of obtaining, all required material approvals, authorizations, orders, licenses, permits, franchises and consents of, and has obtained or made all required material registrations, qualifications and filings with, the various state and local governmental and regulatory authorities which relate to ownership of the Partnership's properties or the operations of its business.

ITEM 3. LEGAL PROCEEDINGS.

Litigation

Propane is a flammable, combustible gas. Serious personal injury and property damage can occur in connection with its transportation, storage or use. The Partnership, in the ordinary course of business, is threatened with or is named as a defendant in various lawsuits which, among other items, seek actual and punitive damages for product liability, personal injury and property damage. The Partnership maintains liability insurance policies with insurers in such amounts and with such coverages and deductibles as the General Partner believes is reasonable and prudent. However, there can be no assurance that such insurance will be adequate to protect the Partnership from material expenses related to such personal injury or property damage or that such levels of insurance will continue to be available in the future at economical prices. It is not possible to determine the ultimate disposition of these matters discussed above; 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 Partnership.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of the security holders of the Partnership during the fiscal year ended July 31, 1996.

PART II

ITEM 5. MARKET FOR REGISTRANT'S UNITS AND RELATED UNITHOLDER MATTERS.

The Common Units, representing common limited partner interests in the Partnership, are listed and traded on the New York Stock Exchange under the symbol FGP. The Common Units began trading on June 28, 1994, at an initial public offering price of \$21.00 per Common Unit. As of September 16, 1996, there were 791 registered Common Unitholders of record. The following table sets forth the high and low sales prices for the Common Units on the NYSE and the cash distributions declared per Common Unit for the periods indicated.

	Common Unit Price Range						Distributions		
	High			Low			Declared per Unit		
	1994	1995	1996	1994	1995	1996	1994*	1995	1996
First Quarter		\$22.75	\$23.00		\$20.88	\$21.00		\$0.50	\$0.50
Second Quarter		22.50	24.50		19.75	21.25		0.50	0.50
Third Quarter		21.25	24.25		19.75	21.88		0.50	0.50
Fourth Quarter	\$21.13	\$22.63	\$23.50	\$20.75	\$20.25	\$21.25	\$0.15	\$0.50	\$0.50

\* Consisted of the period from the inception of the Partnership on July 5, 1994 through July 31, 1994, a 26-day period. The \$0.15 distribution reflected a pro rata share of the Minimum Quarterly Distribution of \$0.50 per Unit which would have been payable for the full quarter, and was paid in conjunction with the first quarter 1995 distribution.

The Partnership also has Subordinated Units, all of which are held by the Company or Ferrell, for which there is no established public trading market.

The Partnership makes quarterly cash distributions of its Available Cash, as defined by the MLP's Agreement of Limited Partnership (the "Partnership Agreement"). Available Cash is generally defined as consolidated cash receipts less consolidated cash disbursements and changes in cash reserves established by the General Partner for future requirements.

The Partnership is a publicly traded limited partnership that is not subject to federal income tax. Instead, Unitholders are required to report their allocable share of the Partnership's income, gain, loss, deduction and credit, regardless of whether the Partnership makes distributions.

ITEM 6. SELECTED HISTORICAL AND PRO FORMA FINANCIAL DATA.

The following table presents selected consolidated historical and pro forma financial data of the Partnership and Predecessor.

(in thousands, except per unit data)

	Ferrellgas, Inc. and Subsidiaries (Predecessor)						
	Ferrellgas Partners L.P.						
	Historical Year Ended July 31,		Pro Forma Year Ended July 31,	Historical Inception to July 31,	Historical Eleven Months Ended June 30,	Historical Year Ended July 31,	
	1996	1995	1994 (1)	1994	1994	1993	1992
Income Statement Data:							
Total revenues	\$653,640	\$596,436	\$526,556	\$ 24,566	\$501,990	\$541,945	\$501,129
Depreciation and amortization	37,024	32,014	28,835	2,383	26,452	30,840	31,196
Operating income (loss)	62,506	55,927	68,631	(2,391)	71,522	58,553	56,408
Interest expense	37,983	31,993	28,130	2,662	53,693	60,071	61,219
Earnings (loss) from continuing operations	24,312	23,820	39,909	(5,026)	12,337	109	(1,700)
Earnings from continuing operations per unit	0.77	0.76	1.29				
Cash distributions declared per unit(3)	2.00	1.65					
Balance Sheet Data (at end of period):							
Working capital	\$ 15,294	\$ 28,928	\$ 34,948	\$ 34,948	\$ 91,912	\$ 74,408	\$ 67,973
Total assets	654,295	578,596	477,193	477,193	592,664	573,376	598,613
Payable to (receivable from) parent and affiliates					(4,050)	(916)	2,236
Long-term debt	439,112	338,188	267,062	267,062	476,441	489,589	501,614
Stockholder's equity					22,829	11,359	8,808
Partners' Capital:							
Common Unitholders	\$ 71,323	\$ 84,489	\$ 84,532	\$ 84,532			
Subordinated Unitholders	71,302	91,824	99,483	99,483			
General Partner (2)	(58,016)	(57,676)	(62,622)	(62,622)			
Operating Data:							
Retail propane sales volumes (in gallons)	650,214	575,935	564,224	23,915	540,309	553,413	495,707
Capital expenditures (4):							
Maintenance	\$ 6,657	\$ 8,625	\$ 5,688	\$ 911	\$ 4,777	\$ 10,527	\$ 10,250
Growth	6,654	11,097	4,032	983	3,049	2,851	3,342
Acquisition	108,803	70,069	3,429	878	2,551	897	10,112
Total	\$122,114	\$ 89,791	\$ 13,149	\$ 2,772	\$ 10,377	\$ 14,275	\$ 23,704
Supplemental Data:							
Earnings (loss) before depreciation, amortization interest and taxes(5)	\$ 99,530	\$ 87,941	\$ 97,466	\$ (8)	\$ 97,974	\$ 89,393	\$ 87,604

(1) The pro forma year ended July 31, 1994 includes the eleven months ended June 30, 1994 and historical financial data of the partnership 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).

(2) Pursuant to the MLP's Agreement of Limited Partnership (the "Partnership Agreement"), the net loss from continuing operations of \$5,026,000 was allocated 100% to the General Partner from inception of the Partnership to the last day of the taxable year ending July 31, 1994. An amount equal to 99% of this net loss was reallocated to the limited partners in the taxable year ending July 31, 1995 based on their ownership percentage. In addition, the retirement of debt assumed by the Partnership resulted in an extraordinary loss of approximately \$60,062,000 resulting from debt prepayment premiums, consent fees and the write-off of unamortized discount and financing costs. In accordance with the Partnership Agreement, this extraordinary loss was allocated 100% to the General Partner and was not reallocated to the limited partners in the next taxable year.

(3) No cash distributions were declared by the Partnership from inception to July 31, 1994. The \$0.65 distribution made at the end of the 1995 first quarter included \$0.50 for the first quarter 1995 and \$0.15 for the inception period.

- (4) The Company's capital expenditures fall generally into three categories: (i) maintenance capital expenditures, which include expenditures for repair and replacement of property, plant and equipment; (ii) growth capital expenditures, which include expenditures for purchases of new propane tanks and other equipment to facilitate expansion of the Company's customer base and operating capacity; and (iii) acquisition capital expenditures, which include expenditures related to the acquisitions of retail propane operations. Acquisition capital expenditures represent total cost of acquisition less working capital acquired.
- (5) EBITDA is calculated as operating income (loss) plus depreciation and amortization. EBITDA is not intended to represent cash flow and does not represent the measure of cash available for distribution. EBITDA is a non-GAAP measure, but provides additional information for evaluating the Partnership's ability to make the Minimum Quarterly Distribution. In addition, EBITDA is not intended as an alternative to earnings (loss) from continuing operations or net earnings (loss).
- (6) In August 1991, the Company revised the estimated useful lives of storage tanks from 20 to 30 years in order to more closely reflect expected useful lives of the assets. The effect of the change in accounting estimates resulted in a favorable impact on loss from continuing operations of approximately \$3.7 million for the fiscal year ended July 31, 1992.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the historical and pro forma consolidated financial statements and the notes thereto included elsewhere in this Form 10-K.

General

The Partnership is engaged in the sale, distribution, marketing and trading of propane and other natural gas liquids. The Partnership's revenue is derived primarily from the retail propane marketing business. The General Partner believes the Partnership is the second largest retail marketer of propane in the United States, based on gallons sold, serving more than 800,000 residential, industrial/commercial and agricultural customers in 45 states and the District of Columbia through approximately 523 retail outlets and 283 satellite locations. Annual retail propane sales volumes were 650 million, 576 million and 564 million gallons for the fiscal years ended July 31, 1996, 1995, and 1994, respectively.

The retail propane business of the Partnership consists principally of transporting propane purchased in the contract and spot markets, primarily from major oil companies, to its retail distribution outlets and then to tanks located on the customers' premises, as well as 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.

The Partnership is also engaged in the trading of propane and other natural gas liquids, chemical feedstocks marketing and wholesale propane marketing. Through its natural gas liquids trading operations and wholesale marketing, the Partnership is one of the largest independent traders of propane and natural gas liquids in the United States. In fiscal year 1996, the Partnership's wholesale and trading sales volume was approximately 1.7 billion gallons of propane and other natural gas liquids, over 44% of which was propane.

The Partnership's traders are engaged in trading propane and other natural gas liquids for the Partnership's account and for supplying the Partnership's retail and wholesale propane operations. The Partnership primarily trades products purchased from its over 150 suppliers, however, it also conducts transactions on the New York Mercantile Exchange. Trading activity is conducted primarily to generate a profit independent of the retail and wholesale operations, but is also conducted to insure the availability of propane during periods of short supply. Propane represents over 44% of the Partnership's total trading volume, with the remainder consisting principally of various other natural gas liquids. The Partnership attempts to minimize trading risk through the enforcement of its trading policies, which include total inventory limits and loss limits, and attempts to minimize credit risk through credit checks and application of its credit policies. However, there can be no assurance that historical experience or the existence of such policies will prevent trading losses in the future. For the Partnership's fiscal years ended July 31, 1996 and 1995, and the pro forma fiscal year ended July 31, 1994, net revenues from trading activities were \$7.3 million, \$5.8 million and \$6.8 million, respectively.

Selected Quarterly Financial Data  
(in thousands, except per unit data)

Due to the seasonality of the retail propane business, first and fourth quarter revenues, gross profit and net earnings are consistently less than the comparable second and third quarter results. The following presents the Partnership's selected quarterly financial data for the two years ended July 31, 1996.

Fiscal year ended July 31, 1996

	First Quarter -----	Second Quarter -----	Third Quarter -----	Fourth Quarter (1) -----
Revenues	\$124,588	\$238,381	\$190,743	\$99,928
Gross profit	55,479	111,909	85,480	44,458
Earnings (loss) before extraordinary loss	(7,303)	41,476	18,012	(27,873)
Earnings (loss) before extraordinary loss per limited partner unit	(0.23)	1.32	0.57	(0.89)
Net earnings (loss) (1)	(7,303)	41,476	18,012	(28,838)

(1) Reflects a \$965 extraordinary loss on early retirement of debt, net of minority interest of \$10.

Fiscal year ended July 31, 1995

	First Quarter -----	Second Quarter -----	Third Quarter -----	Fourth Quarter -----
Revenues	119,413	\$ 218,661	\$ 168,013	\$ 90,349
Gross profit	52,002	95,772	73,254	35,767
Net earnings (loss)	(666)	30,527	11,939	(17,980)
Net earnings (loss) per limited partner unit	(0.02)	0.98	0.38	(0.58)

## Results of Operations

Fiscal Year Ended July 31, 1996 versus Fiscal Year Ended July 31, 1995

**Total Revenues.** Total revenues increased 9.6% as compared to the prior year, primarily due to increased retail propane volumes and increased sales price per retail gallon, partially offset by the decline in revenues from other operations (net trading operations, wholesale propane marketing and chemical feedstocks marketing).

Retail volumes increased by 12.9% or 74 million gallons, primarily due to the impact of colder weather during fiscal 1996 as compared to fiscal 1995 and acquisition related growth. Fiscal 1996 winter temperatures, as reported by the American Gas Association, were 14.3% colder than the prior year and 3.0% colder than normal. Colder winter temperatures also caused higher cost of product which in turn produced a corresponding increase in sales price per gallon as compared to the prior fiscal year.

The 28.5% decrease in revenues from other operations to \$94,318,000 is primarily due to a decrease in chemical feedstocks marketing revenues due to a decrease in sales volume and selling price. Both volume and price decreased as a result of decreased availability of product from refineries and decreased demand from petrochemical companies. Unrealized gains and losses on options, forwards, and futures contracts were not significant in fiscal 1996 and 1995.

The acquisition of Skelgas in May 1996 did not have a significant impact on fiscal 1996 revenues due to the expected low retail volumes in the fourth quarter of fiscal 1996. The Partnership expects fiscal 1997 retail propane revenues to increase primarily due to the full fiscal year impact of the Skelgas acquisition. Due to, among other factors, the uncertainty in both fiscal 1997 temperature levels and sales price per gallon, the Partnership is unable to predict the impact of the Skelgas acquisition on future revenues. During the nine months ended April 30, 1996, Skelgas sold approximately 87 million retail propane gallons, however, temperatures were 3.0% colder than normal.

**Gross Profit.** Gross profit increased 15.8% as compared to the 1995 fiscal year, primarily due to a \$28,415,000 increase in retail sales gross margin and to a lesser extent gross profits from other operations. Retail operations results increased primarily due to the increase in retail volumes. Other operations increased \$11,027,000 mainly due to the increased activity of a non-retail transportation operation. This increased activity did not materially impact income from continuing operations due to the related increase in operating expenses. Chemical feedstocks is comprised of low margin sales, therefore, the decrease in revenues did not significantly impact gross profit.

**Operating Expenses.** Operating expenses increased 17.1% over the prior year. Depreciation and Amortization. Depreciation and amortization expense increased 15.6% over the prior year due primarily to acquisitions of propane businesses. Acquisitions of propane businesses.

**Depreciation and Amortization.** Depreciation and amortization expense increased 15.6% over the prior year due primarily to acquisitions of propane businesses.

**Interest expense and extraordinary loss.** Interest expense increased 18.7% over the prior year. This increase is primarily the result of the MLP's issuance of \$160,000,000 of 9 3/8% Senior Secured Notes in April 1996 (the "MLP Senior Notes"), the increased net borrowings from the Operating Partnership's revolving credit loans during the first nine months of the year, partially offset by decreasing interest rates during the first nine months of the year. The Partnership expects interest expense to increase in fiscal 1997 due to the full year effect of the issuance of the MLP Senior Notes.

The extraordinary charge of \$965,000 is due to the write off of unamortized debt issuance costs as a result of the refinancing of the \$50,000,000 of floating rate debt previously issued by the Operating Partnership. The Partnership expects interest expense related to this debt to decrease by 2% per annum in fiscal 1997.

Fiscal Year Ended July 31, 1995 versus Pro Forma Year Ended July 31, 1994

The pro forma year ended July 31, 1994 equals the sum of the Predecessor's eleven months ended June 30, 1994 and the Partnership's one month ended July 31, 1994, adjusted for the effects of the transactions consummated in connection with the formation of the Partnership (principally related to the reduction in interest expense resulting from early retirement of debt, net of additional borrowings).

**Total Revenues.** Total revenues increased 13.3% to \$596,436,000 as compared to \$526,556,000 for the prior year. The increase is attributable to acquisitions of propane businesses during November 1994 and to revenues from other operations (net trading operations, wholesale propane marketing and chemical feedstocks marketing) increasing 82.4% to \$131,948,000. The increase in revenues from other operations is primarily due to an unusually strong demand for chemical feedstocks driving increased prices and volumes. These increases were offset by a decrease in revenues from existing retail operations due to warmer temperatures as compared to normal and to the prior period that have affected the majority of the Operating Partnership's areas of operation. Unrealized gains and losses on options, forwards, and futures contracts were not significant in fiscal 1995 and 1994. Fiscal 1995 winter temperatures, as reported by the American Gas Association, were 10.3% warmer than normal and 12.4% warmer than the prior year. The average degree days in regions served by the Company have historically varied on an annual basis by a greater amount than the average national degree days.

**Gross Profit.** Total retail gallons sold increased 2.1% to 576 million as compared to 564 million for the prior year. This increase is due to sales contributed by acquisitions, partially offset by warmer temperatures. Despite the increase in sales volume, gross profit was essentially flat at \$256,795,000 as compared with \$257,250,000 for the prior year due primarily to the weather impact on higher margin residential sales. Other operations is comprised of low margin sales, therefore, the increase in revenues did not impact gross profit significantly.

**Operating Expenses.** Operating expenses increased 5.6% to \$153,225,000 as compared to \$145,136,000 for the prior year. The increase is primarily attributable to acquisitions of propane businesses offset by a reduction in expenses of the base business (primarily personnel and vehicle expenses) as compared to the prior year.

**Depreciation and Amortization.** Depreciation and amortization expense increased 11.0% to \$32,014,000 as compared to \$28,835,000 for the prior year due primarily to acquisitions of propane businesses.

**Net Earnings.** Net earnings decreased to \$24,064,000 as compared to \$40,312,000 for the prior year. This decrease is due to acquisition-driven increases in expenses, including interest expense, combined with the warm weather impact on gross profit.

Liquidity and Capital Resources

The ability of the MLP to satisfy its obligations is dependent upon future performance, which will be subject to prevailing economic, financial, business and weather conditions and other factors, many of which are beyond its control. For the fiscal year ending July 31, 1997, the General Partner believes that the OLP will have sufficient funds to meet its obligations and enable it to distribute to the MLP sufficient funds to permit the MLP to meet its obligations with respect to the MLP Senior Notes issued in April 1996, and enable it to distribute the Minimum Quarterly Distribution (\$0.50 per Unit) on all Common Units and Subordinated Units. Future maintenance and working capital needs of the MLP are expected to be provided by cash generated from future operations, existing cash balances and the working capital borrowing facility. In order to fund expansive capital projects and future acquisitions, the OLP may borrow on existing bank lines or the MLP may issue additional Common Units. Toward this purpose the MLP maintains a shelf registration statement with the Securities and Exchange Commission for 1,887,420 Common Units representing limited partner interests in the MLP. During the year ended July 31, 1996, the MLP issued 213,758 Common Units in connection with the acquisition of propane businesses. The Common Units may be issued from time to time by the MLP in connection with the OLP's acquisition of other businesses, properties or securities in business combination transactions.



Operating Activities. Cash provided by operating activities was \$65,096,000 for the year ended July 31, 1996, compared to \$66,030,000 in the prior year. This slight decrease is primarily due to the decrease in accounts payable offset by a decrease in inventories related to the decreased level of chemical feedstocks operations. Additional factors impacting cash provided from operating activities include an increase in other liabilities, offset by an increase in retail accounts receivable primarily due to unfavorable economic conditions.

Investing Activities. On April 30, 1996, the General Partner completed the acquisition of Skelgas for a cash purchase price of \$89,650,000. Following the closing of the acquisition, the General Partner (i) caused Skelgas and each of its subsidiaries to be merged into Ferrellgas and (ii) transferred all of the assets of Skelgas and its subsidiaries to the Operating Partnership. In exchange, the Operating Partnership assumed substantially all of the liabilities, whether known or unknown, associated with Skelgas and its subsidiaries and their propane business (excluding income tax liabilities). In consideration of the retention by Ferrellgas of certain income tax liabilities, the Partnership issued 41,203 Common Units to Ferrellgas. The liabilities assumed by the Operating Partnership included the obligations of Ferrellgas under a \$89,650,000 million Bank of America ("BoFA") Acquisition Loan. Immediately following the transfer of assets and related transactions described above, the Operating Partnership repaid the BoFA Acquisition Loan principally from cash proceeds of the MLP Senior Notes and borrowings under the Operating Partnership's existing acquisition bank credit line. Including the Skelgas acquisition, the Partnership made total acquisition capital expenditures of \$128,165,000 (including working capital acquired of \$19,362,000) in fiscal 1996. This amount was funded by \$108,120,000 debt assumed, \$8,116,000 cash payments, \$4,825,000 Common Units issued, and \$7,104,000 in other costs and consideration.

During the year ended July 31, 1996, the Partnership made growth and maintenance capital expenditures of \$13,011,000 consisting primarily of the following: 1) additions to Partnership-owned customer tanks and cylinders, 2) vehicle lease buyouts, 3) relocating and upgrading district plant facilities, and 4) development and upgrading computer equipment and software. Capital requirements for repair and maintenance of property, plant and equipment are relatively low since technological change is limited and the useful lives of propane tanks and cylinders, the Partnership's principal physical assets, are generally long. The Partnership maintains its vehicle and transportation equipment fleet by leasing light and medium duty trucks and tractors. The General Partner believes vehicle leasing is a cost effective method for meeting the Partnership's transportation equipment needs. The Partnership continues seeking to expand its operations through strategic acquisitions of smaller retail propane operations located throughout the United States. These acquisitions will be funded through internal cash flow, external borrowings or the issuance of additional Partnership interests. The Partnership does not have any material commitments of funds for capital expenditures other than to support the current level of operations. In fiscal 1997, the Partnership expects growth and maintenance capital expenditures to increase over fiscal 1996 levels.

Financing Activities. On April 26, 1996, the MLP issued the MLP Senior Notes. The MLP Senior Notes will be redeemable at the option of the Partnership, in whole or in part, at any time on or after June 15, 2001. The MLP Senior Notes will become guaranteed by the OLP on a senior subordinated basis if certain conditions are met. The Amended and Restated Credit Agreement and the OLP Senior Note Indenture currently prohibit the OLP from guaranteeing any indebtedness unless, among meeting other conditions, the fixed charge coverage ratio for the OLP meets certain levels at prescribed dates. Currently the OLP does not meet such conditions and, therefore, there can be no assurance as to whether or when this guarantee will occur. Interest is payable semi-annually in arrears on June 15 and December 15 of each year commencing on December 15, 1996. A portion of the net proceeds was used to retire outstanding indebtedness of \$66,350,000 under the OLP's credit facility. The remaining proceeds were used to retire \$89,650,000 of indebtedness assumed from the General Partner pursuant to the Skelgas acquisition.

On July 31, 1996, the OLP amended and restated its \$205,000,000 Credit Facility (the "Credit Facility") with Bank of America National Trust & Savings Association ("BoFA"), as Agent. Among other changes, the amendment increased the maximum borrowing amount to \$255,000,000 and extends the termination date of the revolving line of credit to July 1999. The unsecured Credit Facility permits borrowings of up to \$185,000,000 on a senior unsecured revolving line of credit basis to fund general corporate, working capital and acquisition purposes (of which up to \$50,000,000 is available to support letters of credit). The Credit Facility also provides an unsecured revolving line of credit for additional working capital needs of \$20,000,000.

The Credit Facility also includes an unsecured term loan due June 1, 2001 (the "Refinancing Loan") which was used to refinance the OLP's \$50,000,000 Floating Rate Series B Senior Notes (the "Floating Senior Notes"). On July 31, 1996, the OLP used the proceeds of the Refinancing Loan to redeem the Floating Senior Notes. The OLP expects interest expense related to this debt to decrease by 2% per annum.

To offset the variable rate characteristic of the Credit Facility, the OLP has entered into interest rate collar agreements, expiring between June and December 1998, with three major banks that effectively limit interest rates on a certain notional amount between 4.9% and 6.5% under the current pricing arrangement. At July 31, 1996, the total notional principal amount of these agreements was \$125,000,000.

At July 31, 1996, \$44,500,000 of borrowings were outstanding under the revolving portion of the Credit Facility. Letters of credit outstanding, used primarily to secure obligations under certain insurance arrangements, totaled \$26,824,000. At July 31, 1996, the OLP had \$133,676,000 available for general corporate, acquisition and working capital purposes under the Credit Facility. The Partnership typically has significant cash needs during the first quarter due to expected low revenues, increasing inventories and the September cash distribution. The OLP also has outstanding \$200,000,000 of 10% Fixed Rate Senior Notes due 2001.

During the year ended July 31, 1996, the Partnership paid cash distributions of \$2.00 per limited partner unit. These distributions covered the period from May 1, 1995 to April 30, 1996. On August 19, 1996, the Partnership declared its fourth-quarter cash distribution of \$0.50 per limited partner unit, which was paid September 13, 1996. The Partnership's annualized distribution is presently \$2.00 per limited partner unit.

The MLP Senior Notes, the OLP Fixed Rate Senior Notes and Credit Facility contain various restrictive covenants applicable to the MLP, the Operating Partnership and its subsidiaries, the most restrictive relating to additional indebtedness, sale and disposition of assets, and transactions with affiliates. In addition, the Operating Partnership is prohibited from making cash distributions of the Minimum Quarterly Distribution 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 MLP and the Operating Partnership are in compliance with all requirements, tests, limitations and covenants related to the MLP Senior Notes, the OLP Fixed Rate Senior Notes and Credit Facility.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Partnership's Consolidated Financial Statements and the Reports of Certified Public Accountants thereon and the Supplementary Financial Information listed on the accompanying Index to Financial Statements and Financial Statement Schedules are hereby incorporated by reference. See Item 7 for Selected Quarterly Financial Data.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANTS.

Partnership Management

The General Partner manages and operates the activities of the Partnership, and the General Partner anticipates that its activities will be limited to such management and operation. Unitholders do not directly or indirectly participate in the management or operation of the Partnership. The General Partner owes a fiduciary duty to the Unitholders.

In September 1994, the General Partner appointed two persons who are neither officers nor employees of the General Partner or any affiliate of the General Partner to serve on a committee of the Partnership (the "Audit Committee") with the authority to review, at the request of the General Partner, specific matters as to which the General Partner believes there may be a conflict of interest in order to determine if the resolution of such conflict proposed by the General Partner is fair and reasonable to the Partnership. The Audit Committee will only review matters relating to conflicts of interest at the request of the General Partner, and the General Partner has sole discretion to determine which matters, if any, to submit to the Audit Committee. Any matters approved by the Audit Committee will be conclusively deemed to be fair and reasonable to the Partnership, approved by all partners of the Partnership and not a breach by the General Partner of any duties it may owe the Partnership or the Unitholders.

The Partnership does not directly employ any of the persons responsible for managing or operating the Partnership. At July 31, 1996, 3,370 full-time and 770 temporary and part-time individuals were employed by the General Partner.

Directors and Executive Officers of the General Partner

The following table sets forth certain information with respect to the directors and executive officers of the General Partner. Each of the persons named below is elected to their respective office or offices annually. None of the executive officers have entered into employment agreements with the General Partner.

Name	Age	Director		Position
		Since		
James E. Ferrell	56	1984		President, Chairman of the Board, Chief Executive Officer and a Director of the General Partner
Danley K. Sheldon	38			Senior Vice President, Chief Financial Officer, President-Retail Operations, Treasurer and Managing Director
Shahid J. A. Malik	36			Senior Vice President, Chief Operating Officer, Ferrell North America and Managing Director

Name	Age	Since	Director Position
James M. Hake	36		Vice President, Acquisitions
Patrick J. Chesterman	46		Vice President, Retail Operations
Daniel M. Lambert	55	1994	Director of the General Partner
A. Andrew Levison	40	1994	Director of the General Partner

James E. Ferrell--Mr. Ferrell has been with Ferrell or its predecessors and its affiliates in various executive capacities since 1965.

Danley K. Sheldon--Mr. Sheldon has been Chief Financial Officer of the Company since January 1994. He was appointed President-Retail Operations in October 1996 and has served as Treasurer since 1989. He joined the Company in 1986.

Shahid J. A. Malik--Mr. Malik has been Chief Operating Officer of Ferrell North America ("FNA") since August, 1994. He joined the Company in February, 1994 as Vice President of Business Development. Prior to joining the Company, Mr. Malik was Commercial Manager at British Petroleum from 1990 to 1994, responsible for oil supply, trading and operations of British Petroleum's business for most of North America.

James M. Hake--Mr. Hake has been Vice President, Acquisitions of the Company since October, 1994. He joined the Company in 1986.

Patrick J. Chesterman--Mr. Chesterman has been Vice President, Retail Operations since August, 1996. After joining the Company in June, 1994, he had one-year assignments as Director of Human Resources and Director of Field Support. Prior to joining the Company, Mr. Chesterman was Director of Fuels Policy and Operations for the U.S. Air Force.

Daniel M. Lambert---Dr. Lambert was elected a director of the Company in September 1994. Dr. Lambert has been President of Baker University in Baldwin City, Kansas, since July 1, 1987.

A. Andrew Levison---Mr. Levison was elected a director of the Company in September 1994. Mr. Levison has been a Managing Director of Donaldson, Lufkin & Jenrette Securities Corporation since 1989. Mr. Levison is also a director of Rickel Home Centers, Inc., a leading full service home improvement retailer that operates stores in the Northeastern United States, and Flagstar Companies, Inc.

#### Compensation of the General Partner

The General Partner receives no management fee or similar compensation in connection with its management of the Partnership and receives no remuneration other than:

(i) distributions in respect of its 2% general partner interest, on a combined basis, in the Partnership and the Operating Partnership; and

(ii) reimbursement for all direct and indirect costs and expenses incurred on behalf of the Partnership, all selling, general and administrative expenses incurred by the General Partner for or on behalf of the Partnership and all other expenses necessary or appropriate to the conduct of the business of, and allocable to, the Partnership. The selling, general and administrative expenses reimbursed include specific employee benefit and incentive plans for the benefit of the executive officers and employees of the General Partner.

## ITEM 11. EXECUTIVE COMPENSATION.

## Summary Compensation Table

The following table sets forth the compensation for the past three years of all individuals serving as the Partnership's or its Predecessor's Chief Executive Officer ("CEO") or acting in a similar capacity during the last completed fiscal year, regardless of compensation level, and the Company's three most highly compensated executive officers other than the Chief Executive Officer ("named executive officers"), who were serving as executive officers at the end of the 1996 fiscal year.

		Long Term Compensation						
		Annual Compensation			Awards		Payouts	
				Other Annual Compen- sation	Restricted Stock Awards	Securities Underlying Options/ SARs	LTIP Payouts	All Other Compen- sation
Name and Principal Position	Year	Salary (\$)	Bonus (\$)	(\$)	(\$)	(#)	(\$)	(\$)
James E. Ferrell	1996	480,000	---	---	---	---		16,801 (1)
Chairman and	1995	480,000	180,000	---	---	---		36,977
Chief Executive Officer	1994	480,000	---	---	---	---		22,920
Danley K. Sheldon	1996	177,500	100,000	---	---	---		13,972 (1)
Senior Vice President, Chief	1995	165,000	50,000	---	---	70,000		15,897
Financial Officer,	1994	120,185	125,875	---	---	---		7,693
President-Retail Operations and Managing Director								
Shahid Malik	1996	162,500	165,000	---	---	---		6,457 (1)
Senior Vice President, Chief	1995	150,000	100,000	---	---	25,000		9,706
Operating Officer, FNA and Managing Director								
James A. Hake								
Vice President, Acquisitions	1996	120,000	85,000	---	---	---		9,962 (1)
	1995	112,583	60,000	---	---	36,000		10,424

(1) Includes for Mr. Ferrell contributions of \$15,189 to the employee's 401(k) and profit sharing plans and compensation of \$1,612 resulting from the payment of life insurance premiums. Includes for Mr. Sheldon contributions of \$12,850 to the employee's 401(k) and profit sharing plans and compensation of \$1,122 resulting from the payment of life insurance premiums. Includes for Mr. Malik contributions of \$5,598 to the employee 401(k) and profit sharing plans and compensation of \$860 resulting from the payment of life insurance premiums. Includes for Mr. Hake contributions of \$9,236 to the employee's 401(k) and profit sharing plans and compensation of \$726 resulting from the payment of life insurance premiums.

## Unit Options

On October 14, 1994, the General Partner adopted the Ferrellgas, Inc. Unit Option Plan (the "Unit Option Plan"). The purpose of the Unit Option Plan is to encourage certain employees of the General Partner to develop a proprietary interest in the growth and performance of the Partnership, to generate an increased incentive to contribute to the Partnership's future success and prosperity, thus enhancing the value of the Partnership for the benefit of its unitholders, and to enhance the ability of the General Partner to attract and retain key individuals who are essential to progress, growth and profitability of the Partnership, by giving such employees the opportunity to acquire Subordinated Units.

The Unit Options have the following characteristics: 1) exercise prices which are an estimate of the fair market value of the Subordinated Units at the time of grant, 2) vest immediately or over a one to five year period depending on the employee, 3) exercisable beginning after July 31, 1999, assuming the subordination period has elapsed, and 4) expire on the tenth anniversary of the date of grant. Upon conversion of the Subordinated Units held by the General Partner and its affiliates, the Unit Options granted will convert to Common Unit Options.

There were no grants of unit options during the 1996 fiscal year to the CEO and named executive officers.

The following table lists information on the CEO and named executive officers' exercised/unexercised unit options for the fiscal year ended July 31, 1996.

AGGREGATED OPTION/SAR EXERCISES IN LAST FY AND FY-END OPTION SAR VALUES

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at FY-End (#)	Value of Unexercised In-The-Money Options/SARs at FY-End (\$)
			Exercisable/ Unexercisable	Exercisable/ Unexercisable
J.E. Ferrell	-	-	-	-
D.K. Sheldon	0	0	0/70,000	0/381,500
S.J.A. Malik	0	0	0/25,000	0/136,250
J.M. Hake	0	0	0/36,000	0/196,200

Profit Sharing Plan

The Ferrell Profit Sharing and 401(k) Investment Plan is a qualified defined contribution plan (the "Profit Sharing Plan"). All full-time employees of Ferrell or any of its direct or indirect wholly owned subsidiaries with at least one year of service are eligible to participate in the Profit Sharing Plan. In regards to the profit sharing portion, the Board of Directors of Ferrell determines the amount of the annual contribution to the Profit Sharing Plan, which is purely discretionary. This decision is based on the operating results of Ferrell for the previous fiscal year and anticipated future cash needs of the General Partner and Ferrell. The contributions are allocated to the Profit Sharing Plan participant's based on each participant's wages or salary as compared to the total of all participants' wages and salaries.

Historically, the annual contribution to the Profit Sharing Plan has been 1% to 7% of each participant's annual wage or salary. The Profit Sharing Plan also has a cash-or-deferred, or 401(k), feature allowing all full time employees to specify a portion of their pre-tax and/or after-tax compensation to be contributed to the Profit Sharing Plan.

Supplemental Savings Plan

The Ferrell Supplemental Savings Plan was established October 1, 1994 in order to provide certain management or highly compensated employees with supplemental retirement income which is approximately equal in amount to the retirement income that would have been provided to members of the select group of employees under the terms of the 401(k) feature of the Profit Sharing Plan based on such members' deferral elections thereunder, but which could not be provided under the 401(k) feature of the Profit Sharing Plan due to application of certain IRS rules and regulations.

## Compensation of Directors

The General Partner does not pay any additional remuneration to its employees (or employees of, or legal counsel to, a direct or indirect wholly-owned subsidiary) for serving as directors. Directors who are not employees of the General Partner, a direct or indirect wholly-owned subsidiary, or counsel to any of the foregoing, receive a fee per meeting of \$500, plus reimbursement for out-of-pocket expenses.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth certain information as of July 31, 1996, regarding the beneficial ownership of the Common and Subordinated Units of the MLP by certain beneficial owners, all directors and named executive officers of the General Partner and the Partnership, each of the named executive officers and all directors and executive officers of the General Partner as a group. The General Partner knows of no other person beneficially owning more than 5% of the Common Units.

Ferrellgas Partners, L.P.

Title of Class	Name and Address of Beneficial Owner	Units Beneficially Owned (1)	Percentage of Class
Common Units	James E. Ferrell	1,214,162 (2)	8.3
	Goldman, Sachs & Co.	1,186,495 (3)	8.1
	The Goldman Sachs Group	1,186,495 (3)	8.1
	Danley K. Sheldon	1,000	*
	Shahid J. A. Malik	1,350 (4)	*
	James M. Hake	400	*
	A. Andrew Levison	15,000	*
	Daniel M. Lambert	560	*
	All Directors and Officers as a Group	1,212,472	8.4
Subordinated Units	James E. Ferrell	16,593,721 (2)	100.0

\* Less than 1%

(1) Beneficial ownership for the purposes of the foregoing table is defined by Rule 13d-3 under the Securities Exchange Act of 1934. Under that rule, a person is generally considered to be the beneficial owner of a security if he has or shares the power to vote or direct the voting thereof ("Voting Power") or to dispose or direct the disposition thereof ("Investment Power") or has the right to acquire either of those powers within sixty (60) days.

(2) The address for James E. Ferrell is c/o Ferrellgas, Inc., P.O. Box 4644, Houston, TX, 77210.

Includes (i) 1,210,162 Common Units and 16,593,721 Subordinated Units held by Ferrellgas, Inc. a wholly owned subsidiary of Ferrell Companies, Inc. and (ii) 4,000 Common Units held by the Sarah A. Ferrell Trust of which Elizabeth J. Ferrell, Mr. Ferrell's wife, is a trustee. Mr. Ferrell is the sole director of Ferrell Companies, Inc.

(3) The address for both Goldman Sachs Group, L.P. and Goldman, Sachs & Co. is 85 Broad Street, New York, New York, 10004.

Goldman, Sachs & Co., a broker/dealer, and its parent Goldman Sachs Group, L.P. are deemed to have shared voting power and shared dispositive power over 1,186,495 Common Units owned by their customers.

(4) Mr. Malik shares Voting and Investment Power with this wife.

Compliance With Section 16(a) of the Securities and Exchange Act

Section 16(a) of the Securities and Exchange Act of 1934 requires the General Partner's officers and directors, and persons who own more than 10% of a registered class of the Partnership's equity securities, to file reports of beneficial ownership and changes in beneficial ownership with the Securities and Exchange Commission ("SEC"). Officers, directors and greater than 10 percent unitholders are required by SEC regulation to furnish the General Partner with copies of all Section 16(a) forms.

Based solely on its review of the copies of such forms received by the General Partner, or written representations from certain reporting persons that no Form 5's were required for those persons, the General Partner believes that during fiscal year 1996 all filing requirements applicable to its officers, directors, and greater than 10 percent beneficial owners were met in a timely manner with the exception of the late filing by the CEO of one Form 4.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Set forth below is a discussion of certain relationships and related transactions among affiliates of the Partnership.



The Partnership has no employees and is managed and controlled by the General Partner. Pursuant to the Partnership Agreement, the General Partner is entitled to reimbursement for all direct and indirect expenses incurred or payments it makes on behalf of the Partnership, and all other necessary or appropriate expenses allocable to the Partnership or otherwise reasonably incurred by the General Partner in connection with operating the Partnership's business. These costs, which totaled \$109,637,000 and \$100,750,000 for the years ended July 31, 1996 and 1995 and \$7,561,000 from inception to July 31, 1994, include compensation and benefits paid to officers and employees of the General Partner, and general and administrative costs. In addition, the conveyance of the net assets of the Company to the Partnership included the assumption of specific liabilities related to employee benefit and incentive plans for the benefit of the officers and employees of the General Partner. The conveyance of the net assets of the Company to the Partnership is described in Note A of the Ferrellgas Partners, L.P. notes to the consolidated financial statements.

A. Andrew Levison, a director of the General Partner is a Managing Director of Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ"). DLJ acted as an underwriter with regard to the private placement of \$160,000,000 senior subordinated notes issued in April 1996 and was paid fees of \$4,000,000 in fiscal 1996. No fees were paid in 1995. DLJ acted as an underwriter with regard to the public offering of Common Units and Senior Notes as described in Note A of the Ferrellgas Partners, L.P.'s notes to the consolidated financial statements and was paid total fees of \$5,100,000 during 1994.

The law firm of Smith, Gill, Fisher & Butts, a Professional Corporation, was general counsel to the Partnership, General Partner, Ferrell Companies, Inc. and their respective subsidiaries and affiliates. David S. Mober, a director of Ferrell through July 31, 1994, was a member of such law firm during the pro forma fiscal year of the Partnership and the Predecessor ended July 31, 1994. The Partnership, Ferrell and their respective subsidiaries paid such firm fees of \$1,394,000 during the pro forma year ended July 31, 1994.

See Note L to the financial statements in Item 14 for discussion of transactions involving acquisitions related to the General partner and the Partnership

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) 1. Financial Statements.

See "Index to Financial Statements" set forth on page F-1.

2. Financial Statement Schedules.

See "Index to Financial Statement Schedules" set forth on page S-1.

3. Exhibits.

See "Index to Exhibits" set forth on page E-1.

(b) Reports on Form 8-K.

The Partnership filed one Form 8-K during the quarter ended July 31, 1996.

Form 8-K dated May 6, 1996, (as amended on July 12, 1996) reporting the acquisition by the Operating Partnership of the propane business of Skelgas Propane, Inc.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FERRELLGAS PARTNERS, L.P.

By Ferrellgas, Inc. (General Partner)

By /s/ James E. Ferrell  
James E. Ferrell  
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ James E. Ferrell James E. Ferrell	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	10/15/96
/s/ Daniel M. Lambert Daniel M. Lambert	Director	10/15/96
/s/ A. Andrew Levison A. Andrew Levison	Director	10/15/96
/s/ Danley K. Sheldon Danley K. Sheldon	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	10/15/96

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FERRELLGAS PARTNERS FINANCE CORP.

By       /s/ James E. Ferrell  
          James E. Ferrell  
          Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ James E. Ferrell James E. Ferrell	Chairman of the Board, Chief Executive Officer and Sole Director (Principal Executive Officer)	10/15/96
/s/ Danley K. Sheldon Danley K. Sheldon	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	10/15/96

# INDEX TO EXHIBITS

The exhibits listed on the accompanying Exhibit Index are filed as part of this report. Exhibits required by Item 601 of Regulation S-K which are not listed are not applicable.

	Exhibit Number	Description
(1)	2.1	Stock Purchase Agreement dated September 30, 1994, between Ferrellgas, Inc. and Bell Atlantic Enterprises International, Inc.
(2)	2.2	Agreement for Purchase and Sale of Stock dated March 23, 1996 between Superior Propane, Inc. and Ferrellgas, Inc.
(3)	3.1	Agreement of Limited Partnership of Ferrellgas Partners, L.P.
(4)	4.1	Indenture dated as of July 5, 1994, among Ferrellgas, L.P., Ferrellgas Finance Corp. and Norwest Bank Minnesota, National Association, as Trustee, relating to \$200,000,000 10% Series A Fixed Rate Senior Notes due 2001 and \$50,000,000 Series B Floating Rate Senior Notes due 2001.
(5)	4.2	Indenture dated as of April 26, 1996, among Ferrellgas Partners, L.P., Ferrellgas Partners Finance Corp., Ferrellgas, L.P. as guarantor, and American Bank National Association, as Trustee, relating to \$160,000,000 9 3/8% Senior Secured Notes due 2006.
(6)	4.3	Registration Rights Agreement dated as of April, 26, 1996 among Ferrellgas Partners, L.P., Ferrellgas Partners Finance Corp., Ferrellgas, L.P., Donaldson, Lufkin & Jenrette Securities Corporation and Goldman, Sachs & Co.
(7)	10.2	Agreement dated as of April 1, 1994, between BP Exploration & Oil, Inc. and Ferrellgas, L.P. dba Ferrell North America
(8)#	10.3	Ferrell Companies, Inc. Supplemental Savings Plan.
(9)#	10.4	Ferrellgas, Inc. Unit Option Plan.
(10)	10.5	Contribution, Conveyance and Assumption Agreement dated as of November 1, 1994 among the Partnership, the Operating Partnership and Ferrellgas, Inc.
(11)	10.6	First Amendment to Contribution, Conveyance and Assumption Agreement between Ferrellgas, the Partnership and the Operating Partnership.
(12)	10.7	Second Amendment to Contribution, Conveyance and Assumption Agreement between Ferrellgas, the Partnership and the Operating Partnership.
(13)	10.8	Purchase Agreement dated as of April 23, 1996 between Ferrellgas Partners, L.P., Ferrellgas Partners Finance Corp., Ferrellgas, Inc., Ferrellgas, L.P., Donaldson, Lufkin & Jenrette Securities Corporation and Goldman, Sachs & Co.
(14)	10.9	Amended and Restated Agreement of Limited Partnership of Ferrellgas, L.P. dated as of April 23, 1996.
(15)	10.10	Pledge and Security Agreement dated as of April 26, 1996 among Ferrellgas Partners, L.P., Ferrellgas, Inc., and American Bank National Association, as collateral agent.
	10.11	Amended and Restated Credit Agreement dated as of July 31, 1996, among Ferrellgas, L.P., Stratton Insurance Company, Inc., Ferrellgas, Inc., Bank of America National Trust and Savings Association, as agent, and the other financial institutions party thereto.

- (16) 21.1 List of subsidiaries.
- 27.1 Financial Data Schedules - Filed only with the EDGAR version.

- # Management contracts or compensatory plans.
- (1) Incorporated by reference to the same numbered Exhibit to Registrant's Registration Statement on Form S-1 File No. 33-55185 filed with the Commission on November 14, 1994
- (2) Incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K filed on May 6, 1996.
- (3) Incorporated by reference to the same numbered Exhibit to the Registrant's Current Report on Form 8-K filed August 15, 1994.
- (4) Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed August 15, 1994.
- (5) Incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K filed on May 6, 1996.
- (6) Incorporated by reference to Exhibit 4.2 to Registrant's Current Report on Form 8-K filed on May 6, 1996.
- (7) Incorporated by reference to the Exhibit 10.4 to Registrant's Annual Report on Form 10-K filed on October 20, 1994.
- (8) Incorporated by reference to the Exhibit 10.7 to Registrant's Annual Report on Form 10-K filed on October 17, 1995.
- (9) Incorporated by reference to the Exhibit 10.8 to Registrant's Registration Statement on Form S-1 File No. 33-55185 filed with the Commission on November 14, 1994
- (10) Incorporated by reference to the Exhibit 10.9 to Registrant's Registration Statement on Form S-1 File No. 33-55185 filed with the Commission on November 14, 1994
- (11) Incorporated by reference to Exhibit 10.8 to Registrant's Annual Report on Form 10-K filed on October 20, 1994.
- (12) Incorporated by reference to the Exhibit 10.11 to Registrant's Annual Report on Form 10-K filed on October 17, 1995.
- (13) Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on May 6, 1996.
- (14) Incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed on June 12, 1996.
- (15) Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed on May 6, 1996.
- (16) Incorporated by reference to the Exhibit 21.1 to Registrant's Registration Statement on Form S-4 File No. 333-06693 filed with the Commission on July 30, 1996

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INDEPENDENT AUDITORS' REPORT

To the Partners of  
Ferrellgas Partners, L.P.  
Liberty, Missouri

We have audited the accompanying consolidated balance sheets of Ferrellgas Partners, L.P. (formerly Ferrellgas, Inc.) and subsidiaries as of July 31, 1996 and 1995, and the related consolidated statements of earnings, partners' capital and cash flows for the years ended July 31, 1996 and 1995 and for the one month ended July 31, 1994 (Successor) and the eleven months ended June 30, 1994 (Predecessor). These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Ferrellgas Partners, L.P. and subsidiaries as of July 31, 1996 and 1995, and the results of their operations and their cash flows for the years ended July 31, 1996 and 1995 and for the one month ended July 31, 1994 (Successor) and the eleven months ended June 30, 1994 (Predecessor) in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP  
Kansas City, Missouri  
September 18, 1996



FERRELLGAS PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(in thousands, except unit data)

ASSETS	July 31, 1996	July 31, 1995
-----	-----	-----
Current Assets:		
Cash and cash equivalents	\$ 13,770	\$ 29,877
Accounts and notes receivable (net of allowance for doubtful accounts of \$1,169 and \$874 in 1996 and 1995, respectively)	70,118	58,239
Inventories	41,395	44,090
Prepaid expenses and other current assets	5,685	5,884
	-----	-----
Total Current Assets	130,968	138,090
Property, plant and equipment, net	403,732	345,642
Intangible assets, net	107,960	86,886
Other assets, net	11,635	7,978
	-----	-----
Total Assets	\$654,295	\$578,596
	=====	=====
LIABILITIES AND PARTNERS' CAPITAL		
-----		
Current Liabilities:		
Accounts payable	\$ 48,400	\$ 57,729
Other current liabilities	41,754	31,433
Short-term borrowings	25,520	20,000
	-----	-----
Total Current Liabilities	115,674	109,162
Long-term debt	439,112	338,188
Other liabilities	12,402	11,398
Contingencies and commitments		
Minority interest	2,498	1,211
Partners' Capital:		
Common unitholders (14,612,580 and 14,398,942 units outstanding in 1996 and 1995, respectively)	71,324	84,489
Subordinated unitholders (16,593,721 units outstanding in 1996 and 1995)	71,302	91,824
General partner	(58,017)	(57,676)
	-----	-----
Total Partners' Capital	84,609	118,637
	-----	-----
Total Liabilities and Partners' Capital	\$654,295	\$578,596
	=====	=====

FERRELLGAS PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS  
(in thousands, except unit data)

			For the year ended July 31, 1994	
	For the year ended July 31, 1996	For the year ended July 31, 1995	One month ended July 31, 1994	Eleven months ended June 30, 1994
	-----	-----	-----	-----
Revenues:				(Predecessor)
Gas liquids and related product sales	\$612,593	\$565,607	\$22,411	\$477,285
Other	41,047	30,829	2,155	24,705
	-----	-----	-----	-----
Total revenues	653,640	596,436	24,566	501,990
Cost of product sold (exclusive of depreciation, shown separately below)	356,314	339,641	13,211	256,095
	-----	-----	-----	-----
Gross profit	297,326	256,795	11,355	245,895
Operating expense	179,462	153,226	10,078	135,058
Depreciation and amortization expense	37,024	32,014	2,383	26,452
General and administrative expense	13,221	11,357	935	8,923
Vehicle leases expense	5,113	4,271	350	3,940
	-----	-----	-----	-----
Operating income (loss)	62,506	55,927	(2,391)	71,522
Interest expense	(37,983)	(31,993)	(2,662)	(53,693)
Interest income (including related parties of \$1,108 in eleven months ended June 30, 1994)	1,666	1,268	73	3,599
Loss on disposal of assets	(1,586)	(1,139)	(97)	(1,215)
	-----	-----	-----	-----
Earnings (loss) before income taxes, minority interest and extraordinary loss	24,603	24,063	(5,077)	20,213
Income tax provision	-	-	-	7,876
Minority interest	291	243	(51)	-
	-----	-----	-----	-----
Earnings (loss) before extraordinary loss	24,312	23,820	(5,026)	12,337
Extraordinary loss on early extinguishment of debt, net of minority interest of \$10 and \$607 in year ended July 31, 1996 and in one month ended July 31, 1994, respectively, and tax benefit of \$531 in eleven months ended June 30, 1994	965	-	59,455	867
	-----	-----	-----	-----
Net earnings (loss)	23,347	23,820	(64,481)	\$ 11,470
	-----	-----	-----	=====
General partner's interest in net earnings (loss)	233	238	(64,481)	
	-----	-----	-----	
Limited partners' interest in net earnings	\$ 23,114	\$ 23,582	\$ 0	
	=====	=====	=====	
Net earnings per limited partner unit:				
Earnings before extraordinary loss	\$ 0.77	\$ 0.76	\$ -	
Extraordinary loss	0.03	-		
	-----	-----	-----	
Net earnings per limited partner unit	\$ 0.74	\$ 0.76	\$ -	
	=====	=====	=====	
Weighted average number of units outstanding	31,128.8	30,908.1	30,693.7	
	=====	=====	=====	

See notes to consolidated financial statements

FERRELLGAS PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY / PARTNERS' CAPITAL  
(in thousands)

	Number of common shares	Common stock	Additional paid-in capital	Accumulated deficit	Total stockholder's equity
	-----	-----	-----	-----	-----
August 1, 1993 (Predecessor)	1.0	\$1	\$32,863	\$(21,505)	\$ 11,359
Net earnings	-	-	-	11,470	11,470
June 30, 1994 (Predecessor)	1.0	\$1	\$32,863	\$(10,035)	\$22,829
	=====	=====	=====	=====	=====

  

	Number of units					
	Common	Subordinated	Common	Subordinated	General partner	Total partners' capital
	-----	-----	-----	-----	-----	-----
April 19, 1994	-	-	\$ -	\$ -	\$ -	\$ -
Contributions in connection with formation of the Partnership	14,100.0	16,593.7	84,532	99,483	1,859	185,874
Net loss	-	-	-	-	(64,481)	(64,481)
July 31, 1994	14,100.0	16,593.7	84,532	99,483	(62,622)	121,393
Special allocation of prior year operating loss	-	-	(2,312)	(2,664)	4,976	-
Assets contributed in connection with acquisitions	-	-	3,324	3,830	72	7,226
Common units issued in connection with acquisitions	298.9	-	6,600	-	66	6,666
Quarterly distributions	-	-	(23,756)	(27,380)	(518)	(51,654)
Adjustments to capital related to resolution of income tax contingencies	-	-	5,145	5,929	112	11,186
Net earnings	-	-	10,956	12,626	238	23,820
July 31, 1995	14,398.9	16,593.7	84,489	91,824	(57,676)	118,637
Assets contributed in connection with acquisitions			284	325	6	615
Common units issued in connection with acquisitions	213.7		4,825		48	4,873
Quarterly distributions			(29,047)	(33,188)	(628)	(62,863)
Net earnings			10,773	12,341	233	23,347
July 31, 1996	14,612.6	16,593.7	\$71,324	\$71,302	\$(58,017)	\$84,609

See notes to consolidated financial statements.

FERRELLGAS PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

	For the year ended July 31, 1996	For the year ended July 31, 1995	For the year ended July 31, 1994 One month ended July 31, 1994	Eleven months ended June 30, 1994 (Predecessor)
Cash Flows From Operating Activities:				
Net earnings (loss)	\$23,347	\$23,820	\$ (64,481)	\$11,470
Reconciliation of net earnings (loss) to net cash from operating activities:				
Depreciation and amortization	37,024	32,014	2,383	26,452
Extraordinary loss	965	-	59,455	867
Minority interest	291	243	658	
Other	4,478	3,191	22	5,130
Changes in operating assets and liabilities net of effects from business acquisitions:				
Accounts and notes receivable	(3,988)	(906)	196	(816)
Inventories	7,612	7,388	(5,631)	(14,279)
Prepaid expenses and other current assets	765	(3,497)	618	(763)
Accounts payable	(10,576)	5,246	(2,809)	16,231
Accrued interest expense	1,270	10,680	(3,448)	(4,765)
Other current liabilities	3,649	(11,703)	1,715	7,001
Other liabilities	259	(446)	(35)	(1,072)
Deferred income taxes	-	-	-	7,667
Net cash provided (used) by operating activities	65,096	66,030	(11,357)	53,123
Cash Flows From Investing Activities:				
Business acquisitions	(8,116)	(19,677)	(874)	(2,451)
Cash from acquired company	9,620	-	-	-
Capital expenditures	(13,011)	(19,722)	(1,894)	(7,826)
Other	(1,587)	173	31	26
Net cash used by investing activities	(13,094)	(39,226)	(2,737)	(10,251)
Cash Flows From Financing Activities:				
Net additions to short-term borrowings	5,520	17,000	3,000	-
Additions to long-term debt	222,268	85,000	265,000	-
Reductions of long-term debt	(234,082)	(61,400)	(477,903)	(13,640)
Distributions	(62,863)	(51,654)	-	-
Minority interest activity	1,002	(459)	(1,202)	-
Additional payments to retire debt	-	-	(48,364)	(1,190)
Additions to financing costs	-	-	(6,575)	(51)
Net issuance of Common Units	-	-	255,006	-
Cash transfer from predecessor company	-	-	39,791	-
Other	46	51	(124)	(6,330)
Net cash provided (used) by financing activities	(68,109)	(11,462)	28,629	(21,211)
Increase (decrease) in cash and cash equivalents	(16,107)	15,342	14,535	21,661
Cash and cash equivalents - beginning of period	29,877	14,535	-	32,706
Cash and cash equivalents - end of period	\$13,770	\$29,877	\$14,535	\$54,367
Cash paid for interest	\$34,994	\$19,918	\$ 6,093	\$55,681

See notes to consolidated financial statements

FERRELLGAS PARTNERS, L.P.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JULY 31, 1996

A. Partnership Organization and Formation

Ferrellgas Partners, L.P. (the "MLP") was formed April 19, 1994, and is a publicly traded limited partnership, owning a 99% limited partner interest in Ferrellgas, L.P. (the "Operating Partnership" or "OLP"), both Delaware limited partnerships, and collectively known as the Partnership. Ferrellgas Partners, L.P., was formed to acquire and hold a limited partner interest in the Operating Partnership. The Operating Partnership was formed to acquire, own and operate the propane business and assets of Ferrellgas, Inc. (the "Company" or "General Partner"), a wholly-owned subsidiary of Ferrell Companies, Inc. The Company has retained a 1% general partner interest in Ferrellgas Partners, L.P. and also holds a 1.0101% general partner interest in the Operating Partnership, representing a 2% general partner interest in the Partnership on a combined basis. As General Partner of the Partnership, the Company performs all management functions required for the Partnership.

On July 5, 1994, the Partnership 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. Concurrent with the closing of the offering, the Company contributed all of its propane business and assets to the Partnership (excluding approximately \$39,000,000 in cash, payables to or receivables from its parent and affiliates and an investment in the Class B Stock of Ferrell Companies, Inc.) 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 of the date of the offering, in addition to the 2% general partner interest in the Partnership.

In connection with the contribution of the propane business and assets by the Company, the Operating Partnership assumed all of the liabilities, whether known or unknown, associated with such assets (other than income tax liabilities). The net book value of the assets contributed to the Partnership, adjusted for the settlement of a tax contingency (see Note F), is reported below:

(In thousands)	
Total assets conveyed	\$509,535
Total liabilities assumed	565,471
	-----
Net liabilities	\$ (55,936)
	=====

Supplementary Pro Forma Consolidated Statements of Earnings (Unaudited):  
The following pro forma consolidated statement of earnings for the fiscal year ended July 31, 1994, was derived from the historical statement of earnings of the Company for the eleven months ended June 30, 1994, and the statement of earnings of the Partnership from inception to July 31, 1994. The pro forma consolidated statements of earnings of the Partnership should be read in conjunction with the consolidated financial statements of the Partnership and the Company and the notes thereto. The objective of this data is to show the effects on the historical financial information as if the Partnership formation had occurred on August 1, 1993.

The following supplementary pro forma consolidated statements of earnings are for comparative purposes and are not indicative of the results of future operations of the Partnership:

(in thousands, except unit amounts)

	Audited July 31, 1996	Audited July 31, 1995	Pro Forma July 31, 1994
Revenues:			
Gas liquids and related product sales	\$612,593	\$565,607	\$499,696
Other	41,047	30,829	26,860
Total revenues	653,640	596,436	526,556
Cost of product sold (exclusive of depreciation, shown separately below)	356,314	339,641	269,306
Gross profit	297,326	256,795	257,250
Operating expense	179,462	153,226	145,136
Depreciation and amortization expense	37,024	32,014	28,835
General and administrative expense	13,221	11,357	10,358 (1)
Vehicle leases expense	5,113	4,271	4,290
Operating income	62,506	55,927	68,631
Interest expense	(37,983)	(31,993)	(28,130) (2)
Interest income	1,666	1,268	1,123 (3)
Loss on disposal of assets	(1,586)	(1,139)	(1,312)
Earnings before minority interest and extraordinary loss	24,603	24,063	40,312
Minority interest	291	243	403 (4)
Earnings before extraordinary loss	\$ 24,312	\$ 23,820	\$ 39,909
Earnings before extraordinary loss per limited partner unit	\$ 0.77	\$ 0.76	\$ 1.29
Weighted average limited partner units	31,128.8	30,908.1	30,693.7

- (1) Reflects estimated general and administrative costs associated with the Partnership.
- (2) Reflects the adjustment to interest expense resulting from the early retirement of debt, net of additional borrowings.
- (3) Reflects the reduction of interest income to the Partnership as a result of lower cash balances available for short-term investment opportunities.
- (4) Reflects that portion of earnings from continuing operations allocated to the General Partner for its ownership in the Operating Partnership.

## B. Summary of Significant Accounting Policies

(1) Nature of operations: 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.

(2) Accounting estimates: The preparation of financial statements 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 financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates. Significant estimates impacting the financial statements include reserves that have been established for product liability and other claims.

(3) Principles of consolidation: The accompanying consolidated financial statements present the consolidated financial position, results of operations and cash flows of the Partnership and its wholly-owned subsidiary, Ferrellgas Partners Finance Corp. The Company's 1.0101% General Partner interest in Ferrellgas, L.P. is accounted for as a minority interest. All material intercompany profits, transactions and balances have been eliminated.

(4) Cash and cash equivalents: For purposes of the Consolidated Statements of Cash Flows, the Partnership considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

(5) Inventories: Inventories are stated at the lower of cost or market using average cost and actual cost methods.

(6) Property, plant and equipment and intangible assets: Property, plant and equipment is stated at cost less accumulated depreciation. Expenditures for maintenance and routine repairs are expensed as incurred. Depreciation is calculated using the straight-line method based on 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 15 to 40 years. Accumulated amortization of intangible assets totaled \$95,801,000 and \$81,995,000 as of July 31, 1996 and 1995, respectively.

(7) Forward, futures and option contracts: The Partnership also enters into forward and futures purchase/sale agreements and 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 on a mark-to-market basis. Mark to market adjustments on trading positions are recorded through income.

(8) Income taxes: The Partnership is a limited partnership. As a result, the Partnership's earnings or loss for Federal income tax purposes is included in the tax returns of the individual partners. Accordingly, no recognition has been given to income taxes in the accompanying financial statements of the Partnership. Net earnings for financial statement purposes may differ significantly from taxable income reportable to unitholders as a result of differences between the tax basis and financial reporting basis of assets and liabilities and the taxable income allocation requirements under the Partnership agreement.

The Predecessor filed a consolidated Federal income tax return with its parent and affiliates. Income taxes were computed as though each company filed its own income tax return in accordance with the tax sharing agreement. Deferred income taxes were provided as a result of temporary differences between financial and tax reporting as described in Note M, using the asset/liability method. Deferred income taxes were recognized for the tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

(9) Net earnings (loss) per limited partner unit: Net earnings (loss) per limited partner unit is computed by dividing net earnings, after deducting the General Partner's 1% interest, by the weighted average number of outstanding Common Units, Subordinated Units and the dilutive effect (if any) of subordinated unit options. As described in Note F, the 1994 net loss before extraordinary loss of approximately \$5,026,000, and the 1994 extraordinary loss from early extinguishment of debt of approximately \$59,455,000, net of \$607,000 minority interest, were allocated 100% to the General Partner. Accordingly, there was no net earnings per limited partner unit calculation attributable to the limited partners from inception to July 31, 1994.

In accordance with the terms of the Partnership Agreement, the Partnership reallocated 99% of the initial year's net loss before extraordinary loss (\$4,976,000) based on ownership percentages to the limited partners in 1995. The fiscal 1995 special allocation of the prior year operating loss to the limited partners resulted in a reduction in equity of \$0.16 per limited partner unit.

(10) Adoption of new accounting standard: Effective August 1, 1996, SFAS No. 123, "Accounting for Stock-Based Compensation," will require increased disclosure of compensation expense arising from stock compensation plans (including the Partnership's unit option plan.) The Statement encourages rather than requires entities to adopt a new method that accounts for stock compensation awards based on their estimated fair value at the date they are granted. Entities will be permitted, however, to continue accounting under APB Opinion No. 25 which requires compensation cost to be recognized based on the excess, if any, between the quoted market price of the units at the date of grant and the amount an employee must pay to acquire the units. The Partnership will continue to apply APB No. 25 in its consolidated financial statements and will disclose pro forma net income and earnings per unit in a footnote to its consolidated financial statements, determined as if the new method were applied.

#### C. Quarterly Distributions of Available Cash

The Partnership makes quarterly cash distributions of all of its "Available Cash", generally defined as consolidated cash receipts less consolidated cash disbursements and net changes in reserves established by the General Partner for future requirements. These reserves are retained to provide for the proper conduct of the Partnership business, or to provide funds for distributions with respect to any one or more of the next four fiscal quarters.

Distributions by the Partnership in an amount equal to 100% of its Available Cash will generally be made 98% to the Common and Subordinated Unitholders (the "Unitholders") and 2% to the General Partner, subject to the payment of incentive distributions to the holders of Incentive Distribution Rights to the extent that certain target levels of cash distributions are achieved. To the extent there is sufficient Available Cash, the holders of Common Units have the right to receive the "Minimum Quarterly Distribution" (\$0.50 per Unit), plus any "arrearages", prior to any distribution of Available Cash to the holders of Subordinated Units. Common Units will not accrue arrearages for any quarter after the "Subordination Period" (as defined below) and Subordinated Units will not accrue any arrearages with respect to distributions for any quarter.

In general, the Subordination Period will continue indefinitely until the first day of any quarter beginning on or after August 1, 1999, in which (i) distributions of Available Cash equal or exceed the Minimum Quarterly Distribution on the Common Units and the Subordinated Units for each of the three consecutive four quarter periods immediately preceding such date and (ii) the Partnership has invested at least \$50 million in acquisitions and capital additions or improvements to increase the operating capacity of the Partnership. Prior to the end of the Subordination Period (but not prior to August 1, 1997), 5,531,240 Subordinated Units held by the Company will convert into Common Units if (i) distributions of Available Cash on the Common Units and Subordinated Units equaled or exceeded the Minimum Quarterly Distribution for each of the two consecutive four-quarter period preceding August 1, 1997, and (ii) the operating cash generated by the Partnership in each of such four-quarter periods equaled or exceeded 125% of the Minimum Quarterly Distribution on all Common Units and all Subordinated Units. Upon expiration of the Subordination Period, all remaining Subordinated Units will convert to Common Units.



The Partnership makes distributions of all of its Available Cash within 45 days after the end of each fiscal quarter ending January, April, July and October to holders of record on the applicable record date.

#### D. Supplemental Balance Sheet Information

Inventories consist of:

(in thousands)	1996	1995
	-----	-----
Liquefied propane gas and related products	\$33,366	\$37,550
Appliances, parts and supplies	8,029	6,540
	-----	-----
	\$41,395	\$44,090
	=====	=====

In addition to inventories on hand, the Partnership enters into contracts to buy product for supply purposes. All such contracts have terms of less than one year and call for payment based on market prices at date of delivery.

Property, plant and equipment consist of:

(in thousands)	1996	1995
	-----	-----
Land and improvements	\$ 26,024	\$ 21,380
Buildings and improvements	39,376	29,117
Vehicles	55,860	46,199
Furniture and fixtures	22,074	23,336
Bulk equipment and district facilities	43,203	37,086
Tanks and customer equipment	403,770	357,167
Other	5,800	6,825
	-----	-----
	596,107	521,110
Less: accumulated depreciation	192,375	175,468
	-----	-----
	\$403,732	\$345,642
	=====	=====

Depreciation expense totaled \$25,101,000, \$21,649,000, \$1,602,000, and \$17,659,000, for the years ended July 31, 1996, 1995, the one month ended July 31, 1994, and the eleven months ended June 30, 1994, respectively.

Other current liabilities consist of:

(in thousands)	1996	1995
Accrued insurance	\$ 3,157	\$ 2,345
Accrued interest	14,242	12,972
Accrued payroll	7,062	4,036
Other	17,293	12,080
	-----	-----
	\$41,754	\$31,433
	=====	=====

E. Long-Term Debt

Long-term debt consists of:

(in thousands)	1996	1995
Senior Notes		
Fixed rate, 10%, due 2001 (1)	\$200,000	\$200,000
Floating rate, 9.3125% due 2001 (1)	-	50,000
Fixed rate, 9.375%, due 2006 (2)	160,000	-
Credit Agreement		
Term loan, 6%, due 2001 (3)	50,000	-
Term loan, 7.3125%, due 1997	-	15,000
Revolving credit loans, 8.25%, due 1999 (3)	18,980	70,000
Notes payable, 5.7% and 5.6% weighted average interest rates, respectively, due 1996 to 2006 (4)	11,742	3,983
	-----	-----
	440,722	338,983
	1,610	795
	-----	-----
	\$439,112	\$338,188
	=====	=====

(1) The OLP fixed rate 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 floating rate senior notes bore interest at the London Interbank Offered Rate ("LIBOR") plus 3.125% and had mandatory sinking fund payments of \$5,000,000 in 1999 and 2000. On July 31, 1996, the OLP refinanced these notes with an unsecured term loan from its amended and restated Credit Facility bearing interest at LIBOR plus a certain percentage depending on various factors. The current rate at July 31, 1996 was 6.0%.

(2) The MLP fixed rate 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 notes will become guaranteed by the OLP on a senior subordinated basis if certain conditions are met. The OLP's Credit Agreement related to the Credit Facility ("Credit Agreement") and the OLP Indenture relating to the \$200,000,000 Senior Notes ("OLP Indenture") currently prohibit the OLP from guaranteeing any indebtedness unless, among meeting other conditions, the fixed charge coverage ratio for the OLP meets certain levels at prescribed dates. Currently the OLP does not meet such conditions and, therefore, there can be no assurance as to whether or when this guarantee will occur. The Senior Secured Notes bear interest from the date of issuance, payable semi-annually in arrears on June 15 and December 15 of each year commencing on December 15, 1996.

(3) On July 31, 1996, the OLP amended and restated its \$205,000,000 Credit Facility (the "Credit Facility") with a major bank, as Agent. The unsecured Credit Facility now consists 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 outstandings to \$0 for 30 consecutive days. All borrowings under the current pricing arrangement bear interest at either LIBOR plus 0.50% or the Bank's Base rate, depending on the nature of the borrowing. The Bank's Base rate at July 31, 1996 was 8.25%. To offset the variable rate characteristic of the Credit Facility, the OLP entered into interest rate collar agreements, expiring between June and December 1998, with three major banks limiting interest rates on a notional amount of \$125,000,000 to between 4.9% and 6.5%.

(4) The notes payable are secured by approximately \$4,714,000 and \$1,413,000 of property and equipment at July 31, 1996 and 1995, respectively.

At July 31, 1996 and 1995, \$25,520,000 and \$20,000,000, respectively, 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 \$26,824,000 and \$24,471,000, respectively.

The OLP Indenture and Credit Agreement contain various restrictive covenants applicable to the Operating Partnership and its subsidiaries, the most restrictive relating to additional indebtedness, sale and disposition of assets, and transactions with affiliates. In addition, the Operating Partnership is prohibited from making cash distributions of the Minimum Quarterly Distribution 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 and capital expenditure tests. The Partnership is in compliance with all requirements, tests, limitations and covenants related to the Senior Note Indenture and Credit Agreement.

Annual principal payments on long-term debt for each of the next five fiscal years are \$1,610,000 in 1997, \$2,356,000 in 1998, \$20,619,000 in 1999, \$1,685,000 in 2000, and \$52,514,000 in 2001.

During fiscal year 1996, the Partnership recognized an extraordinary loss from the write off of unamortized financing costs of approximately \$965,000, net of minority interest of \$10,000, resulting from the early extinguishment of \$50,000,000 of its floating rate senior notes. During the one month ended July 31, 1994, the Partnership recognized an extraordinary loss from the debt premium and write off of financing costs of \$59,455,000, net of minority interest of \$607,000, resulting from the early extinguishment of \$477,600,000 of indebtedness of the Company assumed by the Operating Partnership. During the eleven months ended June 30, 1994, the Predecessor recognized an extraordinary loss from debt premium and write off of financing costs of approximately \$867,000, net of income tax benefit of \$531,000, resulting from the early extinguishment of \$11,900,000 of its fixed rate senior notes.

#### F. Partners' Capital

Partners' capital consists of 14,612,580 Common Units representing a 46% limited partner interest, 16,593,721 Subordinated Units representing a 53% limited partner interest, and a 1% General Partner interest.

The Agreement of Limited Partnership of Ferrellgas Partners, L.P. (the "Partnership Agreement") contains specific provisions for the allocation of net earnings and loss to each of the partners for purposes of maintaining the partner capital accounts. In addition, the Partnership Agreement contains special provisions for the allocation of the extraordinary loss from the retirement of indebtedness, and the net loss from operations of the Partnership from the closing date on July 5, 1994, to July 31, 1994. In accordance with these special provisions of the Partnership Agreement, the extraordinary loss of \$59,455,000, net of \$607,000 minority interest, was allocated 100% to the General Partner and was not reallocated to the limited partners. The net loss from operations of approximately \$5,026,000 was allocated 100% to the General Partner from inception of the Partnership to the last day of the taxable year ending July 31, 1994. An amount equal to 99% of this net loss was reallocated to the limited partners in the year ending July 31, 1995 based on their ownership percentages. (See Note B.)

During the Subordination Period, the Partnership may issue up to 7,000,000 Common Units (excluding Common Units issued in connection with conversion of Subordinated Units into Common Units) or an equivalent number of securities ranking on a parity with the Common Units and an unlimited number of partnership interests junior to the Common Units without a Unitholder vote. The Partnership may also issue additional Common Units during the Subordination Period in connection with acquisitions if certain cash flow criteria are met. After the Subordination Period, the Partnership Agreement authorizes the General Partner to cause the Partnership to issue an unlimited number of additional general and limited partner interests and other equity securities of the Partnership for such consideration and on such terms and conditions as shall be established by the General Partner without the approval of any Unitholders.

The Partnership maintains a shelf registration statement for Common Units representing limited partner interests in the Partnership. The Common Units may be issued from time to time by the Partnership in connection with the Partnership's acquisition of other businesses, properties or securities in business combination transactions.

In connection with the formation of the Partnership, the General Partner contributed certain assets and liabilities. Pursuant to an examination by the Internal Revenue Service, certain adjustments which relate to these contributed assets resulted in additional deferred taxes recorded by the General Partner. This noncash adjustment retroactively increased the basis of the assets the General Partner contributed to the Operating Partnership by \$11,300,000 which, in turn, caused an increase to the General Partner's contributed capital which was allocated pro rata among all partners. In addition, Operating Partnership goodwill also increased by \$11,300,000 (to be amortized prospectively over a period of 15 years). These adjustments were not material to the Partnership's financial position or its results of operations or liquidity, nor have they impacted the limited partners' tax basis in the Partnership units.

#### G. Transactions with Related Parties

The Partnership has no employees and is managed and controlled by the General Partner. Pursuant to the Partnership Agreement, the General Partner is entitled to reimbursement for all direct and indirect expenses incurred or payments it makes on behalf of the Partnership, and all other necessary or appropriate expenses allocable to the Partnership or otherwise reasonably incurred by the General Partner in connection with operating the Partnership's business. These costs, which totaled \$109,637,000 and \$100,750,000 for the years ended July 31, 1996 and 1995, respectively, and \$7,561,000 from inception to July 31, 1994, include compensation and benefits paid to officers and employees of the General Partner, and general and administrative costs. In addition, the conveyance of the net assets of the Company to the Partnership described in Note A included the assumption of specific liabilities related to employee benefit and incentive plans for the benefit of the officers and employees of the General Partner. See note L for discussion of transactions involving acquisitions related to the General Partner and the Partnership.

A. Andrew Levison, a director of the General Partner is a Managing Director of Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ"). DLJ acted as an underwriter with regard to the private placement of \$160,000,000 Senior Secured Notes issued in April 1996 and was paid fees of \$4,000,000 in 1996. No fees were paid in 1995. DLJ acted as an underwriter with regard to the public offering of Common Units and Senior Notes, and was paid total fees of \$5,100,000 during 1994.

The law firm of Smith, Gill, Fisher & Butts, a Professional Corporation was general counsel to the Partnership, General Partner, Ferrell Companies, Inc. ("Ferrell") and their respective subsidiaries and affiliates during the pro forma fiscal year of the Partnership and the Predecessor ended July 31, 1994. David S. Mober, a director of Ferrell through July 31, 1994, was a member of such law firm. The Partnership, Ferrell and their respective subsidiaries paid such firm fees of \$1,394,000 during the pro forma fiscal year ended July 31, 1994.

#### H. Contingencies and Commitments

The Partnership 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 Partnership.

Certain property and equipment is leased under noncancellable operating leases which require fixed monthly rental payments and which expire at various dates through 2016. Rental expense under these leases totaled \$12,054,000, \$11,233,000, \$725,000, and \$9,556,000 for the years ended July 31, 1996 and 1995, the one month ended July 31, 1994, and the eleven months ended June 30, 1994, respectively. Future minimum lease commitments for such leases are \$10,566,000 in 1997, \$7,336,000 in 1998, \$5,377,000 in 1999, \$3,871,000 in 2000, \$1,714,000 in 2001 and \$601,000 thereafter.

#### I. Employee Benefits

The Partnership has no employees and is managed and controlled by the General Partner. The Partnership assumed all liabilities, which included specific liabilities related to the following employee benefit plans for the benefit of the officers and employees of the General Partner.

The General Partner and its parent, Ferrell Companies, Inc., ("FCI") have a defined contribution profit-sharing plan which covers substantially all employees with more than one year of service. Contributions are made to the plan at the discretion of FCI's Board of Directors. 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. Contributions for the years ended July 31, 1996 and July 31, 1995, were \$1,160,000 and \$1,300,000 under the profit sharing provision and were \$1,388,000 and \$1,407,000 under the 401(k) provision. There were no contributions under the profit sharing provision or 401(k) provision of the plan from inception to July 31, 1994. Contributions during the eleven months ended June 30, 1994 were \$1,200,000 under the profit sharing provision, and \$1,445,000 under the 401(k) provision.

#### J. Unit Options

On October 14, 1994, the General Partner adopted the Ferrellgas, Inc. Unit Option Plan (the "Unit Option Plan"), which currently authorizes the issuance of options (the "Unit Options") covering up to 850,000 Subordinated Units to certain officers and employees of the General Partner. The Unit Options have the following characteristics: 1) 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 grant, 2) vest immediately or over a one to five year period, 3) exercisable beginning after July 31, 1999, assuming the subordination period has elapsed, and 4) expire on the tenth anniversary of the date of grant. Upon conversion of the Subordinated Units held by the General Partner and its affiliates, the Unit Options granted will convert to Common Unit Options.

	Units	Price per Unit
Outstanding, July 31, 1994	-	-
Granted	775,000	\$16.80-\$18.54
Canceled	(73,500)	16.80
Outstanding, July 31, 1995	701,500	16.80 - 18.54
Granted	99,750	19.88 - 21.67
Canceled	(132,825)	16.80 - 19.88
Outstanding, July 31, 1996	668,425	\$16.80 - \$21.67
Options exercisable, July 31, 1996	0	
Options available for future grants	181,575	

K. Disclosures About Off Balance Sheet Risk and Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents approximate fair value because of the short maturity of the instruments. Short-term borrowings approximates fair value as of July 31, 1996 and 1995. The estimated fair value of the Partnership's long-term debt was \$440,122,000 and \$347,485,000 as of July 31, 1996 and 1995, respectively. The fair value is estimated based on quoted market prices adjusted for discounted cash flows.

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, 1996, the total notional principal amount of these agreements was \$125,000,000. 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, 1996 was not material to the financial position or the results of operations of the Partnership.

Option Contracts. The Partnership is a party to certain option contracts, involving various liquefied petroleum products, for overall risk management purposes in connection with its trading activities. Contracts are executed with private counterparties and to a lesser extent on national mercantile exchanges. Open contract positions are summarized below.

Forward and Futures Contracts. The Partnership is a party to certain forward and futures contracts for trading purposes. Net gains from trading activities were \$7,323,000, \$5,818,000, \$331,000, and \$6,458,000 for the years ended July 31, 1996, 1995, the one month ended July 31, 1994, and the eleven months ended June 30, 1994, respectively. 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).

As of July 31  
(In thousands, except price per gallon data)

	Derivative Commodity Instruments Held for Purposes Other than Trading (Options)				Commodity Instruments Held for Trading Purposes (Forward and Futures)			
	1996		1995		1996		1995	
	Asset	Liab.	Asset	Liab.	Asset	Liab.	Asset	Liab.
Volume								
(gallons)	-	(21)	1,071	(9,765)	178,011	(153,990)	170,057	(129,198)
Price (cent)/gal)	-	30	16-36	16-36	24-65	24-2025	13-45	14-52
Maturity Dates	-	8/96- 12/96	8/95- 1/96	8/95- 1/96	8/96- 7/97	8/96- 3/37	8/95- 1/96	8/95- 1/96
Contract Amounts (\$)	-	(1,575)	380	(3,572)	64,223	(62,917)	57,419	(43,605)
Fair Value (\$)	-	(1,541)	340	(3,758)	65,972	(62,623)	57,463	(43,504)
Unrealized gain(loss) (\$)	-	34	(40)	(186)	1,749	294	44	101

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.

#### L. Acquisitions

On April 30, 1996, the General Partner consummated the purchase of all of the stock of Skelgas Propane, Inc. ("Skelgas"), a subsidiary of Superior Propane, Inc. of Toronto, Canada for a cash purchase price of \$89,650,000, subject to final working capital adjustments.

As of May 1, 1996, the General Partner (i) caused Skelgas and each of its subsidiaries to be merged into the General Partner and (ii) transferred all of the assets of Skelgas and its subsidiaries to the Operating Partnership. In exchange, the Operating Partnership assumed substantially all of the liabilities, whether known or unknown, associated with Skelgas and its subsidiaries and their propane business (excluding income tax liabilities). In consideration of the retention by the General Partner of certain income tax liabilities, the Partnership issued 41,203 Common Units to the General Partner. The liabilities assumed by the Operating Partnership included the \$89,650,000 loan agreement under which the General Partner borrowed funds to pay the purchase price for Skelgas. Immediately following the transfer of assets and related transactions described above, the Operating Partnership repaid the loan with cash and borrowings under the Operating Partnership's existing acquisition bank credit line. Certain working capital adjustments occurred after the acquisition that resulted in a reduction of the amount paid for the acquisition of Skelgas and the total assets acquired. The total assets contributed to the Operating Partnership (at the General Partner's cost basis) have been preliminarily allocated as follows: (i) working capital of \$17,951,000, (ii) property, plant and equipment of \$62,178,000 and (iii) and the balance to intangible assets. In total, during the year ended July 31, 1996, the Partnership made acquisitions and received contributions of businesses valued at \$128,165,000 (including working capital acquired of \$19,362,000). This amount was funded by \$8,116,000 of cash payments and the following noncash transactions: \$108,120,000 debt assumed, \$4,825,000 issuance of Partnership units, and \$7,104,000 other costs and consideration.

On November 1, 1994, the General Partner purchased all of the capital stock of Vision Energy Resources, Inc. ("Vision") for a cash purchase price of \$45 million. Immediately following the closing of the purchase of Vision, the General Partner (i) caused Vision and each of its subsidiaries to be merged into the General Partner (except for a trucking subsidiary which dividdened substantially all of its assets to the General Partner) and (ii) transferred all of the assets of Vision and its Subsidiaries to the Operating Partnership. As a result of the contribution, the Operating Partnership assumed substantially all of the liabilities, whether known or unknown, associated with Vision and its subsidiaries (excluding income tax liabilities), including the obligation of the General Partner under a \$45,000,000 loan agreement under which the General Partner borrowed funds to pay the purchase price for Vision. In consideration of the retention by the General Partner of certain income tax liabilities, the Partnership issued 138,392 Common Units to the General Partner. The Operating Partnership also recorded a contribution of \$7,300,000 from the General Partner, representing the excess of the value of the assets over the liabilities conveyed and the units issued to the General Partner. This contribution is allocated to each partner based on their relative ownership percentages following the closing of the Vision acquisition. In total, during the year ended July 31, 1995, the Partnership made acquisitions and received contributions of businesses valued at \$80,651,000 (including working capital acquired of \$3,282,000). This amount was funded by \$19,677,000 cash payments and the following noncash transactions: \$45,000,000 debt assumed, \$7,300,000 contributed capital, \$6,600,000 issuance of Partnership units, and \$2,074,000 other costs and consideration.

All transactions have been accounted for similar to purchase accounting and, accordingly, the results of operations of all acquisitions have been included in the consolidated financial statements from their dates of contribution. The following pro forma financial information assumes the Skelgas and Vision transactions occurred at the beginning of each of the periods presented and also includes the pro forma effects of the Partnership's issuance of the \$160,000,000 of 9 3/8% Senior Notes in April 1996 (as described in Note E):

(in thousands, except per unit amounts)  
(unaudited)

	Pro Forma Year Ended July 31, 1996 -----	Pro Forma Year Ended July 31, 1995 -----
Total revenues	\$732,372	\$684,340
Income before extraordinary loss	21,734	22,387
Net earnings	20,769	22,387
Net earnings per limited partner unit	\$ 0.66	\$ 0.72



M. Income Taxes (Predecessor)

As stated Note B, the Partnership's earnings or loss for Federal income tax purposes is included in the tax returns of the individual partners. Accordingly, no recognition has been given to income taxes in the accompanying financial statements of the Partnership. For the Predecessor period, income tax expense consisted of deferred taxes of \$7,136,000 and current taxes of \$209,000. Nearly all of the expense was allocated to operating activities. Deferred taxes result from temporary differences in the recognition of income and expense for tax and financial statement purposes. The significant temporary differences and related deferred tax provision related to net operating loss carryforwards. For Federal income tax purposes, the Company had net operating loss carryforwards of approximately \$201,000,000 at June 30, 1994 available to offset future taxable income. These net operating loss carryforwards expire at various dates through 2009. The difference between the effective tax rate of 39% and the statutory federal rate of 35% was primarily state income taxes.

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Ferrellgas Partners Finance Corp.  
Liberty, Missouri

We have audited the accompanying balance sheets of Ferrellgas Partners Finance Corp. (a wholly-owned subsidiary of Ferrellgas Partners, L.P.), as of July 31, 1996 and April 8, 1996, and the related statement of earnings, stockholder's equity and cash flows for the period from inception (April 8, 1996) to July 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Ferrellgas Partners Finance Corp. as of July 31, 1996 and April 8, 1996, and the results of its operations and its cash flows for the period from inception (April 8, 1996) to July 31, 1996 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP  
Kansas City, Missouri  
September 18, 1996

FERRELLGAS PARTNERS FINANCE CORP.  
(a wholly owned subsidiary of Ferrellgas Partners, L.P.)

BALANCE SHEETS

	July 31, 1996	April 8, 1996
	-----	-----
ASSETS		
-----		
Cash	\$1,000	\$1,000
	-----	-----
Total Assets	\$1,000	\$1,000
	=====	=====
STOCKHOLDER'S EQUITY		
-----		
Common stock, \$1.00 par value; 2,000 shares authorized; 1,000 shares issued and outstanding	\$1,000	\$1,000
Additional paid in capital	42	0
Accumulated deficit	(42)	0
	-----	-----
Total Stockholder's Equity	1,000	1,000
	-----	-----
Total Liabilities and Stockholder's Equity	\$1,000	\$1,000
	=====	=====

See notes to financial statements  
F-21

FERRELLGAS PARTNERS FINANCE CORP.  
(a wholly owned subsidiary of Ferrellgas Partners, L.P.)

STATEMENT OF EARNINGS

	From inception to July 31, 1996 -----
Revenues	\$ -
General and administrative expense	42 -----
Net loss	\$ (42) =====

See notes to financial statements  
F-22

Ferrellgas Partners Finance Corp.  
(a wholly owned subsidiary of Ferrellgas Partners, L.P.)

Statements of Stockholder's Equity

	Common stock		Additional	Accumulated	Total
	Shares	Dollars	paid in capital	deficit	stockholder's
	-----	-----	-----	-----	-----
April 8, 1996	0	\$ 0	-	\$ 0	\$ 0
	-----	-----	-----	-----	-----
Capital Contribution	1,000	1,000	\$42	-	1,042
Net loss	-	-	-	(42)	(42)
	-----	-----	-----	-----	-----
July 31, 1996	1,000	\$1,000	\$42	\$ (42)	\$1,000
	=====	=====	=====	=====	=====

See notes to financial statements  
F-23

FERRELLGAS PARTNERS FINANCE CORP.  
(a wholly owned subsidiary of Ferrellgas Partners, L.P.)

STATEMENT OF CASH FLOWS

	From Inception to July 31, 1996
	-----
Cash Flows From Operating Activities:	
Net loss	\$ (42)
	-----
Cash used by operating activities	(42)
	-----
Cash Flows From Financing Activities:	
Capital Contribution	1,042
	-----
Cash provided by financing activities	1,042
	-----
Increase (decrease) in cash	1,000
Cash - beginning of period	0
	-----
Cash - end of period	\$1,000
	=====
See notes to financial statements	

FERRELLGAS PARTNERS FINANCE CORP.  
(a wholly-owned subsidiary of Ferrellgas Partners, L.P.)

NOTES TO FINANCIAL STATEMENTS  
JULY 31, 1996

A. Formation

Ferrellgas Partners, Finance Corp. (the "Finance Corp."), a Delaware corporation, was formed on March 28, 1996 and is a wholly-owned subsidiary of Ferrellgas Partners, L.P. (the "Partnership").

The Partnership contributed \$1,000 to the Finance Corp. on April 8, 1996 in exchange for 1,000 shares of common stock.

B. Commitment

On April 26, 1996, the Partnership issued \$160,000,000 of 9 3/8% Senior Secured Notes due 2006 (the "Senior Notes"). The Senior Notes will be redeemable at the option of the Partnership, in whole or in part, at any time on or after June 15, 2001. The Senior Notes will become guaranteed by the Operating Partnership (the "OLP") on a senior subordinated basis if certain conditions are met. Certain OLP's credit agreements and the indentures currently prohibit the OLP from guaranteeing any indebtedness unless, among meeting other conditions, the fixed charge coverage ratio for the OLP meets certain levels at prescribed dates. Currently the OLP does not meet such conditions and, therefore, there can be no assurance as to whether or when this guarantee will occur. Interest is payable semi-annually in arrears on June 15 and December 15 of each year commencing on December 15, 1996. The Finance Corp. serves as a co-obligor for the Senior Notes.

C. Income Taxes

Income taxes have been computed as though the Company files its own income tax return. Deferred income taxes are provided as a result of temporary between financial and tax reporting using the asset/liability method. Deferred income taxes are recognized for the tax consequences of temporary differences between the financial statement carrying amounts and tax basis of existing assets and liabilities.

Due to the inability of the Company to utilize the deferred tax benefit of \$17 associated with the current year net operating loss carryforward of \$40 expiring July 31, 2011, a valuation allowance has been provided on the full amount of the deferred tax asset. Accordingly, there is no net deferred tax benefit for the period ended July 31, 1996 and there is no net deferred tax asset as of July 31, 1996.

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INDEPENDENT AUDITORS' REPORT

To the Partners of  
Ferrellgas Partners, L.P.  
Liberty, Missouri

We have audited the consolidated financial statements of Ferrellgas Partners, L.P. (formerly Ferrellgas, Inc.), and subsidiaries as of July 31, 1996, and 1995, (Successor), and for the years ended July 31, 1996, and 1995, for the one month ended July 31, 1994 (Successor), and for the eleven months ended June 30, 1994 (Predecessor) and have issued our report thereon dated September 18, 1996. Our audit also included the financial statement schedules listed at Item 14(a)2. These financial statement schedules are the responsibility of the Partnership's management. Our responsibility is to express an opinion based on our audit. In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information therein set forth.

DELOITTE & TOUCHE LLP  
Kansas City, Missouri  
September 18, 1996

Ferrellgas Partners, L.P.  
Parent Only

Balance Sheet  
(in thousands)

ASSETS	July 31, 1996	July 31, 1995
Cash and cash equivalents	\$ 1	
Investment in Ferrellgas, L.P.	244,771	\$118,638
Other assets, net	4,693	
Total Assets	\$249,465	\$118,638
LIABILITIES AND PARTNERS' CAPITAL		
Other current liabilities	\$ 4,856	\$ 1
Long term debt	160,000	
Partners' Capital		
Common unitholders	71,323	84,489
Subordinated unitholders	71,302	91,824
General partner	(58,016)	(57,676)
Total Partners' Capital	84,609	118,637
Total Liabilities and Partners' Capital	\$249,465	\$118,638

Ferrellgas Partners, L.P.  
Parent Only

Statement of Earnings  
(in thousands)

	For the Year Ended		Inception to
	July 31, 1996	July 31, 1995	July 31, 1994
Equity in earnings (loss) of Ferrellgas, L.P.	\$27,508	\$23,821	\$ (64,481)
Operating expense	0	1	-
Interest expense	4,161		
Net earnings (loss)	\$23,347	\$23,820	\$ (64,481)
	=====	=====	=====

Ferrellgas Partners, L.P.  
Parent Only  
Statements of Cash Flows  
(in thousands)

	For the Year Ended		Inception to July 31, 1994
	July 31, 1996	July 31, 1995	
Cash Flows From Operating Activities:			
Net earnings (loss)	\$23,347	\$23,820	\$ (64,481)
Reconciliation of net earnings (loss) to net cash from operating activities:			
Amortization of capitalized financing costs	161		
Equity in (earnings) loss of Ferrellgas, L.P.	(27,508)	(23,821)	64,481
Other current assets	(4,854)		
Distributions received from Ferrellgas, L.P.	62,863	51,654	-
Increase in other current liabilities	4,855	1	-
Net cash provided by operating activities	58,864	51,654	-
Cash Flows From Investing Activities:			
Investment in Ferrellgas, L.P.	-	-	(255,006)
Net cash used by investing activities	-	-	(255,006)
Cash Flows From Financing Activities:			
Distributions to partners	(62,863)	(51,654)	-
Additions to long-term debt	160,000		
Contribution to subsidiary	(156,000)		
Net issuance of Common Units	-	-	255,006
Net cash provided (used) by financing activities	(58,863)	(51,654)	255,006
Increase in cash and cash equivalents	1	-	-
Cash and cash equivalents - beginning of period	-	-	-
Cash and cash equivalents - end of period	\$1	\$ -	\$ -

## Supplemental disclosure of noncash financing activity:

Effective July 5, 1994, substantially all of the propane assets and liabilities of Ferrellgas, Inc. were conveyed at historical cost to Ferrellgas, L.P. in return for 1,000,000 Common Units, 16,593,721 Subordinated Units and the Incentive Distribution Rights of Ferrellgas Partners, L.P., as well as a 2% general partner interest in Ferrellgas Partners, L.P. and Ferrellgas, L.P., on a combined basis. Net liabilities assumed by Ferrellgas, L.P., adjusted for the settlement of a tax contingency, are as follows:

	July 5, 1994
Cash	\$ 39,791
Accounts receivable	50,747
Inventories	37,931
Prepaid expenses and other current assets	2,660
Property, plant and equipment, net	293,729
Intangible assets, net	75,350
Other assets	9,327
Total assets conveyed	509,535
Accounts payable	49,177
Other current liabilities	30,296
Long-term debt, net	476,441
Other non-current liabilities	9,557
Total liabilities assumed	565,471
Net liabilities assumed by Ferrellgas, L.P.	\$ (55,936)

## Ferrellgas partners, L.P. and Subsidiary

Valuation and Qualifying Accounts  
(in thousands)

Description	Balance at beginning of period	Charged to cost/ expenses	Other Additions (A)	Deductions (amounts charged-off)	Balance at end of period
Year ended July 31, 1996					
Allowance for doubtful accounts	\$ 874	\$ 1,151	\$ 702	\$ 1,558	\$ 1,169
Accumulated amortization:					
Intangible assets	\$ 81,995	\$11,620	\$ 2,946	\$ 760	\$95,801
Other assets	\$ 3,337	\$ 1,742	\$ 975	\$ 1,407	\$ 4,647
Year ended July 31, 1995					
Allowance for doubtful accounts	\$ 798	\$ 1,191	\$ 400	\$ 1,515	\$ 874
Accumulated amortization:					
Intangible assets	\$ 68,489	\$ 9,997	\$ 3,509	\$ -	\$81,995
Other assets	\$ 1,860	\$ 368	\$ 1,109	\$ -	\$ 3,337
Inception to July 31, 1994 (B)					
Allowance for doubtful accounts	\$ 906	\$ 119	\$ -	\$ 227	\$ 798
Accumulated amortization:					
Intangible assets	\$ 67,730	\$ 759	\$ -	\$ -	\$68,489
Other assets	\$ 9,845	\$ 23	\$ -	\$ 8,008	\$ 1,860
Eleven months ended June 30, 1994 (Predecessor)					
Allowance for doubtful accounts	\$ 607	\$ 1,569	\$ -	\$ 1,270	\$ 906
Accumulated amortization:					
Intangible assets	\$ 59,181	\$ 8,549	\$ -	\$ -	\$67,730
Other assets	\$ 7,592	\$ 2,626	\$ -	\$ 373	\$ 9,845

(A) On April 30, 1996, the General Partner purchased all of the capital stock of Skelgas, Inc. On May 1, 1996 the General Partner contributed the assets and substantially all of the liabilities associated with Skelgas, Inc. to the Operating Partnership. The amounts reflected as "Other Additions" represent valuation and qualifying accounts assumed by the Operating Partnership in connection with the contribution by the General Partner.

On November 1, 1994, the General Partner purchased all of the capital stock of Vision Energy Resources, Inc. Immediately following the close of the purchase, the General Partner contributed the assets and substantially all of the liabilities associated with Vision Energy Resources, Inc. to the Operating Partnership. The amounts reflected as "Other Additions" represent valuation and qualifying accounts assumed by the Operating Partnership in connection with the contribution by the General Partner.

(B) On July 5, 1994, substantially all of the propane assets and liabilities of Ferrellgas, Inc. were conveyed at historical cost to Ferrellgas, L.P. Total allowance for uncollectible receivables, accumulated amortization of intangible assets and accumulated amortization of other assets transferred to Ferrellgas, L.P. was \$906, \$67,730 and \$9,845, respectively.

AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of July 31, 1996

among

FERRELLGAS, L.P.,

STRATTON INSURANCE COMPANY, INC.,

FERRELLGAS, INC.,

BANK OF AMERICA NATIONAL TRUST  
AND SAVINGS ASSOCIATION,

as Agent,

and

THE OTHER FINANCIAL INSTITUTIONS PARTY HERETO

NATIONSBANK OF TEXAS, N.A.  
as Co-Agent

Arranged By

BA SECURITIES, INC.

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Exhibit C	Form of Compliance Certificate
Exhibit D	Form of Legal Opinion of Borrower's Counsel
Exhibit E	Form of Assignment and Acceptance
Exhibit F-1	Form of Facility A Revolving Loan Note
Exhibit F-2	Form of Facility B Term Loan Note
Exhibit F-3	Form of Facility C Revolving Loan Note
Exhibit G	Form of Subsidiary Guaranty
Exhibit H	Form of Commercial Letter of Credit
Exhibit I	Form of Standby Letter of Credit
Exhibit J	Alternate Form of Standby Letter of Credit

AMENDED AND RESTATED CREDIT AGREEMENT

This AMENDED AND RESTATED CREDIT AGREEMENT is entered into as of July 31, 1996, among FERRELLGAS, L.P., a Delaware limited partnership (the "Borrower"), STRATTON INSURANCE COMPANY, INC., a Vermont corporation and a Wholly-Owned Subsidiary of the Borrower ("Stratton"), FERRELLGAS, INC., a Delaware corporation and the sole general partner of the Borrower (the "General Partner"), the several financial institutions from time to time party to this Agreement (collectively, the "Banks"; individually, a "Bank"), BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION ("BoFA"), as agent for the Banks (in such capacity, the "Agent"). NATIONSBANK OF TEXAS, N.A. is named as co-agent (the "Co-Agent") hereunder.

R E C I T A L S

WHEREAS, the Borrower, Stratton, the General Partner, the Banks and the Agent are parties to the Existing Credit Agreement (as defined below), pursuant to which the Banks have (a) made revolving credit loans and term loans to the Borrower and have issued or participated in letters of credit for the account of the Borrower and Stratton, in each case for working capital, Acquisitions and general corporate or partnership, as the case may be, purposes in an aggregate amount of up to \$185,000,000 and (b) made additional revolving loans to Borrower solely for working capital purposes in an aggregate amount of up to \$20,000,000;

WHEREAS, the Borrower has requested that (i) the \$75,000,000 of Facility A Commitments and \$110,000,000 of Facility B Commitments under the Existing Credit Agreement and the related Facility A Revolving Loans, Facility B Revolving Loans and Facility B Term Loans outstanding under the Existing Credit Agreement be refinanced and converted into, respectively, \$185,000,000 of Facility C Commitments and Facility C Revolving Loans under this Agreement, the proceeds of which are to be used by the Borrower and, in the case of those Letters of Credit issued for the account of Stratton, by Stratton for working capital, Acquisitions and general corporate or partnership, as the case may be, purposes, (ii) the \$20,000,000 of Facility C Commitments under the Existing Credit Agreement and the related Facility C Revolving Loans outstanding under the Existing Credit Agreement be refinanced and converted into, respectively, \$20,000,000 of Facility A Commitments and Facility A Revolving Loans under this Agreement, the proceeds of which are to be used by the Borrower solely for working capital purposes, (iii) separate and apart from the foregoing credit facility, the Banks make a new \$50,000,000 Facility B Term Loan to the Borrower, the proceeds of which are to be used to refinance, in full, the Floating Rate Senior Notes (as defined below), and (iv) the Existing Credit Agreement otherwise be amended and restated in its entirety as set forth below in this Agreement; and

WHEREAS, the Banks are willing, on and subject to the terms and conditions set forth in this Agreement, to amend and restate the terms of the Existing Credit Agreement and to extend credit under this Agreement as more particularly hereinafter set forth.

ACCORDINGLY, the parties hereto agree to amend and restate the Existing Credit Agreement as follows:

ARTICLE I  
DEFINITIONS

Certain Defined Terms. The following terms have the following meanings:

"1994 Indenture" means the Indenture dated as of July 5, 1994, among the Borrower, Finance Corp. and Norwest Bank Minnesota, National Association, pursuant to which the Fixed Rate Senior Notes and the Floating Rate Senior Notes were issued, as it may be amended, modified or supplemented from time to time.

"1996 Indenture" means the Indenture dated as of April 26, 1996, among the MLP, Ferrellgas Partners Finance Corp. and American Bank National Association, pursuant to which the MLP Senior Notes were issued, as it may be amended, modified or supplemented from time to time.

"Acquired Debt" means, with respect to any specified Person, (i) Indebtedness of any other Person existing at the time such other Person merged with or into or became a Subsidiary of such specified Person, including Indebtedness incurred in connection with, or in contemplation of, such other Person merging with or into or becoming a Subsidiary of such specified Person and (ii) Indebtedness encumbering any asset acquired by such specified Person.

"Acquisition" means any transaction or series of related transactions for the purpose of or resulting, directly or indirectly, in (a) the acquisition of all or substantially all of the assets of a Person, or of any business or division of a Person, (b) the acquisition of in excess of 50% of the capital stock, partnership interests or equity of any Person or otherwise causing any Person, to become a Subsidiary, or (c) a merger or consolidation or any other combination with another Person (other than a Person that is a Subsidiary) provided that the Borrower or the Subsidiary is the surviving entity.

"Affiliate" means, as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. A Person shall be deemed to

control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other Person, whether through the ownership of voting securities, by contract, or otherwise.

"Agent" has the meaning specified in the introductory clause hereto. References to the "Agent" shall include BofA in its capacity as agent for the Banks hereunder, and any successor agent arising under Section 10.09.

"Agent-Related Persons" means BofA and any successor Agent arising under Section 10.09, together with their respective Affiliates (including, in the case of BofA, the Arranger), and the officers, directors, employees, agents and attorneys-in-fact of such Persons and Affiliates.

"Agent's Payment Office" means the address for payments set forth on Schedule 11.02 hereto in relation to the Agent, or such other address as the Agent may from time to time specify.

"Agreement" means this Credit Agreement.

"Applicable Margin" means, for each Type of Loan, effective as of the first day of each fiscal quarter, the percentage per annum (expressed in basis points) set forth below opposite the Level of the Pricing Ratio applicable to such fiscal quarter as set forth herein.

Pricing Ratio	Base Rate Loans	Eurodollar Loans
Level 1	0.00 b.p.	42.50 b.p.
Level 2	0.00 b.p.	50.00 b.p.
Level 3	0.00 b.p.	60.00 b.p.
Level 4	0.00 b.p.	80.00 b.p.
Level 5	0.00 b.p.	110.00 b.p.
Level 6	12.50 b.p.	137.50 b.p.

"Arranger" means BA Securities, Inc., a Wholly-Owned Subsidiary of BankAmerica Corporation. The Arranger is a registered broker-dealer and permitted to underwrite and deal in certain Ineligible Securities.

"Asset Sale" has the meaning specified in Section 8.02.

"Assignee" has the meaning specified in subsection 11.08(a).

"Attorney Costs" means and includes all reasonable and itemized fees and disbursements of any law firm or other external counsel, the allocated cost of internal legal services and all disbursements of internal counsel.

"Attributable Debt" means, in respect of a sale and leaseback arrangement of any property, as at the time of determination, the present value (calculated using a discount rate equal to the interest rate of the Fixed Rate Senior Notes and annual compounding) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such arrangement (including any period for which such lease has been extended).

"Available Cash" has the meaning given to such term in the Partnership Agreement, as amended to the date of this Agreement; provided, that (i) Available Cash shall not include any amount of Net Proceeds of Asset Sales until the 270-day period following the consummation of the applicable Asset Sale, (ii) investments, loans and other contributions to a Non-Recourse Subsidiary are to be treated as "cash disbursements" when made for purposes of determining the amount of Available Cash and (iii) cash receipts of a Non-Recourse Subsidiary shall not constitute cash receipts of the Borrower for purposes of determining the amount of Available Cash until cash is actually distributed by such Non-Recourse Subsidiary to the Borrower.

"Bank" has the meaning specified in the introductory clause hereto. References to the "Banks" shall include BofA and any other Bank designated by the Agent as an Issuing Bank from time to time, including in their respective capacities as Issuing Banks; for purposes of clarification only, to the extent that an Issuing Bank may have any rights or obligations in addition to those of a Bank due to its status as an Issuing Bank, its status as such will be specifically referenced.

"Bankruptcy Code" means the Federal Bankruptcy Reform Act of 1978, as amended (11 U.S.C. ss.101, et seq.).

"Base Rate" means, for any day, the higher of: (a) 0.50% per annum above the Federal Funds Rate in effect on such day; and (b) the rate of interest in effect for such day as publicly announced from time to time by BofA in San Francisco, California, as its "reference rate." (The "reference rate" is a rate set by BofA based upon various factors including BofA's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate.) Any change in the reference rate announced by BofA shall take effect at the opening of business on the day specified in the public announcement of such change or if no day is so specified, on the day of the announcement.

"Base Rate Loan" means a Loan that bears interest based on the Base Rate.

"BofA" has the meaning specified in the introductory clause hereto.

"Borrowing" means a borrowing hereunder consisting of Loans of the same Type made to the Borrower on the same day by the Banks (or, in the case of Swingline Loans, by BofA) and, for Eurodollar Rate Loans, having the same Interest Period, in either case under Article II.

"Borrowing Date" means any date on which a Borrowing occurs.

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks in San Francisco are authorized or required by law to close and, if the applicable Business Day relates to any Eurodollar Rate Loan, means such a day on which dealings are carried on in the London interbank dollar market.

"Capital Adequacy Regulation" means any guideline, request or directive of any central bank or other Governmental Authority, or any other law, rule or regulation, whether or not having the force of law, in each case, regarding capital adequacy of any bank or of any corporation controlling a bank.

"Capital Interests" means, with respect to any corporation, any and all shares, participations, rights or other equivalent interests in the capital of the corporation, and with respect to any partnership, any and all partnership interests (whether general or limited) and other interests or participations that confer on a Person the right to receive a share of the profits and losses of, or distributions of assets of, such partnership.

"Capital Lease Obligation" means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at such time be so required to be capitalized on the balance sheet in accordance with GAAP.

"Cash Collateralize" means to pledge and deposit with or deliver to the Agent, for the benefit of the Agent, the Issuing Banks and the Banks, as collateral for the L/C Obligations or any outstanding Loan, cash or deposit account balances pursuant to documentation in form and substance satisfactory to the Agent (which documents are hereby consented to by the Banks). Derivatives of such term shall have corresponding meaning. The Borrower hereby grants to the Agent, for the benefit of the Agent, the Issuing Banks and the Banks, a security interest in all such cash and deposit account balances. Cash collateral shall be maintained in blocked, non-interest bearing deposit accounts at BofA. Such collateral may be invested from time to time in short-term money market instruments and other investments with the consent of the Agent and the Majority Banks (which consent may be given or withheld in their sole and absolute discretion) provided that the Agent, the Issuing Banks and the Banks shall at all times have a first priority perfected security interest in such collateral and the proceeds thereof.

"Cash Equivalents" means (i) United States dollars, (ii) securities issued or directly and fully guaranteed or insured by the United States government or any agency or instrumentality thereof having maturities of not more than eighteen months from the date of acquisition, (iii) certificates of deposit and eurodollar time deposits with maturities of six months or less from the date of acquisition, bankers' acceptances with maturities not exceeding six months and overnight bank deposits, in each case with any Bank or with any other domestic commercial bank having capital and surplus in excess of \$500 million and a Keefe Bank Watch Rating of "B" or better, (iv) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (ii) and (iii) entered into with any financial institution meeting the qualifications specified in clause (iii) above, (v) commercial paper or direct obligations of a Person, provided such Person has publicly outstanding debt having the highest short-term rating obtainable from Moody's Investors Service, Inc. or Standard & Poor's Corporation and provided further that such commercial paper or direct obligation matures within 270 days after the date of acquisition, and (vi) investments in money market funds all of whose assets consist of securities of the types described in the foregoing clauses (i) through (v).

"Change of Control" means (i) the sale, lease, conveyance or other disposition of all or substantially all of the Borrower's assets to any Person or group (as such term is used in Section 13(d)(3) of the Exchange Act) other than James E. Ferrell, the Related Parties and any Person of which James E. Ferrell and the Related Parties beneficially own in the aggregate 51% or more of the voting Capital Interests (or if such Person is a partnership, 51% or more of the general partner interests), (ii) the liquidation or dissolution of the Borrower or the General Partner, (iii) the occurrence of any transaction, the result of which is that James E. Ferrell and the Related Parties beneficially own in the aggregate, directly or indirectly, less than 51% of the total voting power entitled to vote for the election of directors of the General Partner or less than 20% of the Capital Interests of the Borrower, and (iv) the occurrence of any transaction, the result of which is that the General Partner is no longer the sole general partner of the Borrower.

"Class" means, with respect to any Loan, whether such Loan is

a Facility A Revolving Loan, Swingline Loan, Facility B Term Loan, or Facility C Revolving Loan.

"Co-Agent" means NationsBank of Texas, N.A.

"Code" means the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder.

"Commercial Letters of Credit" means commercial documentary letters of credit issued by an Issuing Bank pursuant to Article III.

"Commercial Letter of Credit Risk Participation Percentage" means, as of any date and based upon the Level of the Pricing Ratio on such date, the percentage per annum (expressed in basis points) set forth below opposite such Level:

Pricing Ratio	Commercial Letter of Credit
Risk Participation Percentage	
Level 1	15.50 b.p.
Level 2	18.50 b.p.
Level 3	22.50 b.p.
Level 4	30.00 b.p.
Level 5	35.00 b.p.
Level 6	45.00 b.p.

"Commitment Fee Rate" means, as of any date and based upon the Level of the Pricing Ratio on such date, the percentage per annum (expressed in basis points) set forth below opposite such Level:

Pricing Ratio	Commitment Fee Rate
Level 1	12.50 b.p.
Level 2	15.00 b.p.
Level 3	20.00 b.p.
Level 4	27.50 b.p.
Level 5	32.50 b.p.
Level 6	37.50 b.p.

"Compliance Certificate" means a certificate signed by a Responsible Officer of the Borrower substantially in the form of Exhibit C, demonstrating compliance with the covenants contained herein, including Sections 7.12, 7.13, 7.16 and 8.12 and the 30 day clean-up period contained in subsection 2.01(a)(ii).

"Consolidated Cash Flow" means, with respect to any Person for any period, the Consolidated Net Income of such Person for such period, plus (a) an amount equal to any extraordinary loss plus any net loss realized in connection with an asset sale, to the extent such losses were deducted in computing Consolidated Net Income, plus (b) provision for taxes based on income or profits of such Person for such period, to the extent such provision for taxes was deducted in computing Consolidated Net Income, plus (c) Consolidated Interest Expense of such Person for such period, whether paid or accrued (including amortization of original issue discount, non-cash interest payments and the interest component of any payments associated with Capital Lease Obligations and net payments (if any) pursuant to Hedging Obligations), to the extent such expense was deducted in computing Consolidated Net Income, plus (d) depreciation and amortization (including amortization of goodwill and other intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) of such Person for such period, to the extent such depreciation and amortization were deducted in computing Consolidated Net Income, in each case, for such period without duplication on a consolidated basis and determined in accordance with GAAP.

"Consolidated Interest Expense" means, as of the last day of any fiscal period, on a consolidated basis, the sum of (a) all interest, fees (including Letter of Credit fees), charges and related expenses paid or payable (without duplication) for that fiscal period to the Banks hereunder or to any other lender in connection with borrowed money or the deferred purchase price of assets that are considered "interest expense" under GAAP, plus (b) the portion of rent paid or payable (without duplication) for that fiscal period under Capital Lease Obligations that should be treated as interest in accordance with Financial Accounting Standards Board Statement No. 13, on a consolidated basis.

"Consolidated Net Income" means, with respect to any Person for any period, the aggregate of the Net Income of such Person and its Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP; provided, that (i) the Net Income of any Person that is not a Subsidiary or that is accounted for by the equity method of accounting shall be included only to the extent of the amount of dividends or distributions paid to the referent Person or a Wholly-Owned Subsidiary thereof, (ii) the Net Income of any Person that is a Subsidiary (other than a Wholly-Owned Subsidiary) shall be included only to the extent of the amount of dividends or distributions paid to the referent Person or a Wholly-Owned Subsidiary thereof, (iii) the Net Income of any Person acquired in a pooling of

interests transaction for any period prior to the date of such acquisition shall be excluded except to the extent otherwise includable under clause (i) above and (iv) the cumulative effect of a change in accounting principles shall be excluded.

"Consolidated Net Worth" means, with respect to any Person as of any date, the sum of (i) the consolidated equity of the common stockholders or partners of such Person and its consolidated Subsidiaries as of such date, plus (ii) the respective amounts reported on such Person's balance sheet as of such date with respect to any series of preferred stock (other than Disqualified Interests) that by its terms is not entitled to the payment of dividends unless such dividends may be declared and paid only out of net earnings in respect of the year of such declaration and payment, but only to the extent of any cash received by such Person upon issuance of such preferred stock, less (x) all write-ups (other than write-ups resulting from foreign currency translations and write-ups of tangible assets of a going concern business made within 12 months after the acquisition of such business) subsequent to the Restatement Effective Date in the book value of any asset owned by such Person or a consolidated Subsidiary of such Person, (y) all investments as of such date in unconsolidated Subsidiaries and in Persons that are not Subsidiaries (except, in each case, Permitted Investments), and (z) all unamortized debt discount and expense and unamortized deferred charges as of such date, all of the foregoing determined in accordance with GAAP.

"Contingent Obligation" means, as to any Person, any direct or indirect liability of that Person, whether or not contingent, with or without recourse, (a) with respect to any Indebtedness, lease, dividend, distribution, letter of credit or other obligation (the "primary obligations") of another Person (the "primary obligor"), including any obligation of that Person (i) to purchase, repurchase or otherwise acquire such primary obligations or any security therefor, (ii) to advance or provide funds for the payment or discharge of any such primary obligation, or to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet item, level of income or financial condition of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (iv) otherwise to assure or hold harmless the holder of any such primary obligation against loss in respect thereof (each, a "Guaranty Obligation"); (b) with respect to any Surety Instrument (other than any Letter of Credit) issued for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings or payments; (c) to purchase any materials, supplies or other property from, or to obtain the services of, another Person if the relevant contract or other related document or obligation requires that payment for such materials, supplies or other property, or for such services, shall be made regardless of whether delivery of such materials, supplies or other property is ever made or tendered, or such services are ever performed or tendered; or (d) in respect of any Hedging Obligation. The amount of any Contingent Obligation shall, in the case of Guaranty Obligations, be deemed equal to the stated or determinable amount of the primary obligation in respect of which such Guaranty Obligation is made or, if not stated or if indeterminable, the maximum reasonably anticipated liability in respect thereof, and in the case of other Contingent Obligations, shall be equal to the maximum reasonably anticipated liability in respect thereof.

"Contractual Obligation" means, as to any Person, any provision of any security issued by such Person or of any agreement, undertaking, contract, indenture, mortgage, deed of trust or other instrument, document or agreement to which such Person is a party or by which it or any of its property is bound.

"Conversion/Continuation Date" means any date on which, under Section 2.04, the Borrower (a) converts Loans of one Type to another Type, or (b) continues as Loans of the same Type, but with a new Interest Period, Loans having Interest Periods expiring on such date.

"Credit Extension" means and includes (a) the making of any Loans hereunder and (b) the Issuance of any Letters of Credit hereunder.

"Default" means any event or circumstance which, with the giving of notice, the lapse of time, or both, would (if not cured or otherwise remedied during such time) constitute an Event of Default.

"Disqualified Interests" means any Capital Interests which, by their terms (or by the terms of any security into which they are convertible or for which they are exchangeable), or upon the happening of any event, mature or are mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to December 31, 2001.

"Dollars", "dollars" and "\$" each mean lawful money of the United States.

"Effective Amount" means (i) with respect to any Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any Borrowings and prepayments or repayments of Loans occurring on such date; and (ii) with respect to any outstanding L/C Obligations on any date, the amount of such L/C Obligations on such date after giving effect to any Issuances of Letters of Credit occurring on such date and any other changes in the aggregate amount

of the L/C Obligations as of such date, including as a result of any reimbursements of outstanding unpaid drawings under any Letters of Credit or any reductions in the maximum amount available for drawing under Letters of Credit taking effect on such date. For purposes of Section 2.07, the Effective Amount shall be determined without giving effect to any mandatory prepayments to be made under such Section 2.07.

"Eligible Assignee" means (i) a commercial bank organized under the laws of the United States, or any state thereof, and having a combined capital and surplus of at least \$100,000,000; (ii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development (the "OECD"), or a political subdivision of any such country, and having a combined capital and surplus of at least \$200,000,000, provided that such bank is acting through a branch or agency located in the United States; and (iii) a Person that is primarily engaged in the business of commercial banking and that is (A) a Subsidiary of a Bank, (B) a Subsidiary of a Person of which a Bank is a Subsidiary, or (C) a Person of which a Bank is a Subsidiary.

"Environmental Claims" means all claims, however asserted, by any Governmental Authority or other Person alleging potential liability or responsibility for violation of any Environmental Law, or for release or injury to the environment.

"Environmental Laws" means all federal, state or local laws, statutes, common law duties, rules, regulations, ordinances and codes, together with all administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authorities, in each case relating to environmental, health, safety and land use matters.

"Equity Interests" means Capital Interests and all warrants, options or other rights to acquire Capital Interests (but excluding any debt security that is convertible into, or exchangeable for, Capital Interests).

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and regulations promulgated thereunder.

"ERISA Event" means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by the Borrower or the General Partner from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations which is treated as such a withdrawal under Section 4062(e) of ERISA; (c) the filing of a notice of intent to terminate, the treatment of a plan amendment as a termination under Section 4041 or 4041A of ERISA or the commencement of proceedings by the PBGC to terminate a Pension Plan subject to Title IV of ERISA; (d) a failure by the Borrower or the General Partner to make required contributions to a Pension Plan or other Plan subject to Section 412 of the Code; (e) an event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan; (f) the imposition of any liability under Title IV of ERISA, other than PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or the General Partner; or (g) an application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code with respect to any Pension Plan.

"Eurodollar Rate" shall mean, for each Interest Period in respect of Eurodollar Rate Loans comprising part of the same Borrowing, an interest rate per annum (rounded to the nearest 1/16th of 1% or, if there is no nearest 1/16th of 1%, rounded upward) determined pursuant to the following formula:

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

The Eurodollar Rate shall be adjusted automatically as of the effective date of any change in the Eurodollar Reserve Percentage.

"Eurodollar Rate Loan" means a Loan that bears interest based on the Eurodollar Rate.

"Eurodollar Reserve Percentage" shall mean the maximum reserve percentage (expressed as a decimal, rounded to the nearest 1/100th of 1% or, if there is no nearest 1/100th of 1%, rounded upward) in effect on the date LIBOR for such Interest Period is determined (whether or not applicable to any Bank) under regulations issued from time to time by the Federal Reserve Board for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to Eurocurrency funding (currently referred to as "Eurocurrency liabilities") having a term comparable to such Interest Period. Without limiting the effect of the foregoing, the Eurodollar Reserve shall include any other reserves required to be maintained by any Bank with respect to (a) any category of liabilities that includes deposits by reference to which the Eurodollar Rate is to be determined as provided in the definition of "Eurodollar Rate" in this Section 1.01 or (b) any category of extensions of credit or other assets that includes Eurodollar Rate Loans.

"Event of Default" means any of the events or circumstances specified in Section 9.01.

"Exchange Act" means the Securities Exchange Act of 1934, and

regulations promulgated thereunder.

"Existing Credit Agreement" means the Credit Agreement dated as of July 5, 1994, as amended prior to the Restatement Effective Date, among Borrower, Stratton, the General Partner, the several financial institutions from time to time parties thereto, Bank of America National Trust and Savings Association, as Agent, with The First National Bank of Boston and NationsBank of Texas, N.A. as named Co-Agents thereunder.

"Existing Indebtedness" means Indebtedness of the Borrower and its Subsidiaries (other than the Obligations) and certain Indebtedness of the General Partner with respect to which the Borrower has assumed the General Partner's repayment obligations, in each case in existence on the Restatement Effective Date and as more fully set forth on Schedule 8.05.

"Existing Letters of Credit" means the letters of credit issued and outstanding on the Restatement Effective Date which are described in Schedule 3.03. Each of the Existing Letters of Credit is designated on such schedule as a standby letter of credit or a commercial documentary letter of credit.

"Facility A Commitment" means, as to each Bank, the amount set forth opposite such Bank's name on Schedule 2.01 hereof under the caption "Facility A Commitment," as the same may be reduced under Section 2.05 or 2.07 or as a result of one or more assignments under Section 11.08; provided, that the maximum aggregate Facility A Commitment of all Banks shall not exceed \$20,000,000 at any time.

"Facility A Revolving Loan" has the meaning specified in subsection 2.01(a), and may be a Base Rate Loan or a Eurodollar Rate Loan.

"Facility B Term Loan" has the meaning specified in subsection 2.01(b), and may be a Base Rate Loan or a Eurodollar Rate Loan.

"Facility C Commitment" means, as to each Bank, the amount set forth opposite such Bank's name on Schedule 2.01 hereof under the caption "Facility C Commitment," as the same may be reduced under Section 2.05 or 2.07 or as a result of one or more assignments under Section 11.08; provided, that the maximum aggregate Facility C Commitment of all Banks shall not exceed \$185,000,000 at any time.

"Facility C Revolving Loan" has the meaning specified in subsection 2.01(c), and may be a Base Rate Loan or a Eurodollar Rate Loan.

"FDIC" means the Federal Deposit Insurance Corporation, and any Governmental Authority succeeding to any of its principal functions.

"Federal Funds Rate" means, for any day, the rate set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Federal Reserve Bank of New York (including any such successor, "H.15(519)") on the preceding Business Day opposite the caption "Federal Funds (Effective)"; or, if for any relevant day such rate is not so published on any such preceding Business Day, the rate for such day will be the arithmetic mean as determined by the Agent of the rates for the last transaction in overnight Federal funds arranged prior to 9:00 a.m. (New York City time) on that day by each of three leading brokers of Federal funds transactions in New York City selected by the Agent.

"Fee Letter" has the meaning specified in subsection 2.10(a).

"Ferrellgas Partners Finance Corp." means Ferrellgas Partners Finance Corp., a Delaware corporation and a Wholly-Owned Subsidiary of the MLP.

"Finance Corp." means Ferrellgas Finance Corp., a Delaware corporation and a Wholly-Owned Subsidiary of the Borrower.

"Fixed Charge Coverage Ratio" means with respect to any Person for any period, the ratio of Consolidated Cash Flow of such Person for such period to the Fixed Charges of such Person for such period. In the event that the referent Person or any of its Subsidiaries incurs, assumes, guarantees, redeems or repays any Indebtedness (other than revolving credit borrowings including, with respect to the Borrower, Swingline Loans, Facility A Revolving Loans and Facility C Revolving Loans) subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated but prior to the date of the event for which the calculation of the Fixed Charge Coverage Ratio is made (the "Calculation Date"), then the Fixed Charge Coverage Ratio shall be calculated giving pro forma effect to such incurrence, assumption, guarantee, redemption or repayment of Indebtedness, as if the same had occurred at the beginning of the applicable reference period. The foregoing calculation of the Fixed Charge Coverage Ratio shall also give pro forma effect to Acquisitions (including all mergers and consolidations), dispositions and discontinuances of businesses or assets that have been made by the referent Person or any of its Subsidiaries during the reference period or subsequent to such reference period and on or prior to the Calculation Date assuming that all such Acquisitions, dispositions and discontinuances of businesses or assets had occurred on the first day of the reference period; provided, however, that with respect to the Borrower, (a) Fixed Charges shall be reduced by amounts attributable to businesses or assets that are so disposed of or discontinued only to the extent that the obligations giving rise to such Fixed Charges would no longer be



obligations contributing to the Fixed Charges of the Borrower subsequent to the Calculation Date and (b) Consolidated Cash Flow generated by an acquired business or asset shall be determined by the actual gross profit (revenues minus costs of goods sold) of such acquired business or asset during the immediately preceding number of full fiscal quarters as are in the reference period minus the pro forma expenses that would have been incurred by the Borrower in the operation of such acquired business or asset during such period computed on the basis of (i) personnel expenses for employees retained by the Borrower in the operation of the acquired business or asset and (ii) non-personnel costs and expenses incurred by the Borrower on a per gallon basis in the operation of the Borrower's business at similarly situated Borrower facilities.

"Fixed Charges" means, with respect to any Person for any period, the sum, without duplication, of (a) consolidated interest expense of such Person for such period, whether paid or accrued, to the extent such expense was deducted in computing Consolidated Net Income (including amortization of original issue discounts, non-cash interest payments, the interest component of all payments associated with Capital Lease Obligations and net payments (if any) pursuant to Hedging Obligations permitted hereunder), (b) commissions, discounts and other fees and charges incurred with respect to letters of credit, (c) any interest expense on Indebtedness of another Person that is guaranteed by such Person or secured by a Lien on assets of such Person, and (d) the product of (i) all cash dividend payments (and non-cash dividend payments in the case of a Person that is a Subsidiary) on any series of preferred stock of such Person, times (ii) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, determined, in each case, on a consolidated basis and in accordance with GAAP.

"Fixed Rate Senior Notes" means the 10% Series A Fixed Rate Senior Notes due 2001, as amended or supplemented from time to time, issued by the Borrower and Finance Corp pursuant to the 1994 Indenture.

"Floating Rate Senior Notes" means the \$50,000,000 Series B Floating Rate Senior Notes due 2001 issued by the Borrower and Finance Corp. pursuant to the 1994 Indenture.

"FRB" means the Board of Governors of the Federal Reserve System, and any Governmental Authority succeeding to any of its principal functions.

"Funded Debt" means all Indebtedness of Borrower and its Subsidiaries which by its terms or by the terms of any instrument or agreement relating thereto matures, or which is otherwise payable or unpaid, one year or more from, or is directly or indirectly renewable or extendable at the option of the obligor in respect thereof to a date one year or more (including, without limitation, an option of such obligor under a revolving credit agreement or similar agreement obligating the lender or lenders to extend credit over a period of one year or more) from, the date of creation thereof, excluding all Contingent Obligations of Borrower and its Subsidiaries under or in connection with Letters of Credit outstanding from time to time.

"GAAP" means generally accepted accounting principles set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession), which are applicable to the circumstances as of the date of determination.

"General Partner" has the meaning specified in the introductory clause hereto.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

"Growth-Related Capital Expenditures" means, with respect to any Person, all capital expenditures by such Person made to improve or enhance the existing capital assets or to increase the customer base of such Person or to acquire or construct new capital assets (but excluding capital expenditures made to maintain, up to the level thereof that existed at the time of such expenditure, the operating capacity of the capital assets of such Person as such assets existed at the time of such expenditure).

"Guarantor" means each Person that executes a Guaranty and its successors and assigns, and includes Finance Corp.

"Guaranty" means a continuing guaranty of the Obligations in favor of the Agent on behalf of the Banks, in form and substance satisfactory to the Agent.

"Guaranty Obligation" has the meaning specified in the definition of "Contingent Obligation."

"Hedging Obligations" means, with respect to any Person, the obligations of such Person under (i) interest rate swap agreements, interest rate cap agreements and interest rate collar agreements and

(ii) other agreements or arrangements designed to protect such Person against fluctuations in interest rates.

"Honor Date" has the meaning specified in subsection 3.03(c).

"Indebtedness" of any Person means, without duplication, (a) all indebtedness for borrowed money; (b) all obligations issued, undertaken or assumed as the deferred purchase price of property or services (other than trade payables entered into in the ordinary course of business on ordinary terms); (c) all non-contingent reimbursement or payment obligations with respect to Surety Instruments; (d) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced incurred in connection with the acquisition of property, assets or businesses; (e) all indebtedness created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to property acquired by the Person (even though the rights and remedies of the seller or bank under such agreement in the event of default are limited to repossession or sale of such property); (f) all Capital Lease Obligations; (g) all Hedging Obligations; (h) all indebtedness referred to in clauses (a) through (g) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property (including accounts and contracts rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness; and (i) all Guaranty Obligations in respect of indebtedness or obligations of others of the kinds referred to in clauses (a) through (h) above.

"Indemnified Liabilities" has the meaning specified in Section 11.05.

"Indemnified Person" has the meaning specified in Section 11.05.

"Independent Auditor" has the meaning specified in subsection 7.01(a).

"Ineligible Securities" means securities which may not be underwritten or dealt in by member banks of the Federal Reserve System under Section 16 of the Banking Act of 1933 (12 U.S.C. ss. 24, Seventh), as amended.

"Insolvency Proceeding" means (a) any case, action or proceeding before any court or other Governmental Authority relating to bankruptcy, reorganization, insolvency, liquidation, receivership, dissolution, winding-up or relief of debtors, or (b) any general assignment for the benefit of creditors, composition, marshalling of assets for creditors, or other, similar arrangement in respect of a Person's creditors generally or any substantial portion of a Person's creditors; undertaken under U.S. Federal, state or foreign law, including the Bankruptcy Code.

"Interest Payment Date" means, as to any Eurodollar Rate Loan, the last day of each Interest Period applicable to such Loan and, as to any Base Rate Loan, the first Business Day of each fiscal quarter of the Borrower, provided, however, that if any Interest Period for a Eurodollar Rate Loan exceeds three months, the date that is three months after the beginning of such Interest Period and after each Interest Payment Date thereafter is also an Interest Payment Date, provided further, that if there is no numerically corresponding day in the calendar month during which an Interest Payment Date is to occur, such Interest Payment Date shall occur on the last Business Day of such calendar month.

"Interest Period" means, as to any Eurodollar Rate Loan, the period commencing on the Borrowing Date of such Loan or on the Conversion/Continuation Date on which the Loan is converted into or continued as a Eurodollar Rate Loan, and ending on the date one, two, three or six months thereafter as selected by the Borrower in its Notice of Borrowing or Notice of Conversion/Continuation;

provided that:

(i) if any Interest Period would otherwise end on a day that is not a Business Day, that Interest Period shall be extended to the following Business Day unless the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the preceding Business Day;

(ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period;

(iii) no Interest Period for any Revolving Loan shall extend beyond the Revolving Loan Termination Date; and

(iv) no Interest Period applicable to the Facility B Term Loan shall extend beyond the Term Loan Maturity Date.

"IRS" means the Internal Revenue Service, and any Governmental Authority succeeding to any of its principal functions.

"Issuance Date" has the meaning specified in subsection 3.01(a).

"Issue" means, with respect to any Letter of Credit, to issue or to extend the expiry of, or to renew or increase the amount of, such

Letter of Credit; and the terms "Issued," "Issuing" and "Issuance" have corresponding meanings.

"Issuing Banks" means BofA and Banque Paribas in their respective capacities as issuers of one or more Letters of Credit hereunder.

"Joint Venture" means a single-purpose corporation, partnership, joint venture or other similar legal arrangement (whether created by contract or conducted through a separate legal entity) now or hereafter formed by the Borrower or any of its Subsidiaries with another Person in order to conduct a common venture or enterprise with such Person.

"L/C Advance" means each Bank's participation in any L/C Borrowing in accordance with its Pro Rata Share.

"L/C Amendment Application" means an application form for amendment of outstanding Standby Letters of Credit or Commercial Letters of Credit as shall at any time be in use at the applicable Issuing Bank, as such Issuing Bank shall request.

"L/C Application" means an application form for issuances of Standby Letters of Credit or Commercial Letters of Credit as shall at any time be in use at the applicable Issuing Bank, as such Issuing Bank shall request.

"L/C Borrowing" means an extension of credit resulting from a drawing under any Letter of Credit which shall not have been reimbursed on the date when made nor converted into a Borrowing of Facility A Revolving Loans under subsection 3.03(c).

"L/C Commitment" means the commitment of the Issuing Banks to Issue, and the commitment of the Banks severally to participate in, Letters of Credit from time to time Issued or outstanding under Article III, in an aggregate amount not to exceed on any date the lesser of \$50,000,000 and the aggregate Facility C Commitment, as such amount may be reduced as a result of a reduction in the L/C Commitment pursuant to Section 2.05; provided that the L/C Commitment is a part of the aggregate Facility C Commitment, rather than a separate, independent commitment.

"L/C Obligations" means at any time the sum of (a) the aggregate undrawn amount of all Letters of Credit then outstanding, plus (b) the amount of all unreimbursed drawings under all Letters of Credit, including all outstanding L/C Borrowings, plus (c) all other Obligations of the Borrower and Stratton under or in connection with the L/C-Related Documents, to the extent not included within clauses (a) and (b) hereof.

"L/C-Related Documents" means the Letters of Credit, the L/C Applications, the L/C Amendment Applications and any other document relating to any Letter of Credit, including any of the Issuing Banks' standard form reimbursement agreements and other documents for letter of credit issuances.

"Lending Office" means, as to any Bank, the office or offices of such Bank specified as its "Lending Office" or "Domestic Lending Office" or "Eurodollar Lending Office", as the case may be, on Schedule 11.02, or such other office or offices as such Bank may from time to time notify the Borrower and the Agent.

"Letters of Credit" means, collectively, Standby Letters of Credit and Commercial Letters of Credit.

"Level" means, at any time, Level 1, Level 2, Level 3, Level 4, Level 5 or Level 6 based on the amount of the Pricing Ratio at such time. For purposes of this Agreement, the following "Levels" of Pricing Ratio (PR) shall apply:

Level	Pricing Ratio
Level 1	PR less than 1.75
Level 2	1.75 less than PR less than 2.75
Level 3	2.75 less than PR less than 3.25
Level 4	3.25 less than PR less than 3.75
Level 5	3.75 less than PR less than 4.25
Level 6	PR less than 4.25

The Level of the Pricing Ratio for the period from the Restatement Effective Date to the end of the fiscal quarter of the Borrower during which the Restatement Effective Date occurs shall be equal to Level 2. Any change in the Level of the Pricing Ratio shall be determined by the Agent based upon the financial information required to be contained in the Compliance Certificates delivered by the Borrower to the Agent with respect to each fiscal quarter of the Borrower and shall become effective as of the first day of the fiscal quarter following the fiscal quarter for which such Compliance Certificate was delivered. Upon any failure of the Borrower to deliver a Compliance Certificate for any fiscal quarter prior to 10 days after the date on which such Compliance Certificate is required to be delivered to the Agent, and without limiting the other rights and remedies of the Agent and the Banks hereunder, the Pricing Ratio shall be deemed to be Level 6 as of the first day of the fiscal quarter beginning after the fiscal quarter for which such Compliance Certificate was due.

"Leverage Ratio" means, with respect to any Person for any period, the ratio of Funded Debt plus Synthetic Lease Obligations, in

each case of such Person at the end of such period, to Consolidated Cash Flow of such Person for such period plus the portion of rent paid or payable (without duplication) for that period under Synthetic Lease Obligations of such Person that would be treated as interest in accordance with Financial Accounting Standards Board Statement No. 13 if such Synthetic Lease Obligations were treated as Capital Lease Obligations under GAAP (such portion, the "Synthetic Lease Interest Component"). In the event that the referent Person or any of its Subsidiaries incurs, assumes, guarantees, redeems or repays any Indebtedness (other than revolving credit borrowings) subsequent to the commencement of the period for which the Leverage Ratio is being calculated but prior to the date on which the calculation of the Leverage Ratio is made (the "Leverage Ratio Calculation Date"), then the Leverage Ratio shall be calculated giving pro forma effect to such incurrence, assumption, guarantee, redemption or repayment of Indebtedness, as if the same had occurred at the beginning of the applicable reference period. The foregoing calculation of the Leverage Ratio shall also give pro forma effect to Acquisitions (including all mergers and consolidations), Asset Sales and other dispositions and discontinuances of businesses or assets that have been made by the referent Person or any of its Subsidiaries during the reference period or subsequent to such reference period and on or prior to the Leverage Ratio Calculation Date assuming that all such Acquisitions, Asset Sales and other dispositions and discontinuances of businesses or assets had occurred on the first day of the reference period; provided, however, that with respect to the Borrower and its Subsidiaries, (a) Funded Debt shall be reduced by amounts attributable to businesses or assets that are so disposed of or discontinued only to the extent that the Indebtedness included within such Funded Debt would no longer be an obligation of the Borrower or its Subsidiaries subsequent to the Leverage Ratio Calculation Date and (b) Consolidated Cash Flow generated by an acquired business or asset shall be determined by the actual gross profit (revenues minus costs of goods sold) of such acquired business or asset during the immediately preceding number of full fiscal quarters as in the reference period minus the pro forma expenses that would have been incurred by the Borrower and its Subsidiaries in the operation of such acquired business or asset during such period computed on the basis of (i) personnel expenses for employees retained by the Borrower and its Subsidiaries in the operation of the acquired business or asset and (ii) non-personnel costs and expenses incurred by the Borrower and its Subsidiaries on a per gallon basis in the operation of the Borrower's business at similarly situated facilities of the Borrower.

"LIBOR" means the rate of interest per annum determined by the Agent to be the arithmetic mean (rounded upward to the next 1/16th of 1%) of the rates of interest per annum notified to the Agent by BofA as the rates of interest at which dollar deposits in the approximate amount of the amount of the Loan to be made or continued as, or converted into, a Eurodollar Rate Loan by BofA and having a maturity comparable to such Interest Period would be offered to major banks in the London interbank market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period.

"Lien" means any security interest, mortgage, deed of trust, pledge, hypothecation, assignment, charge or deposit arrangement, encumbrance, lien (statutory or other) or preferential arrangement of any kind or nature whatsoever in respect of any property (including those created by, arising under or evidenced by any conditional sale or other title retention agreement, the interest of a lessor under a capital lease, any financing lease having substantially the same economic effect as any of the foregoing, or the filing of any financing statement naming the owner of the asset to which such lien relates as debtor, under the Uniform Commercial Code or any comparable law) and any contingent or other agreement to provide any of the foregoing, but not including the interest of a lessor under an operating lease.

"Loan" means an extension of credit by a Bank to the Borrower under Article II or Article III in the form of a Facility A Revolving Loan, Facility B Term Loan, Facility C Revolving Loan, L/C Advance or (in the case of BofA) Swingline Loan.

"Loan Documents" means this Agreement, any Notes, the Fee Letters, the L/C-Related Documents, the Guaranties and all other documents delivered to the Agent or any Bank in connection herewith.

"Majority Banks" means at any time Banks then holding 51% or more of the then aggregate unpaid principal amount of the Loans (other than the Swingline Loans), or, if no such principal amount is then outstanding, Banks then having 51% or more of the aggregate Revolving Loan Commitments.

"Margin Stock" means "margin stock" as such term is defined in Regulation U of the FRB.

"Material Adverse Effect" means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, condition (financial or otherwise) or prospects of the Borrower or the Borrower and its Subsidiaries taken as a whole; (b) a material impairment of the ability of the General Partner, the Borrower or any Subsidiary to perform under any Loan Document or otherwise to avoid any Event of Default; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the Borrower or any Subsidiary of any Loan Document.

"MLP" means Ferrellgas Partners, L.P., a Delaware limited partnership and the sole limited partner of the Borrower.

"MLP Senior Notes" means the \$160,000,000 9-3/8% Senior Secured Notes issued by the MLP and Ferrellgas Partners Finance Corp. pursuant to the 1996 Indenture.

"Net Income" means, with respect to any Person, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of preferred stock dividends, excluding, however, (a) any gain (but not loss), together with any related provision for taxes on such gain (but not loss), realized in connection with (i) any asset sale (including, without limitation, dispositions pursuant to sale and leaseback transactions), or (ii) the disposition of any securities or the extinguishment of any Indebtedness of such Person or any of its Subsidiaries, and (b) any extraordinary gain (but not loss), together with any related provision for taxes on such extraordinary gain (but not loss); provided, however, that all costs and expenses with respect to the retirement of the Floating Rate Senior Notes, including, without limitation, cash premiums, tender offer premiums, consent payments and all fees and expenses in connection therewith, shall be added back to the Net Income of the Borrower, the General Partner or their Subsidiaries to the extent that they were deducted from such Net Income in accordance with GAAP.

"Net Proceeds of Asset Sale" means the aggregate cash proceeds received by the Borrower or any of its Subsidiaries in respect of any Asset Sale, net of the direct costs relating to such Asset Sale (including, without limitation, legal, accounting and investment banking fees, and sales commissions) and any relocation expenses incurred as a result thereof, taxes paid or payable as a result thereof (after taking into account any available tax credits or deductions and any tax sharing arrangements), and amounts required to be applied to the repayment of Indebtedness secured by a Lien on the asset or assets the subject of such Asset Sale.

"Non-Recourse Subsidiary" means any Person that would otherwise be a Subsidiary of the Borrower but is designated as a Non-Recourse Subsidiary in a resolution of the Board of Directors of the General Partner, so long as each of the following remains true: (a) no portion of the Indebtedness or any other obligation (contingent or otherwise) of such Person (i) is a Contingent Obligation of the Borrower or any of its Subsidiaries, (ii) is recourse or obligates the Borrower or any of its Subsidiaries in any way or (iii) subjects any property or asset of the Borrower or any of its Subsidiaries, directly or indirectly, contingently or otherwise, to satisfaction thereof, (b) neither the Borrower nor any of its Subsidiaries has any contract, agreement, arrangement or understanding or is subject to an obligation of any kind, written or oral, with such Person other than on terms no less favorable to the Borrower and its Subsidiaries than those that might be obtained at the time from persons who are not Affiliates of the Borrower, (c) neither the Borrower nor any of its Subsidiaries has any obligation with respect to such Person (i) to subscribe for additional shares of capital stock, Capital Interests or other Equity Interests therein or (ii) maintain or preserve such Person's financial condition or to cause such Person to achieve certain levels of operating or other financial results, (d) such Person has no more than \$1,000 of assets at the time of such designation, (e) such Person is in compliance with the restrictions applicable to Affiliates of the MLP under Section 8.22 hereof and (f) such Person takes steps designed to assure that neither the Borrower nor any of its Subsidiaries will be liable for any portion of the Indebtedness or other obligations of such Person, including maintenance of a corporate or limited partnership structure and observance of applicable formalities such as regular meetings and maintenance of minutes, a substantial and meaningful capitalization and the use of a corporate or partnership name, trade name or trademark not misleadingly similar to those of the Borrower.

"Note" means a promissory note executed by the Borrower in favor of a Bank pursuant to subsection 2.02(b), in substantially the form of Exhibit F-1, F-2 or F-3.

"Notice of Borrowing" means a notice in substantially the form of Exhibit A.

"Notice of Conversion/Continuation" means a notice in substantially the form of Exhibit B.

"Obligations" means all advances, debts, liabilities, obligations, covenants and duties arising under any Loan Document, owing by the Borrower to any Bank, the Agent, or any Indemnified Person, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising including, without limitation, all Indebtedness of the Borrower to the Banks for the payment of principal of and interest on all outstanding Loans and all obligations of the Borrower to the Issuing Banks for reimbursement of drawings under Letters of Credit from time to time.

"Organization Documents" means, for any corporation, the certificate or articles of incorporation, the bylaws, any certificate of determination or instrument relating to the rights of preferred shareholders of such corporation, any shareholder rights agreement, and all applicable resolutions of the board of directors (or any committee thereof) of such corporation and, for any general or limited partnership, the partnership agreement of such partnership and all amendments thereto and any agreements otherwise relating to the rights of the partners thereof.

"Other Taxes" means any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution,

delivery or registration of, or otherwise with respect to, this Agreement or any other Loan Documents.

"Participant" has the meaning specified in subsection 11.08(d).

"Partners' Equity" means the partners' equity as shown on a balance sheet prepared in accordance with GAAP for any partnership.

"Partnership Agreement" shall mean the Agreement of Limited Partnership of the Borrower dated July 5, 1994, as amended from time to time.

"PBGC" means the Pension Benefit Guaranty Corporation, or any Governmental Authority succeeding to any of its principal functions under ERISA.

"Pension Plan" means a pension plan (as defined in Section 3(2) of ERISA) subject to Title IV of ERISA which the Borrower or the General Partner sponsors, maintains, or to which it makes, is making, or is obligated to make contributions, or in the case of a multiple employer plan (as described in Section 4064(a) of ERISA) has made contributions at any time during the immediately preceding five (5) plan years.

"Permitted Acquisitions" means Acquisitions by the Borrower and its Subsidiaries which comply with the provisions of Section 8.04.

"Permitted Investments" means (a) any Investments in Cash Equivalents; (b) any Investments in the Borrower or in a Wholly-Owned Subsidiary of the Borrower that is a Guarantor; (c) Investments by the Borrower or any Subsidiary of the Borrower in a Person, if as a result of such Investment (i) such Person becomes a Wholly-Owned Subsidiary of the Borrower and a Guarantor or (ii) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Borrower or a Wholly-Owned Subsidiary of the Borrower that is a Guarantor; and (d) other Investments in Non-Recourse Subsidiaries of the Borrower that do not exceed \$30 million in the aggregate.

"Permitted Liens" has the meaning specified in Section 8.01.

"Permitted Refinancing Indebtedness" means any Indebtedness of the Borrower or any Subsidiary of the Borrower issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund other Indebtedness of the Borrower or any of its Subsidiaries; provided that (a) the principal amount of such Indebtedness does not exceed the principal amount of the Indebtedness so extended, refinanced, renewed, replaced, defeased or refunded (the "Prior Indebtedness") (plus the amount of reasonable expenses incurred in connection therewith), and the effective interest rate per annum on such Indebtedness does not or is not likely to exceed the effective interest rate per annum of the Prior Indebtedness, as determined by the Agent in its sole discretion; (b) such Indebtedness has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of the Prior Indebtedness; (c) if the Prior Indebtedness is subordinated to the Obligations, such Indebtedness is subordinated to the Obligations on the terms and conditions set forth on part II of Schedule 8.05; and (d) such Indebtedness is incurred by the Borrower or the Subsidiary who is the obligor on the Prior Indebtedness.

"Permitted Senior Debt" means, with respect to any Person, (i) any Acquired Debt of such Person, (ii) any Indebtedness incurred by such Person, the proceeds of which are applied solely to finance Growth-Related Capital Expenditures and (iii) any Indebtedness incurred by such Person, the proceeds of which are used solely for working capital purposes.

"Person" means an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, Joint Venture or Governmental Authority.

"Plan" means an employee benefit plan (as defined in Section 3(3) of ERISA) which the Borrower sponsors or maintains or to which the Borrower or the General Partner makes, is making, or is obligated to make contributions and includes any Pension Plan.

"Pricing Ratio" means, as of the last day of each fiscal quarter of the Borrower, the Leverage Ratio for the fiscal period consisting of such fiscal quarter of the Borrower and the three immediately preceding fiscal quarters of the Borrower.

"Pro Rata Share" means, as to any Bank at any time, the percentage set forth on Schedule 2.01 hereto as its "Pro Rata Share," as such amount may be adjusted by assignments under Section 11.08.

"Related Party" means (i) the spouse or any lineal descendant of James E. Ferrell, (ii) any trust for his benefit or for the benefit of his spouse or any such lineal descendants or (iii) any corporation, partnership or other entity in which James E. Ferrell and/or such other Persons referred to in the foregoing clauses (i) and (ii) are the direct record and beneficial owners of all of the voting and nonvoting Equity Interests.

"Reportable Event" means, any of the events set forth in Section 4043(b) of ERISA or the regulations thereunder, other than any such event for which the 30-day notice requirement under ERISA has been waived in regulations issued by the PBGC.

"Requirement of Law" means, as to any Person, any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or of a Governmental Authority, in each case applicable to or binding upon the Person or any of its property or to which the Person or any of its property is subject.

"Responsible Officer" means the chief executive officer or the president of the General Partner or any other officer having substantially the same authority and responsibility to act for the General Partner on behalf of the Borrower; or, with respect to actions taken or to be taken under Articles II and III and compliance with financial covenants, the chief financial officer or the treasurer of the General Partner or any other officer having substantially the same authority and responsibility to act for the General Partner on behalf of the Borrower or any other employee of the General Partner designated in a certificate of a Responsible Officer to have authority in such matters.

"Restatement Effective Date" means the later to occur of (a) the first date on which all conditions precedent set forth in Section 5.01 and Section 5.02 are satisfied or waived by all Banks (or, in the case of subsection 5.01(f), waived by the Persons entitled to receive such payments) and (b) July 31, 1996.

"Revolving Loan Commitments" means, as to each Bank, the Facility A Commitment and the Facility C Commitment of such Bank.

"Revolving Loans" means, collectively, the Facility A Revolving Loans and the Facility C Revolving Loans.

"Revolving Loan Termination Date" means the earlier of (a) July 31, 1999 (or such later date to which the Revolving Loan Termination Date may be extended pursuant to subsection 2.08(d) of this Agreement) and (b) the date on which the Revolving Loan Commitments shall have been terminated pursuant to this Agreement.

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

"Senior Debt" means, without duplication, (i) the Obligations, (ii) all other Indebtedness of the Borrower or Finance Corp., unless the instrument under which such Indebtedness is incurred expressly provides that it is subordinated in right of payment to the Obligations and (iii) all Indebtedness of Subsidiaries of the Borrower, other than Finance Corp.

"Significant Subsidiary" means any Subsidiary of the Borrower that would be a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Act, as such Regulation is in effect on the date hereof.

"Solvent" shall mean, with respect to any Person on any date, that on such date (a) the fair value of the property of such Person is greater than the fair value of the liabilities (including, without limitation, contingent liabilities) of such Person, (b) such Person does not intend to, and does not believe that it will, incur debts and liabilities beyond such Person's ability to pay as such debts and liabilities mature and (c) such Person is not engaged in business or a transaction, and is not about to engage in a business or a transaction, for which such Person's property would constitute an unreasonably small capital.

"Standby Letters of Credit" means standby letters of credit Issued by an Issuing Bank pursuant to Article III.

"Standby Letter of Credit Risk Participation Percentage" means, as of any date and based upon the Level of the Pricing Ratio on such date, the percent per annum (expressed in basis points) set forth below opposite such Level:

Pricing Ratio Participation Percentage	Standby Letter of Credit Risk
Level 1	42.50 b.p.
Level 2	50.00 b.p.
Level 3	60.00 b.p.
Level 4	80.00 b.p.
Level 5	110.00 b.p.
Level 6	137.50 b.p.

"Subsidiary" means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Interests entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof (or, in the case of a limited partnership, more than 50% of either the general partners' Capital Interests or the limited partners' Capital Interests) is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof. Notwithstanding the foregoing, any Subsidiary of the Borrower that is designated a Non-Recourse Subsidiary pursuant to the definition thereof shall, for so long as all of the statements in the definition thereof remain true, not be

deemed a Subsidiary of the Borrower.

"Subsidiary Note Guarantees" means each guarantee of the Fixed Rate Senior Notes made pursuant to the 1994 Indenture.

"Surety Instruments" means all letters of credit (including standby and commercial), bankers' acceptances, bank guaranties, shipside bonds, surety bonds and similar instruments.

"Swingline Loan" has the meaning specified in Section 2.15.

"Synthetic Lease" means each arrangement, however described, under which the obligor accounts for its interest in the property covered thereby under GAAP as lessee of a lease which is not a Capital Lease and accounts for its interest in the property covered thereby for Federal income tax purposes as the owner.

"Synthetic Lease Obligation" means, as to any Person with respect to any Synthetic Lease at any time of determination, the amount of the liability of such Person in respect of such Synthetic Lease that would (if such lease was required to be classified and accounted for as a capital lease on a balance sheet of such Person in accordance with GAAP) be required to be capitalized on the balance sheet of such Person at such time.

"Taxes" means any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Bank and the Agent, such taxes (including income taxes or franchise taxes) as are imposed on or measured by each Bank's net income by the jurisdiction (or any political subdivision thereof) under the laws of which such Bank or the Agent, as the case may be, is organized or maintains a lending office.

"Term Loan Maturity Date" means June 1, 2001.

"Type" means, with respect to any Loan, whether such Loan is a Base Rate Loan or a Eurodollar Rate Loan.

"UCP" has the meaning specified in Section 3.09.

"Unfunded Pension Liability" means the excess of a Plan's benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Plan's assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

"United States" and "U.S." each means the United States of America.

"Weighted Average Life to Maturity" means, when applied to any Indebtedness at any date, the number of years obtained by dividing (a) the sum of the products obtained by multiplying (x) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect thereof, by (y) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment, by (b) the then outstanding principal amount of such Indebtedness; provided, however, that with respect to any revolving Indebtedness, the foregoing calculation of Weighted Average Life to Maturity shall be determined based upon the total available commitments and the required reductions of commitments in lieu of the outstanding principal amount and the required payments of principal, respectively.

"Wholly-Owned Subsidiary" means a Subsidiary of which all of the outstanding Capital Interests or other ownership interests (other than directors' qualifying shares) or, in the case of a limited partnership, all of the partners' Capital Interests (other than up to a 1% general partner interest), is owned, beneficially and of record, by the Borrower, a Wholly-Owned Subsidiary of the Borrower or both.

#### Other Interpretive Provisions

(a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.

(b) The words "hereof", "herein", "hereunder" and similar words refer to this Agreement as a whole and not to any particular provision of this Agreement; and subsection, Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(c) (i) The term "documents" includes any and all instruments, documents, agreements, certificates, indentures, notices and other writings, however evidenced.

(ii) The term "including" is not limiting and means "including without limitation."

(iii) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including"; the words "to" and "until" each mean "to but excluding", and the word "through" means "to and including."

(d) Unless otherwise expressly provided herein, (i) references to agreements (including this Agreement) and other contractual instruments shall be deemed to include all subsequent amendments and other modifications thereto, but only to the extent such amendments and other modifications are not prohibited by the terms of any Loan Document, and (ii) references to any statute



or regulation are to be construed as including all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting the statute or regulation.

(e) The captions and headings of this Agreement are for convenience of reference only and shall not affect the interpretation of this Agreement.

(f) This Agreement and other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and shall each be performed in accordance with their terms.

(g) Unless otherwise expressly provided herein, financial calculations applicable to the Borrower shall be made on a consolidated basis.

(h) This Agreement and the other Loan Documents are the result of negotiations among and have been reviewed by counsel to the Agent, the Borrower and the other parties, and are the products of all parties. Accordingly, they shall not be construed against the Banks or the Agent merely because of the Agent's or Banks' involvement in their preparation.

#### Accounting Principles.ing Principles

(a) Unless the context otherwise clearly requires, all accounting terms not expressly defined herein shall be construed, and all financial computations required under this Agreement shall be made, in accordance with GAAP, consistently applied. In the event that GAAP changes during the term of this Agreement such that the covenants contained in Section 7.12 would then be calculated in a different manner or with different components, (i) the Borrower and the Banks agree to amend this Agreement in such respects as are necessary to conform those covenants as criteria for evaluating Borrower's financial condition to substantially the same criteria as were effective prior to such change in GAAP and (ii) the Borrower shall be deemed to be in compliance with the covenants contained in Section 7.12 during the 90-day period following any such change in GAAP if and to the extent that the Borrower would have been in compliance therewith under GAAP as in effect immediately prior to such change.

(b) Except as otherwise specified, references herein to "fiscal year" and "fiscal quarter" refer to such fiscal periods of the Borrower.

#### ARTICLE II THE CREDITS

#### Amounts and Terms of Revolving Loan Commitments and Facility B Term Loan.ity B Term Loan

#### Facility A Revolving Loans.A Revolving Loans

(i) Each Bank severally agrees, on the terms and subject to the conditions set forth herein, to make loans to the Borrower (each such loan, a "Facility A Revolving Loan") from time to time on any Business Day during the period from the Restatement Effective Date to the Revolving Loan Termination Date, in an aggregate principal amount not to exceed at any time outstanding such Bank's Facility A Commitment as in effect from time to time; provided, however, that, after giving effect to any Borrowing of Facility A Revolving Loans, the Effective Amount of all outstanding Facility A Revolving Loans shall not at any time exceed the combined Facility A Commitments, and the Effective Amount of the Facility A Revolving Loans of any Bank shall not at any time exceed such Bank's Facility A Commitment. On the Restatement Effective Date, the aggregate outstanding principal amount of the Facility C Revolving Loans (other than Swingline Loans) under (and as defined in) the Existing Credit Agreement shall be automatically deemed to be Facility A Revolving Loans under this Agreement for all purposes of this Agreement and the other Loan Documents (including for the purpose of determining usage of the Facility A Commitment under this Agreement as set forth above).

(ii) Within the limits of each Bank's Facility A Commitment and on the other terms and subject to the other conditions hereof, the Borrower may borrow under this subsection 2.01(a), prepay under Section 2.06 and reborrow under this subsection 2.01(a); provided, that the Borrower shall cause the aggregate outstanding principal amount of Facility A Revolving Loans to be reduced to zero for at least one period of 30 consecutive days during each fiscal year of the Borrower, commencing with its fiscal year beginning August 1, 1996.

Facility B Term Loans. Each Bank severally agrees, on the terms and subject to the conditions set forth herein, to make a single loan to the Borrower (each such loan, a "Facility B Term Loan") on the Restatement Effective Date in a principal amount equal to the amount set forth opposite such Bank's name on Schedule 2.01 hereof under the caption "Facility B Term Loan" for the purpose of refinancing the Floating Rate Senior Notes. Amounts borrowed as Facility B Term Loans which are repaid or prepaid by the Borrower may not be reborrowed.

#### Facility C Revolving Loans, Letters of Credit and Swingline Loans.d Swingline Loans

(i) Each Bank severally agrees, on the terms and subject to the conditions set forth herein, to make loans to the Borrower (each such loan, a "Facility C Revolving Loan") from time to time on any Business Day during the period from the Restatement Effective Date to the Revolving Loan Termination Date, in an aggregate principal amount not to exceed at any time outstanding such Bank's

Facility C Commitment as in effect from time to time; provided, however, that, after giving effect to any Borrowing of Facility C Revolving Loans, the sum of the Effective Amount of all outstanding Facility C Revolving Loans plus the Effective Amount of all L/C Obligations plus the Effective Amount of all Swingline Loans shall not at any time exceed the combined Facility C Commitments, and the Effective Amount of the Facility C Revolving Loans of any Bank plus the participation of such Bank in the Effective Amount of all L/C Obligations plus such Bank's Pro Rata Share of the Effective Amount of all outstanding Swingline Loans shall not at any time exceed such Bank's Facility C Commitment. On the Restatement Effective Date, the aggregate outstanding principal amount of the Facility A Revolving Loans, the Facility B Revolving Loans, the Facility B Term Loans and Swingline Loans, in each case under (and as defined in) the Existing Credit Agreement shall be automatically deemed to be Facility C Revolving Loans under this Agreement for all purposes of this Agreement and the other Loan Documents (including for the purpose of determining usage of the Facility C Commitment under this Agreement as set forth above).

(ii) Within the limits of each Bank's Facility C Commitment and on the other terms and subject to the other conditions hereof, the Borrower may borrow under this subsection 2.01(c), prepay under Section 2.06 and reborrow under this subsection 2.01(c).

(iii) As a subfacility of the Banks' Facility C Commitments, the Borrower and Stratton may request the Issuing Banks to Issue Letters of Credit from time to time pursuant to Article III.

(iv) In addition, the Borrower may request BofA to make Swingline Loans to the Borrower from time to time pursuant to Section 2.15.

Loan Accounts. (a) The Loans made by each Bank and the Letters of Credit Issued by the Issuing Banks shall be evidenced by one or more accounts or records maintained by such Bank or Issuing Bank, as the case may be, in the ordinary course of business. The accounts or records maintained by the Agent, the Issuing Banks and each Bank shall be conclusive absent manifest error of the amount of the Loans made by the Banks to the Borrower and the Letters of Credit Issued for the account of the Borrower, and the interest and payments thereon. Any failure so to record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrower hereunder to pay any amount owing with respect to the Loans or any Letter of Credit.

(b) Upon the request of any Bank made through the Agent, the Loans made by such Bank may be evidenced by one or more Notes, instead of loan accounts. Each such Bank shall endorse on the schedules annexed to its Note(s) the date, amount and maturity of each Loan made by it and the amount of each payment of principal made by the Borrower with respect thereto. Each such Bank is irrevocably authorized by the Borrower to endorse its Note(s) and each Bank's record shall be conclusive absent manifest error; provided, however, that the failure of a Bank to make, or an error in making, a notation thereon with respect to any Loan shall not limit or otherwise affect the obligations of the Borrower hereunder or under any such Note to such Bank.

Procedure for Borrowing. (a) Each Borrowing of Loans (other than Swingline Loans) shall be made upon the Borrower's irrevocable written notice delivered to the Agent in the form of a Notice of Borrowing (which notice must be received by the Agent prior to 11:00 a.m. San Francisco time (i) three Business Days prior to the requested Borrowing Date, in the case of Eurodollar Rate Loans, and (ii) one Business Day prior to the requested Borrowing Date, in the case of Base Rate Loans, specifying:

(A) the amount of the Borrowing, which shall be in an aggregate minimum amount of \$3,000,000 or any multiple of \$1,000,000 in excess thereof for Eurodollar Loans, or \$1,000,000 or any multiple of \$100,000 in excess thereof for Base Rate Loans;

(B) the requested Borrowing Date, which shall be a Business Day;

(C) the Type and Class of Loans comprising the Borrowing; and

(D) the duration of the Interest Period applicable to any Eurodollar Rate Loans included in such notice.

If the Notice of Borrowing fails to specify the duration of the Interest Period for any Borrowing comprised of Eurodollar Rate Loans, such Interest Period shall be one month.

(b) The Agent will promptly notify each Bank of the Agent's receipt of any Notice of Borrowing and of the amount of such Bank's Pro Rata Share of that Borrowing.

(c) Each Bank will make the amount of its Pro Rata Share of each Borrowing available to the Agent for the account of the Borrower at the Agent's Payment Office by 11:00 a.m. San Francisco time on the Borrowing Date requested by the Borrower in funds immediately available to the Agent. The proceeds of all such Loans will then be made available to the Borrower by the Agent at such office by crediting the account of the Borrower on the books of BofA with the aggregate of the amounts made available to the Agent by the Banks and in like funds as received by the Agent.

(d) After giving effect to any Borrowing, there may not be more than 10 different Interest Periods in effect with respect to Eurodollar Rate Loans.

Conversion and Continuation Elections. (a) The Borrower may, upon irrevocable

written notice to the Agent in accordance with subsection 2.04(b):

(i) elect, as of any Business Day, in the case of Base Rate Loans, or as of the last day of the applicable Interest Period, in the case of Eurodollar Rate Loans, to convert any such Loans (or any part thereof in an amount not less than \$3,000,000, or that is in an integral multiple of \$1,000,000 in excess thereof) into Loans of the other Type; or

(ii) elect as of the last day of the applicable Interest Period, to continue as Eurodollar Rate Loans any Loans having Interest Periods expiring on such day (or any part thereof in an amount not less than \$3,000,000, or that is in an integral multiple of \$1,000,000 in excess thereof);

provided, that if at any time the aggregate amount of Eurodollar Rate Loans in respect of any Borrowing is reduced, by payment, prepayment, or conversion of part thereof to be less than \$3,000,000, such Eurodollar Rate Loans shall automatically convert into Base Rate Loans, and on and after such date the right of the Borrower to continue such Loans as, and convert such Loans into, Eurodollar Rate Loans shall terminate.

(b) The Borrower shall deliver a Notice of Conversion/Continuation to be received by the Agent not later than 10:00 a.m. San Francisco time at least (i) three Business Days in advance of the Conversion/Continuation Date, if the Loans are to be converted into or continued as Eurodollar Rate Loans; and (ii) one Business Day in advance of the Conversion/Continuation Date, if the Loans are to be converted into Base Rate Loans, specifying:

(A) the proposed Conversion/Continuation Date;

(B) the aggregate amount and Class of Loans to be converted or renewed;

(C) the Type of Loans resulting from the proposed conversion or continuation; and

(D) other than in the case of conversions into Base Rate Loans, the duration of the requested Interest Period.

(c) If upon the expiration of any Interest Period applicable to Eurodollar Rate Loans, the Borrower has failed to select a new Interest Period within the time period specified in subsection 2.04(b) to be applicable to such Eurodollar Rate Loans, or if any Default or Event of Default then exists, the Borrower shall be deemed to have elected to convert such Eurodollar Rate Loans into Base Rate Loans effective as of the expiration date of such Interest Period.

(d) The Agent will promptly notify each Bank of its receipt of a Notice of Conversion/Continuation, or, if no notice is provided by the Borrower within the time period specified in subsection 2.04(b), the Agent will promptly notify each Bank of the details of any automatic conversion. All conversions and continuations shall be made ratably according to the respective outstanding principal amounts of the Loans with respect to which the notice was given held by each Bank.

(e) Unless the Majority Banks otherwise agree, during the existence of a Default or Event of Default, the Borrower may not elect to have a Loan converted into or continued as a Eurodollar Rate Loan.

(f) After giving effect to any conversion or continuation of Loans, there may not be more than ten different Interest Periods in effect.

Voluntary Termination or Reduction of Revolving Loan Commitments. Loan Commitments

(a) The Borrower may, not later than 11:00 a.m. San Francisco time at least three Business Days prior to its effective date by notice to the Agent, terminate or permanently reduce the Facility A Commitments by an aggregate minimum amount of \$5,000,000 or any multiple of \$5,000,000 in excess thereof; unless, after giving effect thereto and to any prepayments of Loans made on the effective date thereof, the Effective Amount of all Facility A Revolving Loans would exceed the amount of the combined Facility A Commitments then in effect.

(b) The Borrower may, not later than 11:00 a.m. San Francisco time at least three Business Days prior to its effective date by notice to the Agent, terminate or permanently reduce the Facility C Commitments by an aggregate minimum amount of \$5,000,000 or any multiple of \$5,000,000 in excess thereof; unless, after giving effect thereto and to any prepayments of Loans made on the effective date thereof, (i) the Effective Amount of all Facility C Revolving Loans, L/C Obligations and Swingline Loans together would exceed the amount of the combined Facility C Commitments then in effect, or (ii) the Effective Amount of all L/C Obligations then outstanding would exceed the L/C Commitment.

(c) Once reduced in accordance with this Section, the Commitments may not be increased. Any reduction of the Facility A Commitments or the Facility C Commitments shall be applied to each Bank according to its Pro Rata Share.

Optional Prepayments. (a) Subject to Section 4.04, the Borrower may, at any time or from time to time, not later than 10:00 a.m. San Francisco time at least three (3) Business Days prior to its effective date by irrevocable notice to the Agent, in the case of Eurodollar Rate Loans, and not later than 10:00 a.m. San Francisco time at least one (1) Business Day prior to its effective date by irrevocable notice to the Agent, in the case of Base Rate Loans, ratably prepay Loans in whole or in part, in minimum amounts of \$3,000,000 or any multiple of

\$1,000,000 in excess thereof, for Eurodollar Rate Loans, and in minimum amounts of \$1,000,000 or any multiple of \$100,000 in excess thereof, for Base Rate Loans.

(b) Any such notice of prepayment shall specify the date and amount of such prepayment and the Type(s) and, with respect to voluntary prepayments occurring on or prior to the Revolving Loan Termination Date, the Class(es) of Loans to be prepaid. Prepayments of Base Rate Loans of any Class may be made hereunder on any Business Day. Prepayments of Eurodollar Rate Loans of any Class may be made hereunder only on the last day of any applicable Interest Period; provided, that prepayments of Eurodollar Rate Loans may be made on a day other than the last day of the applicable Interest Period only with payment by the Borrower of the aggregate amount of any associated funding losses of any affected Banks pursuant to Section 4.04. The Agent will promptly notify each Bank of its receipt of any such notice, and of such Bank's Pro Rata Share of such prepayment.

(c) If any such notice is given by the Borrower, the Borrower shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein, together, in the case of a Eurodollar Rate Loan, with accrued interest to each such date on the amount prepaid and any amounts required pursuant to Section 4.04.

**Mandatory Prepayments of Loans; Mandatory Commitment Reductions.** (a) Subject to Section 4.04, if on any date on or prior to the Revolving Loan Termination Date the Effective Amount of all Facility A Revolving Loans then outstanding exceeds the combined Facility A Commitments, the Borrower shall immediately, and without notice or demand, prepay the outstanding principal amount of Facility A Revolving Loans by an aggregate amount equal to the applicable excess.

(b) If on any date the Effective Amount of L/C Obligations exceeds the L/C Commitment, the Borrower shall Cash Collateralize on such date the outstanding Letters of Credit in an amount equal to the excess of the aggregate maximum amount then available to be drawn under the Letters of Credit over the L/C Commitment. Subject to Section 4.04, if on any date after giving effect to any Cash Collateralization made on such date pursuant to the preceding sentence, the Effective Amount of all Facility C Revolving Loans then outstanding plus the Effective Amount of all L/C Obligations plus the Effective Amount of all Swingline Loans then outstanding exceeds the combined Facility C Commitments, the Borrower shall immediately, and without notice or demand, prepay the outstanding principal amount of the Facility C Revolving Loans, any L/C Advances and Swingline Loans by an aggregate amount equal to the applicable excess.

(c) The Borrower shall immediately, and without notice or demand, prepay the Obligations in full, including, without limitation, the aggregate principal amount of all outstanding Loans, all accrued and unpaid interest thereon and all amounts payable under Section 4.04 hereof, and all of the Revolving Loan Commitments shall be automatically reduced to zero, in each case on the 30th day after any Change of Control shall have occurred and be continuing.

(d) If and to the extent that the Facility A Commitments and the Facility C Commitments are not equal to zero on the Revolving Loan Termination Date, such Revolving Loan Commitments shall be automatically reduced to zero on the Revolving Loan Termination Date.

**Repayment. .08 Repayment**

**Facility A Revolving Loans and Facility C Revolving Loans.** The Borrower shall repay to the Banks in full on the Revolving Loan Termination Date the aggregate principal amount of Facility A Revolving Loans and Facility C Revolving Loans outstanding on such date together with all accrued and unpaid interest thereon.

**Facility B Term Loans.** The Borrower shall repay to the Banks in full on the Term Loan Maturity Date the aggregate principal amount of Facility B Term Loans outstanding on such date together with all accrued and unpaid interest thereon.

**Swingline Loans.** The Borrower shall repay to BofA in full on the Revolving Loan Termination Date the aggregate principal amount of Swingline Loans outstanding on such date, together with all accrued and unpaid interest thereon.

**Extension of Revolving Loan Termination Date.** Each Bank, at its sole option and in its sole discretion, upon the written request of Borrower given to Agent and each Bank not more than 90 days nor less than 60 days prior to the Revolving Loan Termination Date at any time in effect, may elect to extend such Revolving Loan Termination Date by a period of one year. Within 30 days following receipt of such request, each Bank shall give notice to Borrower and Agent of its decision to extend or not to extend such Revolving Loan Termination Date. If, in accordance with the immediately preceding sentence, all Banks shall have elected to extend such Revolving Loan Termination Date, the Revolving Loan Termination Date shall be extended by a period of one year. In the event that any Bank notifies Borrower and Agent that it will not extend the Revolving Loan Termination Date then in effect, or if any Bank fails to notify Borrower and Agent of its decision to extend or not to extend such Revolving Loan Termination Date, in either case within the applicable 30 day period referred to above, such Revolving Loan Termination Date shall not be extended and the Revolving Loan Termination Date then in effect shall be the Revolving Loan Termination Date for all purposes of this Agreement.

**Interest.** (a) Each Loan shall bear interest on the outstanding principal amount thereof from the applicable Borrowing Date at a rate per annum equal to the Eurodollar Rate (other than with respect to Swingline Loans) or the Base Rate, as the case may be (and subject to the Borrower's right to convert to other Types of Loans under Section 2.04), plus the Applicable Margin.

(b) Interest on each Loan shall be paid in arrears on each applicable Interest Payment Date. Interest in all cases shall also be paid on

the date of any prepayment of Loans under subsection 2.07(c) and interest on Eurodollar Rate Loans shall also be paid on the date of prepayment of Loans in all other circumstances under Section 2.06 or 2.07, in each case for the portion of the Loans so prepaid and upon payment (including prepayment) in full thereof and, during the existence of any Event of Default, interest shall be paid on demand of the Agent at the request or with the consent of the Majority Banks.

(c) Notwithstanding subsection (a) of this Section, while any Event of Default exists or after acceleration, the Borrower shall pay interest (after as well as before entry of judgment thereon to the extent permitted by law) on the principal amount of all outstanding Obligations, at a rate per annum which is determined by adding 2% per annum to the Applicable Margin then in effect for such Loans and, in the case of Obligations not subject to an Applicable Margin, including, without limitation, all letter of credit and commitment fees provided herein, at a rate per annum equal to the Base Rate plus the Applicable Margin plus 2%; provided, however, that, on and after the expiration of any Interest Period applicable to any Eurodollar Rate Loan outstanding on the date of occurrence of such Event of Default or acceleration, the principal amount of such Loan shall, during the continuation of such Event of Default or after acceleration, bear interest at a rate per annum equal to the Base Rate plus the Applicable Margin plus 2%.

(d) Anything herein to the contrary notwithstanding, the obligations of the Borrower to any Bank hereunder shall be subject to the limitation that payments of interest shall not be required for any period for which interest is computed hereunder, to the extent (but only to the extent) that contracting for or receiving such payment by such Bank would be contrary to the provisions of any law applicable to such Bank limiting the highest rate of interest that may be lawfully contracted for, charged or received by such Bank, and in such event the Borrower shall pay such Bank interest at the highest rate permitted by applicable law.

Fees. In addition to certain fees described in Section 3.08:

Arrangement, Agency Fees. The Borrower shall pay an arrangement fee to the Arranger for the Arranger's own account, and shall pay an agency fee to the Agent for the Agent's own account, as required by the letter agreement ("Fee Letter") between the Borrower and the Arranger and Agent dated July 1, 1996.

Commitment Fees. The Borrower shall pay to the Agent for the account of each Bank a commitment fee with respect to such Bank's Facility A Commitment equal to the Commitment Fee Rate per annum times the daily average amount by which such Bank's Facility A Commitment exceeded the sum of the aggregate Effective Amount of its Facility A Revolving Loans. The Borrower shall pay to the Agent for the account of each Bank a commitment fee with respect to such Bank's Facility C Commitment, equal to the Commitment Fee Rate per annum times the daily average amount by which such Bank's Facility C Commitment exceeded the aggregate Effective Amount of its Facility C Revolving Loans plus its Pro Rata Share of the Effective Amount of L/C Obligations. Such commitment fees shall accrue from the date of this Agreement to the Revolving Loan Termination Date and shall be due and payable quarterly in arrears on the first Business Day of each fiscal quarter following the quarter for which payment is to be made, commencing on the Restatement Effective Date through the Revolving Loan Termination Date, with the final payment to be made on the Revolving Loan Termination Date; provided that, in connection with the full termination of Revolving Loan Commitments under Section 2.05 or Section 2.07, the accrued commitment fees calculated for the period ending on such date shall also be paid on the date of such termination. The commitment fees provided in this subsection shall accrue at all times after the above-mentioned commencement date, including at any time during which one or more conditions in Article V are not met.

Computation of Fees and Interest. (a) All computations of interest for Base Rate Loans when the Base Rate is determined by BofA's "reference rate" shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All other computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed (which results in more interest being paid than if computed on the basis of a 365-day year). Interest and fees shall accrue during each period during which interest or such fees are computed from the first day thereof to the last day thereof.

(b) Each determination of an interest rate by the Agent shall be conclusive and binding on the Borrower and the Banks in the absence of manifest error.

Payments by the Borrower. (a) All payments to be made by the Borrower shall be made without set-off, recoupment or counterclaim. Except as otherwise expressly provided herein, all payments by the Borrower shall be made to the Agent for the account of the Banks at the Agent's Payment Office, and shall be made in dollars and in immediately available funds, no later than 10:00 a.m. (San Francisco time) on the date specified herein. The Agent will promptly distribute to each Bank its Pro Rata Share (or other applicable share as expressly provided herein) of such payment in like funds as received. Any payment received by the Agent later than 10:00 a.m. (San Francisco time) shall be deemed to have been received on the following Business Day and any applicable interest or fee shall continue to accrue.

(b) Subject to the provisions set forth in the definition of "Interest Period" herein, whenever any payment is due on a day other than a Business Day, such payment shall be made on the following Business Day, and such extension of time shall in such case be included in the computation of interest or fees, as the case may be.

(c) Unless the Agent receives notice from the Borrower prior to the date on which any payment is due to the Banks that the Borrower will not make such payment in full as and when required, the Agent may assume that the Borrower has made such payment in full to the Agent on such date in immediately available funds and the Agent may (but shall not be so required), in reliance upon such assumption, distribute to each Bank on such due date an amount equal

to the amount then due such Bank. If and to the extent the Borrower has not made such payment in full to the Agent, each Bank shall repay to the Agent on demand such amount distributed to such Bank, together with interest thereon at the Federal Funds Rate for each day from the date such amount is distributed to such Bank until the date repaid.

Payments by the Banks to the Agent. (a) Unless the Agent receives notice from a Bank on or prior to the Restatement Effective Date or, with respect to any Borrowing after the Restatement Effective Date, by 2:00 p.m. (San Francisco time) on the Business Day prior to the date of such Borrowing, that such Bank will not make available as and when required hereunder to the Agent for the account of the Borrower the amount of that Bank's Pro Rata Share of the Borrowing, the Agent may assume that each Bank has made such amount available to the Agent in immediately available funds on the Borrowing Date and the Agent may (but shall not be so required), in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent any Bank shall not have made its full amount available to the Agent in immediately available funds and the Agent in such circumstances has made available to the Borrower such amount, that Bank shall on the Business Day following such Borrowing Date make such amount available to the Agent, together with interest at the Federal Funds Rate for each day during such period. A notice of the Agent submitted to any Bank with respect to amounts owing under this subsection (a) shall be conclusive, absent manifest error. If such amount is so made available, such payment to the Agent shall constitute such Bank's Loan on the date of Borrowing for all purposes of this Agreement. If such amount is not made available to the Agent on the Business Day following the Borrowing Date, the Agent will notify the Borrower of such failure to fund and, upon demand by the Agent, the Borrower shall pay such amount to the Agent for the Agent's account, together with interest thereon for each day elapsed since the date of such Borrowing, at a rate per annum equal to the interest rate applicable at the time to the Loans comprising such Borrowing.

(b) The failure of any Bank to make any Loan on any Borrowing Date shall not relieve any other Bank of any obligation hereunder to make a Loan on such Borrowing Date, but no Bank shall be responsible for the failure of any other Bank to make the Loan to be made by such other Bank on any Borrowing Date.

Sharing of Payments, Etc. If, other than as expressly provided elsewhere herein, any Bank shall obtain on account of the Loans made by it any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) in excess of its Pro Rata Share, such Bank shall immediately (a) notify the Agent of such fact, and (b) purchase from the other Banks such participations in the Loans made by them as shall be necessary to cause such purchasing Bank to share the excess payment pro rata with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from the purchasing Bank, such purchase shall to that extent be rescinded and each other Bank shall repay to the purchasing Bank the purchase price paid therefor, together with an amount equal to such paying Bank's ratable share (according to the proportion of (i) the amount of such paying Bank's required repayment to (ii) the total amount so recovered from the purchasing Bank) of any interest or other amount paid or payable by the purchasing Bank in respect of the total amount so recovered. The Borrower agrees that any Bank so purchasing a participation from another Bank may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Bank were the direct creditor of the Borrower in the amount of such participation. The Agent will keep records (which shall be conclusive and binding in the absence of manifest error) of participations purchased under this Section and will in each case notify the Banks following any such purchases or repayments.

#### Discretionary Swingline Loans.Swingline Loans

(a) From time to time, subject to the conditions set forth below, at the request of the Borrower, made through the Agent as set forth below, BofA in its sole and absolute discretion may make short-term loans to the Borrower not to exceed in the aggregate at any one time outstanding the principal sum of \$20,000,000, to be used by the Borrower to cover overdrafts, for cash management purposes, or for other general working capital needs of the Borrower (each, a "Swingline Loan"). The availability of Swingline Loans is conditioned on the satisfaction of each of the following conditions: (i) it shall be in the sole and absolute discretion of BofA, on each occasion that a Swingline Loan is requested, whether to make such Swingline Loan; (ii) each Swingline Loan shall bear interest from the time made until the time repaid, or until the time, if any, that such Swingline Loan is converted into a Base Rate Loan as provided below, at the rate(s) from time to time applicable to Base Rate Loans hereunder; (iii) at the time of making of any Swingline Loan, the sum of the Effective Amount of all outstanding Swingline Loans plus the Effective Amount of all outstanding Facility C Revolving Loans plus the Effective Amount of all L/C Obligations, without duplication, shall not exceed the aggregate Facility C Commitment; (iv) each Swingline Loan, when made, all interest accrued thereon, and all reimbursable costs and expenses incurred or payable in connection therewith, shall constitute an Obligation of Borrower hereunder; and (v) each request for a Swingline Loan from BofA pursuant to this Section 2.15 shall be made by the Borrower to the Agent, shall be funded by BofA through the Agent, and shall be repaid by the Borrower through the Agent (in order that the Agent may keep an accurate record of the outstanding balance at any time of Swingline Loans so as to monitor compliance with the terms and provisions hereof), and each such request shall be in writing unless the Agent in its sole discretion accepts an oral or telephonic request. Each Swingline Loan shall be made upon the Borrower's irrevocable written notice delivered to the Agent substantially in the form of a Notice of Borrowing (which notice must be received by the Agent prior to 1:00 p.m. (San Francisco time) on the requested date of such Swingline Loan, specifying:

(i) the amount of the Swingline Loan, which shall be in a minimum amount of \$250,000 or any multiple of \$100,000 in excess thereof; and

(ii) the requested date of such Swingline Loan, which shall be a Business Day;

(b) If any Swingline Loan made pursuant to this Section 2.15, and in compliance with the conditions set forth in the immediately preceding paragraph of this Section 2.15, is not repaid by the Borrower on or before the seventh calendar day following the day that it was funded by BofA, BofA shall have the right in BofA's sole and absolute discretion, by giving notice to the Borrower and the Banks, to cause such Swingline Loan automatically upon the giving of such notice to be converted into a Facility C Revolving Loan which is a Base Rate Loan, and upon receipt of such notice each Bank shall fund to the Agent, for the account of BofA, such Bank's ratable share of such Facility C Revolving Loan, based on such Bank's Pro Rata Share; provided, that if any Insolvency Proceeding has been commenced with respect to the Borrower on or prior to the date on which such Swingline Loan is due, and in lieu of funding its Pro Rata Share of a Facility C Revolving Loan, each Bank shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from BofA a participation in such Swingline Loan equal to the product of such Bank's Pro Rata Share times the amount of such Swingline Loan.

(c) Each Bank's obligation in accordance with this Agreement to make Facility C Revolving Loans upon the failure of a Swingline Loan to be repaid in full when due, or to purchase participations in such Swingline Loans, shall, in each case, be absolute and unconditional and without recourse to BofA and shall not be affected by any circumstance, including (i) any set-off, counterclaim, recoupment, defense or other right which such Bank may have against BofA, the Borrower or any other Person for any reason whatsoever; (ii) the occurrence or continuance of a Default, an Event of Default or a Material Adverse Effect; or (iii) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.

### ARTICLE III THE LETTERS OF CREDIT

The Letter of Credit Subfacility. (a) On the terms and subject to the conditions set forth herein and as a subfacility of the Facility C Commitment, (i) the Issuing Banks agree, from time to time on any Business Day during the period from the Restatement Effective Date to the date that is 30 days prior to the Revolving Loan Termination Date to issue Letters of Credit for the account of the Borrower and Stratton and to amend or renew Letters of Credit previously issued by them, in each case in accordance with subsections 3.02(c) and 3.02(d); and (ii) the Banks severally agree to participate in Letters of Credit Issued for the account of the Borrower and Stratton; provided, that the Issuing Banks shall not be obligated to Issue, and no Bank shall be obligated to participate in, any Letter of Credit if, as of the date of Issuance of such Letter of Credit (the "Issuance Date"), (1) the Effective Amount of all L/C Obligations plus the Effective Amount of all Facility C Revolving Loans plus the Effective Amount of all Swingline Loans exceeds the combined Facility C Commitments, or (2) the Effective Amount of L/C Obligations exceeds the L/C Commitment. Within the foregoing limits, and subject to the other terms and conditions hereof, the ability of the Borrower and Stratton to obtain Letters of Credit shall be fully revolving, and, accordingly, the Borrower and Stratton may, during the foregoing period, obtain Letters of Credit to replace Letters of Credit which have expired or which have been drawn upon and reimbursed.

(b) No Issuing Bank is under any obligation to Issue any Letter of Credit if:

(i) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain such Issuing Bank from Issuing such Letter of Credit, or any Requirement of Law applicable to such Issuing Bank or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over such Issuing Bank shall prohibit, or request that such Issuing Bank refrain from, the Issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such Issuing Bank with respect to such Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Bank is not otherwise compensated hereunder) not in effect on the Restatement Effective Date, or shall impose upon such Issuing Bank any unreimbursed loss, cost or expense which was not applicable on the Restatement Effective Date and which such Issuing Bank in good faith deems material to it;

(ii) such Issuing Bank has received written notice from any Bank, the Agent, the Borrower or Stratton, on or prior to the Business Day prior to the requested date of Issuance of such Letter of Credit, that one or more of the applicable conditions contained in Article V is not then satisfied;

(iii) the expiry date of any requested Letter of Credit is (A) with respect to Commercial Letters of Credit supporting the purchase of inventory by the Borrower, more than (1) 180 days after the date of Issuance or (2) 30 days prior to the Revolving Loan Termination Date, unless the Majority Banks have approved such expiry date in writing, or (B) with respect to any other Letter of Credit, 30 days prior to the Revolving Loan Termination Date, unless all of the Banks have approved such expiry date in writing;

(iv) the expiry date of any requested Letter of Credit is prior to the maturity date of any financial obligation to be supported by the requested Letter of Credit;

(v) any requested Letter of Credit does not provide for drafts (unless there is a demand for payment in the documentation required to be delivered in connection with any drawing), or is not otherwise in form and substance acceptable to such Issuing Bank, or the Issuance of a Letter of Credit shall violate any applicable policies of such Issuing Bank;

(vi) any Standby Letter of Credit is for the purpose of supporting the issuance of any letter of credit by any other Person other than with respect to any Existing Letter of Credit so designated in Schedule 3.03; or

(vii) such Letter of Credit is to be used for a purpose other than any permitted use of the proceeds of Facility C Revolving Loans as set forth in Section 7.11.

Issuance, Amendment and Renewal of Letters of Credit. (a) Each Letter of Credit shall be issued upon the irrevocable written request of the Borrower and, if Stratton is the applicant, Stratton, received by the Issuing Bank (with a copy sent by the Borrower or Stratton to the Agent) prior to 10:00 a.m. (San Francisco time) on the proposed date of Issuance for Letters of Credit in the form of Exhibit H, I or J hereto and at least four days prior to the proposed date of Issuance for other forms of Letters of Credit. Each such request for issuance of a Letter of Credit shall be by facsimile, confirmed by telephone, in the form of an L/C Application, and shall specify in form and detail satisfactory to the applicable Issuing Bank: (i) the proposed date of issuance of the Letter of Credit (which shall be a Business Day); (ii) the face amount of the Letter of Credit; (iii) the expiry date of the Letter of Credit; (iv) the name and address of the beneficiary thereof; (v) the documents to be presented by the beneficiary of the Letter of Credit in case of any drawing thereunder; (vi) the full text of any certificate to be presented by the beneficiary in case of any drawing thereunder; and (vii) such other matters as the Issuing Bank may require.

(b) Prior to the Issuance of any Letter of Credit, the applicable Issuing Bank will confirm with the Agent (by telephone or in writing) that the Agent has received a copy of the L/C Application or L/C Amendment Application from the Borrower and, if Stratton is the applicant, from Stratton and, if not, such Issuing Bank will provide the Agent with a copy thereof. Unless such Issuing Bank has received notice on or before 11:00 a.m. (San Francisco time) on the date such Issuing Bank is to issue a requested Letter of Credit from the Agent (A) directing such Issuing Bank not to issue such Letter of Credit because such issuance is not then permitted under subsection 3.01(a) as a result of the limitations set forth in clauses (1) or (2) thereof or subsection 3.01(b)(ii); or (B) that one or more conditions specified in Article V are not then satisfied; then, subject to the terms and conditions hereof, such Issuing Bank shall, on the requested date, issue a Letter of Credit in accordance with such Issuing Bank's usual and customary business practices.

(c) From time to time while a Letter of Credit is outstanding and prior to the Revolving Loan Termination Date, any Issuing Bank will, upon the written request of the Borrower and, if Stratton is the applicant, Stratton, received by such Issuing Bank (with a copy sent by the Borrower or Stratton to the Agent) at least four days (or such shorter time as such Issuing Bank may agree in a particular instance in its sole discretion) prior to the proposed date of amendment, amend any Letter of Credit issued by it. Each such request for amendment of a Letter of Credit shall be made by facsimile, confirmed by telephone, made in the form of an L/C Amendment Application and shall specify in form and detail satisfactory to such Issuing Bank: (i) the Letter of Credit to be amended; (ii) the proposed date of amendment of the Letter of Credit (which shall be a Business Day); (iii) the nature of the proposed amendment; and (iv) such other matters as such Issuing Bank may require. The applicable Issuing Bank shall be under no obligation to amend any Letter of Credit if: (A) such Issuing Bank would have no obligation at such time to issue such Letter of Credit in its amended form under the terms of this Agreement; or (B) the beneficiary of any such Letter of Credit does not accept the proposed amendment to the Letter of Credit. The Agent will promptly notify the Banks of the receipt by it of any L/C Application or L/C Amendment Application.

(d) The Issuing Banks and the Banks agree that, while a Letter of Credit is outstanding and prior to the Revolving Loan Termination Date, at the option of the Borrower and Stratton and upon the written request of the Borrower and, if Stratton is the applicant, Stratton, received by the applicable Issuing Bank (with a copy sent by the Borrower or Stratton to the Agent) at least four days (or such shorter time as such Issuing Bank may agree in a particular instance in its sole discretion) prior to the proposed date of notification of renewal, such Issuing Bank shall be entitled to authorize the automatic renewal of any Letter of Credit issued by it. Each such request for renewal of a Letter of Credit shall be made by facsimile, confirmed by telephone, in the form of an L/C Amendment Application, and shall specify in form and detail satisfactory to such Issuing Bank: (i) the Letter of Credit to be renewed; (ii) the proposed date of notification of renewal of the Letter of Credit (which shall be a Business Day); (iii) the revised expiry date of the Letter of Credit; and (iv) such other matters as such Issuing Bank may require. The applicable Issuing Bank shall be under no obligation to so renew any Letter of Credit if: (A) such Issuing Bank would have no obligation at such time to issue or amend such Letter of Credit in its renewed form under the terms of this Agreement; or (B) the beneficiary of any such Letter of Credit does not accept the proposed renewal of the Letter of Credit. If any outstanding Letter of Credit shall provide that it shall be automatically renewed unless the beneficiary thereof receives notice from the applicable Issuing Bank that such Letter of Credit shall not be renewed, and if at the time of renewal such Issuing Bank would be entitled to authorize the automatic renewal of such Letter of Credit in accordance with this subsection 3.02(d) upon the request of either or both of the Borrower and Stratton, as applicable, but such Issuing Bank shall not have received any L/C Amendment Application with respect to such renewal or other written direction by either or both of the Borrower and Stratton, as applicable, with respect thereto, such Issuing Bank shall nonetheless be permitted to allow such Letter of Credit to renew, and the Borrower and Stratton and the Banks hereby authorize such renewal, and, accordingly, such Issuing Bank shall be deemed to have received an L/C Amendment Application from either or both of the Borrower and Stratton, as applicable, requesting such renewal.

(e) The Issuing Banks may, at their election (or as required by the Agent at the direction of the Majority Banks), deliver any notices of



termination or other communications to any Letter of Credit beneficiary or transferee, and take any other action as necessary or appropriate, at any time and from time to time, in order to cause the expiry date of such Letter of Credit to be a date not later than the Revolving Loan Termination Date.

(f) This Agreement shall control in the event of any conflict with any L/C-Related Document (other than any Letter of Credit).

(g) The Issuing Banks will also deliver to the Agent, concurrently or promptly following delivery of a Letter of Credit, or amendment to or renewal of a Letter of Credit, to an advising bank or a beneficiary, a true and complete copy of each such Letter of Credit or amendment to or renewal of a Letter of Credit.

Existing Letters of Credit; Risk Participations, Drawings and Reimbursements.

(a) On and after the Restatement Effective Date, the Existing Letters of Credit shall be deemed for all purposes, including for purposes of the fees to be collected pursuant to subsections 3.08(a) and 3.08(c), and reimbursement costs and expenses to the extent provided herein, Letters of Credit outstanding under this Agreement and entitled to the benefits of this Agreement and the other Loan Documents, and shall be governed by the applications and agreements pertaining thereto and by this Agreement. Each Existing Letter of Credit designated as a "standby letter of credit" on Schedule 3.03 shall be deemed to be a Standby Letter of Credit, and each Existing Letter of Credit designated as a "commercial documentary letter of credit" on Schedule 3.03 shall be deemed to be a Commercial Letter of Credit. Each Bank shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Issuing Banks on the Restatement Effective Date a participation in each such Letter of Credit and each drawing thereunder in an amount equal to the product of (i) such Bank's Pro Rata Share times (ii) the maximum amount available to be drawn under such Letter of Credit and the amount of such drawing, respectively. For purposes of subsection 2.01(a) and subsection 2.10(b), the Existing Letters of Credit shall be deemed to utilize the Pro Rata Share of each Bank.

(b) Immediately upon the Issuance of each Letter of Credit in addition to those described in subsection 3.03(a), each Bank shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the applicable Issuing Bank a participation in such Letter of Credit and each drawing thereunder in an amount equal to the product of (i) the Pro Rata Share of such Bank, times (ii) the maximum amount available to be drawn under such Letter of Credit and the amount of such drawing, respectively. For purposes of subsection 2.01(a), each Issuance of a Letter of Credit shall be deemed to utilize the Facility C Commitment of each Bank by an amount equal to the amount of such participation.

(c) In the event of any request for a drawing under a Letter of Credit by the beneficiary or transferee thereof, the applicable Issuing Bank will promptly notify the Borrower and, if Stratton is the applicant, Stratton. The Borrower or Stratton shall reimburse such Issuing Bank prior to 10:00 a.m. (San Francisco time), on each date that any amount is paid by such Issuing Bank under any Letter of Credit (each such date, an "Honor Date"), in an amount equal to the amount so paid by such Issuing Bank. In the event the Borrower or Stratton fails to reimburse such Issuing Bank of any Letter of Credit for the full amount of any drawing under such Letter of Credit by 10:00 a.m. (San Francisco time) on the Honor Date, such Issuing Bank will promptly notify the Agent and the Agent will promptly notify each Bank thereof, and the Borrower shall be deemed to have requested that Base Rate Loans be made by the Banks to be disbursed on the Honor Date under such Letter of Credit, subject to the conditions set forth in Section 5.02 (including, without limitation, the condition that no Insolvency Proceeding shall have been commenced by or against the Borrower or Stratton on the Honor Date). Any notice given by an Issuing Bank or the Agent pursuant to this subsection 3.03(c) may be oral if immediately confirmed in writing (including by facsimile); provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(d) Each Bank shall upon any notice pursuant to subsection 3.03(c) make available to the Agent for the account of the applicable Issuing Bank an amount in Dollars and in immediately available funds equal to its Pro Rata Share of the amount of the drawing, whereupon the participating Banks shall (subject to subsection 3.03(e)) each be deemed to have made a Facility C Revolving Loan consisting of a Base Rate Loan to the Borrower in that amount. If any Bank so notified fails to make available to the Agent for the account of the applicable Issuing Bank the amount of such Bank's Pro Rata Share of the amount of the drawing by no later than 11:00 a.m. (San Francisco time) on the Honor Date, then interest shall accrue on such Bank's obligation to make such payment, from the Honor Date to the date such Bank makes such payment, at a rate per annum equal to the Federal Funds Rate in effect from time to time during such period. The Agent will promptly give notice of the occurrence of the Honor Date, but failure of the Agent to give any such notice on the Honor Date or in sufficient time to enable any Bank to effect such payment on such date shall not relieve such Bank from its obligations under this Section 3.03.

(e) With respect to any unreimbursed drawing that is not converted into Facility C Revolving Loans consisting of Base Rate Loans to the Borrower in whole or in part, because of the Borrower's failure to satisfy the conditions set forth in Section 5.02 or for any other reason, the Borrower and Stratton shall be deemed to have incurred from an Issuing Bank an L/C Borrowing in the amount of such drawing, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at a rate per annum equal to the Base Rate plus the Applicable Margin plus 2% per annum, and each Bank's payment to such Issuing Bank pursuant to subsection 3.03(d) shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Bank in satisfaction of its participation obligation under this Section 3.03.

(f) Each Bank's obligation in accordance with this Agreement to make the Facility C Revolving Loans or L/C Advances, as contemplated by this

Section 3.03, as a result of a drawing under a Letter of Credit, shall be absolute and unconditional and without recourse to the Issuing Banks (except in circumstances arising solely as a result of willful misconduct or gross negligence by the Issuing Banks) and shall not be affected by any circumstance, including (i) any set-off, counterclaim, recoupment, defense or other right which such Bank may have against any Issuing Bank, the Borrower, Stratton or any other Person for any reason whatsoever; (ii) the occurrence or continuance of a Default, an Event of Default or a Material Adverse Effect; or (iii) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.

Repayment of Participations. (a) Upon (and only upon) receipt by the Agent for the account of an Issuing Bank of immediately available funds from the Borrower or Stratton (i) in reimbursement of any payment made by such Issuing Bank under the Letter of Credit with respect to which any Bank has paid the Agent for the account of such Issuing Bank for such Bank's participation in the Letter of Credit pursuant to Section 3.03 or (ii) in payment of interest thereon, the Agent will pay to each Bank, in the same funds as those received by the Agent for the account of such Issuing Bank, the amount of such Bank's Pro Rata Share of such funds, and such Issuing Bank shall receive the amount of the Pro Rata Share of such funds of any Bank that did not so pay the Agent for the account of such Issuing Bank.

(b) If the Agent or any Issuing Bank is required at any time to return to the Borrower or Stratton, or to a trustee, receiver, liquidator, custodian, or any official in any Insolvency Proceeding, any portion of the payments made by the Borrower or Stratton to the Agent for the account of such Issuing Bank pursuant to subsection 3.04(a) in reimbursement of a payment made under the Letter of Credit or interest or fee thereon, each Bank shall, on demand of the Agent, forthwith return to the Agent or such Issuing Bank the amount of its Pro Rata Share of any amounts so returned by the Agent or such Issuing Bank plus interest thereon from the date such demand is made to the date such amounts are returned by such Bank to the Agent or such Issuing Bank, at a rate per annum equal to the Federal Funds Rate in effect from time to time.

Role of the Issuing Banks. (a) Each Bank, the Borrower and Stratton agree that, in paying any drawing under a Letter of Credit, the applicable Issuing Bank shall not have any responsibility to obtain any document (other than any sight draft and certificates expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document.

(b) No Agent-Related Person nor any of the respective correspondents, participants or assignees of an Issuing Bank shall be liable to any Bank for: (i) any action taken or omitted in connection herewith at the request or with the approval of the Banks (including the Majority Banks, as applicable); (ii) any action taken or omitted in the absence of gross negligence or willful misconduct; or (iii) the due execution, effectiveness, validity or enforceability of any L/C-Related Document.

(c) The Borrower and Stratton hereby assume all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude the Borrower's or Stratton's pursuing such rights and remedies as either may have against the beneficiary or transferee at law or under any other agreement. No Agent-Related Person, nor any of the respective correspondents, participants or assignees of any Issuing Bank, shall be liable or responsible for any of the matters described in clauses (i) through (vii) of Section 3.06; provided, however, anything in such clauses to the contrary notwithstanding, that the Borrower and Stratton may have a claim against an Issuing Bank, and an Issuing Bank may be liable to the Borrower and Stratton, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Borrower and Stratton which the Borrower and Stratton prove were caused by an Issuing Bank's willful misconduct or gross negligence or an Issuing Bank's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing: (i) an Issuing Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary; and (ii) an Issuing Bank shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

Obligations Absolute. The obligations of the Borrower and Stratton under this Agreement and any L/C-Related Document to reimburse the Issuing Banks for drawings under Letters of Credit, and to repay any L/C Borrowing and any drawings under Letters of Credit converted into Facility C Revolving Loans, shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement and each such other L/C-Related Document under all circumstances, including the following:

(i) any lack of validity or enforceability of this Agreement or any L/C-Related Document;

(ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the obligations of the Borrower and Stratton in respect of any Letter of Credit or any other amendment or waiver of or any consent to departure from all or any of the L/C-Related Documents;

(iii) the existence of any claim, set-off, defense or other right that the Borrower or Stratton may have at any time against any beneficiary or any transferee of any Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), an Issuing Bank or any other Person, whether in connection

with this Agreement, the transactions contemplated hereby or by the L/C-Related Documents or any unrelated transaction;

(iv) any draft, demand, certificate or other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under any Letter of Credit;

(v) any payment by an Issuing Bank under any Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of any Letter of Credit; or any payment made by an Issuing Bank under any Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of any Letter of Credit, including any arising in connection with any Insolvency Proceeding;

(vi) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any other guarantee, for all or any of the obligations of the Borrower or Stratton in respect of any Letter of Credit; or

(vii) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower, Stratton or a guarantor.

Cash Collateral Pledge. Upon (i) the request of the Agent, (A) if an Issuing Bank has honored any full or partial drawing request on any Letter of Credit and such drawing has resulted in an L/C Borrowing hereunder, or (B) if, as of the Revolving Loan Termination Date, any Letters of Credit may for any reason remain outstanding and partially or wholly undrawn, or (ii) the occurrence of the circumstances described in subsection 2.07(b) requiring the Borrower to Cash Collateralize Letters of Credit, then, the Borrower shall immediately Cash Collateralize the L/C Obligations in an amount equal to the L/C Obligations.

Letter of Credit Fees. (a) The Borrower agrees and, in the case of Standby Letters of Credit issued for the account of Stratton, the Borrower and Stratton jointly and severally agree, to pay to the Agent for the account of each of the Banks based on their respective Pro Rata Shares a letter of credit fee (i) with respect to the Standby Letters of Credit equal to the Standby Letter of Credit Risk Participation Percentage of the average daily maximum amount available to be drawn of the outstanding Standby Letters of Credit and (ii) with respect to the Commercial Letters of Credit equal to the Commercial Letter of Credit Risk Participation Percentage of the average daily maximum amount available to be drawn of the outstanding Commercial Letters of Credit, in each case computed on a quarterly basis in arrears on the last Business Day of each fiscal quarter based upon Letters of Credit outstanding for that quarter as calculated by the Agent. Such letter of credit fees shall be due and payable quarterly in arrears on the first Business Day following each fiscal quarter during which Standby Letters of Credit or Commercial Letters of Credit, as the case may be, are outstanding, commencing on the first such quarterly date to occur after the Restatement Effective Date, through the Revolving Loan Termination Date, with the final payment to be made on the Revolving Loan Termination Date.

(b) The Borrower agrees and, in the case of Standby Letters of Credit issued for the account of Stratton, the Borrower and Stratton jointly and severally agree, to pay to the applicable Issuing Bank for its sole account a letter of credit fronting fee (i) for each Standby Letter of Credit Issued by such Issuing Bank, equal to 0.125% per annum of the face amount (or increased face amount, as the case may be) of such Standby Letter of Credit and (ii) for each Commercial Letter of Credit Issued by such Issuing Bank, equal to 0.10% per annum of the face amount (or increased face amount, as the case may be) of such Commercial Letter of Credit. Such Letter of Credit fronting fee shall be due and payable quarterly in arrears on the first Business Day following each fiscal quarter during which such Letter of Credit is outstanding, commencing on the first such quarterly date to occur after the Restatement Effective Date, with the final payment to be made on the Revolving Loan Termination Date.

(c) The Borrower agrees and, in the case of Standby Letters of Credit issued for the account of Stratton, the Borrower and Stratton jointly and severally agree, to pay to the Issuing Banks from time to time on demand the normal issuance, presentation, amendment and other processing fees, and other standard costs and charges, of the Issuing Banks relating to Standby Letters of Credit and Commercial Letters of Credit as from time to time in effect.

Uniform Customs and Practice. The Uniform Customs and Practice for Documentary Credits as published by the International Chamber of Commerce ("UCP") most recently at the time of issuance of any Letter of Credit shall (unless otherwise expressly provided in the Letters of Credit) apply to such Letter of Credit.

Acknowledgment of Accommodation; Waiver of Defenses. (a) For the purposes of implementing the provisions of this Article III, the Borrower and Stratton each irrevocably appoints the other as its agent and attorney-in-fact for all purposes, including the giving and receiving of notices and other communications.

(b) Each of the Borrower and Stratton acknowledges and agrees that Obligations for Letters of Credit issued for the account of Stratton have been established on a joint and several basis as an accommodation to the Borrower and Stratton and at their request, and that the Borrower is benefited thereby.

(c) The Borrower shall be absolutely and unconditionally liable for the repayment of all L/C Obligations, whether incurred by the

Borrower or Stratton, all as if the Borrower was the primary beneficiary of all Letters of Credit.

(d) Each of the Borrower and Stratton authorizes the Agent and the Banks, without notice or demand and without affecting the liability of either hereunder, from time to time, either before or after the termination of this Agreement, to (i) renew, compromise, extend, accelerate or otherwise change the time for payment of, or otherwise change the terms of the L/C Obligations or any other Obligation or any part thereof including any increase or decrease of the rate of interest thereon; (ii) receive and hold security for the payment of the L/C Obligations or any other Obligation, and exchange, enforce, waive, release, fail to perfect, sell, or otherwise dispose of any such security; (iii) apply such security and direct the order or manner of sale thereof as the Agent in its discretion may determine; and (iv) release Stratton or any other party and hold the Borrower liable for all L/C Obligations or other Obligations or other Obligations of Stratton.

(e) The Borrower waives any right to require the Agent to (i) proceed against the Borrower or Stratton in any particular order or proceed first or concurrently against any other party; (ii) proceed against or exhaust any security held from the Borrower or Stratton or any other party; or (iii) pursue any other remedy in the Agent's or the Banks' power whatsoever. The Borrower waives any defense arising by reason of any disability or other defense, or the cessation from any cause whatsoever of the liability of the Borrower or Stratton or any other party, or any claim that the obligations of one exceed or are more burdensome than those of the other including, without limitation, any defense of the Borrower arising directly or indirectly from the failure of Stratton to obtain any required consent of any Governmental Authority. The Borrower waives any right of subrogation, reimbursement, indemnification and contribution (contractual, statutory or otherwise), including without limitation, any claim or right of subrogation under the Bankruptcy Code (Title 11 of the U.S. Code) or any successor statute, arising from the existence or performance of its obligations hereunder, and waives any right to enforce any remedy which the Agent or the Banks now have or may hereafter have against either of them, and waives any benefit of and any right to participate in any security now or hereafter held by the Agent or the Banks. The Borrower waives all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor, and notices of acceptance of this Agreement and of the existence, creation, or incurrence of new or additional indebtedness.

(f) The Borrower warrants and agrees that the waivers and consents set forth in this Section 3.10 are made with full knowledge of their significance and with the understanding that events giving rise to any defense waived may diminish, destroy or otherwise adversely affect rights which the Borrower or Stratton may have against each other, the Agent, the Banks or others.

(g) Stratton shall be liable only with respect to Letters of Credit issued for its own account, and shall have no liability with respect to Letters of Credit issued for the account of the Borrower. The parties acknowledge that this letter of credit subfacility is made available for the activities of the Borrower and Stratton. The parties further acknowledge that Stratton, as a regulated insurance company, is prohibited from incurring indebtedness on behalf of, or guarantying the indebtedness of, the Borrower unless such incurrence or guaranty is directly related to Stratton's insurance operations. Accordingly, the parties agree that, notwithstanding any other provision of this Agreement to the contrary, Stratton shall have no obligation to any party hereunder for any liability created hereunder except with respect to the issuance, drawing, reimbursement, repayment, collateralization and payment of interest, fees and other costs attributable to the Letters of Credit issued for the account of Stratton for the benefit of persons to whom Stratton has incurred or will incur liability arising out of the operation of Stratton's insurance activities in the ordinary course of business.

#### ARTICLE IV TAXES, YIELD PROTECTION AND ILLEGALITY

Taxes. (a) Any and all payments by the Borrower to each Bank or the Agent under this Agreement and any other Loan Document shall be made free and clear of, and without deduction or withholding for any Taxes. In addition, the Borrower shall pay all Other Taxes.

(b) The Borrower agrees to indemnify and hold harmless each Bank and the Agent for the full amount of Taxes or Other Taxes (including any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section) paid by the Bank or the Agent and any liability (including interest, additions to tax and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. Payment under this indemnification shall be made within 30 days after the date the Bank or the Agent makes written demand therefor.

(c) If the Borrower shall be required by law to deduct or withhold any Taxes or Other Taxes from or in respect of any sum payable hereunder to any Bank or the Agent, then:

(i) the sum payable shall be increased as necessary so that after making all required deductions and withholdings (including deductions and withholdings applicable to additional sums payable under this Section) such Bank or the Agent, as the case may be, receives an amount equal to the sum it would have received had no such deductions or withholdings been made;

(ii) the Borrower shall make such deductions and withholdings;

(iii) the Borrower shall pay the full amount deducted or withheld to the relevant taxing authority or other authority in accordance with applicable law; and

(iv) the Borrower shall also pay to each Bank or the Agent for the account of such Bank, at the time interest is paid, all additional amounts which the respective Bank specifies as necessary to preserve the after-tax yield the Bank would have received if such Taxes or Other Taxes had not been imposed.

(d) Within 30 days after the date of any payment by the Borrower of Taxes or Other Taxes, the Borrower shall furnish the Agent the original or a certified copy of a receipt evidencing payment thereof, or other evidence of payment satisfactory to the Agent.

(e) If the Borrower is required to pay additional amounts to any Bank or the Agent pursuant to subsection (c) of this Section, then such Bank shall use reasonable efforts (consistent with legal and regulatory restrictions) to change the jurisdiction of its Lending Office so as to eliminate any such additional payment by the Borrower which may thereafter accrue, if such change in the judgment of such Bank is not otherwise disadvantageous to such Bank.

Illegality. (a) If any Bank determines that the introduction of any Requirement of Law, or any change in any Requirement of Law, or in the interpretation or administration of any Requirement of Law, has made it unlawful, or that any central bank or other Governmental Authority has asserted that it is unlawful, for any Bank or its applicable Lending Office to make Eurodollar Rate Loans, then, on notice thereof by the Bank to the Borrower through the Agent, any obligation of that Bank to make Eurodollar Rate Loans shall be suspended until the Bank notifies the Agent and the Borrower that the circumstances giving rise to such determination no longer exist.

(b) If a Bank determines that it is unlawful to maintain any Eurodollar Rate Loan, the Borrower shall, upon its receipt of notice of such fact and demand from such Bank (with a copy to the Agent), prepay in full such Eurodollar Rate Loans of that Bank then outstanding, together with interest accrued thereon and amounts required under Section 4.04, either on the last day of the Interest Period thereof, if the Bank may lawfully continue to maintain such Eurodollar Rate Loans to such day, or immediately, if the Bank may not lawfully continue to maintain such Eurodollar Rate Loan. If the Borrower is required to so prepay any Eurodollar Rate Loan, then concurrently with such prepayment, the Borrower shall borrow from the affected Bank, in the amount of such repayment, a Base Rate Loan.

(c) If the obligation of any Bank to make or maintain Eurodollar Rate Loans has been so terminated or suspended, the Borrower may elect, by giving notice to the Bank through the Agent that all Loans which would otherwise be made by the Bank as Eurodollar Rate Loans shall be instead Base Rate Loans.

(d) Before giving any notice to the Agent under this Section, the affected Bank shall designate a different Lending Office with respect to its Eurodollar Rate Loans if such designation will avoid the need for giving such notice or making such demand and will not, in the judgment of the Bank, be illegal or otherwise disadvantageous to the Bank.

Increased Costs and Reduction of Return. (a) If any Bank determines that, due to either (i) the introduction of or any change (other than any change by way of imposition of or increase in reserve requirements included in the calculation of the Eurodollar Rate or in respect of the assessment rate payable by any Bank to the FDIC for insuring U.S. deposits) in or in the interpretation of any law or regulation or (ii) the compliance by that Bank with any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law), there shall be any increase in the cost to such Bank of agreeing to make or making, funding or maintaining any Eurodollar Rate Loans or participating in Letters of Credit, or, in the case of any Issuing Bank, any increase in the cost to such Issuing Bank of agreeing to issue, issuing or maintaining any Letter of Credit or of agreeing to make or making, funding or maintaining any unpaid drawing under any Letter of Credit, then the Borrower shall be liable for, and shall from time to time, upon demand (with a copy of such demand to be sent to the Agent), pay to the Agent for the account of such Bank, additional amounts as are sufficient to compensate such Bank for such increased costs.

(b) If any Bank shall have determined that (i) the introduction of any Capital Adequacy Regulation, (ii) any change in any Capital Adequacy Regulation, (iii) any change in the interpretation or administration of any Capital Adequacy Regulation by any central bank or other Governmental Authority charged with the interpretation or administration thereof, or (iv) compliance by the Bank (or its Lending Office) or any corporation controlling the Bank with any Capital Adequacy Regulation, affects or would affect the amount of capital required or expected to be maintained by the Bank or any corporation controlling the Bank and (taking into consideration such Bank's or such corporation's policies with respect to capital adequacy and such Bank's desired return on capital) determines that the amount of such capital is increased as a consequence of its Revolving Loan Commitments, Loans, credits or obligations under this Agreement, then, upon demand of such Bank to the Borrower through the Agent, the Borrower shall pay to the Bank, from time to time as specified by the Bank, additional amounts sufficient to compensate the Bank for such increase.

Funding Losses. The Borrower shall reimburse each Bank and hold each Bank harmless from any loss or expense which the Bank may sustain or incur as a consequence of:

(a) the failure of the Borrower to make on a timely basis any payment of principal of any Eurodollar Rate Loan;

(b) the failure of the Borrower to borrow, continue or convert a Loan after the Borrower has given (or is deemed to have given) a Notice of Borrowing or a Notice of Conversion/ Continuation;

(c) the failure of the Borrower to make any prepayment in accordance with any notice delivered under Section 2.06;

(d) the prepayment (including pursuant to Section 2.07) or other payment (including after acceleration thereof) of a Eurodollar Rate Loan on a day that is not the last day of the relevant Interest Period; or

(e) the automatic conversion under Section 2.04 of any Eurodollar Rate Loan to a Base Rate Loan on a day that is not the last day of the relevant Interest Period;

including any such loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain its Eurodollar Rate Loans or from fees payable to terminate the deposits from which such funds were obtained. For purposes of calculating amounts payable by the Borrower to the Banks under this Section and under subsection 4.03(a), each Eurodollar Rate Loan made by a Bank (and each related reserve, special deposit or similar requirement) shall be conclusively deemed to have been funded at the LIBOR used in determining the Eurodollar Rate for such Eurodollar Rate Loan by a matching deposit or other borrowing in the interbank eurodollar market for a comparable amount and for a comparable period, whether or not such Eurodollar Rate Loan is in fact so funded.

**Inability to Determine Rates.** If the Agent determines that for any reason adequate and reasonable means do not exist for determining the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan or that the Eurodollar Rate applicable pursuant to subsection 2.09(a) for any requested Interest Period with respect to a proposed Eurodollar Rate Loan does not adequately and fairly reflect the cost to such Banks of funding such Loan, the Agent will promptly so notify the Borrower and each Bank. Thereafter, the obligation of the Banks to make or maintain Eurodollar Rate Loans, hereunder shall be suspended until the Agent upon the instruction of the Majority Banks revokes such notice in writing. Upon receipt of such notice, the Borrower may revoke any Notice of Borrowing or Notice of Conversion/Continuation then submitted by it. If the Borrower does not revoke such Notice, the Banks shall make, convert or continue the Loans, as proposed by the Borrower, in the amount specified in the applicable notice submitted by the Borrower, but such Loans shall be made, converted or continued as Base Rate Loans instead of Eurodollar Rate Loans.

**Survival.** The agreements and obligations of the Borrower in this Article IV shall survive the payment of all other Obligations.

#### ARTICLE V CONDITIONS PRECEDENT

**Conditions to Effectiveness.** The effectiveness of the amendment and restatement of the Existing Credit Agreement is subject to the condition that the Agent have received on or before July 31, 1996 all of the following, in form and substance satisfactory to the Agent and, where provided below, each Bank, and in sufficient copies for each Bank:

**Credit Agreement and any Notes.** This Agreement and any Notes requested by the Banks, executed by each party thereto;

(b) **Guaranty.** A Guaranty in the form of Exhibit G hereto executed by Finance Corp.;

**Resolutions; Incumbency.** Resolutions; Incumbency

(i) Copies of partnership authorizations for the Borrower and resolutions of the board of directors of the General Partner, Stratton and Finance Corp. authorizing the transactions contemplated hereby and by the Guaranty, certified as of the Restatement Effective Date by the Secretary or an Assistant Secretary of the General Partner, Stratton and Finance Corp.;

(ii) A certificate of the Secretary or Assistant Secretary of the General Partner certifying the names and true signatures of the officers of the General Partner authorized to execute, deliver and perform, as applicable, on behalf of the Borrower and the General Partner, this Agreement and all other Loan Documents to be delivered by the Borrower and the General Partner hereunder;

(iii) A certificate of the Secretary or Assistant Secretary of Stratton certifying the names and true signatures of the officers of Stratton authorized to execute, deliver and perform, as applicable, on behalf of Stratton, this Agreement and all other Loan Documents to be delivered by Stratton hereunder;

(iv) A certificate of the Secretary or Assistant Secretary of Finance Corp. certifying the names and the signatures of the officers of Finance Corp. authorized to execute, deliver and perform, as applicable, the Guaranty and all other Loan Documents required to be delivered by Finance Corp. hereunder;

**Organization Documents; Good Standing.** Each of the following documents:

(i) the articles or certificate of incorporation and the bylaws of the General Partner, Stratton and Finance Corp. and the Certificate of Limited Partnership and the Limited Partnership Agreement of the Borrower, in each case as in effect on the Restatement Effective Date, certified by the Secretary or Assistant Secretary of the General Partner, Stratton or Finance Corp., as applicable, as of the Restatement Effective Date;

(ii) a good standing and tax good standing

certificate for the General Partner, Stratton, Finance Corp. and the Borrower from the Secretary of State (or similar, applicable Governmental Authority) of its state of incorporation or organization, as applicable, and each other state designated by Agent where the General Partner, Stratton, Finance Corp. or the Borrower conducts significant business, in each case as of a recent date;

Legal Opinions. (e) Legal Opinions

(i) opinion of Bryan Cave LLP, counsel to the Borrower, the General Partner, Stratton and the Guarantor, or of such other counsel as are acceptable to the Agent and the Banks, addressed to the Agent and the Banks, substantially in the form of Exhibit D; and

(ii) a favorable opinion of Orrick, Herrington & Sutcliffe, special counsel to the Agent;

Payment of Fees. Evidence of payment by the Borrower of all accrued and unpaid fees, costs and expenses to the extent then due and payable on the Restatement Effective Date, together with Attorney Costs of the Agent to the extent invoiced prior to or on the Restatement Effective Date, plus such additional amounts of Attorney Costs as shall constitute the Agent's reasonable estimate of Attorney Costs incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude final settling of accounts between the Borrower and the Agent); including any such costs, fees and expenses arising under or referenced in the Fee Letter or otherwise in Sections 2.10 and 11.04;

Certificate. A certificate signed by a Responsible Officer and an officer of Stratton, dated as of the Restatement Effective Date, stating that:

(i) the representations and warranties contained in Article VI are true and correct on and as of such date, as though made on and as of such date;

(ii) no Default or Event of Default exists or would result from the Credit Extension; and

(iii) there has occurred since April 30, 1996, no event or circumstance that has resulted or could reasonably be expected to result in a Material Adverse Effect.

Refinancing of Floating Rate Senior Notes. Evidence that the Floating Rate Senior Notes will be refinanced in full on the Restatement Effective Date with the proceeds of the Facility B Term Loan in accordance with the terms of the 1994 Indenture (which evidence shall include, without limitation, a certificate of the Borrower to the effect that the deposit required to be made pursuant to Section 3.05 of the 1994 Indenture in order to redeem the Floating Rate Senior Notes in full shall be made on the Restatement Effective Date with the proceeds of the Facility B Term Loan);

No Material Change. There shall have been no Material Adverse Effect between April 30, 1996 and the Restatement Effective Date.

Trading Policies. The trading position policy and the supply inventory position policy as in effect on the Restatement Effective Date, as evidenced by the written policies delivered to the Agent, shall be satisfactory to the Agent and the Majority Banks.

(k) Payments under Existing Credit Agreement. Evidence that all interest and fees accrued under the Existing Credit Agreement through and including the Restatement Effective Date shall have been paid by the Borrower.

Other Documents. Such other approvals, opinions, documents or materials as the Agent or any Bank may request.

Conditions to All Credit Extensions. The obligation of each Bank to make any Loan to be made by it (including its initial Loan) or to continue or convert any Loan under Section 2.04 and the obligation of the Issuing Banks to Issue any Letters of Credit (including any initial Letters of Credit) is subject to the satisfaction of the following conditions precedent on the relevant Borrowing Date, Conversion/Continuation Date or Issuance Date:

Notice, Application. The Agent shall have received (with, in the case of the initial Loans only, a copy for each Bank) a Notice of Borrowing or a Notice of Conversion/Continuation, as applicable, or in the case of any Issuance of any Letter of Credit, the applicable Issuing Bank and the Agent shall have received an L/C Application or L/C Amendment Application, as required under Section 3.02;

Continuation of Representations and Warranties. The representations and warranties in Article VI shall be true and correct in all material respects on and as of such Borrowing Date, Conversion/Continuation Date or Issuance Date with the same effect as if made on and as of such Borrowing Date, Conversion/Continuation Date or Issuance Date (except to the extent such representations and warranties expressly refer to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date); and

No Existing Default. No Default or Event of Default shall exist or shall result from such Borrowing, continuation or conversion or Issuance.

Each Notice of Borrowing, Notice of Conversion/Continuation and L/C Application or L/C Amendment Application submitted by the Borrower hereunder shall constitute a representation and warranty by the Borrower hereunder, as of the date of each such notice and as of each Borrowing Date, Conversion/Continuation Date or Issuance Date, as applicable, that the conditions in Section 5.02 are satisfied.

ARTICLE VI  
REPRESENTATIONS AND WARRANTIES

Each of the Borrower, the General Partner and Stratton represents and warrants to the Agent and each Bank that:

Corporate or Partnership Existence and Power. The General Partner, Stratton, the MLP, the Borrower and each of its Subsidiaries:

(a) is a corporation or partnership duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation;

(b) has the power and authority and all governmental licenses, authorizations, consents and approvals to own its assets, carry on its business as now being or as proposed to be conducted and to execute, deliver, and perform its obligations under the Loan Documents;

(c) is duly qualified as a foreign corporation or partnership and is licensed and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification or license or where the failure so to qualify would have a Material Adverse Effect; and

(d) is in compliance with all material Requirements of Law.

Corporate or Partnership Authorization; No Contravention. The execution, delivery and performance by the Borrower, the General Partner and Stratton of this Agreement and each other Loan Document to which the General Partner, the Borrower or any Subsidiary is party, have been duly authorized by all necessary partnership action on behalf of the Borrower and all necessary corporate action on behalf of the General Partner and any Subsidiary, and do not and will not:

(a) contravene the terms of any of the General Partner's, the MLP's, the Borrower's or any Subsidiary's Organization Documents;

(b) conflict with or result in any breach or contravention of, or the creation of any Lien under, any document evidencing any Contractual Obligation to which the General Partner, the MLP, the Borrower or any Subsidiary is a party or any order, injunction, writ or decree of any Governmental Authority to which such Person or its property is subject where such conflict, breach, contravention or Lien could reasonably be expected to have a Material Adverse Effect; or

(c) violate any material Requirement of Law.

Governmental Authorization. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority is necessary or required in connection with (a) the execution, delivery or performance by, or enforcement against, the General Partner, the Borrower or any Subsidiary of this Agreement or any other Loan Document, or (b) the continued operation of Borrower's business as contemplated to be conducted after the date hereof by the Loan Documents, except in each case such approvals, consents, exemptions, authorizations or other actions, notices or filings (i) as have been obtained, (ii) as may be required under state securities or Blue Sky laws, (iii) as are of a routine or administrative nature and are either (A) not customarily obtained or made prior to the consummation of transactions such as the transactions described in clauses (a) or (b) or (B) expected in the judgment of the Borrower to be obtained in the ordinary course of business subsequent to the consummation of the transactions described in clauses (a) or (b), or (iv) that, if not obtained, could not reasonably be expected to have a Material Adverse Effect.

Binding Effect. This Agreement and each other Loan Document to which the General Partner, the Borrower or any Subsidiary is a party constitute the legal, valid and binding obligations of such Person, enforceable against such Person in accordance with their respective terms, except as enforceability may be limited by applicable bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability.

Litigation. There are no actions, suits, proceedings, claims or disputes pending, or to the best knowledge of the Borrower, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, against the General Partner, the MLP, the Borrower or any of its Subsidiaries or any of their respective properties which:

(a) purport to affect or pertain to this Agreement or any other Loan Document or any of the transactions contemplated hereby or thereby; or

(b) if determined adversely to the Borrower or its Subsidiaries, would reasonably be expected to have a Material Adverse Effect. No injunction, writ, temporary restraining order or any order of any nature has been issued by any court or other Governmental Authority purporting to enjoin or restrain the execution, delivery or performance of this Agreement or any other Loan Document, or directing that the transactions provided for herein or therein not be consummated as herein or therein provided.

No Default. No Default or Event of Default exists or would result from the incurring, continuing or converting of any Obligations by the Borrower. As of the Restatement Effective Date, neither the Borrower nor any Affiliate of the Borrower is in default under or with respect to any Contractual Obligation in any respect which, individually or together with all such defaults, could reasonably be expected to have a Material Adverse Effect, or that would, if such default had occurred after the Restatement Effective Date, create an Event of Default under subsection 9.01(e).

ERISA Compliance. (a) Each Plan is in compliance in all material respects with



the applicable provisions of ERISA, the Code and other federal or state law. Each Plan which is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS and to the best knowledge of the Borrower and the General Partner, nothing has occurred which would cause the loss of such qualification.

(b) There are no pending, or to the best knowledge of Borrower and the General Partner, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan which has resulted or could reasonably be expected to result in a Material Adverse Effect. There has been no prohibited transaction or other violation of the fiduciary responsibility rule with respect to any Plan which could reasonably result in a Material Adverse Effect.

(c) No ERISA Event has occurred or is reasonably expected to occur with respect to any Pension Plan.

(d) No Pension Plan has any Unfunded Pension Liability.

(e) The Borrower has not incurred, nor does it reasonably expect to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA).

(f) The Borrower has not transferred any Unfunded Pension Liability to any Person or otherwise engaged in a transaction that could be subject to Section 4069 of ERISA.

(g) Except as specifically disclosed in Schedule 6.07, no trade or business (whether or not incorporated under common control with the Borrower within the meaning of Section 414(b), (c), (m) or (o) of the Code) maintains or contributes to any Pension Plan or other Plan subject to Section 412 of the Code. Except as specifically disclosed in Schedule 6.07, neither the Borrower nor any Person under common control with the Borrower (as defined in the preceding sentence) has ever contributed to any multiemployer plan within the meaning of Section 4001(a)(3) of ERISA.

Use of Proceeds; Margin Regulations. The proceeds of the Loans are to be used solely for the purposes set forth in and permitted by Section 7.11 and Section 8.07. Neither the Borrower nor any Affiliate of the Borrower is generally engaged in the business of purchasing or selling Margin Stock or extending credit for the purpose of purchasing or carrying Margin Stock.

Title to Properties. The Borrower and each Subsidiary have good record and marketable title in fee simple to, or valid leasehold interests in, all real property necessary or used in the ordinary conduct of their respective businesses, except for such defects in title as could not, individually or in the aggregate, have a Material Adverse Effect. As of the Restatement Effective Date and subject to the preceding sentence, the property of the Borrower and its Subsidiaries is subject to no Liens other than Permitted Liens.

Taxes. The General Partner has filed all Federal and other material tax returns and reports required to be filed, for itself and for the Borrower, and has paid all Federal and other material taxes, assessments, fees and other governmental charges levied or imposed upon it or its properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings and for which adequate reserves have been provided in accordance with GAAP. There is no proposed tax assessment against the Borrower that would, if made, have a Material Adverse Effect.

Financial Condition. (a) The audited consolidated financial statements of the General Partner, the Borrower, the MLP and their respective Subsidiaries dated July 31, 1995 and the unaudited consolidated financial statements of the General Partner, the Borrower, the MLP and their respective Subsidiaries dated April 30, 1996, in each case together with the related consolidated statements of income or operations, shareholders' equity and cash flows for the fiscal periods ended on those respective dates:

(i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein, subject to ordinary, good faith year end audit adjustments;

(ii) fairly present the financial condition of the Borrower and its Subsidiaries as of the date thereof and results of operations for the period covered thereby; and

(iii) show all material indebtedness and other liabilities, direct or contingent, of the Borrower and its consolidated Subsidiaries as of the date thereof, including liabilities for taxes, material commitments and Contingent Obligations.

(b) Since April 30, 1996, there has been no Material Adverse Effect.

(c) The General Partner, the MLP, the Borrower and each of the other Subsidiaries of the Borrower are each Solvent, both before and after giving effect to the consummation of each of the transactions contemplated by the Loan Documents.

Environmental Matters. The Borrower conducts in the ordinary course of business a review of the effect of existing Environmental Laws and existing Environmental Claims on its business, operations and properties, and as a result thereof the Borrower has reasonably concluded that such Environmental Laws and Environmental Claims could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Regulated Entities. None of the Borrower or any Affiliate of the Borrower, is an

"Investment Company" within the meaning of the Investment Company Act of 1940. The Borrower is not subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act, any state public utilities code, or any other Federal or state statute or regulation limiting its ability to incur Indebtedness.

No Burdensome Restrictions. Neither the Borrower nor any Subsidiary is a party to or bound by any Contractual Obligation, or subject to any restriction in any Organization Document, or any Requirement of Law, which could reasonably be expected to have a Material Adverse Effect.

Copyrights, Patents, Trademarks and Licenses, etc. The Borrower or its Subsidiaries own or are licensed or otherwise has the right to use all of the patents, trademarks, service marks, trade names, copyrights, contractual franchises, authorizations and other rights that are reasonably necessary for the operation of their respective businesses, without conflict with the rights of any other Person. To the best knowledge of the Borrower, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by the Borrower or any Subsidiary infringes upon any rights held by any other Person. No claim or litigation regarding any of the foregoing is pending or, to the best knowledge of the Borrower, threatened, and no patent, invention, device, application, principle or any statute, law, rule, regulation, standard or code is pending or, to the knowledge of the Borrower, proposed, which, in either case, could reasonably be expected to have a Material Adverse Effect.

Subsidiaries and Affiliates. The Borrower has no Subsidiaries or other Affiliates other than those specifically disclosed in part (a) of Schedule 6.16 hereto and has no equity investments in any other corporation or entity other than those Permitted Investments specifically disclosed in part (b) of Schedule 6.16.

Insurance. The properties of the Borrower and its Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of the Borrower, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the Borrower or such Subsidiary operates.

Tax Status. The Borrower is subject to taxation under the Code only as a partnership and not as a corporation.

Full Disclosure. None of the representations or warranties made by the Borrower or any Affiliate of the Borrower in the Loan Documents as of the date such representations and warranties are made or deemed made, and none of the statements contained in any exhibit, report, statement or certificate furnished by or on behalf of the Borrower or any Affiliate of the Borrower in connection with the Loan Documents contains any untrue statement of a material fact or omits any material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they are made, not misleading as of the time when made or delivered.

Fixed Price Supply Contracts. None of the Borrower and its Subsidiaries is a party to any contract for the supply of propane or other product except where (a) the purchase price is set with reference to a spot index or indices substantially contemporaneously with the delivery of such product or (b) delivery of such propane or other product is to be made no more than one year after the purchase price is agreed to.

Trading Policies. The Borrower has provided to the Agent an accurate and complete summary of its trading position policy and supply inventory position policy and the Borrower has complied in all respects with such policies.

Refinancing of Floating Rate Senior Notes. As of the Restatement Effective Date, all actions, notices and consents required for the redemption in full of the Floating Rate Senior Notes in compliance with the 1994 Indenture and the Floating Rate Senior Notes have been made, taken and obtained.

#### ARTICLE VII AFFIRMATIVE COVENANTS

So long as any Bank shall have any Revolving Loan Commitment hereunder, or any Loan or other Obligation shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, unless the Majority Banks waive compliance in writing:

Financial Statements. The Borrower shall deliver to the Agent, in form and detail satisfactory to the Agent and the Majority Banks and consistent with the form and detail of financial statements and projections provided to the Agent by the Borrower and its Affiliates prior to the Restatement Effective Date, with sufficient copies for each Bank:

(a) as soon as available, but not later than 100 days after the end of each fiscal year (commencing with the fiscal year ended July 31, 1996), a copy of the audited consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such year and the related consolidated statements of income or operations, partners' or shareholders' equity and cash flows for such year, setting forth in each case in comparative form the figures for the previous fiscal year, and accompanied by the opinion of a nationally-recognized independent public accounting firm ("Independent Auditor") which report shall state that such consolidated financial statements present fairly the financial position for the periods indicated in conformity with GAAP applied on a basis consistent with prior years. Such opinion shall not be qualified or limited in any manner, including on account of any limitation on it because of a restricted or limited examination by the Independent Auditor of any material portion of the Borrower's or any Subsidiary's records;

(b) as soon as available, but not later than 45 days after the

end of each of the first three fiscal quarters of each fiscal year (commencing with the fiscal quarter ended October 31, 1996), a copy of the unaudited consolidated balance sheet of the Borrower and its Subsidiaries as of the end of such quarter and the related consolidated statements of income, partners' or shareholders' equity and cash flows for the period commencing on the first day and ending on the last day of such quarter, and certified by a Responsible Officer as fairly presenting, in accordance with GAAP (subject to ordinary, good faith year-end audit adjustments), the financial position and the results of operations of the Borrower and the Subsidiaries;

(c) as soon as available, but not later than 100 days after the end of each fiscal year (commencing with the first fiscal year during all or any part of which the Borrower had one or more Significant Subsidiaries), a copy of an unaudited consolidating balance sheet of the Borrower and its Subsidiaries as at the end of such year and the related consolidating statement of income, partners' or shareholders' equity and cash flows for such year, certified by a Responsible Officer as having been developed and used in connection with the preparation of the financial statements referred to in subsection 7.01(a);

(d) as soon as available, but not later than 45 days after the end of each of the first three fiscal quarters of each fiscal year (commencing with the first fiscal quarter during all or any part of which the Borrower had one or more Significant Subsidiaries), a copy of the unaudited consolidating balance sheets of the Borrower and its Subsidiaries, and the related consolidating statements of income, partners' or shareholders' equity and cash flows for such quarter, all certified by a Responsible Officer as having been developed and used in connection with the preparation of the financial statements referred to in subsection 7.01(b);

(e) as soon as available, but not later than 60 days after the end of each fiscal year (commencing with the fiscal year beginning August 1, 1996), projected consolidated balance sheets of the Borrower and its Subsidiaries as at the end of each of the current and following two fiscal years and related projected consolidated statements of income, partners' or shareholders' equity and cash flows for each such fiscal year, including therein a budget for the current fiscal year, certified by a Responsible Officer as having been developed and prepared by the Borrower in good faith and based upon the Borrower's best estimates and best available information;

(f) as soon as available, but not later than 100 days after the end of each fiscal year of the General Partner, commencing with the fiscal year ended July 31, 1996, a copy of the unaudited (or audited, if available) consolidated balance sheets of the General Partner as of the end of such fiscal year and the related consolidated statements of income, shareholders' equity and cash flows for such fiscal year, certified by a Responsible Officer as fairly presenting, in accordance with GAAP, the financial position and the results of operations of the General Partner and its Subsidiaries (or, if available, accompanied by an opinion of an Independent Auditor as described in subsection 7.01(a)); and

(g) as soon as available, but not later than 45 days after the end of each of the first three fiscal quarters of each fiscal year and, with respect to the final fiscal quarter, concurrently with the financial statements referred to in subsection 7.01(a), a trading position report as of the last day of each fiscal quarter, certified by a Responsible Officer.

Certificates; Other Information. The Borrower shall furnish to the Agent, with sufficient copies for each Bank:

(a) concurrently with the delivery of the financial statements referred to in subsection 7.01(a), a certificate of the Independent Auditor stating that in making the examination necessary therefor no knowledge was obtained of any Default or Event of Default, except as specified in such certificate;

(b) concurrently with the delivery of the financial statements referred to in subsections 7.01(a) and (b), a Compliance Certificate executed by a Responsible Officer with respect to the periods covered by such financial statements together with supporting calculations and such other supporting detail as the Agent and Majority Banks shall require;

(c) promptly, copies of all financial statements and reports that the Borrower, the General Partner, the MLP or Finance Corp. or any other Subsidiary sends to its partners or shareholders, and copies of all financial statements and regular, periodic or special reports (including Forms 10-K, 10-Q and 8-K) that the Borrower or any Affiliate of the Borrower, the General Partner, the MLP or Finance Corp. or any other Subsidiary may make to, or file with, the SEC; and

(d) promptly, such additional information regarding the business, financial or corporate affairs of the Borrower, the General Partner, the MLP or Finance Corp. or any other Subsidiary as the Agent, at the request of any Bank, may from time to time request.

Notices. The Borrower shall promptly notify the Agent and each Bank:

(a) of the occurrence of any Default or Event of Default, and of the occurrence or existence of any event or circumstance that foreseeably will become a Default or Event of Default;

(b) of any matter that has resulted or may reasonably be expected to result in a Material Adverse Effect, including (i) breach or non-performance of, or any default under, a Contractual Obligation of the Borrower, the General Partner, the MLP or Finance Corp. or any other Subsidiary; (ii) any dispute, litigation, investigation, proceeding or suspension between the Borrower, the General Partner, the MLP or Finance Corp. or any other Subsidiary and any Governmental Authority; or (iii) the commencement of, or any material development in, any litigation or proceeding affecting the Borrower,

the General Partner, the MLP or Finance Corp. or any other Subsidiary, including pursuant to any applicable Environmental Laws;

(c) of any of the following events affecting the Borrower, the General Partner, the MLP or Finance Corp. or any other Subsidiary, together with a copy of any notice with respect to such event that may be required to be filed with a Governmental Authority and any notice delivered by a Governmental Authority to such Person with respect to such event:

(i) an ERISA Event;

(ii) if any of the representations and warranties in Section 6.07 ceases to be true and correct;

(iii) the adoption of any new Pension Plan or other Plan subject to Section 412 of the Code;

(iv) the adoption of any amendment to a Pension Plan or other Plan subject to Section 412 of the Code, if such amendment results in a material increase in contributions or Unfunded Pension Liability; or

(v) the commencement of contributions to any Pension Plan or other Plan subject to Section 412 of the Code;

(d) of any material change in accounting policies or financial reporting practices by the Borrower or any of its consolidated Subsidiaries; and

(e) not later than five Business Days after the effective date of a change in the Borrower's trading position policy or inventory supply position policy, of any change in either policy.

Each notice under this Section shall be accompanied by a written statement by a Responsible Officer setting forth details of the occurrence referred to therein, and stating what action the Borrower or any affected Affiliate proposes to take with respect thereto and at what time. Each notice under subsection 7.03(a) shall describe with particularity any and all clauses or provisions of this Agreement or other Loan Document that have been (or foreseeably will be) breached or violated.

Preservation of Corporate or Partnership Existence, Etc. The General Partner and the Borrower shall, and the Borrower shall cause each Subsidiary to:

(a) preserve and maintain in full force and effect its partnership or corporate existence and good standing under the laws of its state or jurisdiction of organization or incorporation except in connection with transactions permitted by Section 8.03;

(b) preserve and maintain in full force and effect all governmental rights, privileges, qualifications, permits, licenses and franchises necessary or desirable in the normal conduct of its business except in connection with transactions permitted by Section 8.03 and sales of assets permitted by Section 8.02;

(c) use reasonable efforts, in the ordinary course of business, to preserve its business organization and goodwill; and

(d) preserve or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which could reasonably be expected to have a Material Adverse Effect.

Maintenance of Property. The Borrower shall maintain, and shall cause each Subsidiary to maintain, and preserve all its property which is used or useful in its business in good working order and condition, ordinary wear and tear excepted. The Borrower and each Subsidiary shall use the standard of care typical in the industry in the operation and maintenance of its facilities.

Insurance. The Borrower shall maintain, and shall cause each Subsidiary to maintain, with financially sound and reputable independent insurers, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, of such types and in such amounts as are customarily carried under similar circumstances by such other Persons.

Payment of Obligations. The Borrower, the General Partner and Stratton shall, and shall cause each Subsidiary to, pay and discharge as the same shall become due and payable (except to the extent the failure to so pay and discharge could not reasonably be expected to have a Material Adverse Effect), all their respective obligations and liabilities, including:

(a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, unless the same are being contested in good faith by appropriate proceedings and adequate reserves in accordance with GAAP are being maintained by the Borrower, the General Partner, Stratton or such Subsidiary;

(b) all lawful claims which, if unpaid, would by law become a Lien upon its property, unless such claims are being contested in good faith by appropriate proceedings and adequate reserves in accordance with GAAP are being maintained by the Borrower, the General Partner, Stratton or such Subsidiary; and

(c) all Indebtedness, as and when due and payable, but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness.

Compliance with Laws. The Borrower shall comply, and shall cause each Subsidiary to comply, in all material respects with all Requirements of Law of any

Governmental Authority having jurisdiction over it or its business (including the Federal Fair Labor Standards Act), except such as may be contested in good faith or as to which a bona fide dispute may exist.

Inspection of Property and Books and Records. The Borrower shall maintain and shall cause each Subsidiary to maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Borrower and such Subsidiary. The Borrower shall permit, and shall cause each Subsidiary to permit, representatives and independent contractors of the Agent or any Bank to visit and inspect any of their respective properties, to examine their respective corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss their respective affairs, finances and accounts with their respective directors, officers, and independent public accountants, all at the expense of the Borrower and at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Borrower; provided, however, when an Event of Default exists the Agent or any Bank may do any of the foregoing at the expense of the Borrower at any time during normal business hours and without advance notice.

Environmental Laws. The Borrower shall, and shall cause each Subsidiary to, conduct its operations and keep and maintain its property in material compliance with all Environmental Laws.

Use of Proceeds. The Borrower (and Stratton, with respect to Letters of Credit) shall use the proceeds of (a) the Facility A Revolving Loans for working capital purposes only, (b) the Facility B Term Loan for the purpose of refinancing, in full, on the Restatement Effective Date the Floating Rate Senior Notes in accordance with the terms of the 1994 Indenture and (c) the Facility C Revolving Loans for working capital, Acquisitions and other general partnership purposes, in each case not in contravention of any Requirement of Law or of any Loan Document.

#### Financial Covenants.ncial Covenants

(a) Leverage Ratio. The Borrower shall maintain as of the last day of each fiscal quarter a Leverage Ratio for the fiscal period consisting of such fiscal quarter and the seven immediately preceding fiscal quarters, equal to or less than (i) 4.25 to 1.00 for the fiscal quarters ending from and after the Restatement Effective Date through and including July 31, 1999 and (ii) 4.00 to 1.00 for each fiscal quarter ending thereafter; provided, that to the extent the Borrower borrows Loans to make Restricted Payments within 45 days after the end of any fiscal quarter, the aggregate amount of Loans so borrowed shall be added to the amount of Funded Debt outstanding at the end of such quarter for purposes of determining the Leverage Ratio at the end of such quarter.

(b) Minimum Partners' Equity. The Borrower shall maintain at all times a minimum Partners' Equity of not less than \$100,000,000.

Trading Policies. The Borrower and its Affiliates shall comply with the Borrower's trading position policy and supply inventory position policy as in effect on July 5, 1994, copies of which have been provided to the Agent on or prior to the Restatement Effective Date, provided, however, that the Borrower and its Affiliates may, during any period of four consecutive fiscal quarters, (a) increase the stop loss limit specified in either policy by up to 100% of the amount of such limit as in effect on July 5, 1994 and (b) increase the volume limit specified in either policy on the number of barrels of a single product or of all products in the aggregate by up to 100% of each such number as in effect on July 5, 1994. If the Borrower proposes to increase any such amounts in excess of the amounts specified in the preceding sentence, the Borrower shall first obtain the consent of the Agent and the Majority Banks.

#### Other General Partner Obligations.ner Obligations

(a) The General Partner shall cause the Borrower to pay and perform each of its Obligations when due. The General Partner acknowledges and agrees that it is executing this Agreement as a principal as well as the general partner on behalf of the Borrower, and that its obligations hereunder as general partner are full recourse obligations to the same extent as those of the Borrower.

(b) The General Partner represents, warrants and covenants that it is Solvent, both before and after giving effect to the consummation of the transactions contemplated by the Loan Documents, and that it will remain Solvent until all Obligations hereunder shall have been repaid in full and all commitments shall have terminated.

(c) The General Partner, for so long as it is the general partner of the Borrower, (i) agrees that its sole business will be to act as the general partner of the Borrower, the MLP and any further limited partnership of which the Borrower or the MLP is, directly or indirectly, a limited partner and to undertake activities that are ancillary or related thereto (including being a limited partner in the Borrower), (ii) shall not enter into or conduct any business or incur any debts or liabilities except in connection with or incidental to (A) its performance of the activities required or authorized by the MLP Partnership Agreement or the Borrower's Partnership Agreement or described in or contemplated by the MLP Registration Statement and (B) the acquisition, ownership or disposition of Partnership Interests in the Borrower or partnership interests in the MLP or any further limited partnership of which the Borrower or the MLP is, directly or indirectly, a limited partner, except that, notwithstanding the foregoing, employees of the General Partner may perform services for Ferrell Companies, Inc. and its Affiliates.

(d) The General Partner agrees that, until all Obligations hereunder shall have been repaid in full and all commitments shall have terminated, it will not exercise any rights it may have (at law, in equity, by contract or otherwise) to terminate, limit or otherwise restrict (whether

through repurchase or otherwise and whether or not the General Partner shall remain a general partner in the Borrower) the ability of the Borrower to use the name "Ferrellgas".

(e) The General Partner shall not take any action or refuse to take any reasonable action the effect of which, if taken or not taken, as the case may be, would be to cause the Borrower to be treated as an association taxable as a corporation or otherwise to be taxed as an entity other than a partnership for federal income tax purposes.

Other Stratton Obligations. Stratton shall not engage in any business other than insuring potential general liability and worker's compensation liabilities of the Borrower and its Affiliates, provided, however, that the maximum amount of the liabilities insured by Stratton in any policy year shall not exceed \$3 million per occurrence and \$8 million in the aggregate.

Monetary Judgments. If one or more judgments, orders, decrees or arbitration awards is entered against the Borrower or any Subsidiary involving in the aggregate a liability (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage other than through a standard reservation of rights letter) as to any single or related series of transactions, incidents or conditions, of more than \$10 million, then the Borrower shall reserve for such amount in excess of \$10 million, on a quarterly basis, with each quarterly reserve being at least equal to one-twelfth of such amount in excess of \$10 million. Such amount so reserved shall be treated as establishment of a reserve for purposes of calculating Available Cash hereunder.

Maintenance of Subsidiary. The Borrower agrees at all times to maintain Stratton as a Wholly-Owned Subsidiary.

#### ARTICLE VIII NEGATIVE COVENANTS

So long as any Bank shall have any Revolving Loan Commitment hereunder, or any Loan or other Obligation shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, unless the Majority Banks waive compliance in writing:

Limitation on Liens. The Borrower shall not, and shall not suffer or permit any Subsidiary to, directly or indirectly, make, create, incur, assume or suffer to exist any Lien upon or with respect to any part of its property or sell any of its accounts receivable, whether now owned or hereafter acquired, other than the following ("Permitted Liens"):

(a) Liens existing on the Restatement Effective Date set forth in Schedule 8.01 of the Existing Credit Agreement;

(b) Liens in favor of the Borrower or Liens to secure Indebtedness of a Subsidiary to the Borrower or a Wholly-Owned Subsidiary;

(c) Liens on property of a Person existing at the time such Person is merged into or consolidated with the Borrower or any Subsidiary, provided that such Liens were in existence prior to the contemplation of such merger or consolidation and do not extend to any assets other than those of the Person merged into or consolidated with the Borrower;

(d) Liens on property existing at the time acquired by the Borrower or any Subsidiary, provided that such Liens were in existence prior to the contemplation of such acquisition and do not extend to any assets other than those of the Person acquired;

(e) Liens on any property or asset acquired by the Borrower or any Subsidiary in favor of the seller of such property or asset and construction mortgages on property, in each case, created within six months after the date of acquisition, construction or improvement of such property or asset by the Borrower or such Subsidiary to secure the purchase price or other obligation of the Borrower or such Subsidiary to the seller of such property or asset or the construction or improvement cost of such property in an amount up to 80% of the total cost of the acquisition, construction or improvement of such property or asset; provided that in each case, such Lien does not extend to any other property or asset of the Borrower and its Subsidiaries;

(f) Liens incurred or pledges and deposits made in connection with worker's compensation, unemployment insurance and other social security benefits and Liens to secure the performance of statutory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature, in each case, incurred in the ordinary course of business;

(g) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded, provided that any reserve or other appropriate provision as shall be required in conformity with GAAP shall have been made therefor;

(h) Liens imposed by law, such as mechanics', carriers', warehousemen's, materialmen's, and vendors' Liens, incurred in good faith in the ordinary course of business with respect to amounts not yet delinquent or being contested in good faith by appropriate proceedings if a reserve or other appropriate provisions, if any, as shall be required by GAAP shall have been made therefor;

(i) 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 Borrower or any of its Subsidiaries or impair the use of such property in the operation of the business of the Borrower or any of its Subsidiaries;

(j) Liens of landlords or mortgages of landlords, arising solely by operation of law, on fixtures and movable property located on premises leased by the Borrower or any of its Subsidiaries in the ordinary course of business;

(k) financing statements filed or recorded with respect to personal property leased by the Borrower and its Subsidiaries in the ordinary course of business to the owners of such personal property which are either (i) operating leases (including, without limitation, Synthetic Leases) or (ii) Capital Leases to the extent (but only to the extent) permitted by Section 8.05;

(l) judgment Liens to the extent that such judgments do not cause or constitute a Default or an Event of Default;

(m) Liens incurred in the ordinary course of business of the Borrower or any Subsidiary with respect to obligations that do not exceed \$5,000,000 in the aggregate at any one time outstanding and that (i) are not incurred in connection with the borrowing of money or the obtaining of advances or credit (other than trade credit in the ordinary course of business) and (ii) do not in the aggregate materially detract from the value of the property or materially impair the use thereof in the operation of business by the Borrower or such Subsidiary;

(n) Liens securing Indebtedness incurred to refinance Indebtedness that has been secured by a Lien otherwise permitted under this Agreement, provided that (i) any such Lien shall not extend to or cover any assets or property not securing the Indebtedness so refinanced and (ii) the refinancing Indebtedness secured by such Lien shall have been permitted to be incurred under Section 8.05 hereof and shall not have a principal amount in excess of the Indebtedness so refinanced;

(o) any extension or renewal, or successive extensions or renewals, in whole or in part, of Liens permitted pursuant to the foregoing clauses (a) through (n); provided that no such extension or renewal Lien shall (i) secure more than the amount of Indebtedness or other obligations secured by the Lien being so extended or renewed or (ii) extend to any property or assets not subject to the Lien being so extended or renewed; and

(p) Liens in favor of the Agent, any Issuing Bank and the Banks relating to the Cash Collateralization of the Borrower's Obligations.

Asset Sales. The Borrower shall not, and shall not permit any of its Subsidiaries to, (i) sell, lease, convey or otherwise dispose of any assets (including by way of a sale-and-leaseback) other than sales of inventory in the ordinary course of business consistent with past practice (provided that the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Borrower shall be governed by the provisions of Section 8.03 hereof and not by the provisions of this Section 8.02), or (ii) issue or sell Equity Interests of any of its Subsidiaries, in the case of either clause (i) or (ii) above, whether in a single transaction or a series of related transactions, (A) that have a fair market value in excess of \$5,000,000, or (B) for net proceeds in excess of \$5,000,000 (each of the foregoing, an "Asset Sale"), unless (X) the Borrower (or the Subsidiary, as the case may be) receives consideration at the time of such Asset Sale at least equal to the fair market value (evidenced by a resolution of the board of directors of the General Partner (and, if applicable, the audit committee of such board of directors) set forth in a certificate signed by a Responsible Officer and delivered to the Agent) of the assets sold or otherwise disposed of and (Y) at least 80% of the consideration therefor received by the Borrower or such Subsidiary is in the form of cash; provided, however, that the amount of (1) any liabilities (as shown on the Borrower's or such Subsidiary's most recent balance sheet or in the notes thereto), of the Borrower or any Subsidiary (other than liabilities that are by their terms subordinated in right of payment to the Obligations hereunder) that are assumed by the transferee of any such assets and (2) any notes or other obligations received by the Borrower or any such Subsidiary from such transferee that are immediately converted by the Borrower or such Subsidiary into cash (to the extent of the cash received), shall be deemed to be cash for purposes of this provision; and provided, further, that the 80% limitation referred to in this clause (Y) shall not apply to any Asset Sale in which the cash portion of the consideration received therefrom, determined in accordance with the foregoing proviso, is equal to or greater than what the after-tax proceeds would have been had such Asset Sale complied with the aforementioned 80% limitation. Notwithstanding the foregoing, Asset Sales shall not be deemed to include (x) any transfer of assets by the Borrower or any of its Subsidiaries to a Subsidiary of the Borrower that is a Guarantor, (y) any transfer of assets by the Borrower or any of its Subsidiaries to any Person in exchange for other assets used in a line of business permitted under Section 8.15 hereof and having a fair market value not less than that of the assets so transferred and (z) any transfer of assets pursuant to a Permitted Investment.

#### Consolidations and Mergers.ons and Mergers

(a) The Borrower shall not consolidate or merge with or into (whether or not the Borrower is the surviving corporation), or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets in one or more related transactions, to another Person unless (i) the Borrower is the surviving Person, or the Person formed by or surviving any such consolidation or merger (if other than the Borrower) or to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made is a corporation or partnership organized or existing under the laws of the United States, any state thereof or the District of Columbia; and (ii) the Person formed by or surviving any such consolidation or merger (if other than the Borrower) or Person to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made assumes all the Obligations of the Borrower pursuant to an assumption agreement in a form reasonably satisfactory to the Agent, under this Agreement; (iii) immediately after such transaction no Default or Event of Default exists; and (iv) the

Borrower or any Person formed by or surviving any such consolidation or merger, or to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made (A) shall have Consolidated Net Worth (immediately after the transaction but prior to any purchase accounting adjustments resulting from the transaction) equal to or greater than the Consolidated Net Worth of the Borrower immediately preceding the transaction and (B) shall, at the time of such transaction and after giving pro forma effect thereto as if such transaction had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test.

(b) Finance Corp. may not consolidate or merge with or into (whether or not Finance Corp. is the surviving Person), or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets in one or more related transactions, to another Person unless such transaction shall be permitted under the terms and conditions of the 1994 Indenture.

(c) The Borrower or Finance Corp., as the case may be, shall deliver to the Agent prior to the consummation of the proposed transaction pursuant to the foregoing paragraphs (a) and (b) an officers' certificate to the foregoing effect signed by a Responsible Officer and an opinion of counsel satisfactory to the Agent stating that the proposed transaction complies with this Agreement. The Agent and the Banks shall be entitled to conclusively rely upon such officer's certificate and opinion of counsel.

(d) Upon any consolidation or merger, or any sale, assignment, transfer, lease, conveyance or other disposition of all or substantially all of the assets of the Borrower in accordance with this Section 8.03, the successor Person formed by such consolidation or into or with which the Borrower is merged or to which such sale, assignment, transfer, lease, conveyance or other disposition is made shall succeed to, and be substituted for (so that from and after the date of such consolidation, merger, sale, lease, conveyance or other disposition, the provisions of this Agreement referring to the "Borrower" shall refer to or include instead the successor Person and not the Borrower), and may exercise every right and power of the Borrower under this Agreement with the same effect as if such successor Person had been named as the Borrower herein; provided, however, that the predecessor Borrower shall not be relieved from the obligation to pay the principal of, premium, if any, and interest on the Obligations except in the case of a sale of all of such Borrower's assets that meets the requirements of Section 8.03 hereof.

Acquisitions. Without limiting the generality of any other provision of this Agreement, neither the Borrower nor any Subsidiary shall consummate any Acquisition unless (i) the acquiree is primarily a retail propane distribution business; (ii) such Acquisition is undertaken in accordance with all applicable Requirements of Law; (iii) the prior, effective written consent or approval to such Acquisition of the board of directors or equivalent governing body of the acquiree is obtained; and (iv) immediately after giving effect thereto, no Default or Event of Default will occur or be continuing and each of the representations and warranties of the Borrower herein is true on and as of the date of such Acquisition, both before and after giving effect thereto. Nothing in Section 8.22 shall prohibit (x) the making by the Borrower of a Permitted Acquisition indirectly through the General Partner, the MLP or any of its or their Affiliates in a series of substantially contemporaneous transactions in which the Borrower shall ultimately own the assets that are the subject of such Permitted Acquisition or (y) the assumption of Acquired Debt in connection therewith to the extent such Acquired Debt is provided by a Bank and, upon such assumption, is (to the extent such Acquired Debt is not otherwise permitted to be incurred by the Borrower pursuant to this Agreement) immediately repaid (with the proceeds of Revolving Loans or otherwise).

Limitation on Indebtedness. The Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable with respect to (collectively, "incur") any Indebtedness (including Acquired Debt) and the Borrower shall not issue any Disqualified Interests and shall not permit any of its Subsidiaries to issue any shares of preferred stock; provided, however, that the Borrower may incur Indebtedness and any Subsidiary of the Borrower may incur Acquired Debt if:

(a) the Fixed Charge Coverage Ratio for the Borrower's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred would have been at least 2.75 to 1 if such date is on or prior to August 1, 1996 and 3.00 to 1 if such date is after August 1, 1996, in each case, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred at the beginning of such four-quarter period; and

(b) either (x) such Indebtedness (A) shall be subordinated to the Obligations on the terms and conditions set forth on part II of Schedule 8.05, (B) shall not provide for any principal to be scheduled to be due, or for the direct or indirect acquisition of such Indebtedness, in either case prior to July 1, 2001, and (C) shall not permit or require mandatory prepayment, acceleration or acquisition of all or any part of such Indebtedness except on customary commercial terms in all cases subject to the terms and conditions set forth on part II of Schedule 8.05, or (y) such Indebtedness shall be Permitted Senior Debt and the Senior Debt Ratio Test shall have been met at the time of incurrence thereof.

The foregoing limitations of this Section 8.05 will not apply to: (i) the Indebtedness represented by the Fixed Rate Senior Notes and any Subsidiary Note Guarantees; (ii) the Obligations; (iii) the incurrence by the Borrower of Indebtedness in respect of Capitalized Lease Obligations in an aggregate principal amount not to exceed \$15,000,000; (iv) the Existing Indebtedness set forth on part I of Schedule 8.05; (v) the incurrence by the



Borrower or any of its Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the proceeds of which are used to extend, refinance, renew, replace, defease or refund any then outstanding Indebtedness of the Borrower or such Subsidiary not incurred in violation of this Agreement; (vi) Hedging Obligations with respect to any floating rate Indebtedness that is permitted by the terms of this Agreement to be outstanding; (vii) Indebtedness of any Subsidiary of the Borrower to the Borrower or any of its Wholly-Owned Subsidiaries; (viii) the incurrence by the Borrower or Stratton of Indebtedness owing directly to its insurance carriers (without duplication) in connection with the Borrower's, its Subsidiaries' or its Affiliates' self-insurance programs or other similar forms of retained insurable rights for their respective retail propane businesses, consisting of reinsurance agreements and indemnification agreements (and guarantees of the foregoing) secured by Letters of Credit, provided that the Indebtedness evidenced by such reinsurance agreements, indemnification agreements, guarantees and Letters of Credit shall be counted (without duplication) for purposes of all calculations pursuant to the Fixed Charge Coverage Ratio test; (ix) Surety Instruments required in the ordinary course of business or in connection with the enforcement of rights or claims of the Borrower or any of its Subsidiaries or in connection with judgments that do not result in a Default or Event of Default; (x) subject to the provisions of Section 8.04, the incurrence by the Borrower (or any Subsidiary of the Borrower that is a Guarantor) of Indebtedness in connection with Acquisitions of retail propane businesses in favor of the sellers of such businesses in a principal amount not to exceed \$15,000,000 in any fiscal year or \$45,000,000 in the aggregate outstanding at any one time, provided that the principal amount of such Indebtedness incurred in connection with any such acquisition shall not exceed the fair market value of the assets so acquired, and the Borrower shall deliver an officer's certificate to the Agent, signed by a Responsible Officer, stating that the acquiring Person is Solvent, both before and after giving effect to the Acquisition; (xi) Indebtedness assumed as contemplated by Section 8.04 that is immediately repaid with the proceeds of Revolving Loans or otherwise; and (xii) in addition to the Indebtedness permitted under the foregoing clauses (i) through (xi), the incurrence by the Borrower of Indebtedness in an aggregate principal amount outstanding not to exceed \$15,000,000 at any time, provided that any Indebtedness incurred pursuant to this clause (xii) (A) shall be subordinated to the Obligations on the terms and conditions set forth on part II of Schedule 8.05, (B) shall not provide for any principal to be scheduled to be due, or for the direct or indirect acquisition of such Indebtedness, in either case prior to July 1, 2001, and (C) shall not permit or require mandatory prepayment, acceleration or acquisition of all or any part of such Indebtedness except on customary commercial terms in all cases subject to the terms and conditions set forth on part II of Schedule 8.05.

The "Senior Debt Ratio Test" will be met with respect to the incurrence of any Indebtedness by the Borrower or any Subsidiary of the Borrower if the ratio of (1) the aggregate outstanding principal amount of Senior Debt on the date of and after giving effect to the incurrence of such Indebtedness (the "Incurrence Date") to (2) Consolidated Cash Flow for the Borrower's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the Incurrence Date would have been 2.50 to 1 or less. For purposes of the computation in clause (1) of the foregoing sentence, the outstanding principal amount of Indebtedness under this Agreement shall be deemed to equal the aggregate amount of the Revolving Loan Commitments and outstanding Facility B Term Loans hereunder. The foregoing calculation of Consolidated Cash Flow shall give pro forma effect to Acquisitions (including all mergers and consolidations), Asset Sales and other dispositions and discontinuances of operations that have been made by the Borrower or any of its Subsidiaries during the four-quarter reference period or subsequent to such reference period and on or prior to the Incurrence Date in the manner set forth in the definition of Leverage Ratio.

For purposes of this Section 8.05, any revolving Indebtedness (under this Agreement or otherwise) shall be deemed to have been incurred only at such time at which the agreements and instruments (or any amendments thereto that increase the amount of such revolving Indebtedness) are executed, in an amount equal to the maximum amount of such revolving Indebtedness permitted to be borrowed thereunder.

Transactions with Affiliates. The Borrower shall not, and shall not permit any of its Subsidiaries to, sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into any contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate, including any Non-Recourse Subsidiary (each of the foregoing, an "Affiliate Transaction"), unless (a) such Affiliate Transaction is on terms that are no less favorable to the Borrower or the relevant Subsidiary than those that would have been obtained in a comparable transaction by the Borrower or such Subsidiary with an unrelated Person and (b) with respect to (i) any Affiliate Transaction with an aggregate value in excess of \$500,000, a majority of the directors of the General Partner having no direct or indirect economic interest in such Affiliate Transaction determines by resolution that such Affiliate Transaction complies with clause (a) above and approves such Affiliate Transaction and (ii) any Affiliate Transaction involving the purchase or other acquisition or sale, lease, transfer or other disposition of properties or assets other than in the ordinary course of business, in each case, having a fair market value or for net proceeds in excess of \$15,000,000, the Borrower delivers to the Agent an opinion as to the fairness to the Borrower or such Subsidiary from a financial point of view issued by an investment banking firm of national standing; provided, however, that (i) any employment agreement or stock option agreement entered into by the Borrower or any of its Subsidiaries in the ordinary course of business and consistent with the past practice of the Borrower (or the General Partner) or such Subsidiary, Restricted Payments permitted by the provisions of Section 8.12, and transactions entered into by the Borrower or Stratton in the ordinary course of business in connection with reinsuring the self-insurance programs or other similar forms of retained insurable risks of the retail propane businesses operated by the Borrower, its Subsidiaries and its Affiliates, in each case, shall not be deemed Affiliate Transactions, and (ii) nothing herein shall authorize the payments by the Borrower to the General Partner or any other Affiliate of the Borrower for

administrative expenses incurred by such Person other than such out-of-pocket administrative expenses as such Person shall incur and the Borrower shall pay in the ordinary course of business.

Use of Proceeds. The Borrower shall not, and shall not suffer or permit any Subsidiary to, use any portion of the Loan proceeds or any Letter of Credit, directly or indirectly, (i) to purchase or carry Margin Stock, (ii) to repay or otherwise refinance indebtedness of the Borrower or others incurred to purchase or carry Margin Stock, (iii) to extend credit for the purpose of purchasing or carrying any Margin Stock, or (iv) to acquire any security in any transaction that is subject to Section 13 or 14 of the Exchange Act.

Use of Proceeds - Ineligible Securities. The Borrower shall not, directly or indirectly, use any portion of the Loan proceeds or any Letter of Credit (i) knowingly to purchase Ineligible Securities from the Arranger during any period in which the Arranger makes a market in such Ineligible Securities, (ii) knowingly to purchase during the underwriting or placement period Ineligible Securities being underwritten or privately placed by the Arranger, or (iii) to make payments of principal or interest on Ineligible Securities underwritten or privately placed by the Arranger and issued by or for the benefit of the Borrower or any Affiliate of the Borrower.

Contingent Obligations. The Borrower shall not, and shall not suffer or permit any Subsidiary to, create, incur, assume or suffer to exist any Contingent Obligations except:

(a) endorsements for collection or deposit in the ordinary course of business;

(b) subject to compliance with the trading policies in effect from time to time as submitted to the Agent, Hedging Obligations entered into in the ordinary course of business as bona fide hedging transactions;

(c) Subsidiary Note Guarantees, under the terms and conditions set forth in the 1994 Indenture and the Guaranties hereunder; and

(d) Guaranty Obligations permitted by Section 8.05.

Joint Ventures. The Borrower shall not, and shall not suffer or permit any Subsidiary to enter into any Joint Venture.

Lease Obligations. The aggregate obligations of the Borrower and its Subsidiaries for the payment of rent for any property under lease or agreement to lease (including, without limitation, under or with respect to Synthetic Leases) for any fiscal year shall not exceed the greater of \$15 million or 15% of Consolidated Cash Flow for such fiscal year.

Restricted Payments. The Borrower shall not and shall not permit any of its Subsidiaries to, directly or indirectly (i) declare or pay any dividend or make any distribution on account of the Borrower's or any Subsidiary's Equity Interests (other than (x) dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Borrower, (y) dividends or distributions payable to the Borrower or a Wholly-Owned Subsidiary of the Borrower that is a Guarantor or (z) distributions or dividends payable pro rata to all holders of Capital Interests of any such Subsidiary); (ii) purchase, redeem, call or otherwise acquire or retire for value any Equity Interests of the Borrower or any Subsidiary or other Affiliate of the Borrower (other than, subject to compliance with Section 8.21, any such Equity Interests owned by a Wholly-Owned Subsidiary of the Borrower that is a Guarantor); (iii) make any Investment other than a Permitted Investment; or (iv) prepay, purchase, redeem, retire, defease or refinance the Fixed Rate Senior Notes (all payments and other actions set forth in clauses (i) through (iv) above being collectively referred to as "Restricted Payments"), unless, at the time of such Restricted Payment:

(a) no Default or Event of Default shall have occurred and be continuing or would occur as a consequence thereof and each of the representations and warranties of the Borrower set forth herein is true on and as of the date of such Restricted Payment both before and after giving effect thereto; and

(b) the Fixed Charge Coverage Ratio of the Borrower for the Borrower's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such Restricted Payment is made, calculated on a pro forma basis as if such Restricted Payment had been made at the beginning of such four-quarter period, would have been more than 2.25 to 1; and

(c) such Restricted Payment (the amount of any such payment, if other than cash, to be determined by the Board of Directors, whose determination shall be conclusive and evidenced by a resolution in an officer's certificate signed by a Responsible Officer and delivered to the Agent), together with the aggregate of all other Restricted Payments (other than any Restricted Payments permitted by the provisions of clause (ii) of the penultimate paragraph of this Section 8.12) made by the Borrower and its Subsidiaries in the fiscal quarter during which such Restricted Payment is made shall not exceed an amount equal to the sum of (x) Available Cash of the Borrower for the immediately preceding fiscal quarter (or, with respect to the first fiscal quarter during which Restricted Payments are made, the amount of Available Cash of the Borrower for the period commencing on the date of this Agreement and ending on the last day of the immediately preceding fiscal quarter), plus (y) the lesser of (i) the amount of any Available Cash of the Borrower during the first 45 days of such fiscal quarter and (ii) the excess of the aggregate amount of Loans that the Borrower could have borrowed over the actual amount of Loans outstanding, in each case as of the last day of the immediately preceding fiscal quarter; and

(d) such Restricted Payment (other than (x) Restricted Payments described in clause (i) of the first paragraph of this Section 8.12 made during the fiscal quarter ending October 31, 1996 that do not exceed \$16,000,000 in the aggregate or (y) any Restricted Payments described in clauses (iii) or (iv) of the first paragraph of this Section 8.12), the amount of which, if made other than with cash, to be determined in accordance with clause (c) of this Section 8.12, shall not exceed an amount equal to the excess of (A) Consolidated Cash Flow of the Borrower and its Subsidiaries for the period from and after the Restatement Effective Date through and including the last day of the fiscal quarter ending immediately preceding the date of the proposed Restricted Payment (the "Determination Period") over (B) the sum of Consolidated Interest Expense of the Borrower and its Subsidiaries for the Determination Period plus all capital expenditures (other than Growth-Related Capital Expenditures) made by the Borrower and its Subsidiaries during the Determination Period plus the aggregate of all other Restricted Payments (other than (x) Restricted Payments described in clause (i) of the first paragraph of this Section 8.12 made during the fiscal quarter ending October 31, 1996 that do not exceed \$16,000,000 in the aggregate or (y) any Restricted Payments described in clauses (iii) or (iv) of the first paragraph of this Section 8.12) made by the Borrower and its Subsidiaries during the period from and after the Restatement Effective Date through and including the date of the proposed Restricted Payment plus \$30,000,000; and

(e) with respect to any Restricted Payment described in clause (iv) of the first paragraph of this Section 8.12, such Restricted Payment is made in connection with a refinancing of the Fixed Rate Senior Notes permitted by Section 8.05.

The foregoing provisions will not prohibit (i) the payment of any distribution within 60 days after the date on which the Borrower becomes committed to make such distribution, if at said date of commitment such payment would have complied with the provisions of this Agreement; and (ii) the redemption, repurchase, retirement or other acquisition of any Equity Interests of the Borrower in exchange for, or out of the proceeds of, the substantially concurrent sale (other than to a Subsidiary of the Borrower) of other Equity Interests of the Borrower (other than any Disqualified Interests).

Not later than the date of making any Restricted Payment, the General Partner shall deliver to the Agent an officer's certificate signed by a Responsible Officer stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this Section 8.12 were computed, which calculations may be based upon the Borrower's latest available financial statements.

Prepayments of Subordinated Indebtedness. The Borrower shall not, and shall not permit any of its Subsidiaries to, (a) purchase, redeem, retire or otherwise acquire for value, or set apart any money for a sinking, defeasance or other analogous fund for, the purchase, redemption, retirement or other acquisition of, or make any payment or prepayment of the principal of or interest on, or any other amount owing in respect of, any Indebtedness that is subordinated to the Obligations, except for regularly scheduled payments of interest in respect of such Indebtedness required pursuant to the instruments evidencing such Indebtedness that are not made in contravention of the terms and conditions of subordination set forth on part II of Schedule 8.05 or (b) directly or indirectly, make any payment in respect of, or set apart any money for a sinking, defeasance or other analogous fund on account of, Guaranty Obligations subordinated to the Obligations. The foregoing provisions will not prohibit the defeasance, redemption or repurchase of subordinated Indebtedness with the proceeds of Permitted Refinancing Indebtedness.

Dividend and Other Payment Restrictions Affecting Subsidiaries. The Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any Subsidiary to (a) pay dividends or make any other distributions to the Borrower or any of its Subsidiaries (1) on its Capital Interests or (2) with respect to any other interest or participation in, or interest measured by, its profits, (b) pay any indebtedness owed to the Borrower or any of its Subsidiaries, (c) make loans or advances to the Borrower or any of its Subsidiaries or (d) transfer any of its properties or assets to the Borrower or any of its Subsidiaries, except for such encumbrances or restrictions existing under or by reason of (i) Existing Indebtedness, (ii) this Agreement, the 1994 Indenture, the Subsidiary Note Guarantees and the Fixed Rate Senior Notes, (iii) applicable law, (iv) any instrument governing Indebtedness or Capital Interests of a Person acquired by the Borrower or any of its Subsidiaries as in effect at the time of such Acquisition (except to the extent such Indebtedness was incurred in connection with or in contemplation of such Acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired, provided that the Consolidated Cash Flow of such Person to the extent that dividends, distributions, loans, advances or transfers thereof is limited by such encumbrance or restriction on the date of acquisition is not taken into account in determining whether such acquisition was permitted by the terms of this Agreement, (v) customary non-assignment provisions in leases entered into in the ordinary course of business and consistent with past practices, (vi) purchase money obligations for property acquired in the ordinary course of business that impose restrictions of the nature described in clause (d) above on the property so acquired, (vii) Permitted Refinancing Indebtedness of any Existing Indebtedness, provided that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are no more restrictive than those contained in the agreements governing the Indebtedness being refinanced or (viii) other Indebtedness permitted to be incurred subsequent to the Restatement Effective Date pursuant to the provisions of Section 8.05 hereof, provided that such restrictions are no more restrictive than those contained in this Agreement.

Change in Business. The Borrower shall not, and shall not suffer or permit any Subsidiary to, engage in any material line of business substantially different from those lines of business carried on by the Borrower and its Subsidiaries on the date hereof.

Accounting Changes. The Borrower shall not, and shall not suffer or permit any Subsidiary to, make any significant change in accounting treatment or reporting practices, except as required by GAAP, or change the fiscal year of the Borrower or of any Subsidiary except as required by the Code.

Limitation on Sale and Leaseback Transactions. The Borrower will not, and will not permit any of its Subsidiaries to, enter into any arrangement with any Person providing for the leasing by the Borrower or such Subsidiary of any property that has been or is to be sold or transferred by the Borrower or such Subsidiary to such Person in contemplation of such leasing; provided, however, that the Borrower or such Subsidiary may enter into such sale and leaseback transaction if (i) the Borrower could have (A) incurred Indebtedness in an amount equal to the Attributable Debt relating to such sale and leaseback transaction pursuant to the Fixed Charge Coverage Ratio Test set forth in paragraph (a) of Section 8.05 and (B) secured a Lien on such Indebtedness pursuant to Section 8.01 or (ii) the lease in such sale and leaseback transaction is for a term not in excess of the lesser of (A) three years and (B) 60% of the remaining useful life of such property.

Restrictions On Nature Of Indebtedness And Activities Of Finance Corp. Notwithstanding the provisions of Section 8.05 hereof, Finance Corp. shall not incur any Indebtedness unless (a) the Borrower is a co-obligor or guarantor of such Indebtedness or (b) the net proceeds of such Indebtedness are lent to the Borrower, used to acquire outstanding debt securities issued by the Borrower or used directly or indirectly to refinance or discharge Indebtedness permitted under the limitations of this paragraph. Finance Corp. shall not engage in any business not related directly or indirectly to obtaining money or arranging financing for the Borrower.

Amendments of Organization Documents or 1994 Indenture or 1996 Indenture. The Borrower shall not modify, amend, supplement or replace, nor permit any modification, amendment, supplement or replacement of the Organization Documents of the General Partner, Borrower or any Subsidiary of the Borrower, the 1994 Indenture, the Fixed Rate Senior Notes, the 1996 Indenture or the MLP Senior Notes or any document executed and delivered in connection with any of the foregoing, in any respect that would adversely affect the Banks, the Borrower's ability to perform the Obligations, or the Guarantor's ability to perform its obligations under the Guaranty, in each such case without the prior written consent of the Agent and the Majority Banks. Furthermore, the Borrower shall not permit any modification, amendment, supplement or replacement of the Organization Documents of the MLP that would have a material effect on the Borrower without the prior written consent of the Agent and the Majority Banks.

Fixed Price Supply Contracts. None of the Borrower and its Subsidiaries shall at any time be a party or subject to any contract for the supply of propane or other product except where (a) the purchase price is set with reference to a spot index or indices substantially contemporaneously with the delivery of such product or (b) delivery of such propane or other product is to be made no more than one year after the purchase price is agreed to.

Operations through Subsidiaries. The Borrower shall not conduct any of its operations through Subsidiaries unless: (a) such Subsidiary executes a Guaranty substantially in the form of Exhibit G guaranteeing payment of the Obligations, accompanied by an opinion of counsel to the Subsidiary addressed to the Agent and the Banks as to the due authorization, execution, delivery and enforceability of the Guaranty; (b) such Subsidiary agrees not to incur any Indebtedness other than (i) trade debt and (ii) Acquired Debt permitted by Section 8.05; (c) the Consolidated Cash Flow of such Subsidiary, when added to Consolidated Cash Flow of all other Subsidiaries for any fiscal year, shall not exceed 10% of the Consolidated Cash Flow of the Borrower and its Subsidiaries for such fiscal year; and (d) the value of the assets of such Subsidiary, when added to the value of the assets of all other Subsidiaries for any fiscal year, shall not exceed 10% of the consolidated value of the assets of the Borrower and its Subsidiaries for such fiscal year, as determined in accordance with GAAP.

Operations of MLP. Except in connection with an indirect Acquisition permitted by Section 8.04, the General Partner and the Borrower shall not permit the MLP or any of its Affiliates (including any Non-Recourse Subsidiary) to operate or conduct any business substantially similar to that conducted by the Borrower and its Subsidiaries within a 25 mile radius of any business conducted by the Borrower and its Subsidiaries. In order to comply with this Section 8.22, the Borrower may enter into one or more transactions by which its assets and properties are "swapped" or "exchanged" for assets and properties of another Person prior to or concurrently with another transaction which, but for such swap or exchange would violate this Section, provided that (i) if the value of the MLP's assets or units to be so swapped or exchanged exceeds \$15 million, as determined by the audit committee of the Board of Directors of the General Partner, the Borrower shall have first obtained at its expense an opinion from a nationally recognized investment banking firm, addressed to it, the Agent and the Banks and opining without material qualification and based on assumptions that are realistic at the time, that the exchange or swap transactions are fair to the Borrower and its Subsidiaries, and (ii) if the value of the MLP's assets or units to be so swapped or exchanged exceeds \$50 million, as determined by the audit committee of the Board of Directors of the General Partner, at the option of the Majority Banks, the Agent shall have first retained, at the Borrower's expense, an investment banking firm on behalf of the Banks who shall also have rendered an opinion containing the statements and content referred to in clause (i).

Event of Default. Any of the following shall constitute an "Event of Default":

Non-Payment. The Borrower, the General Partner or Stratton fails to pay, (i) when and as required to be paid herein, any amount of principal of any Loan or of any L/C Obligation, or (ii) within 5 days after the same becomes due, any interest, fee or any other amount payable hereunder or under any other Loan Document; or

Representation or Warranty. Any representation or warranty by the Borrower, the General Partner or any Subsidiary made or deemed made herein, in any other Loan Document, or which is contained in any certificate, document or financial or other statement by the Borrower, the General Partner, any Subsidiary, or any Responsible Officer, furnished at any time under this Agreement, or in or under any other Loan Document, is incorrect in any material respect on or as of the date made or deemed made; or

Specific Defaults. The Borrower fails to perform or observe any term, covenant or agreement contained in any of Sections 2.01(a)(ii), 7.01, 7.02, 7.03, 7.04, 7.06, 7.09, 7.12, 7.13, 7.16 or in any Section in Article VIII; or

Other Defaults. The Borrower, the General Partner or any Subsidiary fails to perform or observe any other term or covenant contained in this Agreement or any other Loan Document, and such default shall continue unremedied for a period of 20 days after the earlier of (i) the date upon which a Responsible Officer knew or reasonably should have known of such failure or (ii) the date upon which written notice thereof is given to the Borrower by the Agent or any Bank; or

Cross-Default. The Borrower, the General Partner or any Subsidiary (i) fails to make any payment in respect of any Indebtedness or Contingent Obligation having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than \$10,000,000 when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) and such failure continues after the applicable grace or notice period, if any, specified in the relevant document on the date of such failure; or (ii) fails to perform or observe any other condition or covenant, or any other event shall occur or condition exist, under any agreement or instrument relating to any such Indebtedness or Contingent Obligation, and such failure continues after the applicable grace or notice period, if any, specified in the relevant document on the date of such failure if the effect of such failure, event or condition is to cause, or to permit the holder or holders of such Indebtedness or beneficiary or beneficiaries of such Indebtedness (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause such Indebtedness to be declared to be due and payable prior to its stated maturity or to cause such Indebtedness or Contingent Obligation to be prepaid, purchased or redeemed by the Borrower, the MLP, the General Partner or any Subsidiary, or such Contingent Obligation to become payable or cash collateral in respect thereof to be demanded; or

Insolvency; Voluntary Proceedings. The General Partner, the MLP, the Borrower or any Subsidiary (i) ceases or fails to be solvent, or generally fails to pay, or admits in writing its inability to pay, its debts as they become due, subject to applicable grace periods, if any, whether at stated maturity or otherwise; (ii) voluntarily ceases to conduct its business in the ordinary course; (iii) commences any Insolvency Proceeding with respect to itself; or (iv) takes any action to effectuate or authorize any of the foregoing; or

Involuntary Proceedings. (i) Any involuntary Insolvency Proceeding is commenced or filed against the General Partner, the MLP, the Borrower or any Subsidiary, or any writ, judgment, warrant of attachment, execution or similar process, is issued or levied against a substantial part of any such Person's properties, and any such proceeding or petition shall not be dismissed, or such writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or fully bonded within 60 days after commencement, filing or levy; (ii) the General Partner, the MLP, the Borrower or any Subsidiary admits the material allegations of a petition against it in any Insolvency Proceeding, or an order for relief (or similar order under non-U.S. law) is ordered in any Insolvency Proceeding; or (iii) the General Partner, the MLP, the Borrower or any Subsidiary acquiesces in the appointment of a receiver, trustee, custodian, conservator, liquidator, mortgagee in possession (or agent thereof), or other similar Person for itself or a substantial portion of its property or business; or

ERISA. (i) An ERISA Event occurs with respect to a Pension Plan which has resulted or could reasonably be expected to result in liability of the Borrower or the General Partner under Title IV of ERISA to the Pension Plan or the PBGC in an aggregate amount in excess of \$5 million; or (ii) the commencement or increase of contributions to, or the adoption of or the amendment of a Pension Plan by the Borrower, the General Partner or any of their Affiliates which has resulted or could reasonably be expected to result in an increase in Unfunded Pension Liability among all Pension Plans in an aggregate amount in excess of \$5 million.

Monetary Judgments. One or more judgments, orders, decrees or arbitration awards is entered against the Borrower, the General Partner or any Subsidiary involving in the aggregate a liability (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage) as to any single or related series of transactions, incidents or conditions, of more than \$40,000,000; or

Non-Monetary Judgments. Any non-monetary judgment, order or decree is entered against the Borrower, the General Partner or any Subsidiary which does or would reasonably be expected to have a Material Adverse Effect, and there shall be any period of 60 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

Loss of Licenses. Any Governmental Authority revokes or fails to renew any material license, permit or franchise of the Borrower or any Subsidiary, or the Borrower or any Subsidiary for any reason loses any material license, permit or franchise, or the Borrower or any Subsidiary suffers the imposition of any restraining order, escrow, suspension or impound of funds in connection with any proceeding (judicial or administrative) with respect to any material license, permit or franchise; or

Adverse Change. There occurs a Material Adverse Effect; or

Certain Indenture Defaults, Etc. (i) To the extent not otherwise within the scope of subsection 9.01(e) above, any "Event of Default" shall occur and be continuing under and as defined in the 1994 Indenture; or (ii) any of the following shall occur under or with respect to the 1996 Indenture or any other Indebtedness guaranteed by the Borrower or its Subsidiaries (collectively, the "Guaranteed Indebtedness"): (A) any demand for payment shall be made under any such Guaranty Obligation with respect to the Guaranteed Indebtedness or (B) so long as any such Guaranty Obligation shall be in effect (x) the Borrower or any such Subsidiary shall fail to pay principal of or premium, if any, or interest on such Guaranteed Indebtedness after the expiration of any applicable notice or cure periods or (y) any "Event of Default" (however defined) shall occur and be continuing under such Guaranteed Indebtedness which results in the acceleration of such Guaranteed Indebtedness; or

Guarantor Defaults. Any Guarantor fails in any material respect to perform or observe any term, covenant or agreement in its Guaranty; or any Guaranty is for any reason partially (including with respect to future advances) or wholly revoked or invalidated, or otherwise ceases to be in full force and effect, or any Guarantor or any other Person contests in any manner the validity or enforceability thereof or denies that it has any further liability or obligation thereunder; or any event described at subsections (f) or (g) of this Section occurs with respect to the Guarantor.

Remedies. If any Event of Default occurs, the Agent shall, at the request of, or may, with the consent of, the Majority Banks,

(a) declare the commitment of each Bank to make Loans and any obligation of an Issuing Bank to Issue Letters of Credit to be terminated, whereupon such commitments and obligation shall be terminated;

(b) declare an amount equal to the maximum aggregate amount that is or at any time thereafter may become available for drawing under any outstanding Letters of Credit (whether or not any beneficiary shall have presented, or shall be entitled at such time to present, the drafts or other documents required to draw under such Letters of Credit) to be immediately due and payable;

(c) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable (including, without limitation, amounts due under Section 4.04), without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower; and

(d) exercise on behalf of itself and the Banks all rights and remedies available to it and the Banks under the Loan Documents or applicable law;

provided, however, that upon the occurrence of any event specified in subsection (f) or (g) of Section 9.01 (in the case of clause (i) of subsection (g) upon the expiration of the 60-day period mentioned therein), the obligation of each Bank to make Loans and any obligation of the Issuing Banks to Issue Letters of Credit shall automatically terminate and the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable without further act of the Agent, any Issuing Bank or any Bank.

Rights Not Exclusive. The rights provided for in this Agreement and the other Loan Documents are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law or in equity, or under any other instrument, document or agreement now existing or hereafter arising.

Certain Financial Covenant Defaults. In the event that, after taking into account any extraordinary charge to earnings taken or to be taken as of the end of any fiscal period of the Borrower (a "Charge"), and if solely by virtue of such Charge, there would exist an Event of Default due to the breach of any of subsections 7.12(a) or 7.12(b) as of such fiscal period end date, such Event of Default shall be deemed to arise upon the earlier of (a) the date after such fiscal period end date on which the Borrower announces publicly it will take, is taking or has taken such Charge (including an announcement in the form of a statement in a report filed with the SEC) or, if such announcement is made prior to such fiscal period end date, the date that is such fiscal period end date, and (b) the date the Borrower delivers to the Agent its audited annual or unaudited quarterly financial statements in respect of such fiscal period reflecting such Charge as taken.

#### ARTICLE X THE AGENT

Appointment and Authorization. (a) Each of the Banks and each Issuing Bank hereby irrevocably appoints, designates and authorizes the Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document, the Agent shall not have any duties or responsibilities, except those expressly set forth herein, nor shall the Agent have or be deemed to have any fiduciary relationship with any Bank or any Issuing Bank, and no

implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Agent. The Co-Agent shall have no duties or responsibilities in such capacity under this Agreement.

(b) Each Issuing Bank shall act on behalf of the Banks with respect to any Letters of Credit Issued by it and the documents associated therewith until such time and except for so long as the Agent may agree at the request of the Majority Lenders to act for such Issuing Bank with respect thereto; provided, however, that such Issuing Bank shall have all of the benefits and immunities (i) provided to the Agent in this Article X with respect to any acts taken or omissions suffered by such Issuing Bank in connection with Letters of Credit Issued by it or proposed to be Issued by it and the application and agreements for letters of credit pertaining to the Letters of Credit as fully as if the term "Agent", as used in this Article X, included such Issuing Bank with respect to such acts or omissions, and (ii) as additionally provided in this Agreement with respect to such Issuing Bank.

Delegation of Duties. The Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects with reasonable care.

Liability of Agent and Issuing Banks. None of the Agent-Related Persons and Issuing Banks shall (i) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct), or (ii) be responsible in any manner to any of the Banks for any recital, statement, representation or warranty made by the Borrower or any Subsidiary or Affiliate of the Borrower, or any officer thereof, contained in this Agreement or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by the Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of the Borrower or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Bank to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower or any of the Borrower's Subsidiaries or Affiliates.

Reliance by Agent and Issuing Banks. (a) The Agent and each Issuing Bank shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex or telephone message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to the Borrower), independent accountants and other experts selected by the Agent or applicable Issuing Bank. The Agent and each Issuing Bank shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Majority Banks as it deems appropriate and, if it so requests, it shall first be indemnified to its satisfaction by the Banks against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent and each Issuing Bank shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Majority Banks and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Banks.

(b) For purposes of determining compliance with the conditions specified in Section 5.01, each Bank that has executed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter either sent by the Agent or an Issuing Bank to such Bank for consent, approval, acceptance or satisfaction, or required thereunder to be consented to or approved by or acceptable or satisfactory to the Bank.

Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default, except with respect to defaults in the payment of principal, interest and fees required to be paid to the Agent for the account of the Banks, unless the Agent shall have received written notice from a Bank or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". The Agent will notify the Banks of its receipt of any such notice. The Agent shall take such action with respect to such Default or Event of Default as may be requested by the Majority Banks in accordance with Article IX; provided, however, that unless and until the Agent has received any such request, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable or in the best interest of the Banks.

Credit Decision. Each Bank acknowledges that none of the Agent-Related Persons or any Issuing Bank has made any representation or warranty to it, and that no act by the Agent or any Issuing Bank hereinafter taken, including any review of the affairs of the Borrower and its Subsidiaries, shall be deemed to constitute any representation or warranty by any Agent-Related Person or any Issuing Bank to any Bank. Each Bank represents to the Agent and the Issuing Banks that it has, independently and without reliance upon any Agent-Related Person or any Issuing Bank and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of the Borrower and its Subsidiaries, and all applicable bank regulatory laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to the Borrower hereunder. Each Bank also represents that it will, independently and without

reliance upon any Agent-Related Person or any Issuing Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of the Borrower. Except for notices, reports and other documents to be furnished to the Banks by the Agent or any Issuing Bank as specified on Schedule 10.06, neither the Agent nor any Issuing Bank shall have any duty or responsibility to provide any Bank with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of the Borrower which may come into the possession of any of the Agent-Related Persons or any Issuing Bank. The Agent shall promptly deliver to the Banks the items specified on Schedule 10.06 that are required to be provided by the Borrower only to the extent such items are actually provided by the Borrower.

Indemnification. Whether or not the transactions contemplated hereby are consummated, the Banks shall indemnify upon demand the Agent-Related Persons and the Issuing Banks (to the extent not reimbursed by or on behalf of the Borrower and without limiting the obligation of the Borrower to do so), pro rata in accordance with its Pro Rata Share on the date the Borrower's reimbursement obligation arises, from and against any and all Indemnified Liabilities; provided, however, that no Bank shall be liable for the payment to the Agent-Related Persons or the Issuing Banks of any portion of such Indemnified Liabilities resulting solely from such Person's gross negligence or willful misconduct. Without limitation of the foregoing, each Bank shall reimburse the Agent and the Issuing Banks upon demand for their ratable share of any costs or out-of-pocket expenses (including Attorney Costs) incurred by them in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that the Agent or the applicable Issuing Bank is not reimbursed for such expenses by or on behalf of the Borrower. The undertaking in this Section shall survive the payment of all Obligations hereunder and the resignation or replacement of the Agent or any Issuing Bank.

Agent in Individual Capacity. BofA and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with the Borrower and its Subsidiaries and Affiliates as though BofA were not the Agent or an Issuing Bank hereunder and without notice to or consent of the Banks. The Banks acknowledge that, pursuant to such activities, BofA or its Affiliates may receive information regarding the Borrower or its Affiliates (including information that may be subject to confidentiality obligations in favor of the Borrower or such Subsidiary) and acknowledge that the Agent shall be under no obligation to provide such information to them. With respect to its Loans and participations in Letters of Credit, BofA shall have the same rights and powers under this Agreement as any other Bank and may exercise the same as though it were not the Agent or an Issuing Bank.

Successor Agent. The Agent may, and at the request of the Majority Banks shall, resign as Agent upon 30 days' notice to the Banks. If the Agent resigns under this Agreement, the Majority Banks shall appoint from among the Banks a successor agent for the Banks. If no successor agent is appointed prior to the effective date of the resignation of the Agent, the Agent may appoint, after consulting with the Banks and the Borrower, a successor agent from among the Banks. Upon the acceptance of its appointment as successor agent hereunder, such successor agent shall succeed to all the rights, powers and duties of the retiring Agent and the term "Agent" shall mean such successor agent and the retiring Agent's appointment, powers and duties as Agent shall be terminated. After any retiring Agent's resignation hereunder as Agent, the provisions of this Article X and Sections 11.04 and 11.05 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement. If no successor agent has accepted appointment as Agent by the date which is 30 days following a retiring Agent's notice of resignation, the retiring Agent's resignation shall nevertheless thereupon become effective and the Banks shall perform all of the duties of the Agent hereunder until such time, if any, as the Majority Banks appoint a successor agent as provided for above. Notwithstanding the foregoing, however, BofA may not be removed as the Agent at the request of the Majority Banks unless BofA shall also simultaneously be replaced as an "Issuing Bank" hereunder pursuant to documentation in form and substance reasonably satisfactory to BofA.

Withholding Tax. (a) If any Bank is a "foreign corporation, partnership or trust" within the meaning of the Code and such Bank claims exemption from, or a reduction of, U.S. withholding tax under Sections 1441 or 1442 of the Code, such Bank agrees with and in favor of the Agent, to deliver to the Agent:

(i) if such Bank claims an exemption from, or a reduction of, withholding tax under a United States tax treaty, properly completed IRS Forms 1001 and W-8 before the payment of any interest in the first calendar year and before the payment of any interest in each third succeeding calendar year during which interest may be paid under this Agreement;

(ii) if such Bank claims that interest paid under this Agreement is exempt from United States withholding tax because it is effectively connected with a United States trade or business of such Bank, two properly completed and executed copies of IRS Form 4224 before the payment of any interest is due in the first taxable year of such Bank and in each succeeding taxable year of such Bank during which interest may be paid under this Agreement, and IRS Form W-9; and

(iii) such other form or forms as may be required under the Code or other laws of the United States as a condition to



exemption from, or reduction of, United States withholding tax.

Such Bank agrees to promptly notify the Agent of any change in circumstances which would modify or render invalid any claimed exemption or reduction.

(b) If any Bank claims exemption from, or reduction of, withholding tax under a United States tax treaty by providing IRS Form 1001 and such Bank sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of the Borrower to such Bank, such Bank agrees to notify the Agent of the percentage amount in which it is no longer the beneficial owner of Obligations of the Borrower to such Bank. To the extent of such percentage amount, the Agent will treat such Bank's IRS Form 1001 as no longer valid.

(c) If any Bank claiming exemption from United States withholding tax by filing IRS Form 4224 with the Agent sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of the Borrower to such Bank, such Bank agrees to undertake sole responsibility for complying with the withholding tax requirements imposed by Sections 1441 and 1442 of the Code.

(d) If any Bank is entitled to a reduction in the applicable withholding tax, the Agent may withhold from any interest payment to such Bank an amount equivalent to the applicable withholding tax after taking into account such reduction. If the forms or other documentation required by subsection (a) of this Section are not delivered to the Agent, then the Agent may withhold from any interest payment to such Bank not providing such forms or other documentation an amount equivalent to the applicable withholding tax.

(e) If the IRS or any other Governmental Authority of the United States or other jurisdiction asserts a claim that the Agent did not properly withhold tax from amounts paid to or for the account of any Bank (because the appropriate form was not delivered, was not properly executed, or because such Bank failed to notify the Agent of a change in circumstances which rendered the exemption from, or reduction of, withholding tax ineffective, or for any other reason) such Bank shall indemnify the Agent fully for all amounts paid, directly or indirectly, by the Agent as tax or otherwise, including penalties and interest, and including any taxes imposed by any jurisdiction on the amounts payable to the Agent under this Section, together with all costs and expenses (including Attorney Costs). The obligation of the Banks under this subsection shall survive the payment of all Obligations and the resignation or replacement of the Agent.

#### ARTICLE XI MISCELLANEOUS

Amendments and Waivers. No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent with respect to any departure by the Borrower or the General Partner therefrom, shall be effective unless the same shall be in writing and signed by the Majority Banks (or by the Agent at the written request of the Majority Banks) and the Borrower and acknowledged by the Agent, and then any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such waiver, amendment, or consent shall, unless in writing and signed by all the Banks, the Borrower, Stratton and the General Partner and acknowledged by the Agent, do any of the following:

(a) increase or extend the Revolving Loan Commitment of any Bank (or reinstate any Revolving Loan Commitment terminated pursuant to Section 9.02);

(b) postpone or delay any date fixed by this Agreement or any other Loan Document for any payment of principal, interest, fees or other amounts due to the Banks (or any of them) hereunder or under any other Loan Document;

(c) reduce the principal of, or the rate of interest specified herein on any Loan, or (subject to clause (ii) below) any fees or other amounts payable hereunder or under any other Loan Document;

(d) change the percentage of the Revolving Loan Commitments or of the aggregate unpaid principal amount of the Loans which is required for the Banks or any of them to take any action hereunder;

(e) amend this Section, or Section 2.14, or any provision herein providing for consent or other action by all Banks; or

(f) release any of the Guaranties;

and, provided further, that (i) no amendment, waiver or consent shall, unless in writing and signed by the Issuing Banks in addition to the Majority Banks or all the Banks, as the case may be, affect the rights or duties of the Issuing Banks under this Agreement or any L/C-Related Document relating to any Letter of Credit Issued or to be Issued by any such Issuing Bank, (ii) no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Majority Banks or all the Banks, as the case may be, affect the rights or duties of the Agent under this Agreement or any other Loan Document, and (iii) the Fee Letter may be amended, or rights or privileges thereunder waived, in a writing executed solely by the parties thereto.

Notices. (a) Except as otherwise specifically provided in Section 3.02, all notices, requests and other communications shall be in writing (including, unless the context expressly otherwise provides, by facsimile transmission, provided that any matter transmitted by the Borrower by facsimile (i) shall be immediately confirmed by a telephone call to the recipient at the number specified on Schedule 11.02, and (ii) shall be followed promptly by delivery of a hard copy original thereof) and mailed, faxed or delivered, to the address or facsimile number specified for notices on Schedule 11.02; or, as directed to the

Borrower or the Agent, to such other address as shall be designated by such party in a written notice to the other parties, and as directed to any other party, at such other address as shall be designated by such party in a written notice to the Borrower and the Agent.

(b) All such notices, requests and communications shall, when transmitted by overnight delivery, or faxed, be effective when delivered for overnight (next-day) delivery, or transmitted in legible form by facsimile machine, respectively, or if mailed, upon the third Business Day after the date deposited into the U.S. mail, or if delivered, upon delivery; except that notices pursuant to Article II, III or X shall not be effective until actually received by the Agent, and notices pursuant to Article III to any Issuing Bank shall not be effective until actually received by such Issuing Bank at the address specified for the "Issuing Banks" on the applicable signature page hereof.

(c) Any agreement of the Agent and the Banks herein to receive certain notices by telephone or facsimile is solely for the convenience and at the request of the Borrower. The Agent and the Banks shall be entitled to rely on the authority of any Person purporting to be a Person authorized by the Borrower to give such notice and the Agent and the Banks shall not have any liability to the Borrower or other Person on account of any action taken or not taken by the Agent or the Banks in reliance upon such telephonic or facsimile notice. The obligation of the Borrower to repay the Loans and L/C Obligations shall not be affected in any way or to any extent by any failure by the Agent and the Banks to receive written confirmation of any telephonic or facsimile notice or the receipt by the Agent and the Banks of a confirmation which is at variance with the terms understood by the Agent and the Banks to be contained in the telephonic or facsimile notice.

No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Agent or any Bank, any right, remedy, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

Costs and Expenses. The Borrower shall:

(a) whether or not the transactions contemplated hereby are consummated, pay or reimburse BofA (including in its capacity as Agent and an Issuing Bank) and the Arranger within five Business Days after demand (subject to subsection 5.01(f)) for all costs and expenses incurred by BofA (including in its capacity as Agent and an Issuing Bank) and the Arranger in connection with the development, preparation, delivery, administration, syndication and execution of, and any amendment, supplement, waiver or modification to (in each case, whether or not consummated), this Agreement, any Loan Document, the Existing Credit Agreement and any other documents prepared in connection herewith or therewith, and the consummation of the transactions contemplated hereby and thereby, including reasonable (giving due regard to the prevailing circumstances) Attorney Costs incurred by BofA (including in its capacity as Agent and an Issuing Bank) and the Arranger with respect thereto; and

(b) pay or reimburse the Agent, the Arranger, each Issuing Bank and each Bank within five Business Days after demand for all costs and expenses (including Attorney Costs) incurred by them in connection with the enforcement, attempted enforcement, or preservation of any rights or remedies under this Agreement or any other Loan Document during the existence of an Event of Default or after acceleration of the Loans (including in connection with any "workout" or restructuring regarding the Loans, and including in any Insolvency Proceeding or appellate proceeding).

Indemnity. Whether or not the transactions contemplated hereby are consummated, the Borrower shall indemnify and hold the Agent-Related Persons, the Issuing Banks, the Arranger and each Bank and each of their respective officers, directors, employees, counsel, agents and attorneys-in-fact (each, an "Indemnified Person") harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits and reasonable (giving due regard to the prevailing circumstances) costs, charges, expenses and disbursements (including Attorney Costs) of any kind or nature whatsoever which may at any time (including at any time following repayment of the Loans, the termination of the Letters of Credit and the termination, resignation or replacement of the Agent or replacement of any Bank or Issuing Bank) be imposed on, incurred by or asserted against any such Person in any way relating to or arising out of this Agreement or any document contemplated by or referred to herein, or the transactions contemplated hereby, or any action taken or omitted by any such Person under or in connection with any of the foregoing, including with respect to any investigation, litigation or proceeding (including any Insolvency Proceeding or appellate proceeding) related to or arising out of this Agreement or the Loans or Letters of Credit or the use of the proceeds thereof, whether or not any Indemnified Person is a party thereto (all the foregoing, collectively, the "Indemnified Liabilities"); provided, that the Borrower shall have no obligation hereunder to any Indemnified Person with respect to Indemnified Liabilities resulting solely from the gross negligence or willful misconduct of such Indemnified Person. The agreements in this Section shall survive payment of all other Obligations.

Payments Set Aside. To the extent that the Borrower makes a payment to the Agent or the Banks, or the Agent or the Banks exercise their right of set-off, and such payment or the proceeds of such set-off or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Agent or such Bank in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any Insolvency Proceeding or otherwise, then (a) to the extent of such recovery the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such set-off had not occurred, and (b) each Bank severally agrees to pay to the Agent upon demand its pro rata share of any

amount so recovered from or repaid by the Agent.

Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of the Agent and each Bank. Any attempted or purported assignment in contravention of the preceding sentence shall be null and void.

Assignments, Participations, Etc. (a) Any Bank may, with the written consent of the Borrower (at all times other than during the existence of an Event of Default), the Agent and the applicable Issuing Bank(s), which consents shall not be unreasonably withheld, at any time assign and delegate to one or more Eligible Assignees (provided that no written consent of the Borrower, the Agent or an Issuing Bank shall be required in connection with any assignment and delegation by a Bank to an Eligible Assignee that is an Affiliate of such Bank) (each an "Assignee") all, or any ratable part of all, of the Loans, the Revolving Loan Commitments, the L/C Obligations and the other rights and obligations of such Bank hereunder in an aggregate minimum amount of \$10,000,000, pro-rated in accordance with the respective amounts of the Facility A Commitment, the Facility B Term Loans outstanding and the Facility C Commitment of such Bank; provided that such Bank shall retain an aggregate amount of not less than \$10,000,000 in respect thereof, unless such Bank assigns and delegates all of its rights and obligations hereunder to one or more Eligible Assignees on the time and subject to the conditions set forth herein; and provided, further, however, that the Borrower and the Agent may continue to deal solely and directly with such Bank in connection with the interest so assigned to an Assignee until (i) written notice of such assignment, together with payment instructions, addresses and related information with respect to the Assignee, shall have been given to the Borrower and the Agent by such Bank and the Assignee; (ii) such Bank and its Assignee shall have delivered to the Borrower and the Agent an Assignment and Acceptance in the form of Exhibit E ("Assignment and Acceptance"), together with any Note or Notes subject to such assignment; and (iii) the assignor Bank or Assignee has paid to the Agent a processing fee in the amount of \$3,500.

(b) From and after the date that the Agent notifies the assignor Bank that it has received (and provided its consent with respect to) an executed Assignment and Acceptance and payment of the above-referenced processing fee, (i) the Assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, shall have the rights and obligations of a Bank under the Loan Documents, and (ii) the assignor Bank shall, to the extent that rights and obligations hereunder and under the other Loan Documents have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under the Loan Documents.

(c) Within five Business Days after its receipt of notice by the Agent that it has received an executed Assignment and Acceptance and payment of the processing fee (and provided that it consents to such assignment in accordance with subsection 11.08(a)), if the Assignee so requests, the Borrower shall execute and deliver to the Agent, new Notes evidencing such Assignee's assigned Loans and Revolving Loan Commitments and, if the assignor Bank has retained a portion of its Loans and its Revolving Loan Commitments and so requests, replacement Notes in the principal amount or amounts of the Loans retained by the assignor Bank (such Notes to be in exchange for, but not in payment of, the Notes held by such Bank). Immediately upon each Assignee's making its processing fee payment under the Assignment and Acceptance, this Agreement shall be deemed to be amended to the extent, but only to the extent, necessary to reflect the addition of the Assignee and the resulting adjustment of the Revolving Loan Commitments and Facility B Term Loans arising therefrom. The Revolving Loan Commitments and Facility B Term Loans allocated to each Assignee shall reduce such Revolving Loan Commitments and Facility B Term Loans of the assigning Bank pro tanto and the Agent shall promptly prepare and distribute a new Schedule 2.01 reflecting the new commitments.

(d) Any Bank may at any time sell to one or more commercial banks or other Persons not Affiliates of the Borrower (a "Participant") participating interests in any Loans, the Revolving Loan Commitments of that Bank and the other interests of that Bank (the "originating Bank") hereunder and under the other Loan Documents; provided, however, that (i) the originating Bank's obligations under this Agreement shall remain unchanged, (ii) the originating Bank shall remain solely responsible for the performance of such obligations, (iii) the Borrower, the Issuing Banks and the Agent shall continue to deal solely and directly with the originating Bank in connection with the originating Bank's rights and obligations under this Agreement and the other Loan Documents, and (iv) no Bank shall transfer or grant any participating interest under which the Participant has rights to approve any amendment to, or any consent or waiver with respect to, this Agreement or any other Loan Document, except to the extent such amendment, consent or waiver would require unanimous consent of the Banks as described in the first proviso to Section 11.01. In the case of any such participation, the Participant shall be entitled to the benefit of Sections 4.01, 4.03 and 11.05 as though it were also a Bank hereunder, and if amounts outstanding under this Agreement are due and unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement to the same extent as if the amount of its participating interest were owing directly to it as a Bank under this Agreement.

(e) Each Bank agrees to take normal and reasonable precautions and exercise due care to maintain the confidentiality of all information identified as "confidential" or "secret" by the Borrower and provided to it by the Borrower or any Subsidiary, or by the Agent on such Borrower's or Subsidiary's behalf, under this Agreement or any other Loan Document, and neither it nor any of its Affiliates shall use any such information other than in connection with or in enforcement of this Agreement and the other Loan Documents; except to the extent such information (i) was or becomes generally

available to the public other than as a result of disclosure by the Bank, or (ii) was or becomes available on a non-confidential basis from a source other than the Borrower, provided that such source is not bound by a confidentiality agreement with the Borrower known to the Bank; provided, however, that any Bank may disclose such information (A) at the request or pursuant to any requirement of any Governmental Authority to which the Bank is subject or in connection with an examination of such Bank by any such authority; (B) pursuant to subpoena or other court process; (C) when required to do so in accordance with the provisions of any applicable Requirement of Law; (D) to the extent reasonably required in connection with any litigation or proceeding to which the Agent, any Bank or their respective Affiliates may be party; (E) to the extent reasonably required in connection with the exercise of any remedy hereunder or under any other Loan Document; (F) to such Bank's independent auditors and other professional advisors; (G) to any Affiliate of such Bank, or to any Participant or Assignee, actual or potential, provided that such Affiliate, Participant or Assignee agrees to keep such information confidential to the same extent required of the Banks hereunder, and (H) as to any Bank, as expressly permitted under the terms of any other document or agreement regarding confidentiality to which the Borrower is party or is deemed party with such Bank.

(f) Notwithstanding any other provision in this Agreement, any Bank may at any time create a security interest in, or pledge, all or any portion of its rights under and interest in this Agreement and any Note held by it in favor of any Federal Reserve Bank in accordance with Regulation A of the FRB or U.S. Treasury Regulation 31 CFR ss.203.14, and such Federal Reserve Bank may enforce such pledge or security interest in any manner permitted under applicable law.

Set-off. In addition to any rights and remedies of the Banks provided by law, if an Event of Default exists or the Loans have been accelerated, each Bank is authorized at any time and from time to time, without prior notice to the Borrower, any such notice being waived by the Borrower to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held by, and other indebtedness at any time owing by, such Bank to or for the credit or the account of the Borrower against any and all Obligations owing to such Bank, now or hereafter existing, irrespective of whether or not the Agent or such Bank shall have made demand under this Agreement or any Loan Document and although such Obligations may be contingent or unmatured. Each Bank agrees promptly to notify the Borrower and the Agent after any such set-off and application made by such Bank; provided, however, that the failure to give such notice shall not affect the validity of such set-off and application.

Notification of Addresses, Lending Offices, Etc. Each Bank shall notify the Agent in writing of any changes in the address to which notices to the Bank should be directed, of addresses of any Lending Office, of payment instructions in respect of all payments to be made to it hereunder and of such other administrative information as the Agent shall reasonably request.

Changes of Revolving Lo( On the Restatement Effective Date, each of the Banks which either (i) has a Facility A Commitment Percentage or Facility C Commitment Percentage on the Restatement Effective Date that is less than its Existing Facility A Commitment Percentage or Existing Facility C Commitment Percentage, as the case may be, immediately prior to such date or (ii) had a commitment under the Existing Credit Agreement immediately prior to the Restatement Effective Date but has no corresponding Revolving Loan Commitment as of the Restatement Effective Date (each such Bank, a "Decreasing Bank") shall irrevocably assign, without recourse or warranty of any kind whatsoever (except that each Decreasing Bank warrants that it is the legal and beneficial owner of the Loans assigned by it under this Section 11.11 and that such Loans are held by such Decreasing Bank free and clear of adverse claims), to each of the Banks which has a Facility A Commitment Percentage or Facility C Commitment Percentage, as the case may be, on the Restatement Effective Date that is greater than its Existing Facility A Commitment Percentage or Existing Facility C Commitment Percentage, as the case may be, immediately prior to such date (each such Bank, an "Increasing Bank"), and each of the Increasing Banks shall irrevocably acquire from the Decreasing Banks, a portion of the principal amount of the Facility A Revolving Loans or Facility C Revolving Loans, as the case may be, of each of the Decreasing Banks (collectively, the "Acquired Portion") outstanding on the Restatement Effective Date (before giving effect to any new Revolving Loans made on such date) in an amount such that the principal amount of the Revolving Loans held by each of the Increasing Banks and each of the Decreasing Banks as of the Restatement Effective Date shall be held in accordance with each such Bank's Facility A Commitment Percentage and Facility C Commitment Percentage (if any) as of such date. Such assignment and acquisition shall be effective on the Restatement Effective Date automatically and without any action required on the part of any party other than the payment by the Increasing Banks to the Agent for the account of the Decreasing Banks of an amount equal to the Acquired Portion, which amount shall be allocated to the Decreasing Banks pro rata based upon the respective reductions in the principal amount of the Facility A Revolving Loans and Facility C Revolving Loans, as applicable, held by such Banks on the Restatement Effective Date (before giving effect to any new Revolving Loans made on such date). Each of the Agent and the Banks shall adjust its records accordingly to reflect the payment of the Acquired Portion and the changes in the Bank's Revolving Loan Commitments. The payment to be made in respect of the Acquired Portion shall be made by the Increasing Banks to the Agent in Dollars in immediately available funds at or before 11:00 a.m. San Francisco time on the Restatement Effective Date, such payment to be made by the Increasing Banks pro rata based upon the respective increases in the principal amount of the Facility A Revolving Loans and Facility C Revolving Loans held by such Banks on the Restatement Effective Date (before giving effect to any new Revolving Loans made on such date). For purposes of this subsection 11.11(a), (1) "Existing Facility A Commitment Percentage" means, with respect to any Bank, the ratio of (i) the amount of the Facility C Commitment of such Bank under the Existing Credit Agreement to (ii) the aggregate amount of the Facility C Commitments of all of the Banks under the Existing Credit Agreement, (2) "Existing Facility C Commitment Percentage" means, with respect to any Bank, the ratio of (i) the amount of the Facility A

Commitment plus the amount of the Facility B Commitment of such Bank under the Existing Credit Agreement to (ii) the aggregate amount of the Facility A Commitments plus the aggregate amount of the Facility B Commitments of all of the Banks under the Existing Credit Agreement, (3) "Facility A Commitment Percentage" means, with respect to any Bank, the ratio of (i) the amount of the Facility A Commitment of such Bank to (ii) the aggregate amount of the Facility A Commitments of all of the Banks and (4) "Facility C Commitment Percentage" means, with respect to any Bank, the ratio of (i) the amount of the Facility C Commitment of such Bank to (ii) the aggregate amount of the Facility C Commitments of all of the Banks.

(b) To the extent any of the Revolving Loans acquired by the Increasing Banks from the Decreasing Banks pursuant to subsection 11(a) above are Eurodollar Rate Loans and the Restatement Effective Date is not the last day of an Interest Period for such Loans, the Decreasing Banks shall be entitled to compensation from the Borrower as provided in Section 4.04 of the Existing Credit Agreement (as if the Borrower had prepaid such Loans in an amount equal to the Acquired Portion on the Restatement Effective Date). The payment made by the Increasing Banks in respect of the Acquired Portion shall constitute a Loan made by the Increasing Banks on the Restatement Effective Date, and to the extent any Loan acquired by the Increasing Banks on the Restatement Effective Date is a Eurodollar Rate Loan and such date is not the last day of an Interest Period for such Loan, such Loan shall accrue interest at the rate then applicable to such Loan until such last day; provided however that the Borrower shall compensate the Increasing Banks for an amount equal to the amount, if any, by which the cost to the Increasing Banks of funding the amount of each such Loan in the respective market for the period from such date to the last day of the then Interest Period for such Loan exceeds such applicable rate.

Counterparts. This Agreement may be executed in any number of separate counterparts, each of which, when so executed, shall be deemed an original, and all of said counterparts taken together shall be deemed to constitute but one and the same instrument.

Severability. The illegality or unenforceability of any provision of this Agreement or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Agreement or any instrument or agreement required hereunder.

No Third Parties Benefited. This Agreement is made and entered into for the sole protection and legal benefit of the Borrower, the Banks, the Agent and the Agent-Related Persons, the Arranger and their permitted successors and assigns, and no other Person shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any of the other Loan Documents.

Governing Law and Jurisdiction. (a) THIS AGREEMENT AND ALL NOTES ISSUED HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK; PROVIDED THAT THE AGENT AND THE BANKS SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF NEW YORK OR OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF THE BORROWER, THE GENERAL PARTNER, STRATTON, THE AGENT AND THE BANKS CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. EACH OF THE BORROWER, THE GENERAL PARTNER, STRATTON, THE AGENT AND THE BANKS IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF THIS AGREEMENT OR ANY DOCUMENT RELATED HERETO. THE BORROWER, THE GENERAL PARTNER, STRATTON, THE AGENT AND THE BANKS EACH WAIVE PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY NEW YORK LAW.

Waiver of Jury Trial. THE BORROWER, THE GENERAL PARTNER, STRATTON, THE BANKS AND THE AGENT EACH WAIVE THEIR RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY OF THE PARTIES AGAINST ANY OTHER PARTY OR ANY AGENT-RELATED PERSON, PARTICIPANT OR ASSIGNEE, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. THE BORROWER, THE GENERAL PARTNER, STRATTON, THE BANKS AND THE AGENT EACH AGREE THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

Entire Agreement. From and after the Restatement Effective Date (if it shall occur), this Agreement, together with the other Loan Documents, embodies the entire agreement and understanding between and among the Borrower, the General Partner, Stratton, the Banks and the Agent, and supersedes the Existing Credit Agreement and all other understandings of such Persons, verbal or written, relating to the subject matter hereof and thereof.

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

FERRELLGAS, L.P.

By: Ferrellgas, Inc.,  
General Partner

By: /s/ Danley K. Sheldon  
Danley K. Sheldon  
Senior Vice President and

Chief Financial Officer/  
Treasurer

FERRELLGAS, INC.

By: /s/ Danley K. Sheldon  
Danley K. Sheldon  
Senior Vice President and  
Chief Financial Officer/  
Treasurer

STRATTON INSURANCE COMPANY, INC.

By: /s/ Danley K. Sheldon  
Danley K. Sheldon  
Senior Vice President and  
Chief Financial Officer/  
Treasurer

Address for Notices for each  
of the Borrower, the General  
Partner and Stratton:

One Liberty Plaza  
Liberty, Missouri 64068  
Attention: Danley K. Sheldon  
Telephone: (816) 792-6828  
Facsimile: (816) 792-6979

BANK OF AMERICA NATIONAL TRUST  
AND SAVINGS ASSOCIATION,  
as Agent

By: /s/ David E. Sisler  
David E. Sisler  
Vice President

BANK OF AMERICA NATIONAL TRUST  
AND SAVINGS ASSOCIATION, as a Bank

By: /s/ David E. Sisler  
David E. Sisler  
Vice President

NATIONSBANK OF TEXAS, N.A.,  
as a Bank

By: /s/ C. Todd Kulp  
C. Todd Kulp  
Vice President

WELLS FARGO BANK, N.A.,  
as a Bank

By: /s/ Charles D. Kirkham  
Charles D. Kirkham  
Vice President

THE BANK OF NOVA SCOTIA,  
as a Bank

By: /s/ T. C. H. Ashby  
T. C. H. Ashby  
Senior Manager Loan Operations



THE FIRST NATIONAL BANK OF BOSTON,  
as a Bank

By: /s/ H. Louis Bailey  
H. Louis Bailey  
Managing Director

BANQUE PARIBAS, as a Bank

By: /s/ Scott Clingan  
Scott Clingan  
Vice President

By: /s/ Larry Robinson  
Larry Robinson  
Vice President

UNION BANK OF CALIFORNIA, N.A.,  
as a Bank

By: /s/ Walter M. Roth  
Walter M. Roth  
Vice President

THE BANK OF NEW YORK, as a Bank

By: /s/ Mark T. Familo  
Mark T. Familo  
Assistant Vice President

CAISSE NATIONALE DE CREDIT

AGRICOLE, as a Bank

By: /s/ David Bouhl  
David Bouhl, F.V.P.  
Head of Corporate Banking

( THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM  
 FERRELLGAS PARTNERS, L.P. AND SUBSIDIARIES BALANCE SHEET ON JULY 31, 1996, AND  
 THE STATEMENT OF EARNINGS ENDING JULY 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY  
 BY REFERENCE TO SUCH FINANCIAL STATMENTS)

0000922358  
 FERRELLGAS PARTNERS, L.P.  
 1,000  
 US DOLLARS

	12-MOS	
	JUL-31-1996	
	AUG-01-1995	
	JUL-31-1996	
1		13,770
	0	
	71,287	
	1,169	
	41,395	
130,968		
	596,107	
	192,375	
	654,295	
115,674		
	439,112	
	142,626	
0		
	0	
	(58,017)	
654,295		
	612,593	
653,640		
	356,314	
	577,913	
0		
0		
37,983		
	24,312	
	0	
24,312		
	0	
	(965)	
	0	
	23,347	
	0.74	
	0.74	

1. The Ferrellgas Partners L.P. ("MLP"), both the Common and Subordinated units are considered to possess the characteristics of Common Stock. Note that both are included in the determination of the EPS providing support for such a classificaiton.

1  
U.S. DOLLARS

1. For the Ferrellgas Partners Finance Corp. has no income statement items other than totals as their only costs are G&A, and such costs are not required in the Financial Data Schedule.