

REGISTRATION NO. 33-53383

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

AMENDMENT NO. 2  
TO  
FORM S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

FERRELLGAS PARTNERS, L.P.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

DELAWARE	5984	43-1675728
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

ONE LIBERTY PLAZA  
LIBERTY, MISSOURI 64068  
(816) 792-1600  
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF  
REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

DANLEY K. SHELDON  
ONE LIBERTY PLAZA  
LIBERTY, MISSOURI 64068  
(816) 792-1600  
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE,  
OF AGENT FOR SERVICE)

COPIES TO:

ANDREWS & KURTH L.L.P. 425 LEXINGTON AVENUE NEW YORK, NEW YORK 10017 (212) 850-2800 ATTENTION: MICHAEL Q. ROSENWASSER	SULLIVAN & CROMWELL 125 BROAD STREET NEW YORK, NEW YORK 10004 (212) 558-4000 ATTENTION: ROBERT E. BUCKHOLZ, JR.
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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as  
practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on  
a delayed or continuous basis pursuant to Rule 415 under the Securities Act of  
1933, check the following box. ☐

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

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FERRELLGAS PARTNERS, L.P.

CROSS-REFERENCE SHEET

PURSUANT TO ITEM 501(B) OF REGULATION S-K

FORM S-1 ITEM NUMBER AND HEADING -----	LOCATION IN PROSPECTUS -----
1. Forepart of the Registration Statement and Outside Front Cover Page of Prospectus....	Outside Front Cover Page
2. Inside Front and Outside Back Cover Pages of Prospectus.....	Inside Front and Outside Back Cover Pages
3. Summary Information, Risk Factors and Ratio of Earnings to Fixed Charges.....	Prospectus Summary; Risk Factors
4. Use of Proceeds.....	Prospectus Summary; Use of Proceeds
5. Determination of Offering Price.....	Underwriting
6. Dilution.....	Dilution
7. Selling Security Holders.....	*
8. Plan of Distribution.....	Outside Front Cover Page; Underwriting
9. Description of Securities to be Registered.	Prospectus Summary; Cash Distribution Policy; Description of the Common Units; The Partnership Agreement; Tax Considerations
10. Interests of Named Experts and Counsel.....	*
11. Information with Respect to the Registrant.	Outside Front Cover Page; Prospectus Summary; Selected Historical and Pro Forma Consolidated Financial and Operating Data; Management's Discussion and Analysis of Financial Condition and Results of Operations; Business; Management; Conflicts of Interest and Fiduciary Responsibility; Financial Statements
12. Disclosure of Commission Position on Indemnification for Securities Act Liabilities.....	*

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\* Not Applicable

++++++  
 +INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A +  
 +REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE +  
 +SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY +  
 +OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT +  
 +BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR +  
 +THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE +  
 +SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE +  
 +UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF +  
 +ANY STATE. +  
 ++++++

SUBJECT TO COMPLETION, DATED JUNE 24, 1994

13,100,000 COMMON UNITS  
 REPRESENTING LIMITED PARTNER INTERESTS

[LOGO OF FERRELLGAS  
 APPEARS HERE]

FERRELLGAS PARTNERS, L.P.

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The Common Units offered hereby represent limited partner interests in  
 Ferrellgas Partners, L.P., a Delaware limited partnership (the "Partnership").  
 The Partnership was recently formed to acquire and operate the propane business  
 and assets of Ferrellgas, Inc. ("Ferrellgas"), one of the largest retail  
 marketers of propane in the United States. Ferrellgas will serve as the general  
 partner (the "General Partner") of the Partnership.

The Partnership will distribute to its partners, on a quarterly basis, 100%  
 of its Available Cash, which is generally all of the cash receipts of the  
 Partnership, adjusted for its cash disbursements and net changes in reserves.  
 During the Subordination Period, which will generally not end prior to August  
 1, 1999, each holder of Common Units will generally be entitled to receive  
 quarterly distributions of \$0.50 per Common Unit per quarter, or \$2.00 per  
 Common Unit on an annualized basis, before any distributions are made on the  
 outstanding Subordinated Units of the Partnership.

PURCHASERS OF COMMON UNITS SHOULD CONSIDER EACH OF THE FACTORS DESCRIBED  
 UNDER "RISK FACTORS" IN EVALUATING AN INVESTMENT IN THE PARTNERSHIP, INCLUDING,  
 BUT NOT LIMITED TO, THE FOLLOWING:

- . FUTURE PARTNERSHIP PERFORMANCE WILL DEPEND UPON THE SUCCESS OF THE  
 PARTNERSHIP IN MAXIMIZING PROFIT FROM RETAIL PROPANE SALES. PROPANE SALES  
 ARE AFFECTED BY WEATHER PATTERNS, PRODUCT PRICES AND COMPETITION,  
 INCLUDING COMPETITION FROM OTHER ENERGY SOURCES.
- . CASH DISTRIBUTIONS WILL DEPEND ON FUTURE PARTNERSHIP PERFORMANCE AND WILL  
 BE AFFECTED BY THE FUNDING OF RESERVES, EXPENDITURES AND OTHER MATTERS  
 WITHIN THE DISCRETION OF THE GENERAL PARTNER.
- . POTENTIAL CONFLICTS OF INTEREST COULD ARISE BETWEEN THE GENERAL PARTNER  
 AND ITS AFFILIATES, ON THE ONE HAND, AND THE PARTNERSHIP OR ANY PARTNER  
 THEREOF, ON THE OTHER.
- . HOLDERS OF COMMON UNITS WILL HAVE LIMITED VOTING RIGHTS AND THE GENERAL  
 PARTNER WILL MANAGE AND CONTROL THE PARTNERSHIP.
- . THE PARTNERSHIP AGREEMENT LIMITS THE LIABILITY AND MODIFIES THE FIDUCIARY  
 DUTIES OF THE GENERAL PARTNER; HOLDERS OF COMMON UNITS ARE DEEMED TO HAVE  
 CONSENTED TO CERTAIN ACTIONS AND CONFLICTS OF INTEREST THAT MIGHT  
 OTHERWISE BE DEEMED A BREACH OF FIDUCIARY OR OTHER DUTIES UNDER STATE LAW.
- . PURCHASERS OF THE COMMON UNITS OFFERED HEREBY WILL EXPERIENCE IMMEDIATE  
 AND SUBSTANTIAL DILUTION IN THE NET TANGIBLE BOOK VALUE PER COMMON UNIT  
 FROM THE INITIAL PUBLIC OFFERING PRICE.

Prior to this offering there has been no public market for the Common Units.  
 It is currently estimated that the initial public offering price per Common  
 Unit will be between \$20.50 and \$22.25. For the factors considered in  
 determining the initial public offering price, see "Underwriting." The Common  
 Units have been approved for listing on The New York Stock Exchange, subject to  
 official notice of issuance, under the trading symbol "FGP".

(continued on page 3)

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND  
 EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES  
 AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE  
 ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY  
 IS A CRIMINAL OFFENSE.

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UNDERWRITING  
 INITIAL PUBLIC DISCOUNTS AND PROCEEDS TO  
 OFFERING PRICE COMMISSIONS (1) PARTNERSHIP (2)  
 -----

Per Common Unit.....	\$	\$	\$
Total (3).....	\$	\$	\$

- - - - -
- (1) The Partnership, the General Partner and Ferrell Companies, Inc. have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."
- (2) Before deducting estimated expenses of \$       payable by the Partnership.
- (3) The Partnership has granted the Underwriters an option for 30 days to purchase up to an additional 1,965,000 Common Units at the initial public offering price per unit, less the underwriting discounts and commissions, solely to cover overallocments. If such option is exercised in full, the total initial public offering price, underwriting discounts and commissions and proceeds to the Partnership will be \$    , \$    , and \$    , respectively. See "Underwriting."

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The Common Units offered hereby are offered severally by the Underwriters, as specified herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that certificates representing the Common Units will be ready for delivery in New York, New York, on or about       , 1994.

GOLDMAN, SACHS & CO.

DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION  
A.G. EDWARDS & SONS, INC.  
PAINWEBBER INCORPORATED  
SMITH BARNEY INC.

- - - - -

The date of this Prospectus is       , 1994.

[ART]

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON UNITS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

UNTIL , 1994 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN COMMON UNITS, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

(continued from page 1)

The sale of the Common Units offered hereby is subject to, among other things, completion of the public offering of approximately \$250 million of % Senior Notes due 2001 by the Partnership's subsidiary operating partnership.

The Common Units offered hereby will represent a 42.5% limited partner interest in the Partnership (47.3% if the Underwriters' over-allotment option is exercised in full). The General Partner and its affiliates will own a 2% general partner interest in the Partnership, as well as 1,000,000 Common Units (if the Underwriters' over-allotment option is exercised in full, all of such Common Units will be repurchased and retired by the Partnership) and 16,118,559 subordinated limited partner interests (the "Subordinated Units") representing an aggregate 55.5% limited partner interest in the Partnership (50.7% if the Underwriters' over-allotment option is exercised in full). The Common Units and the Subordinated Units are collectively referred to herein as the "Units." Holders of the Common Units and the Subordinated Units are collectively referred to herein as "Unitholders."

Distributions of Available Cash by the Partnership will generally be made 98% to the Unitholders and 2% to the General Partner, except that if distributions of Available Cash exceed certain target levels, an affiliate of the General Partner will receive a percentage of such excess distributions that will increase to up to 48% of distributions in excess of the highest target level. During a specified period (the "Subordination Period"), distributions of Available Cash on Subordinated Units will generally be subordinated to distributions on Common Units to the extent necessary to permit distributions of \$0.50 per Common Unit for each full quarter (the "Minimum Quarterly Distribution"). For the period from the closing of this offering through October 31, 1994, the Minimum Quarterly Distribution will be adjusted (either upward or downward) based on the actual length of the period. The Subordination Period will extend from the closing of this offering until the first day of any quarter beginning on or after August 1, 1999 in respect of which (i) distributions of Available Cash on the Common Units and the Subordinated Units equaled or exceeded the Minimum Quarterly Distribution 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 made to increase the operating capacity of the Partnership. A total of 5,372,853 Subordinated Units held by Ferrellgas and its affiliates will convert into Common Units on the first day of any quarter beginning on or after August 1, 1997 in respect of which (i) distributions of Available Cash on the Common Units and the Subordinated Units equaled or exceeded the Minimum Quarterly Distribution for each of the two consecutive four-quarter periods immediately preceding such date 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 the expiration of the Subordination Period all remaining Subordinated Units will convert into Common Units and will thereafter participate pro rata with the other Common Units in distributions of Available Cash. See "Cash Distribution Policy--Quarterly Distributions of Available Cash."

The Partnership will furnish to record holders of Common Units (i) within 120 days after the close of each fiscal year of the Partnership, an annual report containing audited financial statements and a report thereon by its independent public accountants and (ii) within 90 days after the close of each fiscal quarter (other than the fourth quarter), a quarterly report containing unaudited summary financial information. The Partnership will also furnish each Unitholder with tax information within 90 days after the close of each calendar year.

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## PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and historical and pro forma financial statements appearing elsewhere in this Prospectus and should be read only in conjunction with the entire Prospectus. Unless otherwise specified, the information in this Prospectus assumes that the Underwriters' overallotment option is not exercised and that the initial public offering price is \$21.375 per Common Unit (the midpoint of the estimated range). For ease of reference, a glossary of certain terms used in this Prospectus is included as Appendix C to this Prospectus.

### FERRELLGAS PARTNERS, L.P.

Ferrellgas Partners, L.P. (the "Partnership") is a Delaware limited partnership recently formed to acquire and operate the propane business and assets of Ferrellgas, Inc. (the "Company" or "Ferrellgas"). Ferrellgas is the general partner (the "General Partner") of the Partnership and a wholly owned subsidiary of Ferrell Companies, Inc. ("Ferrell"). Ferrell was founded in 1939 as a single retail propane outlet in Atchison, Kansas, and has grown principally through the acquisition of retail propane operations throughout the United States. The Company believes that it is the third largest retail marketer of propane in the United States, based on gallons sold, serving more than 600,000 residential, industrial/commercial and agricultural customers in 45 states and the District of Columbia through approximately 416 retail outlets and 226 satellite locations in 36 states (some outlets serve an interstate market). The Company's largest market concentrations are in the Midwest, Great Lakes and Southeast regions of the United States. The Company operates in areas of strong retail market competition, which has required it to develop and implement strict capital expenditure and operating standards in its existing and acquired retail propane operations in order to control operating costs. This effort has resulted in upgrades in the quality of its field managers, the application of strong return on asset benchmarks and improved productivity methodologies.

The Company's retail propane sales volumes were approximately 553 million, 496 million and 482 million gallons during the fiscal years ended July 31, 1993, 1992 and 1991, respectively. Earnings before depreciation, amortization, interest and taxes ("EBITDA") were \$89.4 million, \$87.6 million and \$99.2 million for the fiscal years ended July 31, 1993, 1992 and 1991, respectively. EBITDA for the twelve months ended April 30, 1994 was \$98.6 million. The Company's net losses for the fiscal years ended July 31, 1993 and 1992 were \$0.8 million and \$11.7 million, respectively, and its net earnings for the fiscal year ended July 31, 1991 were \$2.0 million. Net earnings for the nine month periods ended April 30, 1994 and 1993 were \$19.5 million and \$12.8 million, respectively. For a discussion of the seasonality of the Company's operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--General."

### BUSINESS STRATEGY

The retail propane industry is a mature one, in which the Company foresees only limited growth in total demand for the product. Based on information available from the Energy Information Administration, the Company believes the overall demand for propane has remained relatively constant over the past several years, with year to year industry volumes being impacted primarily by weather patterns. As a result, growth in this industry is accomplished primarily through acquisitions. Except for a few large competitors, the propane industry is highly fragmented and principally composed of over 3,000 local and regional companies. Historically, the Company has been successful in acquiring independent propane retailers and integrating them into the Company's operations at what it believes to be attractive returns. In July 1984, the Company acquired propane operations with annual retail sales volumes of approximately 33 million gallons at a cost of approximately \$13.0 million, and in December 1986, the Company acquired propane operations with annual retail sales volumes of approximately 395 million gallons at a cost of approximately \$457.5 million. Since December 1986, and as of April 30, 1994, the Company has acquired 67 smaller independent propane retailers which the Company

believes were not individually material. These acquisitions have significantly expanded and diversified the Company's geographic presence.

The Partnership plans to continue to expand its business principally through acquisitions in areas in close proximity to the Company's existing operations so that such newly acquired operations can be efficiently combined with existing operations and savings can be achieved through the elimination of certain overlapping functions. An additional goal of these acquisitions will be to improve the operations and profitability of the businesses the Partnership acquires by integrating them into its established propane supply network and by improving customer service. The Partnership also plans to pursue acquisitions which broaden its geographic coverage. The Company has historically increased its existing customer base and retained the customers of acquired operations through marketing efforts that focus on providing quality service to customers. 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 for the Partnership.

The General Partner is unable to predict the amount or timing of future capital expenditures for acquisitions. Prior to the closing of this offering, however, the Operating Partnership will enter into a bank credit facility (the "Credit Facility") providing a maximum \$185 million commitment for borrowings and letters of credit. Under the terms of the Credit Facility at least \$60 million will be available solely to finance acquisitions and growth capital expenditures. In addition to borrowings under the Credit Facility, the Partnership may fund future acquisitions from internal cash flow or the issuance of additional Partnership interests. Under the instruments governing the Senior Notes and the Credit Facility, the Partnership is prohibited from making distributions to its partners and other Restricted Payments (as defined in such instruments) unless certain specified targets for capital expenditures and expenditures for permitted acquisitions have been met. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Pro Forma Financial Condition."

In addition to growth through acquisitions, the General Partner believes that the Partnership may also achieve growth within its existing propane operations. Historically, the Company has experienced modest internal growth in its customer base. 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 Company currently has marketing programs underway which focus specific resources toward this effort. See "Business--Retail Operations--Business Strategy."

#### GENERAL

Propane, a byproduct of natural gas processing and petroleum refining, 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 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. Consumption of propane as a heating fuel peaks sharply in winter months.

The Company sells propane primarily to four specific markets: residential, industrial/commercial, agricultural and other (principally to other propane retailers and as an engine fuel). During the fiscal year ended July 31, 1993, sales to residential customers accounted for 61% of the Company's retail gross profits, sales to industrial/commercial customers accounted for 26% of the Company's retail gross profits, sales to agricultural customers accounted for 6% of the Company's retail gross profits

and sales to other customers accounted for 7% of the Company's retail gross profits. Residential sales have a greater profit margin and a more stable customer base and tend to be less sensitive to price changes than the other markets served by the Company. While the propane distribution business is seasonal in nature and historically sensitive to variations in weather, management believes that the geographical diversity of the Company's areas of operations helps to minimize the Company's exposure to regional weather or economic patterns. Furthermore, long-term historic weather data from the National Climatic Data Center indicate that average annual temperatures have remained relatively constant over the last 30 years, with fluctuations occurring on a year-to-year basis only. In each of the past five fiscal years, which include the two warmest winters in the United States since 1953, pro forma Available Cash would have been sufficient to allow the Partnership to distribute the Minimum Quarterly Distribution on all Common Units assuming projected pro forma interest expense and capital expenditure levels.

Profits in the retail propane business are primarily based on the cents-per-gallon difference between the purchase price and the sales price of propane. The Company generally purchases propane on a short-term basis; therefore, its supply costs generally fluctuate with market price fluctuations. Should the wholesale cost of propane decline in the future, the Company believes that 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. Historically, the Company has been able to maintain margins on an annual basis following changes in the wholesale cost of propane. The Company's success in maintaining its margins is evidenced by the fact that since fiscal 1989 average annual retail gross margins, measured on a cents-per-gallon basis, have generally varied by a relatively low percentage. The General Partner is unable to predict, however, how and to what extent a substantial increase or decrease in the wholesale cost of propane would affect the Partnership's margins and profitability.

Propane 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 sold in such areas as a standby fuel for use during peak demand periods and during interruption in natural gas service. Propane is generally less expensive to use than electricity for space heating, water heating and cooking. 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, lessening competition between such fuels.

The retail propane business of the Company consists principally of transporting propane to its retail distribution outlets and then to tanks located on its customers' premises. Propane supplies are purchased in the contract and spot markets, primarily from natural gas processing plants and major oil companies. In addition, retail propane customers typically lease their stationary storage tanks from their propane distributors. Approximately 70% of the Company's customers lease their tank from the Company. The lease terms and, in most states, certain fire safety regulations, restrict the refilling of a leased tank solely to the propane supplier that owns the tank. The cost and inconvenience of switching tanks minimizes a customer's tendency to switch among suppliers of propane on the basis of minor variations in price.

The Company is also engaged in the trading of propane and other natural gas liquids, chemical feedstocks marketing and wholesale propane marketing. In fiscal year 1993, the Company's annual wholesale and trading sales volume was approximately 1.2 billion gallons of propane and other natural gas liquids, approximately 64% of which was propane. Because the Partnership will possess a large

distribution system, underground storage capacity and the ability to buy large volumes of propane, the General Partner believes that the Partnership will be 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.

#### PARTNERSHIP STRUCTURE AND MANAGEMENT

Ferrellgas will serve as the general partner of the Partnership. Following this offering the management and employees of Ferrellgas who currently manage and operate the propane business and assets to be owned by the Partnership will continue to manage and operate the Partnership's business as officers and employees of the General Partner. See "Management."

In order to simplify the Partnership's obligations under the laws of several jurisdictions in which it will conduct business, the Partnership's activities will be conducted through a subsidiary operating partnership (the "Operating Partnership"). The Partnership will be the sole limited partner of the Operating Partnership and the General Partner will serve as general partner of the Operating Partnership. Unless the context otherwise requires, references herein to the Partnership include the Partnership and the Operating Partnership on a combined basis.

The General Partner will receive no management fee in connection with its management of the Partnership and will receive no remuneration for its services as general partner of the Partnership other than reimbursement for all direct and indirect expenses incurred in connection with the Partnership's operations and all other necessary or appropriate expenses allocable to the Partnership or otherwise reasonably incurred by the General Partner in connection with the operation of the Partnership's business. The Partnership Agreement provides that the General Partner shall determine the fees and expenses that are allocable to the Partnership in any reasonable manner determined by the General Partner in its sole discretion. Because of the broad authority granted to the General Partner to determine the fees and expenses, including compensation of the General Partner's officers and other employees, allocable to the Partnership, certain conflicts of interest could arise between the General Partner and its affiliates, on the one hand, and the Partnership and its limited partners, on the other, and the limited partners will have no ability to control the expenses allocated by the General Partner to the Partnership.

The principal executive offices of the Partnership are located at One Liberty Plaza, Liberty, Missouri 64068, and its telephone number is (816) 792-1600.

The chart on the following page depicts the organization and ownership of the Partnership and the Operating Partnership after giving effect to the sale of the Common Units offered hereby (assuming that the Underwriters' over-allotment option is not exercised). The percentages reflected in the following chart represent the approximate ownership interest in each of the Partnership and the Operating Partnership, individually. Except in the following chart, the ownership percentages referred to in this Prospectus reflect the approximate effective ownership interest of the holder in the Partnership and the Operating Partnership on a combined basis.

(CHART)

Conflicts of interest may arise between the General Partner and its affiliates, on the one hand, and the Partnership, the Operating Partnership and the Unitholders, on the other. Such conflicts could include, without limitation, conflicts arising from (i) decisions of the General Partner that affect the amount of Available Cash constituting Cash from Operations, (ii) the dependence of the Partnership on employees of the General Partner and its affiliates to conduct the business of the Partnership, (iii) the reimbursement of the General Partner for expenses incurred by it in connection with the Partnership's operations, (iv) the General Partner's decision to limit, where possible, its liability under contractual arrangements entered into by the Partnership, (v) the inability of the limited partners of the

Partnership to enforce obligations of the General Partner under agreements it has entered into with the Partnership, (vi) the fact that the agreements and arrangements between the Partnership and the General Partner and its affiliates are not and will not be the result of arms-length negotiations, (vii) the right of the General Partner to call for and purchase Units as provided in the Partnership Agreement and (viii) the ability of affiliates of the General Partner to engage in activities that compete with the business of the Partnership, other than retail propane sales to end users in the continental United States. The General Partner will have an audit committee consisting of independent members of its Board of Directors which will be available at the General Partner's discretion to review matters involving potential conflicts of interest.

#### TRANSACTIONS AT CLOSING

Concurrently with the closing of this offering, Ferrellgas will contribute all of its propane business and assets to the Partnership in exchange for 1,000,000 Common Units, 16,118,559 Subordinated Units and certain rights to receive incentive distributions (the "Incentive Distribution Rights") if distributions of Available Cash exceed certain target levels, as well as a 2% general partner interest in the Partnership and the Operating Partnership, on a combined basis (see "Cash Distribution Policy--Quarterly Distributions of Available Cash"). In connection with the contribution of such business and assets by Ferrellgas, the Operating Partnership will assume substantially all of the liabilities, whether known or unknown, associated with such business and assets (other than income tax liabilities). The Operating Partnership intends to maintain insurance and reserves at levels that it believes will be adequate to satisfy such liabilities. In addition, the Operating Partnership will assume the payment obligations of Ferrellgas under its Series A and Series C Floating Rate Senior Notes due 1996 (the "Existing Floating Rate Notes"), its Series B and Series D Fixed Rate Senior Notes (the "Existing Fixed Rate Notes" and, together with the Existing Floating Rate Notes, the "Existing Senior Notes") and its 11 5/8% Senior Subordinated Debentures (the "Existing Subordinated Debentures"). All of this long-term debt will be retired with the net proceeds from the sale by the Partnership of the Common Units offered hereby (estimated to be approximately \$260.3 million at an assumed initial public offering price of \$21.375 per Common Unit) and the net proceeds from the issuance of approximately \$250 million in aggregate principal amount of % Senior Notes due 2001 (the "Senior Notes") to be issued by the Operating Partnership concurrently with the closing of this offering (estimated to be approximately \$245.3 million). The book value of the assets being contributed to the Partnership will be approximately \$83 million less than the liabilities to be assumed by the Operating Partnership. Immediately prior to the closing of this offering, the Operating Partnership expects to enter into the \$185 million Credit Facility. The Credit Facility will permit borrowings of up to \$100 million on a senior unsecured revolving line of credit basis to fund working capital and general partnership requirements (of which \$50 million will be available to support letters of credit). In addition, up to \$85 million of borrowings will be permitted on a senior unsecured basis, at least \$60 million of which will be available solely to finance acquisitions and growth capital expenditures.

Ferrellgas will retain and will not contribute to the Partnership approximately \$39 million in cash, approximately \$17 million in receivables from affiliates of its parent, Ferrell, and Class B redeemable common stock of Ferrell (the "Ferrell Class B Stock") with a book value of approximately \$36 million. It is anticipated that following the closing of this offering the Company will loan approximately \$25 million to Ferrell and will dividend to Ferrell the remainder of the cash, receivables and Ferrell Class B Stock, as well as the Common Units, Subordinated Units and Incentive Distribution Rights received by the Company in exchange for the contribution of its propane business and assets to the Partnership.

Concurrently with the closing of this offering, the Company will consummate a tender offer and consent solicitation with respect to its Existing Subordinated Debentures. The consent solicitation is necessary to modify the indenture related to the Existing Subordinated Debentures in order to permit



the Company to consummate the transactions contemplated by this Prospectus. As of the date of this Prospectus, all of the outstanding Existing Subordinated Debentures have been tendered and will be retired by the Operating Partnership, as described above.

Concurrently with the closing of this offering, the Company will mail to the holders of the Existing Senior Notes a notice of redemption of all outstanding Existing Senior Notes, pursuant to the optional redemption provisions of the indenture governing the Existing Senior Notes (the "Existing Senior Notes Indenture"). The redemption date will be 30 days after the date of mailing of such notice. The Existing Senior Notes Indenture provides for a redemption price equal to 100% of the principal amount plus accrued and unpaid interest, if any, to the redemption date plus, in the case of the Existing Fixed Rate Notes, a premium which is based on certain yield information for U.S. Treasury securities as of three business days prior to the redemption date. The Operating Partnership will deposit with the trustee on the date of closing of this offering an amount expected to be more than sufficient to pay the redemption price. As a result of the transactions contemplated hereby, during the 30-day period prior to the redemption date, an event of default will exist under the Existing Senior Notes Indenture. The holders of at least 25% of the principal amount of Existing Senior Notes, therefore, will be entitled, by notice to the Company and the trustee, to declare the unpaid principal of, and accrued and unpaid interest and the applicable premium on, the Existing Senior Notes to be immediately due and payable. The trustee under the Existing Senior Notes Indenture has advised the Company that it intends to notify the holders of the Existing Senior Notes of this right. In the event of such a declaration, the amount already deposited by the Operating Partnership in payment of the redemption price would be applied to pay the amount so declared immediately due and payable. The Partnership will incur an extraordinary loss of approximately \$20.4 million related to the retirement of the Existing Senior Notes, approximately \$31.2 million relating to the Existing Subordinated Debentures resulting from consent and tender offer fees and approximately \$11.2 million relating to the write-off of unamortized financing costs, all in accordance with generally accepted accounting principles ("GAAP").

At the closing of this offering, it is anticipated that the Operating Partnership will borrow approximately \$10 million under the Credit Facility which will enable the Partnership to commence operations with an initial cash balance of at least \$20 million. To the extent that the initial public offering price per Common Unit is less than \$21.375, the Operating Partnership may need to borrow additional funds under the Credit Facility in order to commence operations with an initial cash balance of at least \$20 million. For a description of the Credit Facility, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Pro Forma Financial Condition."

The foregoing description assumes that the Underwriters' overallotment option is not exercised. If the Underwriters' overallotment option is exercised in full, the Partnership will issue 1,965,000 additional Common Units. The Partnership will use the net proceeds from any exercise of the Underwriters' overallotment option first to repay any amounts borrowed under the Credit Facility or, if no such borrowings have been made, to establish an initial cash balance of up to \$20 million that will be used for general partnership purposes. Any remaining net proceeds from the exercise of the Underwriters' overallotment option will be used by the Partnership to repurchase for retirement up to 1,000,000 Common Units held by Ferrell at a price per Unit equal to the initial public offering price less the underwriting discounts and commissions set forth on the cover page of this Prospectus. Any net proceeds remaining after such repurchase will be retained by the Partnership for general partnership purposes.

Immediately following this offering, Ferrellgas will own an effective 2% general partner interest in the Partnership and the Operating Partnership, on a combined basis, and Ferrell will own 1,000,000 Common Units (if the Underwriters' overallotment option is exercised in full, all of such Common Units will be repurchased and retired by the Partnership) and 16,118,559 Subordinated Units representing an aggregate 55.5% limited partner interest in the Partnership (50.7% if the Underwriters' overallotment option is exercised in full) and the Incentive Distribution Rights. See "The Transactions."

SUMMARY HISTORICAL AND PRO FORMA  
CONSOLIDATED FINANCIAL AND OPERATING DATA

The following tables set forth for the periods and the dates indicated, summary historical financial and operating data for the Company and pro forma financial and operating data for the Partnership after giving effect to the transactions contemplated by this Prospectus. The summary historical financial data for the three years ended July 31, 1993 and the nine-month periods ended April 30, 1993 and 1994, are derived from the audited and unaudited consolidated financial statements contained elsewhere in this Prospectus. The historical financial data for the interim period ended April 30, 1993 and the Partnership's summary pro forma financial data are derived from unaudited financial information. The Partnership's summary pro forma financial data should be read in conjunction with the consolidated financial statements and the pro forma combined financial statements and notes thereto included elsewhere in this Prospectus. In addition, the propane business is seasonal in nature with its peak activity during the winter months. Therefore, the results for the interim periods are not indicative of the results that can be expected for a full year. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	HISTORICAL					PARTNERSHIP PRO FORMA
	YEAR ENDED JULY 31,					YEAR ENDED JULY 31, 1993
	1989	1990	1991	1992	1993	
(IN THOUSANDS, EXCEPT PER UNIT DATA AND RATIO)						
INCOME STATEMENT DATA:						
Total revenues.....	\$409,953	\$467,641	\$543,933	\$501,129	\$541,945	\$541,945
Depreciation and amortization.....	32,528	33,521	36,151	31,196	30,840	30,840
Operating income.....	53,425	54,388	63,045	56,408	58,553	58,053
Interest expense.....	54,572	55,095	60,507	61,219	60,071	29,029
Earnings (loss) from continuing operations.	(1,506)	(347)	1,979	(1,700)(1)	109	28,750
Earnings from continuing operations per Unit.....						\$ 0.93
BALANCE SHEET DATA (AT END OF PERIOD):						
Working capital.....	\$(39,708)	\$ 50,456	\$ 53,403	\$ 67,973	\$ 74,408	
Total assets.....	487,631	554,580	580,260	598,613	573,376	
Payable to (receivable from) parent and affiliates.....	13,109	10,743	3,763	2,236	(916)	
Long-term debt.....	354,626	465,644	466,585	501,614	489,589	
Stockholder's equity...	6,616	11,463	21,687	8,808	11,359	
OPERATING DATA:						
Retail propane sales volumes (in gallons)..	498,395	499,042	482,211	495,707	553,413	553,413
Capital expenditures(2):						
Maintenance.....	\$ 7,271	\$ 5,428	\$ 7,958	\$ 10,250	\$ 10,527	\$ 10,527
Growth.....	10,062	10,447	2,478	3,342	2,851	2,851
Acquisition.....	14,668	18,005	25,305	10,112	897	897
Total.....	\$ 32,001	\$ 33,880	\$ 35,741	\$ 23,704	\$ 14,275	\$ 14,275
	=====	=====	=====	=====	=====	=====
SUPPLEMENTAL DATA:						
Earnings before depreciation, amortization, interest and taxes(3).....	\$ 85,953	\$ 87,909	\$ 99,196	\$ 87,604	\$ 89,393	\$ 88,893
Fixed charge coverage ratio(4).....						3.0x

	HISTORICAL		PARTNERSHIP PRO FORMA
	-----		-----
	NINE MONTHS ENDED		NINE MONTHS ENDED
	APRIL 30,		APRIL 30,
	-----	-----	-----
	1993	1994	1994
	-----	-----	-----
(IN THOUSANDS, EXCEPT PER UNIT DATA AND RATIO)			
INCOME STATEMENT DATA:			
Total revenues.....	\$468,302	\$450,477	\$450,477
Depreciation and amortization.....	23,238	21,688	21,688
Operating income.....	64,708	75,445	75,070
Interest expense.....	45,056	44,233	21,187
Earnings from continuing operations.	12,785	20,356	53,892
Earnings from continuing operations per Unit.....			\$ 1.75
BALANCE SHEET DATA (AT END OF PERIOD):			
Working capital.....	\$100,645	\$104,164	\$ 54,304
Total assets.....	602,063	600,113	478,254
Payable to (receivable from) parent and affiliates.....	2,076	(3,909)	91
Long-term debt.....	500,227	476,471	267,441
Stockholder's equity.....	21,855	30,848	
Partners' capital:			
Common unitholders.....			66,067
Subordinated unitholder.....			75,524
General partner.....			2,890
OPERATING DATA:			
Retail propane sales volumes (in gallons).....	483,489	490,254	490,254
Capital expenditures(2):			
Maintenance.....	\$ 9,232(5)	\$ 3,377(5)	\$ 3,377
Growth.....	2,597	2,568	2,568
Acquisition.....	--	2,472	2,472
	-----	-----	-----
Total.....	\$ 11,829	\$ 8,417	\$ 8,417
	=====	=====	=====
SUPPLEMENTAL DATA:			
Earnings before depreciation, amortization, interest and taxes(3).....	\$ 87,946	\$ 97,133	\$ 96,758
Fixed charge coverage ratio(4)			3.3x

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- (1) In August 1991, the Company revised the estimated useful lives of storage tanks from 20 to 30 years in order to more closely reflect the expected useful lives of these assets. The effect of the change in accounting estimates resulted in a favorable impact on net loss from continuing operations of approximately \$3.7 million for the fiscal year ended July 31, 1992.
- (2) 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 retail customer base; and (iii) acquisition capital expenditures, which include expenditures related to the acquisition of retail propane operations. Acquisition capital expenditures include a portion of the purchase price allocated to intangibles associated with the acquired businesses.
- (3) EBITDA is calculated as operating income 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 from continuing operations or net income.
- (4) Such ratio is calculated for the preceding four quarter period. Under the terms of the Indenture (as defined in the glossary), the Operating Partnership will be prohibited from making any distributions to the Partnership if the Operating Partnership's Fixed Charge Coverage Ratio (as defined in the glossary) for the preceding four fiscal quarters does not

exceed 2.25 to 1 after giving effect to such distribution.

- (5) The decrease in maintenance capital expenditures from the nine months ended April 30, 1993 to the nine months ended April 30, 1994 is primarily due to the purchase of the Company's corporate headquarters in Liberty, Missouri for its fair market value of \$4.1 million in the first nine months of fiscal 1993.

## THE OFFERING

Securities offered.....	13,100,000 Common Units (15,065,000 Common Units if the Underwriters' overallotment option is exercised in full).
Units to be outstanding after this offering.....	14,100,000 Common Units representing a 45.7% limited partner interest in the Partnership and 16,118,559 Subordinated Units representing a 52.3% limited partner interest in the Partnership. If the Underwriters' overallotment option is exercised in full, 1,965,000 additional Common Units will be issued by the Partnership and all of the 1,000,000 Common Units owned by Ferrell will be repurchased by the Partnership, resulting in 15,065,000 Common Units and 16,118,559 Subordinated Units outstanding, representing a 47.3% and 50.7% limited partner interest in the Partnership, respectively.
Distributions of Available Cash.....	The Partnership will distribute 100% of its Available Cash within 45 days after the end of each January, April, July and October to Unitholders of record on the applicable record date and to the General Partner. "Available Cash" will consist generally of all of the cash receipts of the Partnership adjusted for its cash disbursements and net changes in reserves. The full definition of Available Cash is set forth in the Partnership Agreement, the form of which is included in this Prospectus as Appendix A. The General Partner has discretion in making cash disbursements and establishing reserves, thereby affecting the amount of Available Cash. See "Cash Distribution Policy." Available Cash will generally be distributed 98% to the Unitholders and 2% to the General Partner, except that if distributions of Available Cash exceed certain target levels, an affiliate of the General Partner will receive a percentage of such excess distributions that will increase to up to 48% of distributions in excess of the highest target level. See "Cash Distribution Policy--Quarterly Distributions of Available Cash--Incentive Distributions--Hypothetical Annualized Yield."
Distributions to Unitholders.....	With respect to each quarter during the Subordination Period, which will generally not end earlier than August 1, 1999, the Common Unitholders will generally have the right to receive the Minimum Quarterly Distribution of \$0.50 per Common Unit, plus any arrearages in the distribution of the Minimum Quarterly Distribution on the Common Units for prior quarters, before any distributions of Available Cash are made to the Subordinated

Unitholders. For the period from the closing of this offering through October 31, 1994, the Minimum Quarterly Distribution will be adjusted (either upward or downward) based on the actual length of the period. Subordinated Units will not accrue distribution arrearages. Upon the expiration of the Subordination Period, Common Units will no longer accrue distribution arrearages.

Subordination Period;  
Conversion of Subordinated  
Units.....

The Subordination Period will extend from the closing of this offering until the first day of any quarter beginning on or after August 1, 1999 in respect of which (i) distributions of Available Cash on the Common Units and the Subordinated Units equaled or exceeded the Minimum Quarterly Distribution 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 made to increase the operating capacity of the Partnership. A total of 5,372,853 Subordinated Units held by Ferrellgas and its affiliates will convert into Common Units on the first day of any quarter beginning on or after August 1, 1997 in respect of which (i) distributions of Available Cash on the Common Units and the Subordinated Units equaled or exceeded the Minimum Quarterly Distribution for each of the two consecutive four-quarter periods immediately preceding such date 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 the expiration of the Subordination Period, all remaining Subordinated Units will convert into Common Units. The Partnership Agreement also provides that if the General Partner is removed other than for cause, the Subordination Period will end and all outstanding Subordinated Units will convert into Common Units. See "Cash Distribution Policy--Quarterly Distributions of Available Cash" and "The Partnership Agreement--Change of Management Provisions."

Incentive distributions.....

As an incentive, if quarterly distributions of Available Cash exceed certain specified target levels an affiliate of the General Partner will receive 13%, then 23% and then 48% of distributions of Available Cash in excess of such target levels. The target levels are based on the amounts of Available Cash distributed, and incentive distributions will not be made unless the Unitholders have received distributions at specified levels above the Minimum Quarterly Distribution. The rights to receive incentive distributions are referred to as "Incentive Distribution Rights." See "Cash Distribution Policy--Quarterly Distributions of Available Cash."

Adjustment of Minimum  
Quarterly Distribution and  
target distribution  
levels.....

The Minimum Quarterly Distribution and the target distribution levels for the incentive distributions are subject to downward adjustments in the event that Unitholders receive distributions of Cash from Interim Capital Transactions, as defined in the glossary (which generally include transactions such as borrowings, refinancings, sales of securities or sales or other dispositions of assets constituting a return of capital under the Partnership Agreement, as distinguished from cash from Partnership operations), or in the event legislation is enacted or existing law is modified or interpreted in a manner that causes the Partnership to be treated as an association taxable as a corporation or otherwise taxable as an entity for federal, state or local income tax purposes. If the Unitholders receive a full return of capital as a result of distributions of Cash from Interim Capital Transactions, the distributions payable to the holders of the Incentive Distribution Rights will increase to 48% of all amounts distributed thereafter. See "Cash Distribution Policy--Quarterly Distributions of Available Cash--Distributions of Cash from Interim Capital Transactions" and "--Adjustment of Minimum Quarterly Distribution and Target Distribution Levels."

Potential for significant  
additional dilution in the  
future.....

The Partnership Agreement authorizes the General Partner to cause the Partnership to issue an unlimited number of additional 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 in its sole discretion, without the approval of the Unitholders, with certain exceptions, including the following: prior to the end of the Subordination Period, the Partnership may not issue equity securities of the Partnership ranking prior or senior to the Common Units or an aggregate of more than 7,000,000 additional Common Units (excluding Common Units issued upon the exercise of the Underwriters' overallotment option and Common Units issued upon conversion of Subordinated Units) or an equivalent amount of securities ranking on a parity with the Common Units, in either case without the approval of the holders of at least 66 2/3% of the outstanding Common Units; provided, however, that the Partnership may also issue an unlimited number of additional Common Units or parity securities prior to the end of the Subordination Period and without the approval of the Unitholders if (a) such issuance occurs in connection with or (b) such issuance occurs within 270 days of, and the net proceeds from such issuance are used to

repay debt incurred in connection with, a transaction in which the Partnership acquires (through an asset acquisition, merger, stock acquisition or other form of investment) control over assets and properties that would have, if acquired by the Partnership as of the date that is one year prior to the first day of the quarter in which such transaction is to be consummated, resulted in an increase in (i) the amount of Acquisition Pro Forma Available Cash constituting Cash from Operations (as defined in the glossary) generated by the Partnership on a per-Unit basis for all outstanding Units with respect to each of the four most recently completed quarters over (ii) the actual amount of Available Cash constituting Cash from Operations generated by the Partnership on a per-Unit basis for all outstanding Units with respect to each of such four quarters. After the end of the Subordination Period, there is no restriction under the Partnership Agreement on the ability of the Partnership to issue additional limited or general partner interests junior to, on a parity with or senior to the Common Units. See "Risk Factors--Risks Inherent in an Investment in the Partnership--The Partnership May Issue Additional Units, Diluting Existing Unitholders' Interests."

Limited call right.....

If at any time the General Partner and its affiliates own 80% or more of the issued and outstanding limited partner interests of any class, the General Partner may purchase, or assign to its affiliates or the Partnership its right to purchase, all, but not less than all, of the remaining limited partner interests of such class at a purchase price equal to the higher of the Current Market Price (the 20 trading day average of the closing prices on The New York Stock Exchange ("NYSE") ending three days prior to the call date) and the highest cash price paid by the General Partner or any of its affiliates for any limited partner interests of such class within the previous 90 days. As a consequence, a holder of such limited partner interests may have his interests purchased from him even though he may not desire to sell them, or the price paid may be less than the amount the holder would desire to receive upon the sale of his limited partner interests. See "The Partnership Agreement--Limited Call Right."

Limited voting rights.....

Unitholders will not have voting rights except with respect to the following matters, for which the Partnership Agreement requires the approval of at least a majority (and in certain cases a greater percentage) of the outstanding Units (excluding in some cases Units held by the General Partner and its affiliates): a sale or exchange of all or substantially all of the Partnership's assets, the withdrawal or removal of the General Partner, the election of



a successor General Partner, a dissolution and plan of liquidation or reconstitution of the Partnership, a merger of the Partnership, issuance of Units in certain circumstances, approval of certain actions of the General Partner (including the transfer by the General Partner of its general partner interest under certain circumstances) and certain amendments to the Partnership Agreement, including any amendment that would cause the Partnership to be treated as an association taxable as a corporation. Subordinated Units will generally vote as a single class with the Common Units, although Units owned by the General Partner and its affiliates are not permitted to vote on certain issues (such as, the withdrawal of the General Partner, the approval of certain amendments to the Partnership Agreement and the taking of actions that would change the tax status of the Partnership). See "The Partnership Agreement--Restrictions on Authority of the General Partner," "--Amendment of Partnership Agreement," "--Meetings; Voting" and "--Termination and Dissolution."

Inability to remove general partner without consent of Ferrell.....

Subject to certain conditions, the General Partner may be removed upon the approval of the holders of at least 66 2/3% of the outstanding Units. A meeting of the holders of the Common Units may be called only by the General Partner or by the holders of 20% or more of the outstanding Common Units. Ferrell's ownership of Units representing an aggregate 55.5% limited partner interest (50.7% if the Underwriters' overallotment option is exercised in full) upon the closing of this offering effectively precludes any vote to remove Ferrellgas as general partner without the consent of Ferrell. See "The Partnership Agreement-- Withdrawal or Removal of the General Partner" and "-- Meetings; Voting."

Change of management provisions.....

Any person or group (other than Ferrellgas or its affiliates) that acquires beneficial ownership of 20% or more of the Common Units will lose its voting rights with respect to all of its Common Units. In addition, if Ferrellgas is removed as the general partner of the Partnership other than for cause, the Subordination Period will end, and the Subordinated Units will immediately convert into Common Units; in such event Ferrell, as a holder of Common Units issued upon conversion of Subordinated Units, would participate in any distributions, including distributions in respect of arrearages in the Minimum Quarterly Distribution, pro rata with other holders of Common Units. These provisions are intended to discourage a per-

son or group from attempting to remove Ferrellgas as general partner of the Partnership or otherwise change management of the Partnership. The effect of these provisions may be to diminish the price at which the Common Units will trade under certain circumstances. For example, the provisions may make it unlikely that a third party, in an effort to remove the General Partner and take over the management of the Partnership, would make a tender offer for the Common Units at a price above their trading market price. See "The Partnership Agreement--Change of Management Provisions."

Lack of preemptive rights  
of Unitholders.....

The holders of Common Units will not have preemptive rights to acquire additional Common Units or other partnership interests that may be issued by the Partnership. See "Risk Factors--Risks Inherent in an Investment in the Partnership--The Partnership May Issue Additional Units, Diluting Existing Unitholders Interests." Ferrellgas and its affiliates, however, will have certain rights to acquire interests in the Partnership in order to maintain their percentage interests in the Partnership. See "The Partnership Agreement--Issuance of Additional Securities."

Lack of dissenters' rights..

The Common Unitholders are not entitled to dissenters' rights of appraisal under the Partnership Agreement or applicable Delaware law in the event of a merger or consolidation of the Partnership, a sale of substantially all of the Partnership's assets or any other event.

Transfer restrictions.....

All purchasers of Common Units in this offering and purchasers of Common Units in the open market who wish to become Common Unitholders of record must deliver an executed transfer application (the "Transfer Application," the form of which is included in this Prospectus as Appendix B) before the transfer of such Common Units will be registered and before cash distributions and federal income tax allocations will be made to the transferee. Any such transferee who signs a Transfer Application will be entitled to cash distributions and federal income tax allocations without the necessity of any consent of the General Partner. Persons purchasing Common Units who do not deliver an executed Transfer Application will acquire no rights in such Common Units other than the right to resell such Common Units. See "Description of the Common Units--Transfer of Units."

Liquidation preference.....

In the event of any liquidation of the Partnership during the Subordination Period, the outstanding Common Units generally will be entitled to receive a distribution out of the net assets of the Partnership in preference to liquidat-

ing distributions on the Subordinated Units. Following conversion of the Subordinated Units into Common Units, all Units will be treated the same upon liquidation of the Partnership. See "Cash Distribution Policy--Distributions of Cash Upon Liquidation."

Use of proceeds.....	The net proceeds from the sale of the Common Units (estimated to be approximately \$260.3 million after deducting the underwriting discount and expenses of this offering) will be used by the Partnership to repay indebtedness. The Partnership will use the net proceeds from any exercise of the Underwriters' overallotment option first to repay any amounts borrowed under the Credit Facility or, if no such borrowings have been made, to establish an initial cash balance of up to \$20 million that will be used for general partnership purposes. Any remaining net proceeds from the exercise of the Underwriters' overallotment option will be used by the Partnership to repurchase up to 1,000,000 Common Units held by Ferrell at a price per Unit equal to the initial public offering price less the underwriting discounts and commissions set forth on the cover page of this Prospectus. Any net proceeds remaining after such repurchase will be retained by the Partnership for general partnership purposes. See "Use of Proceeds."
Listing.....	The Common Units have been approved for listing on the NYSE, subject to official notice of issuance.
NYSE symbol.....	FGP

## RISK FACTORS

Limited partner interests are inherently different from capital stock of a corporation, although many of the business risks to which the Partnership will be subject are similar to those that would be faced by a corporation engaged in a similar business. Prospective purchasers of the Common Units should consider the following factors in evaluating an investment in the Common Units:

### RISKS INHERENT IN THE PARTNERSHIP'S BUSINESS

- . Partnership profitability will depend in part on the volumes of propane the Partnership markets. Demand for propane is affected by weather patterns, product prices and competition, including competition from other energy sources.
- . Rapid increases in the wholesale price of propane may reduce margins on retail sales. The Partnership intends to engage in the brokerage and trading of propane in order to help insure propane supplies. Trading losses may have an adverse impact on the amount of Available Cash available for distribution to holders of Common Units. Personnel responsible for trading activities have an average of over 10 years of trading experience with the Company.
- . Partnership profitability may be affected by competition. There is intense competition among all participants in the retail propane business for customers. Moreover, many retail customers tend to develop long-term relationships with propane suppliers and, therefore, it may be difficult to obtain new customers other than through the acquisition of other retail propane businesses. Further, the retail propane industry is a mature one, in which the Company foresees only limited growth in total demand for the product. See "Business--Industry and Competition--Competition."
- . The Partnership will transport combustible petroleum products and its activities will be subject to certain operational hazards, including explosion and resulting personal injury. Although the Partnership will carry insurance with respect to certain casualty occurrences, a casualty occurrence might result in the loss of equipment or life, as well as injury and extensive property damage. See "Business--Government Regulation, Environmental and Safety Matters." The General Partner will neither guarantee nor indemnify the Partnership against any claims, whether known or unknown, or contingent liabilities.

### RISKS INHERENT IN AN INVESTMENT IN THE PARTNERSHIP

- . The Partnership will incur indebtedness concurrently with the offering made hereby. As a result, the Partnership will be significantly leveraged and will have indebtedness that is substantial in relation to its partners' equity. Such indebtedness may limit the Partnership's ability to obtain additional borrowings or to issue additional partnership interests on favorable terms. The Senior Notes and the Credit Facility include limitations on the ability of the Operating Partnership to distribute cash to the Partnership and to incur additional indebtedness. Payment of principal and interest on such indebtedness, as well as compliance with the requirements and covenants of such indebtedness, may limit the Partnership's ability to make distributions to Unitholders.
- . Cash distributions are not guaranteed and may fluctuate based upon the Partnership's performance. Although the Partnership will distribute 100% of its Available Cash, as defined in the Partnership Agreement, there can be no assurance regarding the amounts of Available Cash to be generated by the Partnership. The General Partner may establish reserves that

reduce the amount of Available Cash available for distribution. Because the business of the Partnership will be seasonal, the General Partner anticipates that it may make additions to reserves during the Partnership's second and third fiscal quarters in order to fund operating expenses, interest payments and cash distributions to partners with respect to the first and fourth fiscal quarters. Although the General Partner is unable to anticipate the amount of such reserves, its ability to establish reserves enables it to control the amount of Available Cash distributed by the Partnership. Because the Partnership may establish reserves when it is profitable and borrow to make distributions if it does not generate a profit, cash distributions may not be directly connected with the Partnership's profitability.

- . The Senior Notes provide that if the General Partner is no longer controlled by James E. Ferrell or his affiliates, except in certain limited circumstances, the holders of the Senior Notes have the right to require the Operating Partnership to repurchase any or all of the outstanding Senior Notes. The Credit Facility also has a change of control provision which, if triggered, requires the Operating Partnership to repay all outstanding amounts under the Credit Facility.
- . Voting rights of the holders of Common Units are limited. As a result of such limited voting rights, holders of Common Units will not have the ability to participate in Partnership governance to the same degree as holders of capital stock in a corporation.
- . The General Partner will manage and operate the Partnership, and holders of Common Units will have no right to participate in such management and operation. Holders of Common Units will have no right to elect the General Partner on an annual or other continuing basis. The control exercised by the General Partner may make it more difficult for others to gain control or influence the activities of the Partnership.
- . Purchasers of Common Units in this offering will experience substantial and immediate dilution in the net tangible book value per Common Unit from the initial public offering price.
- . The Partnership may issue additional Units and other interests in the Partnership, diluting existing Unitholders' interests.
- . The Partnership Agreement contains certain change of management provisions that are intended to discourage a person or group from attempting to remove Ferrellgas as general partner or otherwise change management of the Partnership.
- . Prior to this offering there has been no public market for the Common Units. The initial public offering price for the Common Units will be determined through negotiations among the General Partner and the representatives of the Underwriters.
- . The holders of the Common Units have not been represented by counsel in connection with this offering, including the preparation of the Partnership Agreement or the other agreements referred to herein.

#### CONFLICTS OF INTEREST AND FIDUCIARY DUTIES

- . The General Partner and its affiliates may have conflicts of interest with the Partnership and the holders of Common Units. The Partnership Agreement permits the General Partner to consider, in resolving conflicts of interest, the interests of other parties (including Ferrellgas and its affiliates) in addition to the interests of the Unitholders.
- . The Partnership Agreement limits the liability and modifies the fiduciary duties under Delaware law of the General Partner to the Partnership and the Unitholders. Holders of Common Units are deemed to have consented to certain actions that might otherwise be deemed conflicts of interest or a breach of fiduciary duty.

- . The Partnership Agreement permits affiliates of the General Partner to engage in any activities except for the retail sale of propane to end users in the continental United States. The General Partner's affiliates may compete with the Partnership in other propane related activities, such as trading, transportation, storage and wholesale distribution of propane. Although the Partnership Agreement does not restrict the ability of affiliates of the General Partner to trade propane or other natural gas liquids in competition with the Partnership, they do not intend to engage in such trading except in association with the conduct of their other permitted activities.

#### TAX CONSIDERATIONS

- . The availability to a Unitholder of federal income tax benefits of an investment in the Partnership depends, in large part, on the classification of the Partnership as a partnership for federal income tax purposes. Based on certain representations by the General Partner, Andrews & Kurth L.L.P., special counsel to the General Partner and the Partnership, is of the opinion that, under current law, the Partnership will be classified as a partnership for federal income tax purposes.
- . No ruling has been requested from the Internal Revenue Service (the "IRS") with respect to classification of the Partnership as a partnership for federal income tax purposes or any other matter affecting the Partnership.
- . In connection with the formation of the Partnership, the General Partner will contribute certain customer relationships to the Partnership. The General Partner intends to treat such customer relationships as amortizable assets of the Partnership for federal income tax purposes. The IRS has challenged the Company's amortization of customer relationships and it is possible that the IRS will challenge the amortization of customer relationships by the Partnership. If the IRS were to successfully challenge the amortization of customer relationships by the Partnership, the amount of amortization available to a Unitholder and, therefore, the after tax return of a Unitholder with respect to his investment in the Partnership, could be adversely affected, although the Partnership does not believe the impact of such effect would be material.
- . In the case of taxpayers subject to the passive loss rules, losses generated by the Partnership, if any, will only be available to offset future income generated by the Partnership and cannot be used to offset income from other activities, including passive activities or investments.
- . A Unitholder will be required to pay income taxes on his allocable share of the Partnership's income, whether or not he receives cash distributions from the Partnership.
- . Investment in Units by certain tax-exempt entities, regulated investment companies and foreign persons raises issues unique to such persons.
- . A Unitholder who disposes of Units following the close of the Partnership's taxable year but before the close of the Unitholder's taxable year may be required to report in income for his taxable year his distributive share of more than one year of Partnership income, gain, loss and deduction.
- . The Partnership has been registered with the IRS as a "tax shelter." No assurance can be given that the Partnership will not be audited by the IRS or that tax adjustments will not be made.

See "Risk Factors," "Conflicts of Interest and Fiduciary Responsibility," "Description of the Common Units," "The Partnership Agreement" and "Tax Considerations" for a more detailed description of these and other risk factors and conflicts of interest which should be considered in evaluating an investment in the Common Units.

## SUMMARY OF TAX CONSIDERATIONS

The tax consequences of an investment in the Partnership to a particular investor will depend in part on the investor's own tax circumstances. Each prospective investor should consult his own tax advisor about the federal, state and local tax consequences of an investment in Common Units.

The following is a brief summary of certain expected tax consequences of acquiring, owning and disposing of Common Units. The following discussion, insofar as it relates to federal income tax laws, is based in part upon the opinion of Andrews & Kurth L.L.P., special counsel to the General Partner and the Partnership, described in "Tax Considerations." This summary is qualified by the discussion in "Tax Considerations," particularly the qualifications on the opinions of counsel described therein.

### PARTNERSHIP STATUS

In the opinion of Andrews & Kurth L.L.P., the Partnership will be classified for federal income tax purposes as a partnership, and the beneficial owners of Common Units will be considered partners in the Partnership. Accordingly, the Partnership will pay no federal income taxes, and a Common Unitholder will be required to report in his federal income tax return his share of the Partnership's income, gains, losses, deductions and credits. In general, cash distributions to a Common Unitholder will be taxable only if, and to the extent that, they exceed such Unitholder's tax basis in his Common Units.

### TREATMENT OF PARTNERSHIP DISTRIBUTIONS

In general, annual income and loss of the Partnership will be allocated to the General Partner and the Unitholders for each taxable year in accordance with their respective percentage interests in the Partnership, as determined annually and prorated on a monthly basis and subsequently apportioned among the General Partner and the Unitholders of record as of the opening of the first business day of the month to which they relate, even though Unitholders may dispose of their Units during the month in question. A Unitholder will be required to take into account, in determining his federal income tax liability, his share of income generated by the Partnership for each taxable year of the Partnership ending within or with the taxable year of the Unitholder's whether or not cash distributions are made to him. As a consequence, a Unitholder's share of taxable income of the Partnership (and possibly the income tax payable by him with respect to such income) may exceed the cash, if any, actually distributed to such Unitholder.

### RATIO OF TAXABLE INCOME TO DISTRIBUTION

The General Partner estimates that a purchaser of Common Units in this offering (i) who holds such Common Units through the record date for the quarter ended July 31, 1995 will be allocated an amount of federal taxable income for such period that will be approximately 10% of cash distributed with respect to such period and (ii) who holds such Common Units through the record date for the quarter ended July 31, 1999 will be allocated, on a cumulative basis, no net federal taxable income for such period. The General Partner anticipates that after July 31, 1999 taxable income allocated to Unitholders will increase from year to year and will constitute a significantly higher percentage of cash distributed to Unitholders. These estimates are based upon the assumption that the gross income from operations will approximate an amount required to make the Minimum Quarterly Distribution and other assumptions with respect to capital expenditures, cash flow and anticipated cash distributions. These estimates and assumptions are subject to, among other things, numerous business, economic, competitive and political uncertainties beyond the control of the General Partner. Further, the estimates are based on current tax law and certain tax reporting positions that the General Partner intends to adopt and with

which the IRS could disagree. Accordingly, no assurance can be given that the estimates will prove to be correct. The actual percentages could be higher or lower than as described and such differences could be material. See "Tax Considerations--Tax Consequences of Unit Ownership--Ratio of Taxable Income to Distributions."

#### BASIS OF COMMON UNITS

A Unitholder's initial tax basis for a Unit will be the amount paid for the Unit. A Unitholder's basis is generally increased by his share of Partnership income and decreased by his share of Partnership losses and distributions.

#### LIMITATIONS ON DEDUCTIBILITY OF PARTNERSHIP LOSSES

A Unitholder may deduct his share of Partnership losses only to the extent the losses do not exceed the basis in his Units or, in the case of taxpayers subject to the "at risk" rules, the amount the Unitholder is at risk with respect to the Partnership's activities, if less than such basis. Further, in the case of taxpayers subject to the passive loss rules, under the passive loss limitations, Partnership losses, if any, will only be available to offset future income generated by the Partnership and cannot be used to offset income from other activities including passive activities or investments. Any losses unused by virtue of the passive loss rules may be deducted when the Unitholder disposes of all of his Units in a fully taxable transaction with an unrelated party.

#### SECTION 754 ELECTION

The Partnership intends to make the election provided for by Section 754 of the Internal Revenue Code of 1986, as amended (the "Code"), which will generally permit a Unitholder to calculate income and deductions by reference to the portion of his purchase price attributable to each asset of the Partnership.

#### DISPOSITION OF COMMON UNITS

A Unitholder who sells Common Units will recognize gain or loss equal to the difference between the amount realized (including his share of Partnership nonrecourse debt) and his adjusted basis in such Common Units. A portion of the amount realized (whether or not representing gain) may be ordinary income.

#### OTHER TAX CONSIDERATIONS

In addition to federal income taxes, Unitholders may be subject to other taxes, such as state and local income taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which a Unitholder resides or in which the Partnership does business or owns property. A Unitholder will likely be required to file state income tax returns and to pay taxes in various states and may be subject to penalties for failure to comply with such requirements. The General Partner anticipates that a substantial portion of the Partnership's income will be generated in six states: Georgia, Kentucky, Michigan, Missouri, Ohio and Texas. Based on the Company's income apportionment for fiscal year 1992 for state income tax purposes, the General Partner estimates that no other state will account for more than 4% of the Partnership's income. Of the six states in which the General Partner anticipates that a substantial portion of the Partnership's income will be generated, only Texas does not currently impose a personal income tax. Some of the states may require the Partnership to withhold a percentage of income from amounts to be distributed to a Unitholder who is not a resident of the state.

It is the responsibility of each prospective Unitholder to investigate the legal and tax consequences, under the laws of pertinent states and localities of his investment in the Partnership.



Accordingly, each prospective Unitholder should consult, and must depend upon, his own tax counsel or other advisor with regard to those matters. Further, it is the responsibility of each Unitholder to file all federal, state and local tax returns that may be required of such Unitholder. Andrews & Kurth L.L.P. has not rendered an opinion on the state and local tax consequences of an investment in the Partnership.

#### OWNERSHIP OF COMMON UNITS BY TAX-EXEMPT ORGANIZATIONS AND CERTAIN OTHER INVESTORS

An investment in Units by tax-exempt organizations (including individual retirement accounts and other retirement plans), regulated investment companies and foreign persons raises issues unique to such persons. Virtually all of the income derived by a Unitholder which is a tax-exempt organization will be unrelated business taxable income, and thus will be taxable to such Unitholder; no significant amount of the Partnerships gross income will be qualifying income for purposes of determining whether a Unitholder will qualify as a regulated investment company; and a Unitholder who is a nonresident alien, foreign corporation or other foreign person will be regarded as being engaged in a trade or business in the United States as a result of ownership of a Unit and thus will be required to file federal income tax returns and to pay tax on such Unitholder's share of Partnership taxable income. See "Tax Considerations--Tax-Exempt Organizations and Certain Other Investors."

#### TAX SHELTER REGISTRATION

The Code generally requires that "tax shelters" be registered with the Secretary of the Treasury. It is arguable that the Partnership will not be subject to the registration requirement on the basis that it will not constitute a tax shelter. Nevertheless, the Partnership has registered as a tax shelter with the IRS. ISSUANCE OF THE REGISTRATION NUMBER DOES NOT INDICATE THAT AN INVESTMENT IN THE PARTNERSHIP OR THE CLAIMED TAX BENEFITS HAVE BEEN REVIEWED, EXAMINED OR APPROVED BY THE IRS. See "Tax Considerations--Administrative Matters--Registration as a Tax Shelter."

## RISK FACTORS

A prospective investor should carefully consider the following investment considerations and risks, as well as the other information set forth in this Prospectus, before making a decision to invest in the Common Units:

### RISKS INHERENT IN THE PARTNERSHIP'S BUSINESS

#### WEATHER CONDITIONS AFFECT THE DEMAND FOR PROPANE

National weather conditions can have a substantial impact on the demand for propane and, therefore, the results of operations of the Partnership. In particular, the demand for propane by residential customers is affected by weather, with peak sales typically occurring during the winter months. Average winter temperatures as measured by degree days across the Company's operating areas in fiscal 1991, 1992 and 1993 were warmer than historical standards, thus lowering demand for propane. Average winter temperatures as measured by degree days across the Company's operating areas in fiscal 1994 to date have been slightly colder than historical averages. There can be no assurance that average temperatures in future years will be close to the historical average. Agricultural demand is also affected by weather. Wet weather during harvest season causes an increase in propane used for crop drying and dry weather during the growing season causes an increase in propane used for irrigation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### THE RETAIL PROPANE INDUSTRY IS A MATURE ONE

The retail propane industry is a mature one, with only limited growth in total demand for the product foreseen (the exception being in the case of motor fuel applications which is being driven by recent environmental legislation, but for which the opportunity cannot be estimated). Based on information available from the Energy Information Administration, the Company believes the overall demand for propane has remained relatively constant over the past several years, with year to year industry volumes being impacted primarily by weather patterns. Therefore, the Partnership's ability to grow within the industry is dependent on the success of its marketing efforts to acquire new customers and on its ability to acquire other retail distributors.

#### THE PARTNERSHIP WILL BE SUBJECT TO PRICING AND INVENTORY RISK

An important element of the Company's high retention of retail customers has been its ability to deliver propane during periods of extreme demand. To help insure this capability, the Partnership intends to continue engaging in the brokerage and trading of propane and other natural gas liquids historically performed by the Company. If the Partnership sustains material losses from its trading activities, the amount of Available Cash constituting Cash from Operations available for distribution to the holders of Common Units may be reduced. The Company has sought to minimize its trading risks through the enforcement of trading policies, which include total inventory limits and loss limits. The Partnership intends to continue these policies. Personnel responsible for trading activities have an average of over 10 years of trading experience with the Company. See "Business--Other Operations." In addition, depending on inventory and price outlooks, the Partnership may purchase and store propane or other natural gas liquids. This activity may subject the Partnership to losses if the prices of propane or such other natural gas liquids decline prior to their sale by the Partnership. The Partnership may be unable to pass rapid increases in the wholesale cost of propane on to its retail customers, reducing margins on retail sales. In the long term, however, margins generally have not been materially impacted by rapid increases in the wholesale cost of propane, as the Company has generally been able to eventually pass on increases to its retail customers. There can be no assurance as to whether the Partnership will be able to pass on such costs in the future.

## THE RETAIL PROPANE BUSINESS EXPERIENCES COMPETITION FROM OTHER ENERGY SOURCES AND WITHIN THE INDUSTRY

The Partnership will compete for customers against suppliers of natural gas, electricity and fuel oil. Because of the significant cost advantage of natural gas over propane, propane is generally not competitive with natural gas in those areas where natural gas is readily available. The expansion of the nation's natural gas distribution systems has resulted in the availability of natural gas in many areas that previously depended upon propane. 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. In addition, given the cost of conversion from fuel oil to propane, potential customers of propane generally will only switch from fuel oil if there is a significant price advantage with propane.

Long-standing customer relationships are also typical to the retail propane industry. Retail propane customers generally lease their storage tanks from their suppliers. The lease terms and, in most states, certain fire safety regulations, restrict the refilling of a leased tank solely to the propane supplier that owns the tank. The cost and inconvenience of switching tanks minimizes a customer's tendency to switch among suppliers of propane on the basis of minor variations in price. As a result, the Partnership may experience difficulty in acquiring new retail customers in areas where there are existing relationships between potential customers and other propane distributors.

## PARTNERSHIP OPERATIONS ARE SUBJECT TO OPERATING RISKS

The Partnership's operations will be subject to all operating hazards and risks normally incidental to handling, storing, transporting and otherwise providing for use by consumers of combustible liquids such as propane. As a result, the Company is, and the Partnership will be, a defendant in various legal proceedings and litigation arising in the ordinary course of business. The Partnership will maintain insurance policies with insurers in such amounts and with such coverages and deductibles as the General Partner believes are reasonable and prudent. However, there can be no assurance that such insurance will be adequate to protect the Partnership from all material expenses related to potential future claims for personal and property damage or that such levels of insurance will be available in the future at economical prices. After taking into account the pending and threatened matters against the Company that will be assumed by the Partnership and the insurance coverage and reserves to be maintained by the Partnership, the General Partner is of the opinion that there are no known contingent claims or uninsured claims that are likely to have a material adverse effect on the results of operations or financial condition of the Partnership. See "Business--Litigation." The General Partner will neither guarantee nor indemnify the Partnership against any claims, whether known or unknown, or contingent liabilities. The occurrence of an event not fully covered by insurance, or the occurrence of a large number of claims that are self-insured, may have a material adverse effect on the results of operations or financial position of the Partnership.

## THE PARTNERSHIP MAY NOT BE SUCCESSFUL IN MAKING ACQUISITIONS

The Company has historically expanded its business through acquisitions. The Partnership intends to consider and evaluate opportunities for growth through acquisitions in its industry, although it currently has no material acquisitions under consideration. There can be no assurance that the Partnership will find attractive acquisition candidates in the future, or that the Partnership will be able to acquire such candidates on economically acceptable terms.

## ENERGY EFFICIENCY AND TECHNOLOGY TRENDS MAY AFFECT DEMAND FOR PROPANE

Retail customers primarily use propane as a heating fuel. Increased technological advances in energy efficiency, including the development of more efficient heating devices, has slowed the growth of demand for propane by retail gas customers. The Partnership is unable to predict the effect that any

technological advances in energy efficiency, conservation, energy generation or other devices might have on the Partnership's operations.

THE PARTNERSHIP WILL BE DEPENDENT UPON KEY PERSONNEL OF THE GENERAL PARTNER

The Company believes its success has been, and the Partnership's success will be, dependent to a significant extent upon the efforts and abilities of its senior management team, in particular James E. Ferrell, President and Chairman of the Board of the Company. The failure of the General Partner to retain Mr. Ferrell and other executive officers could adversely affect the Partnership's operations. Mr. Ferrell, who has been associated with the Company for nearly 30 years and who will indirectly own approximately 57.5% of the Partnership, has indicated to the Company that he intends to continue as chief executive officer of the General Partner.

#### RISKS INHERENT IN AN INVESTMENT IN THE PARTNERSHIP

THE OPERATING PARTNERSHIP WILL INCUR SUBSTANTIAL INDEBTEDNESS; SUCH INDEBTEDNESS MAY LIMIT THE PARTNERSHIP'S ABILITY TO MAKE DISTRIBUTIONS

Upon the closing of the transactions contemplated by this Prospectus, it is anticipated that the Operating Partnership will be liable for approximately \$263.9 million in indebtedness. As a result, the Partnership will be highly leveraged and will have indebtedness that is substantial in relation to its partners' equity. The ability of the Operating Partnership to make principal and interest payments will depend on future performance, which performance is subject to many factors, some of which will be outside the Operating Partnership's control. In addition, such indebtedness will contain restrictive covenants which limit the ability of the Operating Partnership to distribute cash to the Partnership and to incur additional indebtedness. Payment of principal and interest on such indebtedness, as well as compliance with the requirements and covenants of such indebtedness, may limit the Partnership's ability to make distributions to Unitholders. For example, the Indenture prohibits the Operating Partnership from making any distributions to the Partnership if the Operating Partnership's Fixed Charge Coverage Ratio for the preceding four fiscal quarters does not exceed 2.25 to 1 after giving effect to such distribution. The Fixed Charge Coverage Ratio on a pro forma basis for the four quarter periods ending July 31, 1993 and April 30, 1994 was 3.0 to 1 and 3.3 to 1, respectively.

The Partnership's pro forma combined financial statements assume that the Operating Partnership will issue \$250 million of Senior Notes with a fixed interest rate of 9.75%. It is possible, however, that a portion of the Senior Notes, not anticipated to be in excess of \$50 million, will be issued with a floating rate of interest. In such event, the Operating Partnership would be subject to increases in the rate of interest which, if material, could adversely impact the Partnership's ability to distribute the Minimum Quarterly Distribution to Unitholders. In order to mitigate the risk of such interest rate increases, the General Partner intends, if possible, to cause the Operating Partnership to enter into appropriate interest rate protection arrangements with respect to all or a portion of the Senior Notes bearing interest at a floating rate. There can be no assurance, however, as to whether the Operating Partnership will be able to enter into such arrangements or whether such arrangements will be on terms satisfactory to the Operating Partnership.

THE PARTNERSHIP MAY HAVE TO REFINANCE ITS INDEBTEDNESS; THE PARTNERSHIP'S INDEBTEDNESS MUST BE REPAYED UPON THE OCCURRENCE OF CERTAIN CHANGE OF CONTROL EVENTS

The Senior Notes to be issued by the Operating Partnership concurrently with the offering made hereby will not contain any sinking fund provision and such indebtedness will be due in full in 2001. In addition, the Senior Notes provide that upon the occurrence of certain change of control events (including the failure by James E. Ferrell and certain affiliates to control the General Partner, the removal of the General Partner as the general partner of the Operating Partnership, the liquidation or dissolution of the Operating Partnership or the General Partner or the transfer of all or substantially all the assets of the Operating Partnership to an entity not controlled by James E. Ferrell and certain

affiliates), the holders of the Senior Notes have the right to require the Operating Partnership to repurchase any or all of the outstanding Senior Notes at 101% of the aggregate principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase. The Credit Facility also contains a provision requiring the Operating Partnership to repay all outstanding amounts under the Credit Facility within 30 days after the occurrence of certain change of control events similar to those contained in the Indenture. In the case of the Credit Facility, however, there is an additional limitation in that the failure of James E. Ferrell or his affiliates to own at least 20% of the outstanding equity of the Partnership also constitutes a change of control. While it is the present intention of the General Partner to refinance such indebtedness when it becomes due, there can be no assurance that the Operating Partnership will be able to refinance the Senior Notes or the Credit Facility at such time. If the Partnership is unable to refinance such indebtedness when it becomes due or in connection with a requirement to repurchase or a default under such indebtedness, there can be no assurance that the Operating Partnership will be able to repay amounts outstanding under the Credit Facility or repurchase the Senior Notes at such time. The Partnership can make no assurance regarding the future affiliation of Mr. Ferrell with the General Partner. However, Mr. Ferrell, who has been associated with the Company for nearly 30 years and who will indirectly own approximately 57.5% of the Partnership, has indicated to the General Partner that he intends to refrain from taking any action that would trigger the change of control provisions of the Senior Notes or the Credit Facility while such provisions remain in effect.

#### CASH DISTRIBUTIONS ARE NOT GUARANTEED AND MAY FLUCTUATE WITH PARTNERSHIP PERFORMANCE

Although the Partnership will distribute 100% of its Available Cash, as defined in the Partnership Agreement, there can be no assurance regarding the amounts of Available Cash to be generated by the Partnership. The actual amounts of Available Cash will depend upon numerous factors, including profitability, the availability and cost of acquisitions (including related debt service payments), fluctuations in working capital and other factors beyond the control of the General Partner. Cash distributions are not guaranteed and may fluctuate with Partnership performance. The Partnership Agreement gives the General Partner discretion in establishing reserves for the proper conduct of its business. These reserves will impact the amount of Available Cash available for distribution. As a result, there can be no assurance regarding the actual levels of cash distributions by the Partnership.

#### VOTING RIGHTS OF THE HOLDERS OF COMMON UNITS ARE LIMITED

Unlike the holders of common stock in a corporation, holders of outstanding Units will have only limited voting rights on matters affecting the Partnership's business. As a result of such limited voting rights, holders of Common Units will not have the ability to participate in Partnership governance to the same degree as holders of common stock in a corporation. See "The Partnership Agreement--Restrictions on Authority of the General Partner," "--Withdrawal or Removal of the General Partner," "--Issuance of Additional Securities," "--Meetings; Voting" and "--Termination and Dissolution."

#### THE GENERAL PARTNER MAY NOT BE REMOVED WITHOUT THE CONSENT OF FERRELL; WITHDRAWAL OF THE GENERAL PARTNER; AMENDMENT OF PARTNERSHIP AGREEMENT

The General Partner may not be removed as general partner of the Partnership except upon approval by the affirmative vote of holders of not less than 66 2/3% of the outstanding Units (including for purposes of such determination Units owned by the General Partner and its affiliates), subject to the satisfaction of certain conditions. Upon the closing of this offering and following a dividend of Units by Ferrellgas to its parent, Ferrell will own Units representing an aggregate 55.5% limited partner interest in the Partnership (50.7% if the Underwriter's overallotment option is exercised in full). Consequently, Ferrell's percentage ownership of limited partner interests, even if the Underwriters' overallotment option is exercised in full, will effectively preclude the removal of the General Partner without the consent of Ferrell. In addition, the General Partner has agreed not to voluntarily withdraw as general partner prior to July 31, 2004, without the approval of holders of at least 66 2/3% of the outstanding Units (excluding for purposes of such determination Units held by the General Partner and its affiliates). On or after July 31, 2004, the General Partner may withdraw as general partner by giving

90 days' written notice (without first obtaining approval from the Unitholders), and such withdrawal will not constitute a violation of the Partnership Agreement. See "Partnership Agreement--Withdrawal or Removal of the General Partner."

Amendments to the Partnership Agreement may be proposed only by or with the consent of the General Partner. With the exception of certain specified amendments (including, without limitation, certain amendments that may be adopted solely by the General Partner), proposed amendments must be approved by holders of at least 66 2/3% of the outstanding Units during the Subordination Period and a majority of the outstanding Units thereafter. The authority of the General Partner to propose or consent to amendments, coupled with Ferrell's percentage ownership of limited partner interests upon the closing of this offering, will effectively preclude the adoption of such amendments without the approval of the General Partner and its affiliates. See "The Partnership Agreement--Amendment of Partnership Agreement."

#### THE GENERAL PARTNER WILL MANAGE AND OPERATE THE PARTNERSHIP

The General Partner will manage and operate the Partnership. Holders of Common Units will have no right to elect the General Partner on an annual or other continuing basis, and the General Partner generally may not be removed except pursuant to the vote of the holders of not less than 66 2/3% of the outstanding Units. As a result, holders of Common Units will have limited say in matters affecting the operation of the Partnership and, if such holders are in disagreement with the decisions of the General Partner, they may remove the General Partner only as provided in the Partnership Agreement. The control exercised by the General Partner may make it more difficult for others to attempt to gain control or influence the activities of the Partnership. See "Management."

#### DILUTION

Purchasers of Common Units in this offering will experience substantial and immediate dilution in the net tangible book value per Common Unit for financial accounting purposes. See "Dilution."

#### THE PARTNERSHIP MAY ISSUE ADDITIONAL UNITS, DILUTING EXISTING UNITHOLDER'S INTERESTS

During the Subordination Period the Partnership may issue up to 7.0 million Common Units (excluding Common Units issued in connection with the exercise of the Underwriters' over-allotment option or upon 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. See "The Partnership Agreement--Issuance of Additional Securities." The effect of any such issuance may be to dilute the interests of holders of Units in distributions by the Partnership.

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 in its sole discretion without the approval of any Unitholders.

The General Partner will have the right, which it may from time to time assign in whole or in part to any of its affiliates, to purchase Common Units, Subordinated Units, Incentive Distribution Rights or other equity securities of the Partnership from the Partnership whenever, and on the same terms that, the Partnership issues such securities or rights to persons other than the General Partner and its affiliates, to the extent necessary to maintain the percentage interest of the General Partner and its affiliates in the Partnership that existed immediately prior to each such issuance. See "The Partnership Agreement--Issuance of Additional Securities."

#### THE GENERAL PARTNER WILL HAVE LIMITED CALL RIGHTS WITH RESPECT TO THE COMMON UNITS

In the event that 20% or less of the then issued and outstanding Common Units are held by persons other than the General Partner and its affiliates, the General Partner will have the right to acquire all, but not less than all, of the remaining Common Units held by such unaffiliated persons. The purchase price will be the greater of (a) the highest cash price paid by the General Partner or any of its affiliates for any Common Unit purchased within 90 days preceding the date on which the General Partner first mails to Unitholders written notice of its election to call outstanding Common Units and (b)(i) the average of the closing prices of the Common Units on the NYSE for the 20 trading days ending three days prior to the date on which such notice is first mailed or (ii) if the Common Units are not listed for trading on an exchange or quoted by NASDAQ, an amount equal to the fair market value of the Common Units on the date such notice is first mailed, as determined by the General Partner using any reasonable method of valuation. As a consequence of the General Partner's right to purchase outstanding Common Units, a Unitholder may have his Common Units purchased from him even though he may not desire to sell them, or the price paid may be less than the amount the Unitholder would desire to receive upon the sale of his Common Units. See "The Partnership Agreement--Limited Call Right."

#### CHANGE OF MANAGEMENT PROVISIONS

The Partnership Agreement contains certain provisions that are intended to discourage a person or group from attempting to remove Ferrellgas as general partner or otherwise change management of the Partnership. If any person or group other than Ferrellgas or its affiliates acquires beneficial ownership of 20% or more of the Common Units, such person or group will lose its voting rights with respect to all of its Common Units. In addition, if Ferrellgas is removed as general partner other than for cause the Subordination Period will end, and any Subordinated Units held by Ferrellgas and its affiliates will immediately convert into Common Units. As a result, Ferrellgas and such affiliates, as the holders of Common Units, would participate in any distributions, including distributions in respect of arrearages in the Minimum Quarterly Distribution, pro rata with other holders of Common Units.

#### NO PRIOR PUBLIC MARKET FOR COMMON UNITS; THE COMMON UNIT PRICE WILL BE DETERMINED THROUGH NEGOTIATIONS

Prior to this offering there has been no public market for the Common Units. The initial public offering price of the Common Units will be determined through negotiations among the General Partner and the representatives of the Underwriters. For a description of the factors to be considered in determining the initial public offering price, see "Underwriting." No assurance can be given as to the market prices at which the Common Units will trade. The Common Units have been approved for listing on the NYSE, subject to official notice of issuance.

#### UNITHOLDERS HAVE NOT BEEN REPRESENTED BY ATTORNEYS AND ACCOUNTANTS

As is customary in public securities offerings, the holders of the Common Units have not been represented by counsel in connection with this offering, including the preparation of the Partnership Agreement or the other agreements referred to herein. As a result, counsel whose duty is to represent the interests of the holders of Common Units has not participated in the transaction.

#### CONFLICTS OF INTEREST AND FIDUCIARY DUTIES

##### THE GENERAL PARTNER AND ITS AFFILIATES MAY HAVE CONFLICTS OF INTEREST WITH THE PARTNERSHIP AND THE HOLDERS OF THE COMMON UNITS

Potential conflicts of interest could arise as a result of the relationships between the Partnership, on the one hand, and Ferrellgas and its affiliates, on the other. The directors and officers of Ferrellgas have fiduciary duties to manage Ferrellgas in a manner beneficial to the shareholders of Ferrellgas. At

the same time, Ferrellgas, as general partner, has fiduciary duties to manage the Partnership in a manner beneficial to the Partnership and the Unitholders. The Partnership Agreement permits the General Partner to consider, in resolving conflicts of interest, the interests of other parties in addition to the interests of the Unitholders, thereby limiting the General Partner's fiduciary duty to the Unitholders. The duties of Ferrellgas, as general partner, to the Partnership and the Unitholders, therefore, may come into conflict with the duties of the directors and officers of Ferrellgas to its sole shareholder, Ferrell.

Such conflicts of interest might arise in the following situations, among others:

(i) Decisions of the General Partner with respect to the amount and timing of cash expenditures, borrowings, issuances of additional Units and reserves in any quarter will affect whether or the extent to which there is sufficient Available Cash constituting Cash from Operations to meet the Minimum Quarterly Distribution on all Units in a given quarter, make distributions with respect to the Incentive Distribution Rights, or hasten the expiration of the Subordination Period or the conversion of Subordinated Units into Common Units. Although the General Partner generally must act as a fiduciary to the Partnership and the Unitholders, the Partnership Agreement provides that it will not constitute a breach of fiduciary duty if Partnership borrowings are effected that have such results.

(ii) The Partnership will not have any employees and will rely solely on employees of the General Partner and its affiliates.

(iii) Under the terms of the Partnership Agreement, the Partnership will reimburse the General Partner and its affiliates for costs incurred in managing and operating the Partnership, including costs incurred in rendering corporate staff and support services to the Partnership.

(iv) Whenever possible, the General Partner intends to limit the Partnership's liability under contractual arrangements to all or particular assets of the Partnership, with the other party thereto to have no recourse against the General Partner or its assets. The Partnership Agreement provides that any action by the General Partner in so limiting the liability of the General Partner or that of the Partnership will not be deemed to be a breach of the General Partner's fiduciary duties, even if the Partnership could have obtained more favorable terms without such limitation on liability.

(v) The agreements between the Partnership and Ferrellgas and its affiliates do not grant to the holders of Common Units, separate and apart from the Partnership, the right to enforce the obligations of Ferrellgas and such affiliates in favor of the Partnership. Therefore, Ferrellgas, in its capacity as the general partner of the Partnership, will be primarily responsible for enforcing such obligations.

(vi) Under the terms of the Partnership Agreement, the General Partner is not restricted from causing the Partnership to pay the General Partner or its affiliates for any services rendered on terms that are fair and reasonable to the Partnership or entering into additional contractual arrangements with any of such entities on behalf of the Partnership. Neither the Partnership Agreement nor any of the other agreements, contracts and arrangements between the Partnership, on the one hand, and the General Partner and its affiliates, on the other, are or will be the result of arms-length negotiations.

(vii) The Partnership Agreement provides that it will not constitute a breach of fiduciary duty if the General Partner exercises its right to call for and purchase Units as provided in the Partnership Agreement or assigns such right to one of its affiliates or to the Partnership.

(viii) The Partnership Agreement provides that it will not constitute a breach of the General Partner's fiduciary duties to the Partnership or the Unitholders for affiliates of the General Partner to engage in certain activities of the type conducted by the Partnership, other than retail propane sales to end users in the continental United States, even if in direct competition with the Partnership, and the General Partner and such affiliates have no obligation to present business



opportunities to the Partnership. The fiduciary obligations of general partners is a developing area of the law. The provisions of the Delaware Revised Uniform Limited Partnership Act (the "Delaware Act") that allow the fiduciary duties of a general partner to be waived or restricted by a partnership agreement have not been tested in a court of law, and the General Partner has not obtained an opinion of counsel covering the provisions set forth in the Partnership Agreement that purport to waive or restrict the fiduciary duties of the General Partner.

The General Partner may retain separate counsel for the Partnership or the Unitholders in the event of a conflict of interest arising between the General Partner and its affiliates, on the one hand, and the Partnership or the Unitholders, on the other, after the sale of the Common Units offered hereby, depending on the nature of such conflict, but it does not intend to do so in most cases. The attorneys, independent public accountants and others who have performed services for the Partnership in connection with this offering have been retained by the General Partner, its affiliates and the Partnership and have not been retained to act for the holders of Common Units. They may continue to be retained by the General Partner, its affiliates and the Partnership after this offering. Attorneys, independent public accountants and others who will perform services for the Partnership in the future will be selected by the General Partner or the Audit Committee and may also perform services for the General Partner and its affiliates. For a description of the Audit Committee, see "Management."

The General Partner has agreed not to voluntarily withdraw as general partner prior to July 31, 2004, without the approval of holders of record of at least 66 2/3% of the outstanding Units (excluding for purposes of such determination Units held by the General Partner and its affiliates) and not to sell its general partner interest (other than to an affiliate and under certain other limited circumstances) prior to July 31, 2004, without the approval of holders of record of at least a majority of the outstanding Units (excluding for purposes of such determination Units owned by the General Partner and its affiliates). Ferrell may, however, dispose of the capital stock of the General Partner without the consent of the Unitholders. If the capital stock of the General Partner is transferred to a third party, but no transfer is made of its general partner interest in the Partnership, the General Partner will remain bound by the Partnership Agreement. If, through share ownership or otherwise, persons not now affiliated with the General Partner were to acquire its general partner interest in the Partnership or effective control of the General Partner, management of the Partnership and resolutions of conflicts of interest, such as those described above, could change substantially.

THE PARTNERSHIP AGREEMENT LIMITS THE LIABILITY AND MODIFIES THE FIDUCIARY DUTIES UNDER DELAWARE LAW OF THE GENERAL PARTNER TO THE PARTNERSHIP AND THE HOLDERS OF UNITS; HOLDERS OF COMMON UNITS ARE DEEMED TO HAVE CONSENTED TO CERTAIN ACTIONS THAT MIGHT BE DEEMED CONFLICTS OF INTEREST.

Certain provisions of the Partnership Agreement contain exculpatory language purporting to limit the liability of the General Partner to the Partnership and the Unitholders. For example, the Partnership Agreement provides as follows:

(i) Borrowings by the Partnership or the approval thereof by the General Partner shall not constitute a breach of any duty of the General Partner to the Partnership or the Unitholders whether or not the purpose or effect thereof is to permit distributions on the Units (and possibly avoiding subordination of distributions on the Subordinated Units or hastening the expiration of the Subordination Period or the conversion of Subordinated Units into Common Units) or to increase distributions with respect to the Incentive Distribution Rights.

(ii) Any actions taken by the General Partner consistent with the standards of reasonable discretion set forth in the definitions of Available Cash and Cash from Operations will be deemed not to breach any duty of the General Partner to the Partnership or to the Unitholders.

(iii) In the absence of bad faith by the General Partner, the resolution of any conflicts of interest by the General Partner will not constitute a breach of the Partnership Agreement or a

breach of any standard of care or duty. See "Conflicts of Interest and Fiduciary Responsibility-- Conflicts of Interest--Fiduciary Duties of the General Partner."

(iv) With certain limited exceptions, it will not constitute a breach of the General Partner's fiduciary duties to the Partnership or the Unitholders for affiliates of the General Partner to engage in certain activities of the type conducted by the Partnership, even if in direct competition with the Partnership.

Provisions of the Partnership Agreement purport to limit the liability of the General Partner to the Partnership and the Unitholders. Such provisions also purport to modify the fiduciary duty standards to which the General Partner would otherwise be subject under Delaware law, under which a general partner owes its limited partners the highest duties of good faith, fairness and loyalty. Such duty of loyalty would generally prohibit a general partner of a Delaware limited partnership from taking any action or engaging in any transaction as to which it has a conflict of interest. The Partnership Agreement permits the General Partner to exercise the discretion and authority granted to it thereunder in the management of the Partnership and the conduct of its operations, so long as its actions are in, or not inconsistent with, the best interests of the Partnership. In addition, the Partnership Agreement provides that a purchaser of Common Units is deemed to have consented to certain conflicts of interest and actions of the General Partner and its affiliates that might otherwise be prohibited, including engaging in certain activities of the type conducted by the Partnership, even in direct competition with the Partnership, and the establishment of certain contractual arrangements between the General Partner or its affiliates and the Partnership, and a purchaser of Common Units is also deemed to have agreed that such conflicts of interest and actions do not constitute a breach by the General Partner of any duty stated or implied by law or equity. In addition, the Partnership Agreement limits the liability of the General Partner for monetary damages by providing that the General Partner and its officers and directors will not be liable for monetary damages to the Partnership, the limited partners or assignees for errors of judgment or for any actual omissions if such General Partner and other persons acted in good faith. The Partnership Agreement also provides for conflicts of interest between the General Partner or its affiliates, on the one hand, and the Partnership or the Unitholders, on the other, to be resolved by the General Partner. The General Partner will not be in breach of its obligations under the Partnership Agreement or its duties to the Partnership or the Unitholders if the resolution of such conflict is fair and reasonable to the Partnership. In resolving such conflict, the General Partner may consider the relative interests of the parties involved in such conflict in addition to the Partnership. For a more detailed description of the factors that may be considered by the General Partner when resolving a conflict of interest and the circumstances under which a resolution will be deemed to be fair and reasonable to the Partnership, see "Conflicts of Interest and Fiduciary Responsibility-- Conflicts of Interest--Fiduciary Duties of the General Partner." Such modifications of state law standards of fiduciary duty may significantly limit a Unitholder's ability to successfully challenge the actions of the General Partner as being in breach of what would otherwise have been a fiduciary duty, but these modifications are believed to be necessary and appropriate to enable the General Partner to serve as the general partner of the Partnership without undue risk of liability.

## TAX CONSIDERATIONS

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

### TAX TREATMENT IS DEPENDENT ON PARTNERSHIP STATUS

The availability to a Unitholder of the federal income tax benefits of an investment in the Partnership depends, in large part, on the classification of the Partnership as a partnership for federal income tax

purposes. Based on certain representations by the General Partner, Andrews & Kurth L.L.P., special counsel to the General Partner and the Partnership, is of the opinion that, under current law, the Partnership will be classified as a partnership for federal income tax purposes. However, no ruling from the IRS as to such status has been or will be requested, and the opinion of counsel is not binding on the IRS. Moreover, in order for the Partnership to continue to be classified as a partnership for federal income tax purposes, at least 90% of the Partnership's gross income for each taxable year must consist of qualifying income. See "Tax Considerations--Partnership Status."

If the Partnership were classified as an association taxable as a corporation for federal income tax purposes, the Partnership would pay tax on its income at corporate rates, distributions would generally be taxed to the Unitholders as corporate distributions, and no income, gain, losses, deductions or credits would flow through to the Unitholders. Because a tax would be imposed upon the Partnership as an entity, the cash available for distribution to the Unitholders would be substantially reduced. Treatment of the Partnership as an association taxable as a corporation or otherwise as a taxable entity would result in a material reduction in the anticipated cash flow and after-tax return to the Unitholders. See "Tax Considerations--Partnership Status."

There can be no assurance that the law will not be changed so as to cause the Partnership to be treated as an association taxable as a corporation for federal income tax purposes or otherwise to be subject to entity-level taxation. The Partnership Agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that subjects the Partnership to taxation as a corporation or otherwise subjects the Partnership to entity level taxation for federal, state or local income tax purposes, certain provisions of the Partnership Agreement relating to the subordination of distributions on Subordinated Units and to the Incentive Distribution Rights will be subject to change, including a decrease in the amount of the Minimum Quarterly Distribution to reflect the impact of such law on the Partnership. See "Cash Distribution Policy."

#### NO IRS RULING WITH RESPECT TO TAX CONSEQUENCES

No ruling has been requested from the IRS with respect to classification of the Partnership as a partnership for federal income tax purposes or any other matter affecting the Partnership. Accordingly, the IRS may adopt positions that differ from counsel's conclusions expressed herein. It may be necessary to resort to administrative or court proceedings in an effort to sustain some or all of counsel's conclusions, and some or all of such conclusions ultimately may not be sustained. The costs of any contest with the IRS will be borne directly or indirectly by some or all of the Unitholders and the General Partner.

#### AMORTIZATION OF CUSTOMER RELATIONSHIPS

In connection with the formation of the Partnership, the General Partner will contribute certain customer relationships to the Partnership. The General Partner intends to treat such customer relationships as amortizable assets of the Partnership for federal income tax purposes. The IRS has challenged the Company's amortization of customer relationships and it is possible that the IRS will challenge the amortization of customer relationships by the Partnership. If the IRS were to successfully challenge the amortization of customer relationships by the Partnership, the amount of amortization available to a Unitholder and, therefore, the after tax return of a Unitholder with respect to his investment in the Partnership, could be adversely affected, although the Partnership does not believe the impact of such effect would be material.

#### DEDUCTIBILITY OF LOSSES

In the case of taxpayers subject to the passive loss rules, losses generated by the Partnership, if any, will only be available to offset future income generated by the Partnership and cannot be used to

offset income from other activities, including passive activities or investments. Unused losses may be deducted when the Unitholder disposes of all of his Units in a fully taxable transaction with an unrelated party. Net passive income from the Partnership may be offset by a Unitholder's unused Partnership losses carried over from prior years, but not by losses from other passive activities, including losses from other publicly traded partnerships. See "Tax Considerations--Tax Consequences of Unit Ownership--Limitations on Deductibility of Partnership Losses."

#### TAX LIABILITY EXCEEDING CASH DISTRIBUTIONS OR PROCEEDS FROM DISPOSITIONS OF UNITS

A Unitholder will be required to pay federal income tax and, in certain cases, state and local income taxes on his allocable share of the Partnership's income, whether or not he receives cash distributions from the Partnership. No assurance can be given that a Unitholder will receive cash distributions equal to his allocable share of taxable income from the Partnership. Further, a Unitholder may incur tax liability, in excess of the amount of cash received, upon the sale of his Units. See "Tax Considerations--Other Tax Considerations" for a discussion of certain state and local tax considerations that may be relevant to prospective Unitholders.

#### BUNCHING OF INCOME

Each Unitholder will be required to include in income his allocable share of Partnership income, gain, loss and deduction for the fiscal year of the Partnership ending within or with the taxable year of the Unitholder. In addition, a Unitholder who disposes of Units following the close of the Partnership's taxable year but before the close of the Unitholder's taxable year must include his allocable share of Partnership income, gain, loss and deduction in income for the Unitholder's taxable year with the result that the Unitholder will be required to report in income for his taxable year his distributive share of more than one year of Partnership income, gain, loss and deduction. For example, a Unitholder reporting on a calendar year basis who acquires Common Units in the offering made hereby and who disposes of such Common Units after July 31, 1995 but before December 31, 1995 will be required to include in his 1995 taxable income his allocable share of Partnership income for the Partnership's fiscal year ending July 31, 1995, plus his allocable share of Partnership income for the period beginning August 1, 1995 and ending on the date such Common Units are disposed. See "Tax Considerations--Disposition of Common Units--Allocations Between Transferors and Transferees."

The Partnership may be required at some future date to adopt a taxable year ending December 31, rather than its current taxable year ending July 31. In that event, a Unitholder may be required to include in income for his taxable year his distributive share of more than one year of Partnership income, gain, loss and deduction. See "Tax Considerations--Tax Treatment of Operations--Accounting Method and Taxable Year."

#### OWNERSHIP OF UNITS BY TAX-EXEMPT ORGANIZATIONS AND CERTAIN OTHER INVESTORS

Investment in Units by certain tax-exempt entities, regulated investment companies and foreign persons raises issues unique to such persons. See "Tax Considerations--Tax-Exempt Organizations and Certain Other Investors."

#### TAX SHELTER REGISTRATION; POTENTIAL IRS AUDIT

The Partnership has been registered with the IRS as a "tax shelter." No assurance can be given that the Partnership will not be audited by the IRS or that tax adjustments will not be made. The rights of a Unitholder owning less than a 1% profit interest in the Partnership to participate in the income tax audit process are very limited. Further, any adjustments in the Partnership's returns will lead to adjustments in the Unitholders' returns and may lead to audits of Unitholders' returns and adjustments of items unrelated to the Partnership. Each Unitholder would bear the cost of any expenses incurred in connection with an examination of such Unitholders' personal tax return.

## THE TRANSACTIONS

Concurrently with the closing of this offering, Ferrellgas will contribute all of its propane business and assets to the Partnership in exchange for 1,000,000 Common Units, 16,118,559 Subordinated Units and the Incentive Distribution Rights, as well as a 2% general partner interest in the Partnership and the Operating Partnership, on a combined basis. In connection with the contribution of such business and assets by Ferrellgas, the Operating Partnership will assume substantially all of the liabilities, whether known or unknown, associated with such business and assets (other than income tax liabilities). The Operating Partnership intends to maintain insurance and reserves at levels that it believes will be adequate to satisfy such liabilities. In addition, the Operating Partnership will assume the payment obligations of Ferrellgas under (i) \$50 million of Existing Floating Rate Notes (bearing interest at 5.5% per annum at April 30, 1994), (ii) \$177.6 million of Existing Fixed Rate Notes bearing interest at 12% per annum and (iii) \$246.4 million of Existing Subordinated Debentures bearing interest at 11 5/8% per annum. All of this long-term debt will be retired with the net proceeds from the sale by the Partnership of the Common Units offered hereby (estimated to be approximately \$260.3 million at an assumed initial public offering price of \$21.375 per Common Unit) and the net proceeds from the issuance of approximately \$250 million in aggregate principal amount of Senior Notes to be issued by the Operating Partnership concurrently with the closing of this offering (estimated to be approximately \$245.3 million). The book value of the assets being contributed to the Partnership will be approximately \$83 million less than the liabilities to be assumed by the Operating Partnership. Immediately prior to the closing of this offering, the Operating Partnership expects to enter into the \$185 million Credit Facility. The Credit Facility will permit borrowings of up to \$100 million on a senior unsecured basis to fund working capital and general partnership requirements (of which \$50 million will be available to support letters of credit). In addition, up to \$85 million of borrowings will be permitted on a senior unsecured basis, at least \$60 million of which will be available solely to finance acquisitions and growth capital expenditures.

Ferrellgas will retain and will not contribute to the Partnership approximately \$39 million in cash, approximately \$17 million in receivables from affiliates of Ferrell and Ferrell Class B Stock with a book value of approximately \$36 million. It is anticipated that following the closing of this offering the Company will loan approximately \$25 million to Ferrell and will dividend to Ferrell the remainder of the cash, receivables and Ferrell Class B Stock, as well as the Common Units, Subordinated Units and Incentive Distribution Rights received by the Company in exchange for the contribution of its propane business and assets to the Partnership.

Concurrently with the closing of this offering, the Company will consummate a tender offer and consent solicitation with respect to its Existing Subordinated Debentures. The consent solicitation is necessary to modify the indenture related to the Existing Subordinated Debentures in order to permit the Company to consummate the transactions contemplated by this Prospectus. As of the date of this Prospectus, all of the outstanding Existing Subordinated Debentures have been tendered and will be retired by the Operating Partnership, as described above.

Concurrently with the closing of this offering, the Company will mail to the holders of the Existing Senior Notes a notice of redemption of all outstanding Existing Senior Notes, pursuant to the optional redemption provisions of the Existing Senior Notes Indenture. The redemption date will be 30 days after the date of mailing of such notice. The Existing Senior Notes Indenture provides for a redemption price equal to 100% of the principal amount plus accrued and unpaid interest, if any, to the redemption date plus, in the case of the Existing Fixed Rate Notes, a premium which is based on certain yield information for U.S. Treasury securities as of three business days prior to the redemption date. The Operating Partnership will deposit with the trustee on the date of closing of this offering an amount expected to be more than sufficient to pay the redemption price. As a result of the transactions contemplated hereby, during the 30-day period prior to the redemption date, an event of default will exist under the Existing Senior Notes Indenture. The holders of at least 25% of the principal amount of Existing Senior Notes, therefore, will be entitled, by notice to the Company and the trustee, to declare

the unpaid principal of, and accrued and unpaid interest and the applicable premium on, the Existing Senior Notes to be immediately due and payable. The trustee under the Existing Senior Notes Indenture has advised the Company that it intends to notify the holders of the Existing Senior Notes of this right. In the event of such a declaration, the amount already deposited by the Operating Partnership in payment of the redemption price would be applied to pay the amount so declared immediately due and payable. The Partnership will incur an extraordinary loss of approximately \$20.4 million related to the retirement of the Existing Senior Notes, approximately \$31.2 million relating to the Existing Subordinated Debentures resulting from consent and tender offer fees and approximately \$11.2 million relating to the write off of unamortized financing costs, all in accordance with GAAP.

At the closing of this offering, it is anticipated that the Operating Partnership will borrow approximately \$10 million under the Credit Facility which will enable the Partnership to commence operations with an initial cash balance of at least \$20 million. To the extent that the initial public offering price per Common Unit is less than \$21.375, the Operating Partnership may need to borrow additional funds under the Credit Facility in order to commence operations with an initial cash balance of at least \$20 million. For a description of the Credit Facility, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Pro Forma Financial Condition."

The foregoing description assumes that the Underwriters' overallotment option is not exercised. If the Underwriters' overallotment option is exercised in full, the Partnership will issue 1,965,000 additional Common Units. The Partnership will use the net proceeds from any exercise of the Underwriters' overallotment option first to repay any amounts borrowed under the Credit Facility or, if no such borrowings have been made, to establish an initial cash balance of up to \$20 million. Any remaining net proceeds from the exercise of the Underwriters' overallotment option will be used by the Partnership to repurchase for retirement up to 1,000,000 Common Units held by Ferrell at a price per Unit equal to the initial public offering price less the underwriting discounts and commissions set forth on the cover page of this Prospectus. Any net proceeds remaining after such repurchase will be retained by the Partnership for general partnership purposes.

Immediately following this offering, Ferrellgas will own an effective 2% general partner interest in the Partnership and the Operating Partnership, on a combined basis, and Ferrell will own 1,000,000 Common Units (if the Underwriters' overallotment option is exercised in full all of such Common Units will be repurchased and retired by the Partnership) and 16,118,559 Subordinated Units representing an aggregate 55.5% limited partner interest in the Partnership (50.7% if the Underwriters' overallotment option is exercised in full) and the Incentive Distribution Rights.

## USE OF PROCEEDS

The net proceeds to the Partnership from the sale of the Common Units offered hereby are estimated to be approximately \$260.3 million after deducting the underwriting discount and the expenses of this offering (assuming an initial public offering price of \$21.375 per Common Unit.) The net proceeds of this offering, together with the net proceeds from the issuance of approximately \$250 million in aggregate principal amount of the Senior Notes (estimated to be approximately \$245.3 million), will be used by the Partnership to repay indebtedness of Ferrellgas. The indebtedness to be repaid consists of \$50 million of Existing Floating Rate Notes, which have a floating rate of interest (5.5% per annum at April 30, 1994) and mature in August 1996, \$177.6 million of Existing Fixed Rate Notes, which have an interest rate of 12% per annum and mature in August 1996, and up to \$246.4 million of Existing Subordinated Debentures, which have an interest rate of 11 5/8% and mature in December 2003. See "Capitalization." If the Underwriters' overallotment option is exercised in full, the estimated additional net proceeds to the Partnership will be approximately \$39.3 million. The Partnership will use the net proceeds from any exercise of the Underwriters' overallotment option first to repay any amounts borrowed under the Credit Facility (anticipated to be approximately \$10 million) to enable the Partnership to commence operations with an initial cash balance of at least \$20 million or, if no such borrowings have been made, to establish an initial cash balance of up to \$20 million that will be used for general partnership purposes. See "The Transactions." Any remaining net proceeds from the exercise of the Underwriters' overallotment option will be used by the Partnership to repurchase for retirement up to 1,000,000 Common Units held by Ferrell at a price per Unit equal to the initial public offering price less the underwriting discounts and commissions set forth on the cover page of this Prospectus. Any net proceeds remaining after such repurchase will be retained by the Partnership for general partnership purposes.

# CAPITALIZATION

The following table sets forth: (i) the consolidated capitalization of Ferrellgas at April 30, 1994, (ii) the pro forma adjustments required to reflect the transactions to be consummated at the closing of this offering, including the issuance of Common Units pursuant to the offering made hereby at an assumed offering price of \$21.375 per Common Unit, and (iii) the combined pro forma capitalization of the Partnership at such date after giving effect thereto. The table should be read in conjunction with the historical and pro forma consolidated financial statements and notes thereto included elsewhere in this Prospectus.

	APRIL 30, 1994		
	FERRELLGAS HISTORICAL	PRO FORMA ADJUSTMENTS(1)	PARTNERSHIP PRO FORMA
	(IN THOUSANDS)		
Short-term debt, including current portion of long-term debt.....	\$ 1,486 =====	\$ -- =====	\$ 1,486 =====
Long-term debt:			
Senior Notes, interest at %, due in 2001.....	\$	\$ 250,000 (2)	\$250,000
Existing floating rate notes, interest at applicable LIBOR rate plus 2.25% (5.5% at April 30, 1994), due in August 1996.....	50,000	(50,000)	
Existing fixed rate notes, interest at 12%, due in August 1996.....	177,600	(177,600)	
Existing subordinated debentures, interest at 11 5/8%, due in December 2003.....	246,430	(246,430)	
Other long-term debt.....	2,441	15,000 (3)	17,441
Total long-term debt.....	476,471	(209,030)	267,441
Stockholder's equity.....	30,848	(30,848)	
Partners' capital:			
Common Unitholders.....		66,067 (4)	66,067
Subordinated Unitholder.....		75,524	75,524
General Partner.....		2,890	2,890
Total stockholder's equity/partners' capital.....	30,848	113,633	144,481
Total capitalization.....	\$507,319 =====	\$ (95,397) =====	\$411,922 =====

- (1) Reflects the conveyance of the assets of Ferrellgas to the Partnership in return for the assumption of liabilities and the issuance of 1,000,000 Common Units, 16,118,559 Subordinated Units, the Incentive Distribution Rights and general partner interests in the Partnership and the Operating Partnership equal to 2% of the total partners' capital. Ferrellgas will make a dividend of such Common Units, Subordinated Units and Incentive Distribution Rights to its parent, Ferrell.
- (2) The Partnership's pro forma combined financial statements assume that the Operating Partnership will issue \$250 million of Senior Notes with a fixed interest rate of 9.75%. It is possible, however, that a portion of the Senior Notes, not anticipated to be in excess of \$50 million, will bear interest at a floating rate.
- (3) Represents borrowings at April 30, 1994 under the Credit Facility to enable the Partnership to commence operations with an initial cash balance of \$20 million. Assuming a closing date of June 30, 1994, the Partnership anticipates it will borrow approximately \$10 million under the Credit Facility. Actual borrowings under the Credit Facility at the closing of this offering will depend upon the Partnership's cash balances at such time, the initial offering price per Common Unit and the timing of any exercise of the Underwriters' overallotment option.
- (4) Includes \$61.4 million representing limited partnership capital resulting from the issuance of 13,100,000 Common Units offered hereby. Such limited partnership capital is less than the estimated net proceeds of the offering of \$260.3 million due to the assets and liabilities contributed



by Ferrellgas to the Partnership being recorded at historical cost by the Partnership, rather than fair value, in accordance with generally accepted accounting principles. Total capital of the Partnership is allocated to the limited partners based on their relative limited partner unit ownership percentage.

Concurrent with the consummation of the transactions contemplated hereby, the Operating Partnership will issue \$250 million in aggregate principal amount of the Senior Notes in a registered public offering. It is anticipated that the Operating Partnership will also enter into the Credit Facility in the amount of \$185 million. For a discussion of the Senior Notes and the Credit Facility and other capital resources and liquidity of the Partnership, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Pro Forma Financial Condition."

## DILUTION

On a pro forma basis as of April 30, 1994, after giving effect to the transactions contemplated by this Prospectus, the net tangible book value per Common Unit was \$2.559. Assuming an initial public offering price per Common Unit of \$21.375, purchasers of Common Units in this offering will suffer substantial and immediate dilution in net tangible book value per Common Unit for financial accounting purposes, as illustrated in the following table:

Initial public offering price per Common Unit.....	\$21.375
Net tangible book value per Unit before the offering	
(1)(2).....	\$(6.765)
Increase in book value per Unit attributable to new investors.....	9.324
	-----
Less: Pro forma net tangible book value per Unit after the offering (2)(3).....	2.559
	-----
Immediate dilution in net tangible book value per Common Unit to new investors.....	\$18.816
	=====

- 
- (1) Determined by dividing the number of Units (1,000,000 Common Units and 16,118,559 Subordinated Units) assumed to be issued to Ferrellgas for its contribution of assets and liabilities to the Partnership into the net tangible book value allocable to such Units.
  - (2) The net tangible book value does not include intangible assets contributed to the Partnership with a book value of \$65.6 million.
  - (3) Determined by dividing the total number of Units (14,100,000 Common Units and 16,118,559 Subordinated Units) assumed to be outstanding after the offering made hereby, into the pro forma tangible net worth of the Partnership allocable to such Units, after giving effect to the application of the net proceeds of this offering (assuming the Underwriters' overallotment option is not exercised).

The following table sets forth the number of Units issued by the Partnership and the total consideration to the Partnership contributed by the General Partner and by purchasers of Common Units in this offering (assuming an initial public offering price per Common Unit of \$21.375) upon the consummation of the transactions contemplated by this Prospectus:

	UNITS ACQUIRED		TOTAL CONSIDERATION	
	NUMBER	PERCENT	AMOUNT	PERCENT
General Partner.....	17,118,559(1)	57.5%	\$(52,595,000)(2)	(23.1)%
New investors.....	13,100,000	42.5	280,013,000	123.1
	-----	-----	-----	-----
Total.....	30,218,559	100.0%	\$227,418,000	100.0 %
	=====	=====	=====	=====

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- (1) Upon the consummation of the transactions contemplated by this Prospectus and assuming the Underwriters' overallotment option is not exercised, the General Partner and its affiliates will own 1,000,000 Common Units, 16,118,559 Subordinated Units, Incentive Distribution Rights and an effective 2% general partner interest in the Partnership and the Operating Partnership on a combined basis. The Common Units and Subordinated Units generally vote as one class on matters presented to the limited partners, although Units owned by the General Partner or its affiliates may not vote with respect to certain matters during the Subordination Period and Common Units vote as a separate class with respect to certain other matters. See "The Partnership Agreement."
  - (2) Total consideration for the General Partner represents the net assets and liabilities contributed by Ferrellgas at April 30, 1994. The assets and liabilities contributed by Ferrellgas to the Partnership will be recorded at historical cost rather than fair value by the Partnership in accordance with generally accepted accounting principles. Such amount includes \$65.6 million, representing intangible assets contributed to the Partnership.



## CASH DISTRIBUTION POLICY

A principal objective of the Partnership is to generate cash from Partnership operations and to distribute Available Cash to its partners in the manner described herein. "Available Cash" is defined in the glossary and generally means, with respect to any fiscal quarter of the Partnership, the sum of all of the cash received by the Partnership from all sources plus reductions to reserves less all of its cash disbursements and net additions to reserves.

The General Partner's decisions regarding amounts to be placed in or released from reserves will have a direct impact on the amount of Available Cash because increases and decreases in reserves are taken into account in computing Available Cash. The General Partner may, in its reasonable discretion (subject to certain limits), determine the amounts to be placed in or released from reserves each quarter.

Cash distributions will be characterized as either distributions of Cash from Operations or Cash from Interim Capital Transactions. This distinction affects the amounts distributed to Unitholders relative to the General Partner, and under certain circumstances it determines whether holders of Subordinated Units receive any distributions. See "--Quarterly Distributions of Available Cash."

Cash from Operations is defined in the glossary and generally refers to the cash balance of the Partnership on the date the Partnership commences operations, plus all cash generated by the operations of the Partnership's business, after deducting related cash expenditures, reserves, debt service and certain other items.

Cash from Interim Capital Transactions is also defined in the glossary and will generally be generated only by borrowings (other than for working capital purposes), sales of debt and equity securities and sales or other dispositions of assets for cash (other than inventory, accounts receivable and other current assets and assets disposed of in the ordinary course of business).

To avoid the difficulty of trying to determine whether Available Cash distributed by the Partnership is Cash from Operations or Cash from Interim Capital Transactions, all Available Cash distributed by the Partnership from any source will be treated as Cash from Operations until the sum of all Available Cash distributed as Cash from Operations equals the cumulative amount of Cash from Operations actually generated from the date the Partnership commenced operations through the end of the quarter prior to such distribution. Any excess Available Cash (irrespective of its source) will be deemed to be Cash from Interim Capital Transactions and distributed accordingly.

If Cash from Interim Capital Transactions is distributed in respect of each Common Unit in an aggregate amount per Unit equal to the initial public offering price of the Common Units (the "Initial Unit Price"), the distinction between Cash from Operations and Cash from Interim Capital Transactions will cease, and both types of Available Cash will be treated as Cash from Operations. The General Partner does not anticipate that there will be significant amounts of Cash from Interim Capital Transactions distributed.

The Subordinated Units and Incentive Distribution Rights are separate classes of interests in the Partnership, and the rights of holders of such interests to participate in distributions to limited partners differ from the rights of the holders of Common Units. For any given quarter, Available Cash will be distributed to the General Partner and to the holders of Common Units, and it may also be distributed to the holders of Subordinated Units and to the holders of the Incentive Distribution Rights depending upon the amount of Available Cash for the quarter, amounts distributed in prior quarters, whether or not the Subordination Period has ended and other factors discussed below.

The discussion below indicates the percentages of cash distributions required to be made to the General Partner and the Common Unitholders and the circumstances under which holders of Subordinated Units and holders of Incentive Distribution Rights are entitled to cash distributions and the amounts thereof. In the following general discussion of how Available Cash is distributed, references to Available Cash, unless otherwise stated, mean Available Cash that constitutes Cash from Operations. For a discussion of Available Cash constituting Cash from Operations available for distributions with respect to the Units on a pro forma basis, see "--Pro Forma Available Cash."

#### QUARTERLY DISTRIBUTIONS OF AVAILABLE CASH

The Partnership will make distributions to its partners with respect to each fiscal quarter of the Partnership prior to liquidation in an amount equal to 100% of its Available Cash for such quarter. Distributions will be made within 45 days after the end of each January, April, July and October. With respect to each quarter during the Subordination Period, to the extent there is sufficient Available Cash, the holders of Common Units will have the right to receive the Minimum Quarterly Distribution (\$0.50 per Unit), plus any Common Unit Arrearages, prior to any distribution of Available Cash to the holders of Subordinated Units. The terms "Subordination Period" and "Common Unit Arrearages" are defined in the glossary. Common Units will not accrue arrearages for any quarter after the Subordination Period, and Subordinated Units will not accrue any arrearages with respect to distributions for any quarter.

The Subordination Period will extend from the closing of this offering until the first day of any quarter beginning on or after August 1, 1999 in respect of which (i) distributions of Available Cash on the Common Units and the Subordinated Units equaled or exceeded the Minimum Quarterly Distribution for each of the three consecutive four-quarter periods immediately preceding such date (excluding any such Available Cash that is attributable to net increases in working capital borrowings, net decreases in reserves and any positive balance in Cash from Operations at the beginning of such four-quarter periods) and (ii) the Partnership has invested at least \$50 million in acquisitions and capital additions or improvements made to increase the operating capacity of the Partnership. The Partnership Agreement contains provisions intended to discourage a person or group from attempting to remove the General Partner as general partner of the Partnership or otherwise change management of the Partnership. Among them is the provision that if the General Partner is removed other than for cause, the Subordination Period will end. See "The Partnership Agreement--Change of Management Provisions." Upon the expiration of the Subordination Period, the Common Units will no longer accrue distribution arrearages and the holders of Subordinated Units will participate pro rata with the holders of Common Units in distributions of Available Cash up to the Minimum Quarterly Distribution.

A total of 5,372,853 Subordinated Units held by Ferrellgas and its affiliates will convert into Common Units on the first day of any quarter beginning on or after August 1, 1997 in respect of which (i) distributions of Available Cash on the Common Units and the Subordinated Units equaled or exceeded the Minimum Quarterly Distribution for each of the two consecutive four-quarter periods immediately preceding such date 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 (excluding in each case any such Available Cash that is attributable to net increases in working capital borrowings, net decreases in reserves and any positive balance in Cash from Operations at the beginning of such four-quarter periods and including for purposes of (ii) above any net increases in reserves to provide funds for distributions with respect to Units and any general partner interests). Upon the expiration of the Subordination Period all remaining Subordinated Units will convert into Common Units. In addition, in the event that the General Partner is removed other than for cause, the Subordinated Units will convert into Common Units and will therefore participate in distributions in respect of Common Unit Arrearages, if any. See "The Partnership Agreement--Withdrawal or Removal of the General Partner."

#### DISTRIBUTIONS OF CASH FROM OPERATIONS DURING SUBORDINATION PERIOD

Distributions by the Partnership of Available Cash constituting Cash from Operations with respect to any quarter during the Subordination Period will be made in the following manner:

first, 98% to the Common Unitholders, pro rata, and 2% to the General Partner, until there has been distributed in respect of each Common Unit an amount equal to the Minimum Quarterly Distribution for such quarter;

second, 98% to the Common Unitholders, pro rata, and 2% to the General Partner, until there has been distributed in respect of each Common Unit an amount equal to any cumulative Common Unit Arrearages on each Common Unit with respect to any prior quarter;

third, 98% to the Subordinated Unitholders, pro rata, and 2% to the General Partner, until there has been distributed in respect of each Subordinated Unit an amount equal to the Minimum Quarterly Distribution for such quarter; and

thereafter, in the manner described in "--Incentive Distributions--Hypothetical Annualized Yield" below.

The Minimum Quarterly Distribution is subject to adjustment as described below under "--Distributions of Cash from Interim Capital Transactions" and "--Adjustment of Minimum Quarterly Distribution and Target Distribution Levels."

The above references to the 2% of Available Cash constituting Cash from Operations distributed to the General Partner are references to the amount of the General Partner's percentage interest in distributions from the Partnership and the Operating Partnership on a combined basis. The General Partner will own a 1% general partner interest in the Partnership and a 1.0101% general partner interest in the Operating Partnership. Other references in this Prospectus to the General Partner's 2% interest or to distributions of 2% of Available Cash are also references to the amount of the General Partner's combined percentage interest in the Partnership and the Operating Partnership.

#### DISTRIBUTIONS OF CASH FROM OPERATIONS AFTER SUBORDINATION PERIOD

Distributions by the Partnership of Available Cash constituting Cash from Operations with respect to any quarter after the Subordination Period will be made in the following manner:

first, 98% to all Unitholders, pro rata, and 2% to the General Partner, until there has been distributed in respect of each Unit an amount equal to the Minimum Quarterly Distribution for such quarter; and

thereafter, in the manner described in "--Incentive Distributions--Hypothetical Annualized Yield" below.

#### INCENTIVE DISTRIBUTIONS--HYPOTHETICAL ANNUALIZED YIELD

For any quarter for which Available Cash is distributed in respect of both the Common Units and the Subordinated Units in an amount equal to the Minimum Quarterly Distribution and Available Cash has been distributed on outstanding Common Units in such amount as may be necessary to eliminate any Common Unit Arrearages, then any additional Available Cash will be distributed among the Unitholders, the General Partner and the holders of the Incentive Distribution Rights in the following manner:

first, 98% to all Unitholders, pro rata, and 2% to the General Partner, until the Unitholders have received (in addition to any distributions to Common Unitholders with respect to Common Unit Arrearages) a total of \$0.55 for such quarter in respect of each Unit (the "First Target Distribution");

second, 85% to all Unitholders, pro rata, 13% to the holders of the Incentive Distribution Rights, pro rata, and 2% to the General Partner, until the Unitholders have received (in addition to any distributions to Common Unitholders with respect to Common Unit Arrearages) a total of \$0.63 for such quarter in respect of each Unit (the "Second Target Distribution");

third, 75% to all Unitholders, pro rata, 23% to the holders of the Incentive Distribution Rights, pro rata, and 2% to the General Partner, until the Unitholders have received (in addition to any distributions to Common Unitholders with respect to Common Unit Arrearages) a total of \$0.82 for such quarter in respect of each Unit (the "Third Target Distribution"); and

fourth, 50% to all Unitholders, pro rata, 48% to the holders of the Incentive Distribution Rights, pro rata, and 2% to the General Partner.

The following table illustrates the percentage allocation of any such additional Available Cash among the Unitholders, the General Partner and the holders of the Incentive Distribution Rights up to the various target distribution levels and a hypothetical annualized percentage yield to be realized by a Unitholder at each different level of allocation between the Unitholders, the General Partner and the holders of the Incentive Distribution Rights. For purposes of the following table, the annualized percentage yield is calculated on a hypothetical basis as the annual pretax yield on an investment in a Common Unit during the first year following the investment assuming that (i) the Common Unit was purchased at an amount equal to the assumed initial public offering price of \$21.375 per Unit, which is the mid-point of the range of the estimated initial public offering price, and (ii) the Partnership distributed each quarter during the first year following the investment the amount set forth under the column "Quarterly Distribution Amount." The calculations are also based on the assumption that the quarterly distribution amounts shown do not include any Common Unit Arrearages. The amounts set forth under "Marginal Percentage Interest in Distributions" are the percentage interests of the Unitholders, the General Partner and the holders of the Incentive Distribution Rights in any Available Cash distributed over and above the quarterly distribution amount shown, until Available Cash reaches the next target distribution level, if any. The percentage interests shown for the Unitholders and the General Partner for the Minimum Quarterly Distribution are also applicable to quarterly distribution amounts that are less than the Minimum Quarterly Distribution.

	QUARTERLY DISTRIBUTION AMOUNT	HYPOTHETICAL ANNUALIZED YIELD	MARGINAL PERCENTAGE INTEREST IN DISTRIBUTIONS		
			UNITHOLDERS	HOLDERS OF INCENTIVE DISTRIBUTION RIGHTS	GENERAL PARTNER
Minimum Quarterly Distribution.....	\$0.50	9.357%	98%	0%	2%
First Target Distribution.....	\$0.55	10.292%	98%	0%	2%
Second Target Distribution.....	\$0.63	11.789%	85%	13%	2%
Third Target Distribution.....	\$0.82	15.345%	75%	23%	2%
Thereafter.....	--	--	50%	48%	2%

The General Partner expects to make distributions of all 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, which will generally be between 30 and 35 days after such quarter. The first distribution for the period from the closing of this offering through October 31, 1994, is expected to be made on or before December 15, 1994, to holders of record on or about November 30, 1994. The Minimum Quarterly Distribution and First, Second and Third Target Distribution levels with respect to the period from the closing of this offering through October 31, 1994, will be adjusted (either upward or downward) to reflect the actual number of days in such period. The Minimum Quarterly Distribution and First, Second and Third Target Distribution levels are also subject to certain other adjustments as described below under "--Distribution of Cash from Interim Capital Transactions" and "--Adjustment of Minimum Quarterly Distribution and Target Distribution Levels."

#### DISTRIBUTIONS OF CASH FROM INTERIM CAPITAL TRANSACTIONS

Distributions by the Partnership of Available Cash that constitutes Cash from Interim Capital Transactions will be made 98% to all Unitholders, pro rata, and 2% to the General Partner, until the Partnership shall have

distributed, in respect of each Unit, Available Cash constituting Cash from



Interim Capital Transactions in an aggregate amount per Unit equal to the Initial Unit Price. Thereafter, all distributions that constitute Cash from Interim Capital Transactions will be distributed as if they were Cash from Operations.

As Cash from Interim Capital Transactions is distributed, it is treated as if it were a repayment of the Initial Unit Price. To reflect such repayment, the Minimum Quarterly Distribution and First, Second and Third Target Distribution levels will be adjusted downward by multiplying each amount by a fraction, the numerator of which is the Unrecovered Initial Unit Price (as defined in the glossary) immediately after giving effect to such repayment and the denominator of which is the Unrecovered Initial Unit Price immediately prior to such repayment.

When "payback" of the Initial Unit Price has occurred, i.e., when the Unrecovered Initial Unit Price is zero, then in effect the Minimum Quarterly Distribution and the First, Second and Third Target Distribution levels each will have been reduced to zero. Thereafter, all distributions of Available Cash from all sources will be treated as if they were Cash from Operations and, because the Minimum Quarterly Distribution and the First, Second and Third Target Distributions will have been reduced to zero, the holders of the Incentive Distribution Rights will be entitled to receive 48% of all distributions of Available Cash after distributions in respect of Common Unit Arrearages.

Distributions of Cash from Interim Capital Transactions will not reduce the Minimum Quarterly Distribution for the quarter with respect to which they are distributed.

#### ADJUSTMENT OF MINIMUM QUARTERLY DISTRIBUTION AND TARGET DISTRIBUTION LEVELS

The Minimum Quarterly Distribution, the First, Second and Third Target Distribution levels and the Unrecovered Initial Unit Price will be proportionately adjusted upward or downward, as appropriate, in the event of any combination or subdivision of Common Units (whether effected by a distribution payable in Common Units or otherwise), but not by reason of the issuance of additional Common Units for cash or property. For example, in the event of a two-for-one split of the Common Units (assuming no prior adjustments), the Minimum Quarterly Distribution and the First, Second and Third Target Distribution levels would each be reduced to 50% of its initial level.

In addition, as noted above under "--Quarterly Distributions of Available Cash--Distributions of Cash from Interim Capital Transactions," if a distribution is made of Available Cash constituting Cash from Interim Capital Transactions, the Minimum Quarterly Distribution and the First, Second and Third Target Distribution levels will be adjusted downward proportionately, by multiplying each such amount, as the same may have been previously adjusted, by a fraction, the numerator of which is the Unrecovered Initial Unit Price immediately after giving effect to such distribution and the denominator of which is the Unrecovered Initial Unit Price immediately prior to such distribution. For example, assuming the Unrecovered Initial Unit Price is \$21.375 per Unit and if Cash from Interim Capital Transactions of \$10.6875 per Unit is distributed to Unitholders (assuming no prior adjustments), then the amount of the Minimum Quarterly Distribution and the First, Second and Third Target Distribution levels would each be reduced to 50% of its initial level. If and when the Unrecovered Initial Unit Price is zero, the Minimum Quarterly Distribution and the First, Second and Third Target Distribution levels each will have been reduced to zero, and the holders of the Incentive Distribution Rights will be entitled to receive 48% of all distributions of Available Cash after distributions in respect of Common Unit Arrearages.

The Minimum Quarterly Distribution and First, Second and Third Target Distribution levels may also be adjusted if legislation is enacted or if existing law is modified or interpreted in a manner that causes the Partnership to become taxable as a corporation or otherwise subjects the Partnership to taxation as an entity for federal, state or local income tax purposes. In such event, the Minimum Quarterly Distribution and First, Second, and Third Target Distribution levels for each quarter thereafter would be reduced to an amount equal to the product of (i) each of the Minimum Quarterly Distribution and First, Second and Third Target Distribution levels multiplied by (ii) one minus the sum of (x) the

maximum marginal federal income tax rate to which the Partnership is subject as an entity plus (y) any increase that results from such legislation in the effective overall state and local income tax rate to which the Partnership is subject as an entity for the taxable year in which such quarter occurs (after taking into account the benefit of any deduction allowable for federal income tax purposes with respect to the payment of state and local income taxes). For example, assuming the Partnership was not previously subject to state and local income tax, if the Partnership were to become taxable as an entity for federal income tax purposes and the Partnership became subject to a maximum marginal federal, and effective state and local, income tax rate of 38%, then the Minimum Quarterly Distribution and the First, Second and Third Target Distribution levels would each be reduced to 62% of the amount thereof immediately prior to such adjustment.

#### DISTRIBUTIONS OF CASH UPON LIQUIDATION

Following the commencement of the dissolution and liquidation of the Partnership, assets will be sold or otherwise disposed of and the partners' capital account balances will be adjusted to reflect any resulting gain or loss. The proceeds of such liquidation will, first, be applied to the payment of creditors of the Partnership in the order of priority provided in the Partnership Agreement and by law and, thereafter, be distributed to the Unitholders, the General Partner and the holders of the Incentive Distribution Rights in accordance with their respective capital account balances, as so adjusted.

Partners are entitled to liquidation distributions in accordance with capital account balances. Although operating losses are allocated to all Unitholders pro rata, the allocations of gains and losses attributable to liquidation are intended to entitle the holders of outstanding Common Units to a preference over the holders of outstanding Subordinated Units upon the liquidation of the Partnership, to the extent of the Unrecovered Initial Unit Price plus any Common Unit Arrearages. However, no assurance can be given that the gain or loss upon liquidation of the Partnership will be sufficient to achieve this result. The manner of such adjustment is as provided in the Partnership Agreement, the form of which is included as Appendix A to this Prospectus. Any gain (or unrealized gain attributable to assets distributed in kind) will be allocated to the partners as follows:

first, to the General Partner and the holders of Units that have negative balances in their capital accounts to the extent of and in proportion to such negative balance;

second, 98% to the holders of Common Units, pro rata, and 2% to the General Partner, until the capital account for each Common Unit is equal to the Unrecovered Initial Unit Price in respect of such Common Unit plus any Common Unit Arrearages in respect of such Common Units;

third, 98% to the holders of Subordinated Units, pro rata, and 2% to the General Partner, until the capital account for each Subordinated Unit is equal to the Unrecovered Subordinated Unit Capital (as defined in the glossary) in respect of a Subordinated Unit;

fourth, 98% to all Unitholders, pro rata, and 2% to the General Partner, until there has been allocated under this clause fourth an amount per Unit equal to (a) the excess of the First Target Distribution per Unit over the Minimum Quarterly Distribution per Unit for each quarter of the Partnership's existence, less (b) the amount per Unit of any distributions of Available Cash constituting Cash from Operations in excess of the Minimum Quarterly Distribution per Unit that was distributed 98% to the Unitholders, pro rata, and 2% to the General Partner, for any quarter of the Partnership's existence;

fifth, 85% to all Unitholders, pro rata, 13% to the holders of the Incentive Distribution Rights, pro rata, and 2% to the General Partner, until there has been allocated under this clause fifth an amount per Unit equal to (a) the excess of the Second Target Distribution per Unit over the First Target Distribution per Unit for each quarter of the Partnership's existence, less (b) the amount per Unit of any distributions of Available Cash constituting Cash from Operations in excess of the First Target Distribution per Unit that was distributed 85% to the Unitholders, pro rata, 13% to the holders of the Incentive Distribution Rights, pro rata, and 2% to the General Partner, for any quarter of the Partnership's existence;

sixth, 75% to all Unitholders, pro rata, 23% to the holders of the Incentive Distribution Rights, pro rata, and 2% to the General Partner, until there has been allocated under this clause sixth an amount per Unit equal to (a) the excess of the Third Target Distribution per Unit over the Second Target Distribution per unit for each quarter of the Partnership's existence, less (b) the amount per Unit of any distributions of Available Cash constituting Cash from Operations in excess of the Second Target Distribution per Unit that was distributed 75% to the Unitholders, pro rata, 23% to the holders of the Incentive Distribution Rights, pro rata, and 2% to the General Partner, for any quarter of the Partnership's existence; and

thereafter, 50% to all Unitholders, pro rata, 48% to the holders of the Incentive Distribution Rights, pro rata, and 2% to the General Partner.

Any loss or unrealized loss will be allocated to the General Partner and the Unitholders as follows: first, 98% to the Subordinated Unitholders in proportion to the positive balances in their respective capital accounts, and 2% to the General Partner, until the positive balances in such Subordinated Unitholders' respective capital accounts have been reduced to zero, second, 98% to the Common Unitholders in proportion to the positive balances in their respective capital accounts, and 2% to the General Partner, until the positive balances in such Common Unitholders' respective capital accounts have been reduced to zero; and thereafter, to the General Partner.

#### PRO FORMA AVAILABLE CASH

On a pro forma basis, Available Cash constituting Cash from Operations for the fiscal year ended July 31, 1993 and the nine months ended April 30, 1994 (calculated using actual net cash flows for such fiscal year and nine-month period, adjusted for changes in working capital and assuming the Credit Facility was in place during such fiscal year and nine-month period) would have been sufficient to allow the Partnership to distribute the Minimum Quarterly Distribution on all of the Common Units and approximately 90% of the Minimum Quarterly Distribution on all of the Subordinated Units with respect to such fiscal year and to distribute the Minimum Quarterly Distribution on all of the Common Units and all of the Subordinated Units with respect to such nine-month period. If the transactions to be consummated at the closing of this offering had been completed on August 1, 1993, the Company believes that pro forma Available Cash constituting Cash from Operations for the fiscal year ending July 31, 1994 (calculated using actual net cash flows for the nine months ended April 30, 1994, adjusted for changes in working capital and assuming the Credit Facility was in place during such fiscal year), would be sufficient to allow the Partnership to distribute the Minimum Quarterly Distribution on all of the Common Units and all of the Subordinated Units with respect to such fiscal year.

Based on the assumptions discussed below, the General Partner believes that the Partnership will generate Available Cash constituting Cash from Operations sufficient to allow the Partnership to distribute at least the Minimum Quarterly Distribution on all of the Common Units and all of the Subordinated Units with respect to each full fiscal quarter through the quarter ending July 31, 1995, although no assurance can be given respecting such distributions. This belief is based on the General Partner's opinions regarding the future business prospects of the Partnership, the assumption that normal weather patterns will be experienced and on other assumptions that the General Partner believes are reasonable. The General Partner's estimates of Available Cash constituting Cash from Operations are based upon a number of assumptions beyond the control of the General Partner and which cannot be predicted with certainty, including assumptions concerning weather, market and economic conditions and other factors, such as estimates of propane prices and retail gross margins. See "Risk Factors." If the General Partners assumptions prove to be incorrect, Available Cash constituting Cash from Operations generated by the Partnership could be insufficient to permit the Partnership to make the distributions estimated as described above. Accordingly, no assurance can be given that distributions at those levels will be made.

SELECTED HISTORICAL AND PRO FORMA  
CONSOLIDATED FINANCIAL AND OPERATING DATA

The following tables set forth for the periods and the dates indicated, selected historical financial and operating data for the Company and selected pro forma financial and operating data for the Partnership after giving effect to the transactions contemplated by this Prospectus. The selected historical income statement and balance sheet data of the Company for the five years ended July 31, 1993, and for the nine months ended April 30, 1994 is derived from financial statements which have been audited by Deloitte & Touche, independent auditors, certain of which appear elsewhere in this Prospectus. The historical financial data for the nine-month period ended April 30, 1993, has been derived from the unaudited financial statements appearing herein, and, in the opinion of management of the Company, contain all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of the Company's results of operation and financial condition. The Partnership's selected pro forma financial data should be read in conjunction with such consolidated financial statements and the pro forma combined financial information and notes thereto included elsewhere in this Prospectus. The propane industry is seasonal in nature with its peak activity during the winter months. Therefore, the results for the interim period are not indicative of the results that can be expected for a full fiscal year. The following should be read in conjunction with the Financial Statements and Notes to Financial Statements contained elsewhere in this Prospectus.

	HISTORICAL					PARTNERSHIP PRO FORMA
	YEAR ENDED JULY 31,					YEAR ENDED JULY 31, 1993
	1989	1990	1991	1992	1993	
(IN THOUSANDS, EXCEPT PER UNIT DATA)						
INCOME STATEMENT DATA:						
Total revenues.....	\$409,953	\$467,641	\$543,933	\$501,129	\$541,945	\$541,945
Depreciation and amortization.....	32,528	33,521	36,151	31,196	30,840	30,840
Operating income.....	53,425	54,388	63,045	56,408	58,553	58,053
Interest expense.....	54,572	55,095	60,507	61,219	60,071	29,029
Earnings (loss) from continuing operations...	(1,506)	(347)	1,979	(1,700)(1)	109	28,750
Earnings from continuing operations per Unit.....						\$ 0.93
BALANCE SHEET DATA (AT END OF PERIOD):						
Working capital.....	\$(39,708)	\$ 50,456	\$ 53,403	\$ 67,973	\$ 74,408	
Total assets.....	487,631	554,580	580,260	598,613	573,376	
Payable to (receivable from) parent and affiliates.....	13,109	10,743	3,763	2,236	(916)	
Long-term debt.....	354,626	465,644	466,585	501,614	489,589	
Stockholder's equity.....	6,616	11,463	21,687	8,808	11,359	
OPERATING DATA:						
Retail propane sales volumes (in gallons)....	498,395	499,042	482,211	495,707	553,413	553,413
Capital expenditures(2):						
Maintenance.....	\$ 7,271	\$ 5,428	\$ 7,958	\$ 10,250	\$ 10,527	\$ 10,527
Growth.....	10,062	10,447	2,478	3,342	2,851	2,851
Acquisition.....	14,668	18,005	25,305	10,112	897	897
Total.....	\$ 32,001	\$ 33,880	\$ 35,741	\$ 23,704	\$ 14,275	\$ 14,275
=====	=====	=====	=====	=====	=====	=====
SUPPLEMENTAL DATA:						
Earnings before depreciation, amortization, interest and taxes(3).....	\$ 85,953	\$ 87,909	\$ 99,196	\$ 87,604	\$ 89,393	\$ 88,893
Fixed charge coverage ra- tio(4).....						3.0x

	HISTORICAL		PARTNERSHIP PRO FORMA
	-----		-----
	NINE MONTHS ENDED APRIL 30,		NINE MONTHS ENDED APRIL 30,
	1993	1994	1994
	-----	-----	-----
(IN THOUSANDS, EXCEPT PER UNIT DATA AND RATIO)			
INCOME STATEMENT DATA:			
Total revenues.....	\$468,302	\$450,477	\$ 450,477
Depreciation and amortization.....	23,238	21,688	21,688
Operating income.....	64,708	75,445	75,070
Interest expense.....	45,056	44,233	21,187
Earnings from continuing operations.	12,785	20,356	53,892
Earnings from continuing operations per Unit.....			\$ 1.75
BALANCE SHEET DATA (AT END OF PERIOD):			
Working capital.....	\$ 100,645	\$104,164	\$ 54,304
Total assets.....	602,063	600,113	478,254
Payable to (receivable from) parent and affiliates.....	2,076	(3,909)	91
Long-term debt.....	500,227	476,471	267,441
Stockholder's equity...	21,855	30,848	
Partners' capital:			
Common unitholders.....			66,067
Subordinated unitholder.....			75,524
General partner.....			2,890
OPERATING DATA:			
Retail propane sales volumes (in gallons)..	483,489	490,254	490,254
Capital expenditures(2):			
Maintenance.....	\$ 9,232(5)	\$ 3,377(5)	\$ 3,377
Growth.....	2,597	2,568	2,568
Acquisition.....	--	2,472	2,472
	-----	-----	-----
Total.....	\$ 11,829	\$ 8,417	\$ 8,417
	=====	=====	=====
SUPPLEMENTAL DATA:			
Earnings before depreciation, amortization, interest and taxes(3).....	\$ 87,946	\$ 97,133	\$ 96,758
Fixed charge coverage ratio(4).....			3.3x

(1) 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 net loss from continuing operations of approximately \$3.7 million for the fiscal year ended July 31, 1992.

(2) 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 retail customer base; and (iii) acquisition capital expenditures, which include expenditures related to the acquisition of retail propane operations. Acquisition capital expenditures include a portion of the purchase price allocated to intangibles associated with the acquired businesses.

(3) EBITDA is calculated as operating income 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 from

continuing operations or net income.

- (4) Such ratio is calculated for the preceding four quarter period. Under the terms of the Indenture, the Operating Partnership will be prohibited from making any distributions to the Partnership if the Operating Partnership's Fixed Charge Coverage Ratio for the preceding four fiscal quarters does not exceed 2.25 to 1 after giving effect to such distribution.
- (5) The decrease in maintenance capital expenditures from the nine months ended April 30, 1993 to the nine months ended April 30, 1994 is primarily due to the purchase of the Company's corporate headquarters in Liberty, Missouri for its fair market value of \$4.1 million in the first nine months of fiscal 1993.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of the historical and pro forma financial condition and results of operations of the Company and the Partnership. The discussion should be read in conjunction with the historical and pro forma consolidated financial statements and the notes thereto included elsewhere in this Prospectus.

GENERAL

The Partnership was recently formed to acquire and operate the business and assets of the Company. The Company is engaged in the sale, distribution, marketing and trading of propane and other natural gas liquids. The Company's revenue is derived primarily from the retail propane marketing business. The Company believes it is the third largest retail marketer of propane in the United States, based on gallons sold, serving more than 600,000 residential, industrial/commercial and agricultural customers in 45 states and the District of Columbia through approximately 416 retail outlets and 226 satellite locations. The Company's annual retail propane sales volume was approximately 553 million, 496 million and 482 million gallons during the fiscal years ended July 31, 1993, 1992 and 1991, respectively.

The retail propane business of the Company 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 retail market for propane is seasonal because of its primary use for heating in residential and commercial buildings. In addition, sales volumes have traditionally been affected by various factors, including competitive conditions, demand for product, variations in weather and fluctuations in propane prices. The Company's results for its first fiscal quarter (August, September and October) and fourth fiscal quarter (May, June and July) are typically lower than the second and third fiscal quarters, primarily as a result of warmer weather in its first and fourth fiscal quarters. The following tables set forth historical unaudited revenues and operating income for the Company for the period from August 1, 1991 to July 31, 1993, for each quarter in fiscal years 1992 and 1993:

QUARTERLY REVENUES

	FISCAL YEAR 1992		FISCAL YEAR 1993	
		%		%
	-----			
	(DOLLARS IN THOUSANDS)			
Quarter ended:				
October 31.....	\$114,263	22.8	\$116,497	21.5
January 31.....	193,652	38.6	191,499	35.3
April 30.....	122,658	24.5	160,306	29.6
July 31.....	70,556	14.1	73,643	13.6
	-----	-----	-----	-----
Total.....	\$501,129	100.0	\$541,945	100.0
	=====	=====	=====	=====

# QUARTERLY OPERATING INCOME

	FISCAL YEAR 1992	%	FISCAL YEAR 1993	%
	-----		-----	
	(DOLLARS IN THOUSANDS)			
Quarter ended:				
October 31.....	\$ 5,488	9.7	\$ 3,823	6.5
January 31.....	39,194	69.5	39,186	66.9
April 30.....	16,777	29.7	21,699	37.1
July 31.....	(5,051)	(8.9)	(6,155)	(10.5)
	-----	-----	-----	-----
Total.....	\$56,408	100.0	\$58,553	100.0
	=====	=====	=====	=====

The Company 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 Company has become one of the largest independent traders of propane and natural gas liquids in the United States. In fiscal year 1993, the Company's annual wholesale and trading sales volume was approximately 1.2 billion gallons of propane and other natural gas liquids, approximately 64% of which was propane. This volume, when combined with the Company's retail volume, makes the Company one of the largest purchasers of propane, which the General Partner believes will help assure the Partnership favorable prices and supply of propane during times of increased demand. For the fiscal years ended July 31, 1993, 1992 and 1991, the Company had net revenues of \$6.7 million, \$4.9 million and \$9.9 million, respectively, from its trading activities.

## RESULTS OF OPERATIONS

### NINE MONTHS ENDED APRIL 30, 1994 VERSUS APRIL 30, 1993

**Total Revenues.** Total revenues decreased 3.8% to \$450,477,000 as compared with \$468,302,000 for the prior year period. The overall decrease was attributable to revenues from other operations (net trading operations, wholesale propane marketing and chemical feedstocks marketing) decreasing 23.1% to \$56,237,000, and revenues from retail operations decreasing 0.2% to \$394,240,000.

The decrease in revenues from other operations was primarily due to higher sales of chemical feedstocks in the prior period resulting from sales of chemical feedstocks that were designated for storage but were sold due to storage limitations. Additional decreases were the result of lower product costs for chemical feedstocks and wholesale propane marketing and decreased net trading results due to reduced market volatility relative to the prior period.

The decrease in revenues from retail operations was primarily due to a decrease in selling price partially offset by an increase in sales volume due to cooler temperatures than those which existed in the prior period. The volume of gallons sold, excluding acquisitions, increased revenues by \$3,339,000. Fiscal year 1994 and 1993 acquisitions increased revenues in the nine months ended April 30, 1994 by \$1,659,000. These increases were offset by a \$6,775,000 decrease in sales price due to lower product costs.

**Gross Profit.** Gross profit increased 4.5% to \$221,151,000 as compared with \$211,566,000 for the prior period, primarily due to an increase in retail operations gross profit. Retail operations results improved due to increased sales volume as discussed previously and to margin increases as a result of favorable changes in the competitive pressures of the industry and to normal fluctuations in the Company's product mix.

**Operating Expenses.** Operating expenses increased 0.1% to \$112,687,000 as compared with \$112,553,000, for the prior period, primarily due to (i) an increase in incentive compensation expense, and (ii) an increase in overtime, variable labor and vehicle expenses due to increased sales volume. These increases were primarily offset by a decrease in general liability and workers compensation expense due to improved claims administration and decreased sales and use tax audit assessments.

**General and Administrative Expenses.** General and administrative expenses increased 10.1% to \$8,128,000 as compared with \$7,385,000 for the prior period due to increased incentive compensation





expense. This increase was partially offset by a reduction in facilities rent expense in the second and third quarters of fiscal year 1993 due to the purchase of the Liberty, Missouri, corporate offices.

**Depreciation and Amortization.** Depreciation expense decreased 6.7% to \$21,688,000 as compared with \$23,238,000 for the prior period due primarily to extending the use of the Company's vehicles beyond the depreciable life and to the reduction in the number of Company owned vehicles.

**Net Interest Expense.** Net interest expense decreased 3.0% to \$41,442,000 as compared with \$42,723,000 for the prior period due to the reacquisition of \$11,900,000 and \$10,500,000 of senior notes in the third quarter of fiscal 1994 and in the fourth quarter of fiscal year 1993, respectively, offset by increased non-cash amortization of financing costs.

**Net Earnings.** Net earnings increased 52.4% to \$19,489,000 as compared with \$12,785,000 for the prior period primarily due to the increase in retail operations sales volume and margins offset by increased operating and general and administrative expenses and the fiscal 1994 extraordinary loss from early extinguishment of debt.

#### FISCAL YEAR ENDED JULY 31, 1993 VERSUS JULY 31, 1992

**Total Revenues.** Total revenues increased 8.1% to \$541,945,000 as compared with \$501,129,000 for the prior year. This increase was attributable to an increase in revenues from retail operations of 10.6% to \$451,966,000 partially offset by a decrease in revenues from other operations (net trading operations, chemical feedstocks marketing and wholesale propane marketing) of 2.6% to \$89,979,000.

The increase in revenues attributable to retail operations resulted from increased sales volume. The sales volume increase was mainly due to a surge in agricultural business from crop drying in farm belt states and cooler temperatures than those which existed in the prior year. The volume of gallons sold, excluding the effects of acquisitions, increased revenues by \$42,648,000. This increase was offset by a decrease in selling price which reduced revenues by \$3,326,000. Acquisitions completed in fiscal 1993 and 1992 increased revenues by \$3,172,000.

Total revenues attributable to other operations decreased as compared with the prior year. Wholesale propane marketing revenues decreased as a result of a change in focus and marketing strategy. This decrease was offset by an increase in net trading operations as a result of increased market volatility relative to the prior year.

**Gross Profit.** Gross profit increased 4.3% to \$243,912,000 as compared with \$233,850,000 for the prior year. The increase was primarily due to an increase in retail operations' sales volume and an increase in net trading and wholesale marketing operating results. These increases were offset by a decrease in retail operations' margins due to competitive pricing pressures in the industry.

**Operating Expenses.** Operating expenses increased 4.1% to \$139,617,000 as compared with \$134,165,000 for the prior year, due to (i) an increase in personnel costs from increased sales volume and accrued incentive compensation expense, (ii) an increase in vehicle expenses from increased sales volume, (iii) an increase in other expenses from sales and use tax assessments on prior year purchases and leases, and (iv) general increases in the cost of doing business. These increases were partially offset by a decrease in general liability expense due to improved claims administration and to a decrease in bad debt expense due to improved credit and collections administration.

**Depreciation and Amortization.** Depreciation and amortization expense decreased 1.1% to \$30,840,000 as compared with \$31,196,000 for the prior year due to retirements and fully depreciated assets.

**General and Administrative Expenses.** General and administrative expenses increased 33.3% to \$10,079,000 as compared with \$7,561,000 for the prior year period due to an increase in compensation expense related to the long-term incentive plan and an increase in non-capitalized software maintenance costs.

Net Interest Expense. Net interest expense of \$56,805,000 remained essentially unchanged as compared with \$56,818,000 for the prior year. Decreases in interest expense due to lower effective interest rates were offset by a decrease in interest income as a result of lower interest rates on short-term investments.

Extraordinary Loss. The extraordinary loss of \$886,000, net of \$543,000 income tax benefit, was due to the early extinguishment of \$10,500,000 of the senior notes as discussed in the notes to the consolidated financial statements.

Net Loss. Net loss decreased to \$777,000 as compared with a loss of \$11,679,000 for the prior year due to a \$9,093,000 decrease in the extraordinary loss from the early extinguishment of debt and to an increase in net operating results.

#### FISCAL YEAR ENDED JULY 31, 1992 VERSUS JULY 31, 1991

Total Revenues. Total revenues decreased 7.9% to \$501,129,000 as compared with \$543,933,000 for the prior year. This decrease was attributable to a decrease in revenues from retail operations of 8.1% to \$408,781,000 and a decrease in revenues from other operations (net trading operations, chemical feedstocks marketing and wholesale propane marketing) of 6.8% to \$92,348,000.

The decrease in revenues attributable to retail operations resulted mainly from a decrease in selling price related to the end of the Persian Gulf crisis and to competitive pressures within the industry. In fiscal 1991, selling prices were increased in response to product cost increases brought about by the Persian Gulf crisis. The volume of gallons sold, excluding the effects of acquisitions, decreased due to temperatures being warmer than normal and warmer than the prior year in the primary heating months, along with competitive pressures within the industry. The decrease in selling price and volumes reduced total revenues by \$45,080,000 and \$1,727,000, respectively. Acquisitions in fiscal 1991 and 1992 increased fiscal 1992 revenues by \$10,120,000.

The decrease in revenues attributable to other operations resulted from declines in net trading operations and wholesale propane marketing revenues offset by an increase in revenues from chemical feedstocks marketing. Net trading operations decreased due to a less volatile market than that which existed in fiscal 1991 during the Persian Gulf crisis. Wholesale propane marketing revenues decreased as a result of changes in marketing strategy and focus of the business and a decrease in selling price and volumes for the reasons noted above for retail operations. Chemical feedstocks marketing revenues increased due to additional emphasis on butane sales.

Gross Profit. Gross profit decreased 4.9% to \$233,850,000 as compared with \$245,965,000 for the prior year. Approximately half of the decrease was attributable to retail operations as a result of competitive pressures in the industry and warmer than normal and warmer than prior year temperatures in the primary heating months. The remaining decrease was attributable to net trading operations and wholesale propane marketing.

Operating Expenses. Operating expenses increased 3.5% to \$134,165,000 as compared with \$129,684,000 for the prior year. This increase was primarily due to an increase in payroll expenses, general liability and workers' compensation insurance and an increase in expenses due to acquisitions in fiscal 1992 and 1991. These increases were partially offset by a reduction in incentive compensation expense.

Depreciation and Amortization. Depreciation and amortization expense decreased 13.7% to \$31,196,000 as compared with \$36,151,000 for the prior year due primarily to a change in the useful lives of certain assets as discussed in the notes to the consolidated financial statements. The change was based on the expected useful lives of the assets and industry practice.

General and Administrative Expenses. General and administrative expenses decreased 41.6% to \$7,561,000 as compared with \$12,953,000 for the prior year due primarily to a reversal of expense previously provided related to the long-term incentive plan and the elimination of certain management positions.

Net Interest Expense. Net interest expense increased 0.3% to \$56,818,000 as compared with \$56,666,000 for the prior year. In connection with the refinancing of the subordinated debt, the Company borrowed an additional \$40,000,000. The impact of this additional borrowing on interest expense was offset by a lower effective interest rate on the new subordinated debt and the investment of the excess cash proceeds from the refinancing.

Extraordinary Loss. The extraordinary loss of \$9,979,000, net of income tax benefit, was due to the refinancing of the subordinated debt as discussed in the notes to the consolidated financial statements.

Net Earnings (Loss). Net earnings decreased to a net loss of \$11,679,000 as compared with net earnings of \$1,979,000 for the prior year due primarily to the decrease in gross profit and the extraordinary loss on the refinancing of subordinated debt.

#### FISCAL YEAR ENDED JULY 31, 1991 VERSUS JULY 31, 1990

Total Revenues. Total revenues increased 16.3% to \$543,933,000 as compared with \$467,641,000 for the prior year. This increase was attributable to (i) an increase in revenues from retail operations of 12.6% to \$444,886,000 and (ii) an increase in revenues from other operations (wholesale propane marketing, chemical feedstocks marketing and net trading operations) of 36.3% to \$99,047,000.

The increase in revenues from retail operations resulted primarily from an increase in selling prices in response to an increase in product costs brought about by the Persian Gulf crisis. Selling prices were increased in order to maintain normal operating margins. Increased retail selling prices resulted in a \$62,505,000 revenue variance. The acquisitions of retail propane businesses increased revenues by approximately \$18,484,000. A reduction in residential, motor fuel applications and reseller sales volumes decreased revenues approximately \$30,236,000. Retail operations volumes decreased 3.4% compared to the prior year due to temperatures being warmer than the prior year and warmer than normal in addition to customers requesting smaller volume deliveries while propane selling prices remained high.

The increase in revenues from other operations resulted from increases in all areas of other operations. Wholesale propane and chemical feedstocks marketing revenues increased due primarily to an increase in selling prices in response to increased product costs as noted above. Net trading operations revenues increased due to increased volatility in the market generating a larger volume of trades. Other operations volumes increased 35.2% compared to the prior year.

Gross Profit. Gross profit increased 10.4% to \$245,965,000 as compared with \$222,834,000 for the prior year. This increase was attributed to the acquisitions of retail propane businesses in fiscal year 1991 and 1990 and an increase in retail operations margins. Retail margins from existing business increased to cover the increased costs of product delivery resulting from smaller volume deliveries and increased carrying costs involved with higher inventory and receivables balance. Also, gross profit for fiscal year 1990 was adversely impacted by high product costs from inventory purchased in January 1990. Gross profit from other operations also increased primarily due to increased wholesale propane marketing margins resulting from focusing marketing efforts on higher margin sales and increased net trading operations volume and margins resulting from the volatile propane market.

Operating Expenses. Operating expenses increased 13.1% to \$129,684,000 as compared with \$114,639,000 for the prior period primarily due to (i) an increase in full time payroll, incentive compensation expense and the related payroll taxes as a result of increased retail operations margins and other operations, (ii) an increase in vehicle expenses and in plant and office expenses primarily from increases in vehicle fuel costs and customers requesting more frequent, smaller volume deliveries and (iii) acquisitions of retail propane businesses during fiscal year 1991 and 1990.

General and Administrative Expenses. General and administrative expenses decreased 19.6% to \$12,953,000 as compared with \$16,113,000 for the prior period. A cost reduction program which was implemented March 1990 included reductions of staff in non-critical areas and cuts in non-essential projects. The results of this program and a reversal of expense previously provided related to the long-term incentive plan contributed to the general and administrative expense decrease.

Net Interest Expense. Net interest expense increased 6.0% to \$56,666,000 as compared with \$53,463,000 due to the issuance of senior notes in July of 1990. The excess cash proceeds from the issuance of the senior notes were invested to offset interest expense incurred.

Net Earnings (Loss). Net earnings increased to \$1,979,000 as compared with a net loss of \$3,814,000 for the prior period due to the increase in gross profit which was offset partially by an increase in operating expenses and net interest expense. Also in 1990, earnings were unfavorably impacted by an extraordinary loss from refinancing of debt.

#### LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended April 30, 1994 and the twelve months ended July 31, 1993, the Company's operating cash flow provided from operations (as measured by operating income before depreciation and amortization, interest and taxes) was sufficient to (i) make interest payments and required reductions to existing debt and (ii) make purchases of property, plant and equipment.

Cash Flows from Operating Activities. Cash provided by operating activities increased to \$58,246,000 for the nine months ended April 30, 1994, as compared with \$47,081,000 for the prior period. This increase was primarily attributable to an increase in net earnings and accounts payable, which were offset by increases in inventory and accounts and notes receivable. Cash provided by operating activities increased to \$36,961,000 for the twelve months ended July 31, 1993, as compared with \$22,965,000 for the prior period. This increase was primarily attributable to an increase in earnings and a decrease in inventory purchases in anticipation of future propane requirements, offset by a decrease in accounts payable.

Cash Flows From Investing Activities. During the nine months ended April 30, 1994, the Company made aggregate expenditures for intangible assets and property, plant and equipment of \$8,417,000. During the twelve months ended July 31, 1993, the Company made aggregate expenditures for intangible assets and property, plant and equipment of \$14,275,000. Total capital expenditures are essentially governed by the cash interest coverage ratio covenants contained in the various debt agreements. These covenants limited capital expenditures depending upon the amount of cash flow and cash interest expense of the Company.

The Company maintains its vehicle and transportation equipment fleet by leasing light and medium duty trucks and tractors. The Company believes vehicle leasing is a cost effective method for financing transportation equipment. 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 Company's principal physical assets, are generally long.

The Company invested in U.S. Treasury Bills and U.S. government obligations with remaining maturities, as of April 30, 1994, ranging from four to ten months. These investments are presented as short-term investments in the Company's consolidated financial statements.

Cash Flows From Financing Activities. The Company currently has a \$50 million bank credit facility which terminates July 31, 1995. The facility provides for a working capital facility and a letter of credit facility. At April 30, 1994, there were no borrowings outstanding under the working capital facility.

and letters of credit outstanding under the letter of credit facility, which are used primarily to secure obligations under certain insurance and leasing arrangements, totaled \$32,778,000, resulting in an available bank credit facility of \$17,222,000. The Company does not have any significant commitments for fixed asset acquisitions, unusual working capital commitments or contingent liabilities which might materially affect short-term liquidity.

**Effects of Inflation.** In the past the Company has been able to adjust its sales price of product in response to market demand, cost of product, competitive factors and other industry trends. Consequently, changing prices as a result of inflationary pressures have not had a material adverse effect on profitability although revenues may be affected. Inflation has not materially impacted the results of operations and the Company does not believe normal inflationary pressures will have a material adverse effect on the profitability of the Partnership in the future.

**Adoption of New Accounting Standards.** The Company provides postretirement medical benefits to a closed group of approximately 400 retired employees and their spouses. The plan requires the Company to provide primary medical benefits to the participants until age 65, at which time the Company only pays a fixed amount of \$55 per month per participant for medical benefits. Effective August 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 106--Employers' Accounting for Postretirement Benefits Other Than Pensions which requires accrual of postretirement benefits (such as health care benefits) during the years an employee provides services. The Company elected to amortize the postretirement benefit obligation over a period not to exceed the average remaining life expectancy of the plan participants (since all of the plan participants are retired). The cumulative effect as of August 1, 1993, and impact for the nine months ended April 30, 1994, of adopting this statement was not material to the financial statements of the Company. See Note L to the consolidated financial statements.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 112--Employers' Accounting For Postemployment Benefits which is effective for fiscal years beginning after December 15, 1993. This statement requires that employers recognize over the service lives of employees the costs of postemployment benefits if certain conditions are met. The General Partner does not believe that adoption of the statement will have a material impact on the results of operations or financial condition of the Partnership.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 115--Accounting for Certain Investments in Debt and Equity Securities, which is effective for fiscal years beginning after December 15, 1993. The statement addresses the accounting and reporting for certain investments in debt and equity securities and expands the use of fair value accounting for those securities but retains the use of the amortized cost method for investments that the Company has the positive intent and ability to hold to maturity. The General Partner does not believe that the adoption of this statement will have a material effect on the results of operations or financial condition of the Partnership.

#### PRO FORMA FINANCIAL CONDITION

The ability of the Partnership to satisfy its obligations will be dependent upon future performance, which will be subject to prevailing economic conditions and to financial, business and weather conditions and other factors, many of which are beyond its control. For the fiscal year ending July 31, 1995, the General Partner believes that the Partnership will generate sufficient Available Cash constituting Cash from Operations to meet its obligations and enable it to distribute the Minimum Quarterly Distribution on all Common Units and Subordinated Units. See "Cash Distribution Policy--

Pro Forma Available Cash." Future capital needs of the Partnership are expected to be provided by future operations, existing cash balances and the working capital facility. The Partnership may incur additional indebtedness or issue additional Units in order to fund possible future acquisitions.

Concurrent with the closing of the sale of the Common Units offered hereby, the Operating Partnership will sell in a registered public offering approximately \$250 million aggregate principal amount of Senior Notes, the net proceeds of which, along with the estimated \$260.3 million net proceeds of the offering of Common Units, will be used to retire substantially all of the approximately \$481.5 million of indebtedness of the Company to be assumed by the Operating Partnership. The sale of the Common Units offered hereby is subject to, among other things, the sale of the Senior Notes. Upon the consummation of the transactions contemplated by this Prospectus, the Partnership will have total indebtedness of approximately \$263.9 million. See "The Transactions."

The Senior Notes. The following is a summary of the terms of the Senior Notes, which will be issued pursuant to an Indenture (the "Indenture"), the form of which is filed as an exhibit to the registration statement of which this Prospectus is a part. The Senior Notes will be unsecured general obligations of the Operating Partnership and will be recourse to the General Partner in its capacity as the general partner of the Operating Partnership. The Senior Notes will bear interest from the date of issuance at the rate of % per annum, payable semi-annually in arrears. The Senior Notes will mature on , 2001 and will not require any mandatory redemption or sinking fund payment prior to maturity. The Senior Notes are redeemable at the option of the Operating Partnership, in whole or in part, at any time on or after , 1998 at redemption prices specified in the Indenture, plus accrued and unpaid interest to the date of redemption. Upon the occurrence of certain events constituting a "Change of Control" (as defined in the Indenture), including if James E. Ferrell or his affiliates do not control the General Partner, other than in certain limited circumstances, holders of the Senior Notes will have the right to require the Operating Partnership to purchase each such holder's Senior Notes, in whole or in part, at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase.

The Indenture will contain customary covenants applicable to the Operating Partnership and its subsidiaries, including limitations on the ability of the Operating Partnership and its subsidiaries to, among other things, incur additional indebtedness (other than certain permitted indebtedness) and issue preferred interests, create liens, incur dividend and other payment restrictions affecting subsidiaries, enter into mergers, consolidations or sales of all or substantially all assets, make asset sales and enter into transactions with affiliates. Under the Indenture, the Operating Partnership will be permitted to make cash distributions in an amount in such fiscal quarter not to exceed Available Cash (as defined in the Indenture) of the Operating Partnership for the immediately preceding fiscal quarter plus the amount of any Available Cash of the Operating Partnership for the first 45 days of such fiscal quarter so long as the amount of such Available Cash so included does not exceed the amount of unused available working capital indebtedness that the Operating Partnership could have incurred on the last day of the immediately preceding fiscal quarter; provided, however, that the Operating Partnership will be prohibited from making any distribution to the Partnership (i) if a default or event of default exists or would exist upon making such distribution, (ii) if the Operating Partnership's Fixed Charge Coverage Ratio for the preceding four fiscal quarters does not exceed 2.25 to 1 after giving effect to such distribution or (iii) unless the Operating Partnership and its subsidiaries shall have in the aggregate (a) acquired, improved or repaired property, plant or equipment which is accounted for as a capital expenditure in accordance with GAAP or (b) acquired, through merger or otherwise, all or substantially all of the outstanding stock or other capital interests, or all or substantially all of the assets, of any entity engaged in the business in which the Operating Partnership is engaged on the date of the Indenture (each of the transactions referred to in clauses (a) and (b) above, a "Capital Investment") for Aggregate Consideration since the date of the Indenture which, when added to all cash reserves established and funded by the Operating Partnership (the proceeds of which shall be used solely for Capital

Investments), is no less than the amounts set forth in the table below, if such distribution is made in the 12-month period beginning August 1 of the years indicated.

YEAR	AMOUNT
----	-----
1994	\$ 0
1995.....	\$ 15 million
1996.....	\$ 30 million
1997.....	\$ 45 million
1998.....	\$ 70 million
1999.....	\$ 95 million
2000.....	\$120 million

For purposes of the foregoing, "Aggregate Consideration" with respect to Capital Investments shall mean at any date all cash paid in connection with all Capital Investments consummated on or prior to such date, the fair market value of all partnership interests of the Partnership or the Operating Partnership (determined by the General Partner in good faith with reference to, among other things, the trading price of such partnership interests, if then traded on any national securities exchange or automated quotation system) constituting all or a portion of the purchase price for all Capital Investments consummated on or prior to such date and the aggregate principal amount of all indebtedness incurred or assumed by the Operating Partnership in connection with all Capital Investments consummated on or prior to such date.

As of April 30, 1994 the Fixed Charge Coverage Ratio for the preceding four fiscal quarters was 3.4 to 1 on a pro forma basis. The payment restrictions in the Indenture are not anticipated to preclude the Partnership from making distributions of at least the Minimum Quarterly Distribution on all Common Units in each quarter during the Subordination Period.

Credit Facility. Immediately prior to the closing of this offering, the Operating Partnership expects to enter into a \$185 million Credit Facility with Bank of America National Trust & Savings Association ("BoFA"), a portion of which will be syndicated to a group of financial institutions (together with BoFA, the "Banks"). The form of the loan agreement which will govern the Credit Facility is filed as an exhibit to the Registration Statement of which this Prospectus is a part. The Credit Facility will permit borrowings of up to \$100 million on a senior unsecured revolving line of credit basis (the "Working Capital Facility") and up to \$85 million on a senior unsecured basis (the "Expansion Facility").

The Credit Facility will be committed for up to a three-year period, at which time the Working Capital Facility will expire. The Expansion Facility may be converted, at the option of the Operating Partnership, to a three year term loan at the end of the initial three-year period. Under the Working Capital Facility, up to \$100 million will be available to fund working capital and general partnership requirements (of which up to \$50 million will be available to support letters of credit). Under the Expansion Facility, up to \$25 million will be available to retire existing indebtedness of the General Partner which will be assumed by the Operating Partnership, and up to \$60 million (plus any unused amount from the retirement of the existing assumed indebtedness and any amount repaid with the proceeds from the exercise of the Underwriters' over-allotment option) will be available solely to finance acquisitions and for growth capital expenditures.

At the Operating Partnership's option, borrowings under the Credit Facility may bear interest either at the Base Rate (i.e., the higher of the Federal funds rate plus 1/2% per annum or BoFA's reference rate) or the London Interbank Offered Rate, in each case plus the applicable margin. The applicable margin will vary from 62.5 basis points to 125 basis points for LIBOR and between zero basis points and 25 basis points for the Base Rate, depending upon the Operating Partnership's "Leverage Ratio," which is defined generally as the ratio of all debt for borrowed money to EBITDA. At the time of the closing of the Credit Facility, the Operating Partnership anticipates that, based upon the then applicable Leverage Ratio, its applicable LIBOR margin will be 112.5 basis points and its applicable Base Rate margin will be 12.5 basis points. There can be no guarantee that the Operating Partnership will be able to continue to maintain the Leverage Ratio which it anticipates will exist at closing.



The loan agreement for the Credit Facility will contain restrictive covenants substantially similar to those for the Senior Notes including restrictions on the Operating Partnership's ability to make cash distributions, the requirement that the Operating Partnership make "Capital Reinvestments" as described under "--The Senior Notes" and the requirement that the Operating Partnership repay all outstanding amounts under the Credit Facility within 30 days after the occurrence of a change of control. See "--The Senior Notes." In the case of the Credit Facility, however, there is an additional limitation in that the occurrence of any transaction which results in James E. Ferrell and his affiliates beneficially owning less than 20% of the equity interests of the Partnership will constitute a "change of control," requiring repayment of the Credit Facility. The Credit Facility also includes certain additional covenants and restrictions relating to the activities of the Operating Partnership which are customary for similar credit facilities and are not expected to affect materially and adversely the conduct of the Partnership's business as described in this Prospectus.

In connection with the transactions to be consummated at the closing of the offering made hereby, the Partnership may borrow up to \$25 million under the Expansion Facility. Assuming a closing date of June 30, 1994, the Partnership estimates that it will borrow approximately \$10 million to enable the Partnership to commence operations with an initial cash balance of at least \$20 million. Actual borrowings under the Credit Facility at the closing of this offering will depend upon the Partnership's cash balances at such time, the initial offering price per Common Unit and the timing of any exercise of the Underwriters' overallotment option. If the Underwriters' overallotment option is exercised subsequent to the closing, the Partnership will use the net proceeds therefrom first to repay any amounts borrowed under the Expansion Facility.

The closing of the Credit Facility is conditioned upon, among other things, the successful public offering of the Common Units and the Senior Notes, the cancellation of Ferrellgas' current \$50 million revolving credit facility and there having been no material adverse change in the financial markets in general or the financial condition of Ferrellgas, Inc. or the Operating Partnership prior to the closing of the Credit Facility.

#### TAX AUDIT

The IRS has examined Ferrell's consolidated income tax returns for the years ended July 31, 1987 and 1986, and has proposed to disallow \$90 million of deductions for amortization of customer relationships taken or to be taken on Ferrell's consolidated income tax returns. On April 20, 1993, the United States Supreme Court held in *Newark Morning Ledger v. United States* that a taxpayer may amortize customer-based intangibles if that taxpayer can prove such intangibles are capable of being valued and the value diminishes over time. The Company contends it has met this burden of proof and feels this recent Supreme Court decision supports the positions taken during the Company's allocation of purchase price to customer relationships.

The Company was originally made aware of the audit based on a letter received from the IRS dated April 24, 1989. The Company received a closing conference letter of the proposed adjustments on December 6, 1990, and finally, a 60-day letter to act dated August 5, 1991. The 60-day letter has been extended through December 31, 1994.

The Company intends to vigorously defend against these proposed adjustments and is in the process of protesting these adjustments through the appeals process of the IRS. At this time, it is not possible to determine the ultimate resolution of this matter.

In connection with the formation of the Partnership, the Company will contribute the customer relationships that are the subject of the IRS audit together with additional customer relationships to the Partnership. The General Partner intends to treat such customer relationships as amortizable assets of the Partnership for federal income tax purposes. It is possible that the IRS will challenge that treatment. If the IRS were to successfully challenge the amortization of customer relationships by the Partnership, the amount of amortization available to a Unitholder and, therefore, the after tax return of a Unitholder with respect to his investment in the Partnership could be adversely affected, although the Partnership does not believe the impact of such effect will be material. See "Tax Considerations--Tax Consequences of Unit Ownership--Ratio of Taxable Income to Distributions."

## BUSINESS

### GENERAL

The Partnership will be engaged in the sale, distribution, marketing and trading of propane and other natural gas liquids. The discussion that follows focuses on the Company's retail operations and its other operations, which consist of propane and natural gas liquids trading operations, chemical feedstocks marketing and wholesale propane marketing, all of which will be conveyed to the Partnership. The Company believes it is the third largest retail marketer of propane in the United States (as measured by gallons sold), serving approximately 600,000 residential, commercial, agricultural and industrial customers in 45 states and the District of Columbia through approximately 416 retail outlets with 226 satellite locations in 36 states (some outlets serve interstate markets). For the fiscal years ended July 31, 1993, 1992 and 1991, the Company's annual retail propane sales volumes were approximately 553 million, 496 million and 482 million gallons, respectively. EBITDA was \$89.4 million, \$87.6 million and \$99.2 million for the fiscal years ended July 31, 1993, 1992 and 1991, respectively. EBITDA for the twelve months ended April 30, 1994 was \$98.6 million. The Company's net losses for the fiscal years ended July 31, 1993 and 1992 were \$0.8 million and \$11.7 million, respectively, and its net earnings for the fiscal year ended July 31, 1991 were \$2.0 million. Net earnings for the nine month periods ended April 30, 1994 and 1993 were \$19.5 million and \$12.8 million, respectively. The retail propane business of the Company 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 Company also believes it is a leading natural gas liquids trading company. The Company's annual propane and natural gas liquids trading, chemical feedstocks and wholesale propane sales volumes were approximately 1.2 billion, 1.3 billion and 1.1 billion gallons during the fiscal years ended July 31, 1993, 1992 and 1991, respectively.

### RETAIL OPERATIONS

#### FORMATION

Ferrell, the parent of the Company, 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 owned by James E. Ferrell and his family. The Company's initial growth was largely the result of 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 have significantly expanded and diversified the Company's geographic coverage.

#### BUSINESS STRATEGY

The Partnership's business strategy will be to continue the Company's 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 less than 35% of the total retail propane market and much of the industry consisting of over 3,000 local or regional companies. The Company's retail operations account for approximately 6% of the retail propane purchased in the United States, as measured by gallons sold. Since 1986, and as of April 30, 1994, the Company has acquired 67 smaller independent propane retailers which the Company believes were not individually material. For the fiscal years ended July 31, 1989 to 1993 the Company spent approximately \$14.7 million, \$18.0 million, \$25.3 million, \$10.1 million and \$0.9 million, respectively, for acquisitions of operations with annual retail sales of approximately 7.3 million, 11.3 million, 18.0 million, 8.6 million and 0.7 million gallons of propane, respectively. The General Partner believes that approximately \$7.5 million of capital expenditures will

be required on an annual basis to maintain the current business to be acquired by the Partnership and that approximately \$2.5 million in additional capital expenditures will be required on an annual basis to sustain the modest level of growth historically experienced by the business to be acquired.

The Partnership intends to initially concentrate its acquisition activities in geographical areas in close proximity to the Company's existing operations to acquire propane retailers that can be efficiently combined with such operations to provide an attractive return on the Partnership's investment after taking into account the efficiencies which may result from such combination. The Partnership will, however, 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 and by improving customer service. The Company 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 for the Partnership. The Partnership intends to fund acquisitions through internal cash flow, external borrowings or the issuance of additional Partnership interests. 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 increasing the level of acquisitions or that any acquisitions that are made will prove beneficial to the Partnership.

In addition to growth through acquisitions, the Company believes that it can be successful in competing for new customers. Since 1989, the Company has experienced modest internal growth in its customer base. During that same period of time the quality of field management has been improved and improvements in operating efficiencies have been implemented. The residential and commercial retail propane distribution business has been characterized by a relatively stable customer base, primarily due to the expense of switching to alternative fuels, as well as the quality of service and personal relations. In addition, since safety regulations adopted in most states in which the Company operates prohibit propane retailers from filling tanks owned by other retailers, customers that lease tanks generally develop long-term relationships with their suppliers. The cost and inconvenience of switching tanks minimizes a customer's tendency to switch among suppliers of propane and among alternative fuels on the basis of minor variations in price. Based on its market surveys, the Company believes that within the retail propane industry approximately 12% of all residential propane users switch suppliers annually. The Partnership's aim will be to minimize losses of existing customers while attracting as many new customers as possible. To achieve this objective extensive market research was conducted by the Company to determine the critical factors that cause customers to value their propane supplier. Based upon the results of such surveys, the Company has designed and implemented a monthly process of assessing customer satisfaction in each of its local retail markets. The Company believes that these surveys give it an advantage over its competitors, none of whom it is believed conduct comparable surveys. By highlighting specific areas of customer satisfaction, the Company believes that it can move quickly to both retain existing customers who are at risk, and gain new customers. Specific measures have been and are continuing to be designed to take advantage of the information gained regarding customer satisfaction. The Company has also begun the process of upgrading computer equipment and software in order to improve customer service and achieve efficiencies that enable local market personnel to direct more efforts towards sales activities.

Approximately 70% of the Company's customers lease their tanks from the Company, as compared to approximately 60% of all propane customers nationwide. The Company believes there is a significant growth opportunity in marketing to the 40% of propane users that own their own tank. As a result, the Company has directly sought to identify locations where it can achieve rapid growth by marketing more effectively to these potential customers. The Company believes that since the commencement of this effort in August 1992, it has added thousands of new customers that own their

own tank. For both customers who lease their tank, and customers that own their tank, the Partnership's continued ability to deliver propane to customers when needed and during periods of extreme demand, especially in remote areas and during inclement weather, will be critical to maintaining margins, maintaining the loyalty of its retail customers and expanding its customer base.

## 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.

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. 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.

Profits in the retail propane business are primarily based on the cents-per-gallon difference between the purchase price and the sales price of propane. The Company generally purchases propane on a short-term basis; therefore, its supply costs fluctuate with market price fluctuations. Should wholesale propane prices decline in the future, the Company believes that 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. The Company historically has been able to maintain margins on an annual basis despite propane supply cost changes. The General Partner is unable to predict, however, how and to what extent a substantial increase or decrease in the wholesale cost of propane would affect the Partnership's margins and profitability.

The Company has a network of approximately 416 retail outlets and 226 satellite locations marketing propane under the "Ferrellgas" trade name to approximately 600,000 customers located in 45 states and the District of Columbia. The Company's largest market concentrations are in the Midwest, Great Lakes and Southeast regions of the United States. The Company operates in areas of strong retail market competition, which has required it to develop and implement strict capital expenditure and operating standards in its existing and acquired retail propane operations in order to control operating costs.

The Company utilizes marketing programs targeting both new and existing customers. The Company emphasizes its superior ability to deliver propane to customers as well as its training and safety programs. During the fiscal year ended July 31, 1993, sales to residential customers accounted for 44% of the Company's retail propane sales volume, sales to industrial and other commercial customers accounted for 33% of the Company's retail propane sales volume, sales to agricultural customers accounted for 13% of the Company's retail propane sales volume and sales to other customers accounted for 10% of the Company's retail propane sales volume. 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 Company. No single customer of Ferrellgas accounts for 10% or more of the Company's consolidated revenues.

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). Cash inflows from these quarters will be realized in the third and fourth quarters and to the extent necessary the Partnership will reserve cash inflows from the third and fourth quarters for distribution to Unitholders in the first and second fiscal quarters. In addition, sales volume traditionally fluctuates from year to year in response to variations in weather, prices and other factors, although the Company believes that the broad geographic distribution of the Company's operations helps to minimize the Company's 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. In each of the past five fiscal years, which include the two warmest winters in the United States since 1953, pro forma Available Cash would have been sufficient to enable the Partnership to distribute the Minimum Quarterly Distribution on all Common Units assuming projected pro forma interest expense and capital expenditure levels. During times of colder-than-normal winter weather, such as the conditions experienced by certain regions served by the Company in the second and third quarters of fiscal year 1994, the Company has been able to take advantage of its larger and more efficient distribution network to help avoid supply disruptions such as those experienced by some of its competitors, thereby broadening its long-term customer base.

The following chart illustrates the impact of annual variations in weather on the Company's sales volumes. Set forth are (i) the average national degree days (population weighted) (a measure of the relative warmth of a particular year in which a larger number indicates a colder year), (ii) degree days as a percentage of the average normal degree days as of 1993 (100.0% represents a normal year with larger percentages representing colder-than-normal years and smaller percentages representing warmer-than-normal years), (iii) the annual retail propane sales volumes of the Company, and (iv) a retail gross margin index for the Company (demonstrating changes in retail gross margins from a base year of 100.0% in 1989) for the five fiscal years ended July 31, 1989 to 1993 and the nine months ended April 30, 1993 and 1994. 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.

	FOR THE YEAR ENDED JULY 31,					NINE MONTHS ENDED APRIL 30,	
	1989	1990	1991	1992	1993	1993	1994
National Degree Days.....	4,673	4,549	4,211	4,303	4,663	4,444	4,526
Degree Days as % of 1993 Normal							
Degree Days(1).....	99.7%	97.0%	89.8%	91.8%	99.4%	99.3%	101.1%
Sales Volumes (in millions of gallons)(2).....	498	499	482	496	553	483	490
Retail gross margin index(3)...	100.0%	98.4%	114.5%	109.7%	101.1%	102.1%	105.8%

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- (1) The normal average national degree days as of the fiscal year ended July 31, 1993 were 4,689 and the normal average national degree days as of the nine months ended April 30, 1994 were 4,477.
  - (2) From 1989 through 1993, 49 acquisitions were completed at a total cost of approximately \$69.0 million. The aggregate annual sales volumes attributable to these acquisitions (measured with respect to each acquisition on the date of the acquisition) were estimated to be 7.3 million gallons, 11.3 million gallons, 18.0 million gallons, 8.6 million gallons and 0.7 million gallons for the fiscal years ended July 31, 1989 through 1993, respectively.
  - (3) The Company's average retail gross margins, on a cents per gallon basis, are measured as a percentage of fiscal 1989 retail gross margins. Average retail gross margins in fiscal 1991 were affected by the Persian Gulf crisis.

## SUPPLY AND DISTRIBUTION

The Company 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 Company's ability to buy large volumes of propane and (ii) the Company's large distribution system and underground storage capacity, the Company believes that it 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 Company is not dependent upon any single supplier or group of suppliers, the loss of which would have a material adverse effect on the Company. For the year ended July 31, 1993, no supplier at any single delivery point provided more than 10% of the Company's total domestic propane supply. A portion of the Company'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 Company's contracts specify certain minimum and maximum amounts of propane to be purchased thereunder. The Company may purchase and store inventories of propane in order to help insure uninterrupted deliverability during periods of extreme demand. The Company owns three underground storage facilities with an aggregate capacity of approximately 168 million gallons. Currently, approximately 80 million gallons of this capacity is leased to third parties, and approximately 6 million gallons of capacity is exchanged with another company for approximately 6 million gallons of storage capacity at Bumstead, Arizona. The remaining space is available for the Company's own 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 Company and highway transport trucks owned or leased by the Company. The Company operates a fleet of 62 transport trucks to transport propane from refineries, natural gas processing plants or pipeline terminals to the Company's 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 Company's retail distribution outlets to customers by the Company's fleet of 1,059 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 1993 magazine, propane accounts for approximately 3.0% of household energy consumption in the United States, an average level which has remained relatively constant for the past 10 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 Company 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 Company 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 1993 issue of LP Gas magazine, the Company believes that the ten largest multi-state retail marketers of propane, including the Company, account for less than 35% of the total retail sales of propane in the United States. Based upon information contained in industry publications, the Company also believes no single marketer has a greater than 10% share of the total market in the United States and that the Company is the third largest retail marketer of propane in the United States, with a market share of approximately 6.0% as measured by volume of national retail propane sales.

Most of the Company'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 Company 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 Company consist of: (1) trading, (2) chemical feedstocks marketing, and (3) wholesale propane marketing. The Company, 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 Company owns no properties that are material to these operations, but leases 371 railroad tank cars for use in its chemical feedstocks marketing operations.

#### TRADING

The Company's traders are engaged in trading propane and other natural gas liquids for the Company's account and for supplying the Company's retail and wholesale propane operations. The Company primarily trades products purchased from its over 200 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 65% of the Company's total trading volume, with the remainder consisting of various other natural gas liquids. The Company 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 fiscal years ended July 31, 1993, 1992 and 1991, the Company had net revenues of \$6.7 million, \$4.9 million and \$9.9 million, respectively, from its trading activities.

#### CHEMICAL FEEDSTOCKS MARKETING

The Company is also involved in the marketing of refinery and petrochemical feedstocks. Petroleum by-products are purchased from refineries and sold to petrochemical plants. The Company had revenues of \$54.0 million, \$50.6 million and \$31.8 million from such activities for the fiscal years ended July 31, 1993, 1992 and 1991, respectively.

#### WHOLESALE MARKETING

The Company engages in the wholesale distribution of propane to other retail propane distributors. During the fiscal years ended July 31, 1993, 1992 and 1991 the Company sold 73 million, 95 million and 129 million gallons, respectively, of propane to wholesale customers and had revenues attributable to such sales of \$29.3 million, \$37.7 million and \$57.4 million, respectively.

#### EMPLOYEES

At April 30, 1994, the Company had 2,342 full-time employees and 990 temporary and part-time employees. The number of temporary and part-time employees is generally higher by approximately 500 people during the winter heating season. At April 30, 1994, the Company's full-time employees were employed in the following areas:

Retail Market Locations.....	1,979
Transportation and Storage.....	115
Field Services.....	56
Corporate Offices (Liberty & Houston).....	192
	-----
Total.....	2,342
	=====

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

The Company's supply, trading, chemical feedstocks marketing, distribution scheduling and product accounting functions are operated out of the Company's offices located in Houston, Texas, by a total full time corporate staff of 60 people (which includes four traders as well as necessary support staff).

#### 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 Company 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 Company 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 Company employees look for evidence of hazardous substances or the existence of underground storage tanks.



With respect to the transportation of propane by truck, the Company 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 Company operates. There are no material environmental claims pending and the Company complies in all material respects with all material governmental regulations and industry standards applicable to environmental and safety matters.

#### SERVICE MARKS AND TRADEMARKS

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

#### MANAGEMENT INFORMATION AND CONTROL SYSTEMS

The Company has, in each of its retail outlets, a computer-based information and control system. This system provides for remote billing of, and collections from, customers and is designed to enhance the local outlets' responsiveness to customers. Each outlet can be monitored by headquarters to determine volume of sales, selling price and gross margin.

#### PROPERTIES

At April 30, 1994, the Company owned or leased the following transportation equipment which was utilized primarily in retail operations, except for railroad tank cars, which are used primarily by chemical feedstocks operations:

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.

	OWNED	LEASED	TOTAL
	-----	-----	-----
Truck tractors.....	15	47	62
Transport trailers.....	69	--	69
Bulk delivery trucks.....	442	617	1,059
Pickup and service trucks.....	399	574	973
Railroad tank cars.....	--	371	371

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 Company provides to its retail customers for propane storage. The Company 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 500,000 propane tanks are owned by the Company, most of which are located on customer property and leased to those customers. The Company also owns approximately 545,000 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 Company for resale.

Ferrellgas owns underground storage facilities at Hutchinson, Kansas; Adamana, Arizona; and Moab, Utah. At April 30, 1994, the capacity of these facilities approximated 73 million gallons, 88 million gallons and 7 million gallons, respectively (an aggregate of approximately 168 million gallons). Currently, approximately 80 million gallons of this capacity is leased to third parties, and approximately 6 million gallons of capacity is exchanged with another company for approximately 6 million gallons of storage capacity at Bumstead, Arizona. The remaining space is available for the Company's own use.

The Company purchased, in fiscal year 1993, the land and two buildings (50,245 square feet of office space) comprising its corporate headquarters in Liberty, Missouri, from Ferrell Leasing Corp. The Company leases the 18,124 square feet of office space in Houston, Texas, where its trading, chemical feedstocks marketing and wholesale marketing operations are located.

The Company 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 Company does not believe that any such burdens will materially interfere with the continued use of such properties by the Partnership in its business, taken as a whole. In addition, the Company 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 Company's properties or the operations of its business.

#### LITIGATION

Propane is a flammable, combustible gas. Serious personal and property damage can occur in connection with its transportation, storage or use. The Company, 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 products liability, personal injury and property damage. The Company maintains liability insurance policies with insurers in such amounts and with such coverages and deductibles as management of the Company believes is reasonable and prudent. However, there can be no assurance that such insurance will be adequate to protect the Company 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, after taking into consideration the Company's insurance coverage and existing reserves, management is of the opinion that there are no known uninsured claims or known contingent claims that are likely to have a material adverse effect on the results of operations or financial condition of the Company. When the Partnership assumes all outstanding liabilities relating to the business, it will assume such liabilities, whether or not asserted against or known by the Company at the time of the transfer.

#### TRANSFER OF THE PARTNERSHIP ASSETS

The Company will transfer its right, title and interest in its propane business and assets to the Partnership at or shortly before the closing of this offering, subject to the following. The assets include the Company's interests in leases covering several types of assets, including railcars, trucks and retail distribution centers. Many of these leases are transferable to the Partnership only with the consent of the lessor. The Company expects to obtain, prior to the closing of this offering, third party consents which are sufficient to enable the Company to transfer to the Partnership the assets necessary to

enable the Partnership to conduct the Company's propane business in all material respects as described in this Prospectus. In the event any such consents are not obtained, the Company will enter into other agreements, including the lease or purchase of other assets, in order to insure that the Partnership has the assets necessary to enable it to conduct the Company's propane business in all material respects as described in this Prospectus. In addition, certain of the Company's licenses, permits and other similar rights relating to the assets to be assigned to the Partnership are not transferable or are transferable only with the consent of third parties. Such transferable rights will not be transferred to the Partnership at the closing of this offering unless applicable consents have been obtained. In the case of non-transferable rights or rights where no consent has been obtained by the closing, the Company will seek to obtain such consents in the normal course of business after the closing or seek to have comparable rights granted to the Partnership prior to the closing. Numerous licenses, permits and rights will be required for the operation of the Partnership's business, and no assurance can be given that the Partnership will obtain all licenses, permits and rights which are required in connection with the ownership and operation of its business. Although failure by the Partnership to obtain such licenses, permits or rights could have a material adverse effect on the Partnership, the Company believes that the Partnership will have the licenses, permits and rights which will enable the Partnership to conduct its propane business in a manner which is similar in all material respects to that which was conducted by the Company prior to the closing of this offering and that any such failure to obtain licenses, permits or rights will not have a material adverse impact on the business of the Partnership as described in this Prospectus. The Operating Partnership will be responsible for the payment of any transfer taxes and fees owing as a result of the transfer of the Company's assets, but the Company believes that the amount of any such taxes will not be material.

## MANAGEMENT

### PARTNERSHIP MANAGEMENT

The General Partner will manage and operate the activities of the Partnership, and the General Partner anticipates that its activities will be limited to such management and operation. Unitholders will not directly or indirectly participate in the management or operation of the Partnership. The General Partner will owe a fiduciary duty to the Unitholders. See "Conflicts of Interest and Fiduciary Responsibility." Notwithstanding any limitation on obligations or duties, the General Partner will be liable, as the general partner of the Partnership, for all the debts of the Partnership (to the extent not paid by the Partnership), except to the extent that indebtedness incurred by the Partnership is made specifically non-recourse to the General Partner.

The General Partner will appoint 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 members will be elected no later than three months after the date of this Prospectus. 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 will not directly employ any of the persons responsible for managing or operating the Partnership. The current management and workforce of Ferrellgas will continue to manage and operate the Partnership's business as officers and employees of the General Partner. At April 30, 1994, 2,342 full-time and 990 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 Company. Each of the persons named below is elected to their respective office or offices annually. The executive officers are not subject to employment agreements with their respective employer or employers. The General Partner intends to promptly add additional members to its Board of Directors, including at least two independent members.

NAME	AGE	DIRECTOR SINCE	POSITION
----	---	-----	-----
James E. Ferrell.....	54	1984	President, Chairman of the Board and a Director of the Company
Bradley A. Cochennet.....	40	--	Executive Vice President and Chief Operating Officer of the Company
Danley K. Sheldon.....	35	--	Vice President and Chief Financial Officer/Treasurer of the Company
Rhonda E. Smiley.....	38	--	Vice President of Legal Affairs
Brian M. Smith(1).....	43	--	Vice President of Marketing and Communications
- - - - -			

(1) Mr. Smith has indicated his intention to resign from the Company effective July 31, 1994.

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

Bradley A. Cochennet--Mr. Cochennet has been Chief Operating Officer since January 1993 and has been a Vice President of the Company since 1985. Mr. Cochennet joined the Company in 1980.

Danley K. Sheldon--Mr. Sheldon has been Chief Financial Officer of the Company since January 1994 and has served as Treasurer since 1989. He joined the Company in 1986.

Rhonda E. Smiley--Ms. Smiley joined the Company in 1991 as Director of Legal Affairs and has been a Vice President of the Company since April 1994. Prior to joining the Company, Ms. Smiley practiced law with Shook, Hardy & Bacon for ten years, the last five years as a partner.

Brian M. Smith--Mr. Smith joined the Company in 1991 as Managing Director of Marketing and Communications and has been a Vice President of the Company since April 1994. Prior to joining the Company, Mr. Smith was President and owner of The Smith Group, Inc., a marketing communications firm.

#### COMPENSATION OF THE GENERAL PARTNER

The General Partner will receive no management fee or similar compensation in connection with its management of the Partnership and will receive 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.

In addition, Ferrell, the parent of the General Partner, will receive 1,000,000 Common Units, 16,118,559 Subordinated Units and the Incentive Distribution Rights in connection with the transactions described in this Prospectus and will be entitled to distributions thereon, as described under "Cash Distributions Policy" above.

#### EXECUTIVE COMPENSATION

##### SUMMARY COMPENSATION TABLE

The following table sets forth the annual salary, bonuses and all other compensation awards and payouts to the Chief Executive Officer and to named executive officers of the Company, for the fiscal years ended July 31, 1991, 1992 and 1993.

NAME AND POTENTIAL POSITION	YEAR	LONG-TERM COMPENSATION						
		ANNUAL COMPENSATION			AWARDS		PAYOUTS	ALL OTHER COMPEN- SATION (\$)
		SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPEN- SATION (\$)	RESTRICTED STOCK AWARDS (\$)	STOCK OPTIONS/ SARS (#)	LONG-TERM INCENTIVE PAYOUTS (\$)	
James E. Ferrell.....	1993	480,000	--	--	--	--	1,502,080(1)	25,489(2)
Chairman and Chief	1992	480,000	13,000	--	--	--	--	32,401
Executive Officer	1991	246,000	20,000	--	--	--	--	18,439
Bradley A. Cochennet....	1993	150,000	--	--	--	2,762	--	9,315(3)
Vice President and	1992	150,000	--	--	--	--	--	12,317
Chief Operating Officer	1991	151,667	--	--	--	--	--	18,373
Geoffrey H. Ramsden (4).	1993	120,000	--	--	--	9,566	--	7,453(3)
Vice President and	1992	120,000	--	--	--	--	--	12,000
Chief Financial Officer	1991	120,000	--	--	--	--	--	17,550

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- (1) Early purchase of all the employee's 64,000 Equity Units under Ferrell's Long-Term Incentive Plan at a price per unit of \$23.47.
- (2) Includes (i) Company contributions of \$13,787 to the employee's 401(k) and profit sharing plans and (ii) compensation of \$11,702 resulting from the Company's payment of split dollar life insurance premiums.
- (3) Company contributions to the employee's 401(k) and profit sharing plans.
- (4) Mr. Ramsden resigned in January 1994.

## STOCK OPTION TABLES

The Board of Directors of Ferrell adopted the 1992 Key Employee Stock Option Plan (the "Option Plan") on June 26, 1992. The Option Plan reserves 100,000 shares of Class M Common Stock of Ferrell for the purpose of allowing Ferrell to offer options on the Class M Common Stock to officers and key employees of Ferrell and the Company. The value of each share of Class M Common Stock is determined by the Board of Directors of Ferrell and shall not be less than fair market value of such stock on the date the option is granted. The following table sets forth the option grants for the fiscal year ended July 31, 1993:

NAME	INDIVIDUAL GRANT				POTENTIAL REALIZED	
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE (\$/SH)	EXPIRATION DATE	VALUE AT ASSUMED ANNUAL RATES OF STOCK APPRECIATIONS FOR OPTION TERM(2)	
					5%	10%
Bradley A. Cochennet....	2,762	22%	\$36.20	12/30/02	\$29,000	\$106,000
Geoffrey H. Ramsden.....	3,836(1)	31%	\$36.20	12/30/02	\$41,000	\$147,000
Geoffrey H. Ramsden.....	5,730(1)	47%	\$89.36	01/08/03	--	--

(1) Options terminated as a result of Mr. Ramsden's resignation in January 1994.

(2) These dollar amounts represent the potential realizable value of each grant of options assuming that the market price of the Class M Common Stock appreciates in value from the date of grant at 5% and 10% annual rates and are not intended to forecast possible future appreciation, if any, of the price of the Class M Common Stock.

The following table lists information on the named executive officer's exercised/unexercised options for the fiscal year ended July 31, 1993:

NAME	NUMBER OF SHARES ACQUIRED ON EXERCISE	VALUE REALIZED (\$)	NUMBER OF UNEXERCISED OPTIONS/SARS AT FY-END	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT FY-END
			EXERCISABLE/ UNEXERCISABLE	EXERCISABLE/ UNEXERCISABLE(\$)
Bradley A. Cochennet....	--	--	2,762/--	\$57,357/--
Geoffrey H. Ramsden(1)..	--	--	9,566/--	79,674/--

(1) Options terminated as a result of Mr. Ramsden's resignation in January 1994.

## LONG-TERM INCENTIVE PLAN AWARDS

The goal of Ferrell's Long-Term Incentive Plan (the "Plan") is to attract and retain officers and key executives needed for the continued growth and success of Ferrell and its affiliates through long-term incentives in the form of units ("Equity Units"). The plan is administered by the Compensation Committee (the "Committee") of the Board of Directors of Ferrell. The Committee members who hold an award under the Plan are ineligible to vote on matters relating to the Plan. The Committee has the authority to determine, within the express provisions of the Plan, the individuals to whom awards will be granted; the amount, size and terms of each such award; the time when awards will be granted; and the objectives and conditions for earning such awards. The Committee has the full and final authority to interpret the provisions of the Plan, to decide all questions of fact arising upon its application and to make all other determinations necessary or advisable for

the administration of the plan.

The Equity Units awarded under the Plan, which were 100% vested as of July 31, 1993, are subject to purchase by Ferrell at a cash price related to the increased value of Ferrell's common stock from 1986, as determined pursuant to (i) an appraisal conducted by a nationally recognized investment

banking firm, (ii) the mean of the closing bid and asked price of a class of Ferrell's common stock if a class of Ferrell's common stock is publicly traded, or (iii) in certain limited circumstances, including if the appraisal referred to in (i) is more than 90 days old or if there is no public market as referred to in (ii), the Committee shall determine the value of the Equity Units. Unless purchased earlier, Ferrell will purchase all of the issued and outstanding Equity Units as of July 31, 1996. The value of the Equity Units as of July 31, 1996 will be the value of Ferrell's common stock as of such date, determined in accordance with the valuation methods described above, less the "deemed" value of Ferrell's common equity as of August 1, 1986.

As of July 31, 1993, a total of 60,000 Equity Units, awarded in previous years, were outstanding to the group of executive officers named in the Summary Compensation Table as follows: Geoffrey H. Ramsden--30,000 Equity Units and Bradley A. Cochennet--30,000 Equity Units. When Mr. Ramsden resigned in January 1994, all of his Equity Units were fully vested and were subsequently repurchased by Ferrell. During fiscal 1993, James E. Ferrell had a total of 64,000 Equity Units repurchased by Ferrell. No additional Equity Units were awarded under the Plan in fiscal 1993, therefore, no long-term incentive plan awards table is presented.

Compensation expense of \$720,000 and \$80,000 was recorded for the nine months ended April 30, 1994 and for the fiscal year ended July 31, 1993, respectively pursuant to the Plan for the benefit of the Equity Unit holders. As of April 30, 1994, a liability totaling approximately \$2,145,000 is recorded in the financial statements of Ferrell as a result of the grants under this Plan.

#### PROFIT SHARING PLAN

The Ferrell Profit Sharing 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. 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 Company 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 2% 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 plan participants to specify a portion of their pre-tax and/or after-tax compensation to be contributed to the Profit Sharing Plan.

#### COMPENSATION OF DIRECTORS

The Company pays no 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 Company, 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.

#### TERMINATION OF EMPLOYMENT ARRANGEMENT

On January 3, 1991, Warren Gfeller resigned as President of the Company and as Director of Ferrell. In connection with such resignation, a severance agreement was executed by and among Mr. Gfeller, the Company and Ferrell, whereby Mr. Gfeller would receive \$2.5 million, payable in four equal annual installments commencing on or before January 11, 1991. As consideration for these payments, Mr. Gfeller agreed not to compete with the Company and to the termination and release of his participation in the Ferrell Long-Term Incentive Plan and all bonus or performance plans maintained by the Company and Ferrell.



In connection with Geoffrey H. Ramsden's resignation in January 1994, Ferrell and Mr. Ramsden entered into a severance agreement dated March 23, 1994. Pursuant to the terms of the agreement, Mr. Ramsden received approximately \$500,000 in exchange for the repurchase of his Class M Stock and Equity Units and the termination of all rights under Ferrell's bonus and performance plans.

#### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The Company is a wholly owned subsidiary of Ferrell. The following table sets forth the beneficial ownership of the outstanding capital stock of Ferrell by beneficial owners of five percent or more of any class of capital stock of Ferrell, by directors of Ferrell and by all directors and officers of Ferrell as a group as of May 31, 1994.

TITLE OF CLASS	NAME OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED(1)	PERCENT OF CLASS
-----	-----	-----	-----
Class A Common Stock....	James E. Ferrell(2)	2,562,680(3)	99.6%
	All Directors and Officers as a Group	2,562,680	99.6%
Class M Common Stock(4).	James E. Ferrell	--	--
	Bradley A. Cochennet	2,770	17.9%
	All Directors and Officers as a Group	4,325	27.9%

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- (1) Beneficial ownership for the purposes of the foregoing table is defined by Rule 13d-3 under the Securities Exchange Act of 1934, as amended. 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 impose or direct the disposition thereof ("Investment Power") or has the right to acquire either of those powers within 60 days.
  - (2) The address for James E. Ferrell is c/o Ferrell Companies, Inc., One Liberty Plaza, Liberty, Missouri 64081.
  - (3) James E. Ferrell has sole Voting and Investment Power with respect to 1,525,817 shares of Class A Common Stock held by Mr. Ferrell as Trustee of the James E. Ferrell Revocable Trust. Mr. Ferrell shares Voting and Investment Power with respect to 1,036,823 shares of Class A Common Stock held by himself and his wife, Elizabeth J. Ferrell, as joint tenants with rights of survivorship.
  - (4) The shares of Class M Common Stock are restricted to eligible employees of Ferrell and the Company and are non-voting and non-transferable. Ferrell will repurchase all of the shares of Class M Common Stock owned by such employees upon their death, disability, retirement, voluntary or involuntary termination of employment or bankruptcy. The purchase price for such shares is based on valuation formulas set forth in the Class M Stock Plan.

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Set forth below is a discussion of certain relationships and related transactions among affiliates of the Company. Upon the consummation of the transactions contemplated hereby, the indebtedness set forth below will be repaid and will no longer be outstanding.

In the second and third quarter of fiscal year 1993, Ferrell Leasing Corp., a subsidiary of Ferrell Properties, Inc., sold to the Company for the fair market value of \$4,100,000, the land and two buildings comprising the Company's corporate headquarters in Liberty, Missouri. The purchase price was based on an independent appraisal. The land and building were acquired by Ferrell Leasing Corp. in December 1989. James E. Ferrell, a director and executive officer of the Company, owns all of the issued and outstanding stock of Ferrell Properties, Inc. Prior to the purchase of the buildings, the Company paid total rent to Ferrell Leasing of \$403,000.

In fiscal year 1993, the Company received a capital contribution from Ferrell. The contribution consisted of (i) the forgiveness of a \$3,015,000 long-term note payable to an affiliate, including interest, and (ii) a \$262,000 note receivable from an affiliate.

During the three fiscal years ended July 31, 1993, the directors and executive officers of the Company listed below have, or corporations in which such directors or executive officers beneficially own ten percent or more of any class of equity securities have, from time to time, been indebted to the Company, Ferrell and/or their respective subsidiaries or affiliates in an amount in excess of \$60,000 as follows:

NAME	RELATIONSHIP	HIGHEST AMOUNT OUTSTANDING SINCE AUGUST 1, 1990	AMOUNT OUTSTANDING AT APRIL 30, 1994
James E. Ferrell(1).....	Executive Officer and Director	\$8,895,810	\$8,895,810
Ferrell Development, Inc.(2).....	Affiliate	\$1,500,000	\$1,500,000
One Liberty Plaza, Inc.(2)..	Affiliate	\$3,000,000	\$3,000,000
Ferrell Properties, Inc.(2).	Affiliate	\$1,757,946	\$ 262,199

(1) All loans or advances to Mr. Ferrell are cash loans made by the Company for Mr. Ferrell's personal use. The loans or advances did not arise as a result of any transactions with the Company. All loans or advances to Mr. Ferrell are represented by a demand note which bears interest at the prime rate. The interest rate charged on this loan ranged from 6% to 8.5% during fiscal 1993, from 8.5% to 10.5% during fiscal 1992, and 10.0% to 10.5% during fiscal 1991.

(2) Ferrell Development, Inc., and One Liberty Plaza, Inc. are wholly owned subsidiaries of Ferrell Properties, Inc. The indebtedness of Ferrell Development and One Liberty Plaza arose as a result of cash loans made by the Company. The indebtedness of Ferrell Properties, which was contributed to the Company by Ferrell in fiscal 1993, arose as a result of cash loans made by Ferrell. The loans did not arise as a result of any transactions with the Company or Ferrell. The terms of the loans, as fixed by the loan documents, are as favorable as could be obtained from a third party and the loans were approved by a majority of the Company's or Ferrell's independent directors. The interest income generated from the loans, which bear interest of the prime rate plus 1.125%, is not material to the Company or Ferrell.

## CONFLICTS OF INTEREST AND FIDUCIARY RESPONSIBILITY

### TRANSACTIONS OF THE PARTNERSHIP WITH FERRELLGAS AND ITS AFFILIATES

The Partnership will have extensive ongoing relationships with Ferrellgas and its affiliates. These relationships will include Ferrellgas serving as general partner of the Partnership. In addition, the Partnership Agreement provides that Ferrellgas will indemnify the Partnership for liabilities arising from certain historical and future non-Partnership operations of Ferrellgas and that the Partnership will indemnify Ferrellgas and Ferrell for liabilities arising in connection with the ongoing conduct of the Partnership business. The Partnership will be responsible for all tax liabilities, other than federal and state income tax liabilities but including liabilities for state franchise taxes, associated with the business Ferrellgas conducted prior to this offering. All costs and expenses in connection with this offering will be borne by the Partnership.

### CONFLICTS OF INTEREST

The General Partner will make all decisions relating to the management of the Partnership. Ferrell owns all the capital stock of Ferrellgas, the General Partner. Upon the closing of this offering, Ferrellgas will own a 2% general partner interest in the Partnership, and Ferrell will own 1,000,000 Common Units (if the Underwriters' overallotment option is exercised in full all of such 1,000,000 Common Units will be repurchased by the Partnership) and 16,118,559 Subordinated Units representing in the aggregate an approximate 55.5% limited partner interest in the Partnership (50.7% if the Underwriters' overallotment option is exercised in full) and the Incentive Distribution Rights. Certain conflicts of interest could arise as a result of the relationships among the General Partner, Ferrell, Ferrell's affiliates and the Partnership. The directors and officers of both Ferrell and Ferrellgas have fiduciary duties to manage their companies, including their investments in its subsidiaries and affiliates, in a manner beneficial to their shareholders. In general, the General Partner has a fiduciary duty to manage the Partnership in a manner beneficial to the Partnership and the Unitholders. The Partnership Agreement contains provisions that allow the General Partner to take into account the interests of parties in addition to the Partnership in resolving conflicts of interest, thereby limiting its fiduciary duty to the Partners, as well as provisions that may restrict the remedies available to Unitholders for actions taken that might, without such limitations, constitute breaches of fiduciary duty. The duty of the directors and officers of Ferrellgas to the shareholder of Ferrellgas may, therefore, come into conflict with the duties of the General Partner to the Partnership and the Unitholders. The Audit Committee of the Board of Directors of the General Partner will, at the request of the General Partner, review conflicts of interest that may arise between Ferrellgas or its affiliates, on the one hand, and the Partnership, on the other. See "Management--Partnership Management" and "--Fiduciary Duties of the General Partner."

Potential conflicts of interest could arise in the situations described below, among others:

CERTAIN ACTIONS TAKEN BY THE GENERAL PARTNER MAY AFFECT THE AMOUNT OF CASH AVAILABLE FOR DISTRIBUTION TO UNITHOLDERS, ENABLE AN AFFILIATE OF THE GENERAL PARTNER TO RECEIVE DISTRIBUTIONS WITH RESPECT TO THE INCENTIVE DISTRIBUTION RIGHTS OR HASTEN THE RIGHT TO CONVERT SUBORDINATED UNITS

The General Partner (as general partner of the Partnership) and Ferrell (as the holder of Common Units, Subordinated Units and Incentive Distribution Rights) have certain varying percentage interests and priorities with respect to Available Cash. See "Cash Distribution Policy." Because of the definitions of Available Cash and Cash from Operations set forth under the caption "Cash Distribution Policy" and in the glossary, decisions of the General Partner with respect to the amount and timing of cash expenditures, borrowings, issuance of additional Units and reserves in any quarter may affect whether, or the extent to which, there is sufficient Available Cash constituting Cash from Operations to meet the Minimum Quarterly Distribution on all Units in such quarter or subsequent quarters or to make distributions with respect to the Incentive Distribution Rights. In addition, the decisions of the General Partner regarding the Partnership's participation in proposed capital projects may have the same effect.

Borrowings and issuances of additional Units for cash also increase the amount of Available Cash. The Partnership Agreement provides that any borrowings by the Partnership or the approval thereof by the General Partner shall not constitute a breach of any duty owed by the General Partner to the Partnership or the Unitholders, including borrowings that have the purpose or effect, directly or indirectly, of (i) enabling the Partnership to make distributions with respect to the Incentive Distribution Rights or (ii) hastening the expiration of the Subordination Period or the conversion of the Subordinated Units into Common Units. The Partnership Agreement provides that the Partnership may make loans to and borrow funds from the General Partner and its affiliates. Further, any actions taken by the General Partner consistent with the standards of reasonable discretion set forth in the definitions of Available Cash, Cash from Operations and Cash from Interim Capital Transactions will be deemed not to breach any duty of the General Partner to the Partnership or the Unitholders. See "Risk Factors--Conflicts of Interest and Fiduciary Duties" and "Cash Distribution Policy."

EMPLOYEES OF THE GENERAL PARTNER AND ITS AFFILIATES WHO PROVIDE SERVICES TO THE PARTNERSHIP WILL ALSO PROVIDE SERVICES TO OTHER BUSINESSES

The Partnership will not have any employees and will rely on employees of the General Partner and its affiliates. The General Partner and its affiliates will conduct business and activities of their own in which the Partnership will have no economic interest. There may be competition between the Partnership and the affiliates of the General Partner for the time and effort of employees who provide services to both the Partnership and such affiliates. Certain officers of affiliates of the General Partner will divide their time between the business of the Partnership and the business of the affiliates and will not be required to spend any specified percentage or amount of their time on the business of the Partnership.

THE PARTNERSHIP WILL REIMBURSE THE GENERAL PARTNER AND ITS AFFILIATES FOR CERTAIN EXPENSES

Under the terms of the Partnership Agreement, the General Partner and its affiliates will be reimbursed by the Partnership for certain expenses incurred on behalf of the Partnership, including costs incurred in providing corporate staff and support services to the Partnership. See "Management."

THE GENERAL PARTNER INTENDS TO LIMIT ITS LIABILITY WITH RESPECT TO THE PARTNERSHIP'S OBLIGATIONS

Whenever possible, the General Partner intends to limit the Partnership's liability under contractual arrangements to all or particular assets of the Partnership, with the other party thereto to have no recourse against the General Partner or its assets. The Partnership Agreement provides that any action by the General Partner in so limiting the liability of the General Partner or that of the Partnership will not be deemed to be a breach of the General Partner's fiduciary duties, even if the Partnership could have obtained more favorable terms without such limitation on liability.

COMMON UNITHOLDERS WILL HAVE NO RIGHT TO ENFORCE OBLIGATIONS OF THE GENERAL PARTNER AND ITS AFFILIATES UNDER AGREEMENTS WITH THE PARTNERSHIP

The Partnership will acquire or provide many services from or to Ferrellgas and their affiliates on an ongoing basis, including those described above. The agreements relating thereto do not grant to the holders of the Common Units, separate and apart from the Partnership, the right to enforce the obligations of Ferrellgas and its affiliates in favor of the Partnership. Therefore, the General Partner will be primarily responsible for enforcing such obligations.

CONTRACTS BETWEEN THE PARTNERSHIP, ON THE ONE HAND, AND THE GENERAL PARTNER AND ITS AFFILIATES, ON THE OTHER, WILL NOT BE THE RESULT OF ARM'S-LENGTH NEGOTIATIONS

Under the terms of the Partnership Agreement, the General Partner is not restricted from paying Ferrell, Ferrellgas or their affiliates for any services rendered (provided such services are rendered on

terms fair and reasonable to the Partnership) or entering into additional contractual arrangements with any of them on behalf of the Partnership. Neither the Partnership Agreement nor any of the other agreements, contracts and arrangements between the Partnership, on the one hand, and Ferrell, Ferrellgas and their affiliates, on the other, are or will be the result of arm's-length negotiations. All of such transactions entered into after the sale of the Common Units offered hereby are to be on terms which are fair and reasonable to the Partnership, provided that any transaction shall be deemed fair and reasonable if (i) such transaction is approved by the Audit Committee, (ii) its terms are no less favorable to the Partnership than those generally being provided to or available from unrelated third parties or (iii) taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership), the transaction is fair to the Partnership. The General Partner and its affiliates will have no obligation to permit the Partnership to use any facilities or assets of the General Partner and such affiliates, except as may be provided in contracts entered into from time to time specifically dealing with such use, nor shall there be any obligation of the General Partner and its affiliates to enter into any such contracts.

#### COMMON UNITHOLDERS HAVE NOT BEEN REPRESENTED BY COUNSEL

As is customary in many types of public securities offerings, the Common Unitholders have not been represented by counsel in connection with the preparation of the Partnership Agreement or other agreements referred to herein or in establishing the terms of this offering made hereby. The attorneys, accountants and others who have performed services for the Partnership in connection with this offering have been employed by the General Partner and its affiliates and may continue to represent the General Partner and its affiliates. Attorneys, accountants and others who will perform services for the Partnership in the future will be selected by the General Partner or the Audit Committee and may also perform services for the General Partner and its affiliates. The General Partner may retain separate counsel for the Partnership or the Unitholders after the sale of the Common Units offered hereby, depending on the nature of the conflict that arises, but it does not intend to do so in most cases.

#### COMMON UNITS ARE SUBJECT TO THE GENERAL PARTNERS LIMITED CALL RIGHT

The Partnership Agreement provides that it will not constitute a breach of the General Partners fiduciary duties if the General Partner exercises its right to call for and purchase Units as provided in the Partnership Agreement or assign this right to its affiliates or to the Partnership. The General Partner thus may use its own discretion, free of fiduciary duty restrictions, in determining whether to exercise such right. As a consequence, a Common Unitholder may have his Common Units purchased from him even though he may not desire to sell them, and the price paid may be less than the amount the holder would desire to receive upon sale of his Common Units. For a description of such right, see "The Partnership Agreement--Limited Call Right."

#### AFFILIATES OF THE GENERAL PARTNER MAY COMPETE WITH THE PARTNERSHIP

Following the sale of the Common Units offered hereby, affiliates of the General Partner will not be restricted from engaging in any business activities other than the retail sales of propane to end users in the continental United States, even if they are in competition with the Partnership. As a result, conflicts of interest may arise between affiliates of the General Partner, on the one hand, and the Partnership, on the other. The Partnership Agreement expressly provides that, subject to certain limited exceptions, it shall not constitute a breach of the General Partner's fiduciary duties to the Partnership or the Unitholders for affiliates of the General Partner to engage in direct competition with the Partnership, other than with respect to the retail sale of propane to end users within the continental United States. Such competition may include the trading, transportation, storage and wholesale distribution of propane. The Partnership Agreement also provides that the General Partner and its affiliates have no obligation to present business opportunities to the Partnership. The General Partner

anticipates that there may be competition between the Partnership and affiliates of the General Partner. Although the Partnership Agreement does not restrict the ability of affiliates of the General Partner to trade propane or other natural gas liquids in competition with the Partnership, they do not intend to engage in such trading except in association with the conduct of their other permitted activities.

#### FIDUCIARY DUTIES OF THE GENERAL PARTNER

The General Partner will be accountable to the Partnership and the Unitholders as a fiduciary. Consequently, the General Partner must exercise good faith and integrity in handling the assets and affairs of the Partnership. In contrast to the relatively well developed law concerning fiduciary duties owed by officers and directors to the shareholders of a corporation, the law concerning the duties owed by general partners to other partners and to partnerships is relatively undeveloped. The Delaware Act does not define with particularity the fiduciary duties owed by general partners, but fiduciary duties are generally considered to include an obligation to act with the highest good faith, fairness and loyalty. Such duty of loyalty would generally prohibit a general partner of a Delaware limited partnership from taking any action or engaging in any transaction as to which it has a conflict of interest. However, the Delaware Act has been amended to clarify that Delaware limited partnerships may, in their partnership agreements, restrict or expand the fiduciary duties that might otherwise be applied by a court in analyzing the standard duty owed by general partners to limited partners. In order to induce the General Partner to manage the business of the Partnership, the Partnership Agreement, as permitted by the Delaware Act, contains various provisions that have the effect of restricting the fiduciary duties that might otherwise be owed by the General Partner to the Partnership and its partners and waiving or consenting to conduct by the General Partner and its affiliates that might otherwise raise issues as to compliance with fiduciary duties or applicable law.

The Partnership Agreement provides that whenever a conflict of interest arises between the General Partner or its affiliates, on the one hand, and the Partnership or any other partner, on the other, the General Partner shall resolve such conflict. The General Partner shall not be in breach of its obligations under the Partnership Agreement or its duties to the Partnership or the Unitholders if the resolution of such conflict is fair and reasonable to the Partnership, and any resolution shall conclusively be deemed to be fair and reasonable to the Partnership if such resolution is (i) approved by the Audit Committee (although no party is obligated to seek such approval and the General Partner may adopt a resolution or course of action that has not received such approval), (ii) on terms no less favorable to the Partnership than those generally being provided to or available from unrelated third parties or (iii) fair to the Partnership, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership). In resolving such conflict, the General Partner may (unless the resolution is specifically provided for in the Partnership Agreement) consider the relative interests of the parties involved in such conflict or affected by such action, any customary or accepted industry practices or historical dealings with a particular person or entity and, if applicable, generally accepted accounting or engineering practices or principles and such other factors as it deems relevant. Thus, unlike the strict duty of a fiduciary who must act solely in the best interests of his beneficiary, the Partnership Agreement permits the General Partner to consider the interests of all parties to a conflict of interest, including the interests of the General Partner. In connection with the resolution of any conflict that arises, unless the General Partner has acted in bad faith, the action taken by the General Partner shall not constitute a breach of the Partnership Agreement, any other agreement or any standard of care or duty imposed by the Delaware Act or other applicable law. The Partnership Agreement also provides that in certain circumstances the General Partner may act in its sole discretion, in good faith or pursuant to other appropriate standards.

The Delaware Act provides that a limited partner may institute legal action on behalf of the partnership (a partnership derivative action) to recover damages from a third party where the general partner has failed to institute the action or where an effort to cause the general partner to do so is not

likely to succeed. In addition, the statutory or case law of certain jurisdictions may permit a limited partner to institute legal action on behalf of himself or all other similarly situated limited partners (a class action) to recover damages from a general partner for violations of its fiduciary duties to the limited partners.

The Partnership Agreement also provides that any standard of care and duty imposed thereby or under the Delaware Act or any applicable law, rule or regulation will be modified, waived or limited as required to permit the General Partner and its officers and directors to act under the Partnership Agreement or any other agreement contemplated therein and to make any decision pursuant to the authority prescribed in the Partnership Agreement so long as such action is reasonably believed by the General Partner to be in, or not inconsistent with, the best interests of the Partnership. Further, the Partnership Agreement provides that the General Partner and its officers and directors will not be liable for monetary damages to the Partnership, the limited partners or assignees for errors of judgment or for any acts or omissions if the General Partner and such other persons acted in good faith. In addition, under the terms of the Partnership Agreement, the Partnership is required to indemnify the General Partner and its officers, directors, employees, affiliates, partners, agents and trustees, to the fullest extent permitted by law, against liabilities, costs and expenses incurred by the General Partner or other such persons, if the General Partner or such persons acted in good faith and in a manner they reasonably believed to be in, or not opposed to, the best interests of the Partnership and, with respect to any criminal proceedings, had no reasonable cause to believe the conduct was unlawful. See "The Partnership Agreement--Indemnification." Thus, the General Partner could be indemnified for its negligent acts if it meets such requirements concerning good faith and the best interests of the Partnership.

The fiduciary obligations of general partners is a developing area of law. The provisions of the Delaware Act that allow the fiduciary duties of a general partner to be waived or restricted by a partnership agreement have not been tested in a court of law, and the General Partner has not obtained an opinion of counsel covering the provisions set forth in the Partnership Agreement that purport to waive or restrict fiduciary duties of the General Partner. Unitholders should consult their own legal counsel concerning the fiduciary responsibilities of the General Partner and its officers and directors and the remedies available to the Unitholders.

## DESCRIPTION OF THE COMMON UNITS

The Common Units will be registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder, and the Partnership will be subject to the reporting and certain other requirements of the Exchange Act. The Partnership will be required to file periodic reports containing financial and other information with the Securities and Exchange Commission (the "Commission").

Purchasers of Common Units in this offering and subsequent transferees of Common Units (or their brokers, agents or nominees on their behalf) will be required to execute Transfer Applications, the form of which is included as Appendix B to this Prospectus. Purchasers may hold Common Units in nominee accounts, provided that the broker (or other nominee) executes and delivers a Transfer Application and becomes a limited partner. The Partnership will be entitled to treat the nominee holder of a Common Unit as the absolute owner thereof, and the beneficial owner's rights will be limited solely to those that it has against the nominee holder as a result of or by reason of any understanding or agreement between such beneficial owner and nominee holder.

The Common Units have been approved for listing on the NYSE, subject to official notice of issuance, under the trading symbol "FGP".

## THE UNITS

Generally, the Common Units and the Subordinated Units represent limited partner interests in the Partnership, which entitle the holders thereof to participate in Partnership distributions and exercise the rights or privileges available to limited partners under the Partnership Agreement. For a description of the relative rights and preferences of holders of Common Units and holders of Subordinated Units in and to Partnership distributions, together with a description of the circumstances under which Subordinated Units may convert into Common Units, see "Cash Distribution Policy." For a description of the rights and privileges of limited partners under the Partnership Agreement, see "The Partnership Agreement."

## TRANSFER AGENT AND REGISTRAR

### DUTIES

The First National Bank of Boston, N. A. will act as a registrar and transfer agent (the "Transfer Agent") for the Common Units and will receive a fee from the Partnership for serving in such capacities. All fees charged by the Transfer Agent for transfers of Common Units will be borne by the Partnership and not by the holders of Common Units, except for fees similar to those customarily paid by stockholders for surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges, special charges for services requested by a holder of a Common Unit and other similar fees or charges will be borne by the affected holder. There will be no charge to holders for disbursements of the Partnership's cash distributions. The Partnership will indemnify the Transfer Agent, its agents and each of their respective shareholders, directors, officers and employees against all claims and losses that may arise out of acts performed or omitted in respect of its activities as such, except for any liability due to any negligence, gross negligence, bad faith or intentional misconduct of the indemnified person or entity.

## RESIGNATION OR REMOVAL

The Transfer Agent may at any time resign, by notice to the Partnership, or be removed by the Partnership, such resignation or removal to become effective upon the appointment by the General Partner of a successor transfer agent and registrar and its acceptance of such appointment. If no successor has been appointed and accepted such appointment within 30 days after notice of such resignation or removal, the General Partner is authorized to act as the transfer agent and registrar until a successor is appointed.



## TRANSFER OF UNITS

Until a Common Unit has been transferred on the books of the Partnership, the Partnership and the Transfer Agent, notwithstanding any notice to the contrary, may treat the record holder thereof as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations. The transfer of the Common Units to persons that purchase directly from the Underwriters will be accomplished through the completion, execution and delivery of a Transfer Application by such purchaser in connection with such purchase. Any subsequent transfers of a Common Unit will not be recorded by the Transfer Agent or recognized by the Partnership unless the transferee executes and delivers a Transfer Application. By executing and delivering a Transfer Application (the form of which is set forth as Appendix B to this Prospectus and which is also set forth on the reverse side of the certificate representing Common Units), the transferee of Common Units (i) becomes the record holder of such Units and shall constitute an assignee until admitted into the Partnership as a substituted limited partner, (ii) automatically requests admission as a substituted limited partner in the Partnership, (iii) agrees to be bound by the terms and conditions of, and executes, the Partnership Agreement, (iv) represents that such transferee has the capacity, power and authority to enter into the Partnership Agreement, (v) grants powers of attorney to the General Partner and any liquidator of the Partnership as specified in the Partnership Agreement and (vi) makes the consents and waivers contained in the Partnership Agreement. An assignee will become a substituted limited partner of the Partnership in respect of the transferred Common Units upon the consent of the General Partner and the recordation of the name of the assignee on the books and records of the Partnership. Such consent may be withheld in the sole discretion of the General Partner. Common Units are securities and are transferable according to the laws governing transfer of securities. In addition to other rights acquired upon transfer, the transferor gives the transferee the right to request admission as a substituted limited partner in the Partnership in respect of the transferred Common Units. A purchaser or transferee of Common Units who does not execute and deliver a Transfer Application obtains only (a) the right to assign the Common Units to a purchaser or other transferee and (b) the right to transfer the right to seek admission as a substituted limited partner in the Partnership with respect to the transferred Common Units. Thus, a purchaser or transferee of Common Units who does not execute and deliver a Transfer Application will not receive cash distributions unless the Common Units are held in a nominee or "street name" account and the nominee or broker has executed and delivered a Transfer Application with respect to such Common Units, and may not receive certain federal income tax information or reports furnished to record holders of Common Units. The transferor of Common Units will have a duty to provide such transferee with all information that may be necessary to obtain registration of the transfer of the Common Units, but a transferee agrees, by acceptance of the certificate representing Common Units, that the transferor will not have a duty to insure the execution of the Transfer Application by the transferee and will have no liability or responsibility if such transferee neglects or chooses not to execute and forward the Transfer Application to the Transfer Agent. See "The Partnership Agreement--Status as Limited Partner or Assignee."

## THE PARTNERSHIP AGREEMENT

The following paragraphs are a summary of certain provisions of the Partnership Agreement. The form of the Partnership Agreement for the Partnership is included in this Prospectus as Appendix A. The form of Partnership Agreement for the Operating Partnership (the "Operating Partnership Agreement") is included as an exhibit to the Registration Statement of which this Prospectus constitutes a part. The Partnership will provide prospective investors with a copy of the form of the Operating Partnership Agreement upon request at no charge. The following discussion is qualified in its entirety by reference to the Partnership Agreements for the Partnership and for the Operating Partnership. The Partnership will be the sole limited partner of the Operating Partnership, which will own, manage and operate the Partnership's business. The General Partner will serve as the general partner of the Partnership and of the Operating Partnership, collectively owning a 2% general partner interest in the business and properties owned by the Partnership and the Operating Partnership on a combined basis. Unless specifically described otherwise, references herein to the term "Partnership Agreement" constitute references to the Partnership Agreements of the Partnership and the Operating Partnership, collectively.

Certain provisions of the Partnership Agreement are summarized elsewhere in this Prospectus under various headings. With regard to various transactions and relationships of the Partnership with the General Partner and its affiliates, see "Risk Factors--Conflicts of Interest and Fiduciary Duties" and "Conflicts of Interest and Fiduciary Responsibility." With regard to the management of the Partnership, see "Management." With regard to the transfer of Units, see "Description of the Common Units." With regard to distributions of Available Cash, see "Cash Distribution Policy." With regard to allocations of taxable income and taxable loss, see "Tax Considerations." Prospective investors are urged to review these sections of this Prospectus and the Partnership Agreement carefully.

### ORGANIZATION AND DURATION

The Partnership and the Operating Partnership were recently organized as Delaware limited partnerships. The General Partner is the general partner of the Partnership and the Operating Partnership. Upon the sale of the Common Units offered hereby, the General Partner will hold an aggregate 2% interest as general partner, and the Unitholders (including Ferrell as an owner of Common Units, Subordinated Units and Incentive Distribution Rights) will hold a 98% interest as limited partners in the Partnership and the Operating Partnership on a combined basis. The Partnership will dissolve on July 31, 2084, unless sooner dissolved pursuant to the terms of the Partnership Agreement.

### PURPOSE

The purpose of the Partnership under the Partnership Agreement is limited to serving as the limited partner of the Operating Partnership and engaging in any business activity that may be engaged in by the Operating Partnership or is approved by the General Partner. The Operating Partnership Agreement provides that the Operating Partnership may engage in any activity engaged in by Ferrellgas immediately prior to this offering, any activities that are, in the sole judgment of the General Partner, reasonably related thereto and any other activity approved by the General Partner.

### CAPITAL CONTRIBUTIONS

For a description of the initial capital contributions to be made to the Partnership, see "The Transactions." The Unitholders are not obligated to make additional capital contributions to the Partnership.

### POWER OF ATTORNEY

Each limited partner, and each person who acquires a Unit from a Unitholder and executes and delivers a Transfer Application with respect thereto, grants to the General Partner and, if a liquidator of

the Partnership has been appointed, such liquidator, a power of attorney to, among other things, execute and file certain documents required in connection with the qualification, continuance or dissolution of the Partnership, or the amendment of the Partnership Agreement in accordance with the terms thereof and to make consents and waivers contained in the Partnership Agreement.

#### RESTRICTIONS ON AUTHORITY OF THE GENERAL PARTNER

The authority of the General Partner is limited in certain respects under the Partnership Agreement. The General Partner is prohibited, without the prior approval of holders of record of at least a majority of the Units (other than Units owned by the General Partner and its affiliates) during the Subordination Period, or a majority of all of the outstanding Units thereafter, from, among other things, selling or exchanging all or substantially all of the Partnership's assets in a single transaction or a series of related transactions (including by way of merger, consolidation or other combination) or approving on behalf of the Partnership the sale, exchange or other disposition of all or substantially all of the assets of the Partnership, provided that the Partnership may mortgage, pledge, hypothecate or grant a security interest in all or substantially all of the Partnership's assets without such approval. The Partnership may also sell all or substantially all of its assets pursuant to a foreclosure or other realization upon the foregoing encumbrances without such approval. The Common Unitholders are not entitled to dissenters' rights of appraisal under the Partnership Agreement or applicable Delaware law in the event of a merger or consolidation of the Partnership, a sale of substantially all of the Partnership's assets or any other event. Except as provided in the Partnership Agreement and generally described below under "--Amendment of Partnership Agreement," any amendment to a provision of the Partnership Agreement generally will require the approval of the holders of at least 66 2/3% of the outstanding Units.

In general, the General Partner may not take any action, or refuse to take any reasonable action, without the consent of the holders of at least 66 2/3% of each class of outstanding Units, including the consent of at least 66 2/3% of the outstanding Common Units (other than Common Units owned by the General Partner and its affiliates), the effect of which would be to cause the Partnership to be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes.

#### WITHDRAWAL OR REMOVAL OF THE GENERAL PARTNER

The General Partner has agreed not to voluntarily withdraw as general partner of the Partnership and the Operating Partnership prior to July 31, 2004 (with limited exceptions described below), without obtaining the approval of at least 66 2/3% of the outstanding Units (excluding for purposes of such determination Units held by the General Partner and its affiliates) and furnishing an opinion of counsel that such withdrawal (following the selection of a successor general partner) will not result in the loss of the limited liability of the limited partners of the Partnership or cause the Partnership to be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes (an "Opinion of Counsel"). On or after July 31, 2004, the General Partner may withdraw as general partner by giving 90 days' written notice (without first obtaining approval from the Unitholders), and such withdrawal will not constitute a violation of the Partnership Agreement. Notwithstanding the foregoing, the General Partner may withdraw without Unitholder approval upon 90 days' notice to the limited partners if more than 50% of the outstanding Units are held or controlled by one person and its affiliates (other than the General Partner and its affiliates). In addition, the Partnership Agreement permits the General Partner (in certain limited instances) to sell all of its general partner interest in the Partnership and permits the parent corporation of the General Partner to sell all or any portion of the capital stock of the General Partner to a third party without the approval of the Unitholders. See "--Transfer of General Partner Interest." Upon the withdrawal of the General Partner under any circumstances (other than as a result of a transfer by the General Partner of all or a part of its general partner interest in the Partnership), the holders of a majority of the outstanding Units (excluding for purposes of such determination Units held by the General Partner and its affiliates) may select a successor to such withdrawing General Partner. If such a successor is not elected, or is elected but an Opinion of Counsel cannot be obtained, the Partnership will be dissolved, wound up and liquidated,

unless within 180 days after such withdrawal a majority of the Unitholders agree in writing to continue the business of the Partnership and to the appointment of a successor General Partner. See "--Termination and Dissolution."

The General Partner may not be removed unless such removal is approved by the vote of the holders of not less than 66 2/3% of the outstanding Units and the Partnership receives an Opinion of Counsel. Any such removal is also subject to the approval of a successor general partner by the vote of the holders of not less than a majority of the outstanding Units.

Removal or withdrawal of the General Partner of the Partnership also constitutes removal or withdrawal, as the case may be, of the General Partner as general partner of the Operating Partnership.

In the event of withdrawal of the General Partner where such withdrawal violates the Partnership Agreement or removal of the General Partner by the limited partners under circumstances where cause exists, a successor general partner will have the option to purchase the general partner interest of the departing General Partner (the "Departing Partner") in the Partnership and the Operating Partnership for a cash payment equal to the fair market value of such interest. Under all other circumstances where the General Partner withdraws or is removed by the limited partners, the Departing Partner will have the option to require the successor general partner to purchase such general partner interest of the Departing Partner for such amount. In each case such fair market value will be determined by agreement between the Departing Partner and the successor general partner, or if no agreement is reached, by an independent investment banking firm or other independent experts selected by the Departing Partner and the successor general partner (or if no expert can be agreed upon, by the expert chosen by agreement of the experts selected by each of them). In addition, the Partnership would also be required to reimburse the Departing Partner for all amounts due the Departing Partner, including without limitation, all employee related liabilities, including severance liabilities, incurred in connection with the termination of the employees employed by the Departing Partner for the benefit of the Partnership.

If the above-described option is not exercised by either the Departing Partner or the successor general partner, as applicable, the Departing Partner's general partner interest in the partnership will be converted into Common Units equal to the fair market value of such interest as determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph.

#### TRANSFER OF GENERAL PARTNER INTEREST

Except for a transfer by the General Partner of all, but not less than all, of its general partner interest in the Partnership to an affiliate or in connection with the merger or consolidation of the General Partner with or into another entity or the transfer by the General Partner of all or substantially all of its assets to another person or entity, the General Partner may not transfer all or any part of its general partner interest in the Partnership to another person or entity prior to July 31, 2004, without the approval of holders of at least a majority of the outstanding Units (excluding any Units held by such General Partner or its affiliates), provided that, in each case such transferee assumes the rights and duties of the General Partner, agrees to be bound by the provisions of the Partnership Agreement and furnishes an Opinion of Counsel and agrees to purchase all (or the appropriate portion thereof, as applicable) of the General Partner's partnership interest in the Operating Partnership.

#### REIMBURSEMENT FOR SERVICES

The Partnership Agreement provides that the General Partner is not entitled to receive any compensation for its services as general partner of the Partnership; the General Partner is, however, entitled to be reimbursed on a monthly basis (or such other basis as the General Partner may reasonably determine) for all direct and indirect expenses it incurs 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 the operation of the Partnership's business. The Partnership Agreement provides that the General Partner shall determine the fees and expenses that are allocable to the Partnership in any reasonable manner determined by the General Partner in its sole discretion.

#### CHANGE OF MANAGEMENT PROVISIONS

The Partnership Agreement contains certain provisions that are intended to discourage a person or group from attempting to remove Ferrellgas as general partner of the Partnership or otherwise change management of the Partnership. If any person or group other than Ferrellgas and its affiliates acquires beneficial ownership of 20% or more of the Common Units, such person or group loses voting rights with respect to all of its Common Units. In addition, if Ferrellgas is removed as General Partner other than for cause, the Subordination Period will end and any Subordinated Units held by Ferrellgas and any of its affiliates will immediately convert into Common Units. As a result, Ferrellgas and such affiliates, as the holders of Common Units issued upon conversion of Subordinated Units, would participate in any distributions pro rata with the other holders of Common Units, including distributions in respect of Common Unit Arrearages.

#### STATUS AS LIMITED PARTNER OR ASSIGNEE

Except as described below under "--Limited Liability," the Units will be fully paid, and Unitholders will not be required to make additional contributions to the Partnership.

Each purchaser of Common Units offered hereby must execute a Transfer Application (the form of which is attached as Appendix B to this Prospectus) whereby such purchaser requests admission as a substituted limited partner in the Partnership, makes certain representations and agrees to certain provisions. If such action is not taken, a purchaser will not be registered as a record holder of Common Units on the books of the Transfer Agent or issued a Common Unit. Purchasers may hold Common Units in nominee accounts. See "Description of the Common Units--Transfer Agent and Registrar" and "--Transfer of Units" for a more complete description of the requirements for the transfer of Common Units.

An assignee, subsequent to executing and delivering a Transfer Application, but pending its admission as a substituted limited partner in the Partnership, is entitled to an interest in the Partnership equivalent to that of a limited partner with respect to the right to share in allocations and distributions from the Partnership, including liquidating distributions. The General Partner will vote and exercise other powers attributable to Common Units owned by an assignee who has not become a substituted limited partner at the written direction of such assignee. See "--Meetings; Voting." Transferees who do not execute and deliver a Transfer Application will be treated neither as assignees nor as record holders of Common Units, and will not receive cash distributions, federal income tax allocations or reports furnished to record holders of Common Units. The only right such transferees will have is the right to negotiate such Common Units to a purchaser or other transferee and the right to transfer the right to request admission as a substituted limited partner in respect of the transferred Common Units to a purchaser or other transferee who executes a Transfer Application in respect of the Common Units. A nominee or broker who has executed a Transfer Application with respect to Common Units held in street name or nominee accounts will receive such distributions and reports pertaining to such Common Units.

#### NON-CITIZEN ASSIGNEES; REDEMPTION

If the Partnership is or becomes subject to federal, state or local laws or regulations that, in the reasonable determination of the General Partner, create a substantial risk of cancellation or forfeiture of any property in which the Partnership has an interest because of the nationality, citizenship or other related status of any limited partner or assignee, the Partnership may redeem the Units held by such

limited partner or assignee at their Current Market Price (as defined in the glossary). In order to avoid any such cancellation or forfeiture, the General Partner may require each limited partner or assignee to furnish information about his nationality, citizenship, residency or related status. If a limited partner or assignee fails to furnish information about such nationality, citizenship, residency or other related status within 30 days after a request for such information, such limited partner or assignee may be treated as a non-citizen assignee ("Non-citizen Assignee"). In addition to other limitations on the rights of an assignee who is not a substituted limited partner, a Non-citizen Assignee does not have the right to direct the voting of his Units and may not receive distributions in kind upon liquidation of the Partnership. See "--Status as Limited Partner or Assignee."

#### ISSUANCE OF ADDITIONAL SECURITIES

The Partnership Agreement authorizes the General Partner to cause the Partnership to issue an unlimited number of additional 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 in its sole discretion without the approval of any limited partners, with certain exceptions, including the following: prior to the end of the Subordination Period, the Partnership may not issue equity securities of the Partnership ranking prior or senior to the Common Units or an aggregate of more than 7,000,000 additional Common Units (excluding Common Units issued in connection with the exercise of the Underwriters' overallotment option and Common Units issued upon conversion of Subordinated Units) or an equivalent amount of securities ranking on a parity with the Common Units, in either case without the approval of the holders of at least 66 2/3% of the outstanding Common Units; provided, however, that the Partnership may also issue an unlimited number of additional Common Units or parity securities prior to the end of the Subordination Period and without the approval of the Unitholders if (a) such issuance occurs in connection with or (b) such issuance occurs within 270 days of, and the net proceeds from such issuance are used to repay debt incurred in connection with, a transaction in which the Partnership acquires (through an asset acquisition, merger, stock acquisition or other form of investment) control over assets and properties that would have, if acquired by the Partnership as of the date that is one year prior to the first day of the quarter in which such transaction is to be consummated, resulted in an increase in (i) the amount of Acquisition Pro Forma Available Cash constituting Cash from Operations generated by the Partnership on a per-Unit basis with respect to all outstanding Units with respect to each of the four most recently completed quarters over (ii) the actual amount of Available Cash constituting Cash from Operations generated by the Partnership on a per-Unit basis for all outstanding Units with respect to each of such four quarters. The issuance, during the Subordination Period, of any equity securities of the Partnership with rights as to distributions and allocations or in liquidation ranking prior or senior to the Common Units, will require the approval of the holders of at least 66 2/3% of the outstanding Common Units. After the Subordination Period, the General Partner, without a vote of the Unitholders, may cause the Partnership to issue additional Common Units or other equity securities of the Partnership on a parity with or senior to the Common Units. After the end of the Subordination Period, there is no restriction under the Partnership Agreement on the ability of the Partnership to issue additional limited or general partner interests having rights to distributions or rights in liquidation on a parity with or senior to the Common Units. In accordance with Delaware law and the provisions of the Partnership Agreement, the General Partner may cause the Partnership to issue additional partnership interests that, in its sole discretion, may have special voting rights to which the Common Units are not entitled.

The General Partner will have the right, which it may from time to time assign in whole or in part to any of its affiliates, to purchase Common Units, Subordinated Units, Incentive Distribution Rights or other equity securities of the Partnership from the Partnership whenever, and on the same terms that, the Partnership issues such securities or rights to persons other than the General Partner and its affiliates, to the extent necessary to maintain the percentage interest of the General Partner and its affiliates in the Partnership that existed immediately prior to each such issuance.

## LIMITED CALL RIGHT

If at any time less than 20% of the then issued and outstanding limited partner interests of any class are held by persons other than the General Partner and its affiliates, the General Partner will have the right, which it may assign and transfer to any of its affiliates or to the Partnership, to acquire all, but not less than all, of the remaining limited partner interests of such class held by such unaffiliated persons as of a record date to be selected by the General Partner, on at least 10 but not more than 60 days' notice. The purchase price in the event of such purchase shall be the greater of (a) the highest price paid by the General Partner or any of its affiliates for any limited partner interests of such class purchased within the 90 days preceding the date on which the General Partner first mails notice of its election to purchase such limited partner interests and (b)(i) the average of the closing prices of the limited partner interests of such class for the 20 trading days ending three days prior to the date on which such notice is first mailed or (ii) if such limited partner interests are not listed for trading on an exchange or quoted by NASDAQ, an amount equal to the fair market value of such limited partner interests as of three days prior to the date such notice is first mailed, as determined by the General Partner using any reasonable method of valuation. As a consequence of the General Partner's right to purchase outstanding limited partner interests, a holder of limited partner interests may have his limited partner interests purchased from him even though he may not desire to sell them, or the price paid may be less than the amount the holder would desire to receive upon the sale of his limited partner interests.

## AMENDMENT OF PARTNERSHIP AGREEMENT

Amendments to the Partnership Agreement may be proposed only by or with the consent of the General Partner. In order to adopt a proposed amendment, the General Partner is required to seek written approval of the holders of the number of Units required to approve such amendment or call a meeting of the limited partners to consider and vote upon the proposed amendment, except as described below. Proposed amendments (other than those described below) must be approved by holders of at least 66 2/3% of the outstanding Units during the Subordination Period and a majority of the outstanding Units thereafter, except that no amendment may be made which would (i) enlarge the obligations of any limited partner, without its consent, (ii) enlarge the obligations of the General Partner, without its consent, which may be given or withheld in its sole discretion, (iii) restrict in any way any action by or rights of the General Partner as set forth in the Partnership Agreement, (iv) modify the amounts distributable, reimbursable or otherwise payable by the Partnership to the General Partner, (v) change the term of the Partnership, or (vi) give any person the right to dissolve the Partnership other than the General Partner's right to dissolve the Partnership with the approval of at least 66 2/3% of the Units during the Subordination Period, or a majority of the outstanding Units thereafter or change such right of the General Partner in any way.

The General Partner may make amendments to the Partnership Agreement without the approval of any limited partner or assignee of the Partnership to reflect (i) a change in the name of the Partnership, the location of the principal place of business of the Partnership, the registered agent or the registered office of the Partnership, (ii) admission, substitution, withdrawal or removal of partners in accordance with the Partnership Agreement, (iii) a change that, in the sole discretion of the General Partner, is necessary or appropriate to qualify or continue the qualification of the Partnership as a partnership in which the limited partners have limited liability or that is necessary or advisable in the opinion of the General Partner to ensure that the Partnership will not be treated as an association taxable as a corporation or otherwise subject to taxation as an entity for federal income tax purposes, (iv) an amendment that is necessary, in the opinion of counsel to the Partnership, to prevent the Partnership or the General Partner or its respective directors or officers from in any manner being subjected to the provisions of the Investment Company Act of 1940, as amended, the Investment Advisors Act of 1940, as amended, or "plan asset" regulations adopted under the Employee Retirement Income Security Act of 1974, as amended, whether or not substantially similar to plan asset regulations currently applied or proposed, (v) subject to the limitations on the issuance of additional

Common Units or other limited or general partner interests described above, an amendment that in the sole discretion of the General Partner is necessary or desirable in connection with the authorization of additional limited or general partner interests, (vi) any amendment expressly permitted in the Partnership Agreement to be made by the General Partner acting alone, (vii) an amendment effected, necessitated or contemplated by a merger agreement that has been approved pursuant to the terms of the Partnership Agreement, (viii) any amendment that, in the sole discretion of the General Partner, is necessary or desirable in connection with the formation by the Partnership of, or its investment in, any corporation, partnership or other entity (other than the Operating Partnership) as otherwise permitted by the Partnership Agreement, (ix) a change in the fiscal year and taxable year of the Partnership and changes related thereto, and (x) any other amendments substantially similar to the foregoing.

In addition, the General Partner may make amendments to the Partnership Agreement without such consent if such amendments (i) do not adversely affect the limited partners in any material respect, (ii) are necessary or desirable to satisfy any requirements, conditions or guidelines contained in any opinion, directive, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute, (iii) are necessary or desirable to implement certain tax-related provisions of the Partnership Agreement, (iv) are necessary or desirable to facilitate the trading of the Units or to comply with any rule, regulation, guideline or requirement of any securities exchange on which the Units are or will be listed for trading, compliance with any of which the General Partner deems to be in the best interests of the Partnership and the Unitholders or (v) are required or contemplated by the Partnership Agreement.

The General Partner will not be required to obtain an Opinion of Counsel as to the tax consequences or the possible effect on limited liability of amendments described in the two immediately preceding paragraphs. No other amendments to the Partnership Agreement will become effective without the approval of at least 95% of the Units unless the Partnership obtains an Opinion of Counsel to the effect that such amendment will not cause the Partnership to be treated as an association taxable as a corporation or otherwise cause the Partnership to be subject to entity level taxation for federal income tax purposes and will not affect the limited liability of any limited partner in the Partnership or the limited partner of the Operating Partnership.

Any amendment that materially and adversely affects the rights or preferences of any type or class of limited partner interests in relation to other types of classes of limited partner interests or the general partner interests will require the approval of at least a majority of the type or class of limited partner interests so affected (excluding any such limited partner interests held by the General Partner and its affiliates).

#### MEETINGS; VOTING

Except as described below with respect to a person or group owning 20% or more of all Common Units, Unitholders or assignees who are record holders of Units on the record date set pursuant to the Partnership Agreement will be entitled to notice of, and to vote at, meetings of limited partners of the Partnership and to act with respect to matters as to which approvals may be solicited. With respect to voting rights attributable to Common Units that are owned by an assignee who is a record holder but who has not yet been admitted as a limited partner, the General Partner shall be deemed to be the limited partner with respect thereto and shall, in exercising the voting rights in respect of such Common Units on any matter, vote such Common Units at the written direction of such record holder. Absent such direction, such Common Units will not be voted (except that, in the case of Units held by the General Partner on behalf of Non-citizen Assignees, the General Partner shall distribute the votes in respect of such Units in the same ratios as the votes of limited partners in respect of other Units are cast).

The General Partner does not anticipate that any meeting of limited partners will be called in the foreseeable future. Any action that is required or permitted to be taken by the limited partners may be



taken either at a meeting of the limited partners or without a meeting if consents in writing setting forth the action so taken are signed by holders of such number of limited partner interests as would be necessary to authorize or take such action at a meeting of the limited partners. Meetings of the limited partners of the Partnership may be called by the General Partner or by limited partners owning at least 20% of the outstanding Units of the class for which a meeting is proposed. Limited partners may vote either in person or by proxy at meetings. Two-thirds (or a majority, if that is the vote required to take action at the meeting in question) of the outstanding limited partner interests of the class for which a meeting is to be held (excluding, if such are excluded from such vote, limited partner interests held by the General Partner and its affiliates) represented in person or by proxy will constitute a quorum at a meeting of limited partners of the Partnership.

Each record holder of a Unit has a vote according to his percentage interest in the Partnership, although additional limited partner interests having special voting rights could be issued by the General Partner. See "--Issuance of Additional Securities." However, Common Units owned beneficially by any person and its affiliates (other than Ferrell and its affiliates) that own beneficially 20% or more of all Common Units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of limited partners, calculating required votes, determining the presence of a quorum or for other similar Partnership purposes. The Partnership Agreement provides that Units held in nominee or street name account will be voted by the broker (or other nominee) pursuant to the instruction of the beneficial owner unless the arrangement between the beneficial owner and his nominee provides otherwise. Except as otherwise provided in the Partnership Agreement, Subordinated Units will vote together with Common Units as a single class.

Any notice, demand, request, report or proxy material required or permitted to be given or made to record holders of Units (whether or not such record holder has been admitted as a limited partner) under the terms of the Partnership Agreement will be delivered to the record holder by the Partnership or by the Transfer Agent at the request of the Partnership.

#### INDEMNIFICATION

The Partnership Agreement provides that the Partnership will indemnify the General Partner, any Departing Partner and any Person who is or was an officer or director of the General Partner or any Departing Partner, any person who is or was an affiliate of the General Partner or any Departing Partner, any Person who is or was an employee, partner, agent or trustee of the General Partner or any Departing Partner or any affiliate of the General Partner or any Departing Partner, or any Person who is or was serving at the request of the General Partner or any affiliate of the General Partner or any Departing Partner as an officer, director, employee, partner, agent, or trustee of another Person ("Indemnitees"), to the fullest extent permitted by law, from and against any and all losses, claims, damages, liabilities (joint or several) expenses (including, without limitation, legal fees and expenses), judgments, fines, penalties, interest, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative, in which any Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, by reason of its status as (i) the General Partner, Departing Partner or affiliate of either, (ii) an officer, director, employee, partner, agent or trustee of the General Partner, Departing Partner or affiliate of either or (iii) a person serving at the request of the Partnership in another entity in a similar capacity, provided that in each case the Indemnitee acted in good faith and in a manner which such Indemnitee reasonably believed to be in or not opposed to the best interests of the Partnership and, with respect to any criminal proceeding, had no reasonable cause to believe its conduct was unlawful. Any indemnification under these provisions will be only out of the assets of the Partnership, and the General Partner shall not be personally liable for, or have any obligation to contribute or loan funds or assets to the Partnership to enable it to effectuate, such indemnification. The Partnership is authorized to purchase (or to reimburse the General Partner or its affiliates for the cost of) insurance against liabilities asserted

against and expenses incurred by such persons in connection with the Partnerships activities, whether or not the Partnership would have the power to indemnify such person against such liabilities under the provisions described above.

#### LIMITED LIABILITY

Assuming that a limited partner does not participate in the control of the business of the Partnership within the meaning of the Delaware Act and that he otherwise acts in conformity with the provisions of the Partnership Agreement, his liability under the Delaware Act will be limited, subject to certain possible exceptions, to the amount of capital he is obligated to contribute to the Partnership in respect of his Units plus his share of any undistributed profits and assets of the Partnership. However, if it were determined that the right or exercise of the right by the limited partners as a group to remove or replace the General Partner, to approve certain amendments to the Partnership Agreement or to take other action pursuant to the Partnership Agreement constituted "participation in the control" of the Partnerships business for the purposes of the Delaware Act, then the limited partners could be held personally liable for the Partnership's obligations under the laws of the State of Delaware to the same extent as the General Partner. Under the Delaware Act, a limited partnership may not make a distribution to a partner to the extent that at the time of the distribution, after giving effect to the distribution, all liabilities of the partnership, other than liabilities to partners on account of their partnership interests and nonrecourse liabilities, exceed the fair value of the assets of the limited partnership. For the purpose of determining the fair value of the assets of a limited partnership, the Delaware Act provides that the fair value of property subject to nonrecourse liability shall be included in the assets of the limited partnership only to the extent that the fair value of that property exceeds that nonrecourse liability. The Delaware Act provides that a limited partner who receives such a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Act shall be liable to the limited partnership for the amount of the distribution for three years from the date of the distribution. Under the Delaware Act, an assignee who becomes a substituted limited partner of a limited partnership is liable for the obligations of his assignor to make contributions to the partnership, except the assignee is not obligated for liabilities unknown to him at the time he became a limited partner and which could not be ascertained from the partnership agreement.

It is contemplated that the Operating Partnership will conduct business in at least 45 and possibly other states. Maintenance of limited liability may require compliance with legal requirements in such jurisdictions in which the Operating Partnership conducts business, including qualifying the Operating Partnership to do business therein. Limitations on the liability of limited partners for the obligations of a limited partnership have not been clearly established in many jurisdictions. If it were determined that the Partnership was, by virtue of its limited partner interest in the Operating Partnership or otherwise, conducting business in any state without compliance with the applicable limited partnership statute, or that the right or exercise of the right by the limited partners as a group to remove or replace the General Partner, to approve certain amendments to the Partnership Agreement, or to take other action pursuant to the Partnership Agreement constituted "participation in the control" of the Partnership's business for the purposes of the statutes of any relevant jurisdiction, then the limited partners could be held personally liable for the Partnership's obligations under the law of such jurisdiction to the same extent as the General Partner. The Partnership will operate in such manner as the General Partner deems reasonable and necessary or appropriate to preserve the limited liability of Unitholders.

#### BOOKS AND REPORTS

The General Partner is required to keep appropriate books of the business of the Partnership at the principal offices of the Partnership. The books will be maintained for both tax and financial reporting purposes on an accrual basis. The fiscal year of the Partnership is August 1 to July 31.

As soon as practicable, but in no event later than 120 days after the close of each fiscal year, the General Partner will furnish each record holder of Units (as of a record date selected by the General

Partner) with an annual report containing audited financial statements of the Partnership for the past fiscal year, prepared in accordance with generally accepted accounting principles. As soon as practicable, but in no event later than 90 days after the close of each quarter (except the fourth quarter), the General Partner will furnish each record holder of Units (as of a record date selected by the General Partner) a report containing unaudited financial statements of the Partnership with respect to such quarter and such other information as may be required by law.

The General Partner will use all reasonable efforts to furnish each record holder of a Unit information reasonably required for tax reporting purposes within 90 days after the close of each calendar year. Such information is expected to be furnished in summary form so that certain complex calculations normally required of partners can be avoided. The General Partner's ability to furnish such summary information to Unitholders will depend on the cooperation of such Unitholders in supplying certain information to the General Partner. Every Unitholder (without regard to whether he supplies such information to the General Partner) will receive information to assist him in determining his federal and state tax liability and filing his federal and state income tax returns.

#### RIGHT TO INSPECT PARTNERSHIP BOOKS AND RECORDS

The Partnership Agreement provides that a limited partner can for a purpose reasonably related to such limited partner's interest as a limited partner, upon reasonable demand and at his own expense, have furnished to him (i) a current list of the name and last known address of each partner, (ii) a copy of the Partnerships tax returns, (iii) information as to the amount of cash, and a description and statement of the agreed value of any other property or services, contributed or to be contributed by each partner and the date on which each became a partner, (iv) copies of the Partnership Agreement, the certificate of limited partnership of the Partnership, amendments thereto and powers of attorney pursuant to which the same have been executed, (v) information regarding the status of the Partnership's business and financial condition and (vi) such other information regarding the affairs of the Partnership as is just and reasonable. The General Partner may, and intends to, keep confidential from the limited partners trade secrets or other information the disclosure of which the General Partner believes in good faith is not in the best interests of the Partnership or which the Partnership is required by law or by agreements with third parties to keep confidential.

#### TERMINATION AND DISSOLUTION

The Partnership will continue until July 31, 2084, unless sooner terminated pursuant to the Partnership Agreement. The Partnership will be dissolved upon (i) the election of the General Partner to dissolve the Partnership, if approved by at least a majority of the Units (other than Units owned by the General Partner and its affiliates) during the Subordination Period, or a majority of all of the outstanding Units thereafter, (ii) the sale of all or substantially all of the assets and properties of the Partnership and the Operating Partnership, (iii) the entry of a decree of judicial dissolution of the Partnership or (iv) withdrawal or removal of the General Partner or any other event that results in its ceasing to be the General Partner (other than by reason of a transfer in accordance with the Partnership Agreement or withdrawal or removal following approval of a successor), provided that the Partnership shall not be dissolved upon an event described in clause (iv) if within 90 days after such event the partners agree in writing to continue the business of the Partnership and to the appointment, effective as of the date of such event, of a successor General Partner. Upon a dissolution pursuant to clause (iv), the holders of at least a majority of the Units may also elect, within certain time limitations, to reconstitute the Partnership and continue its business on the same terms and conditions set forth in the Partnership Agreement by forming a new limited partnership on terms identical to those set forth in the Partnership Agreement and having as a general partner an entity approved by at least the holders of a majority of the Units, subject to receipt by the Partnership of an opinion of counsel that the exercise of such right will not result in the loss of the limited liability of Unitholders or cause the Partnership or the reconstituted limited partnership to be treated as an association taxable as a corporation or otherwise subject to taxation as an entity for federal income tax purposes.

## LIQUIDATION AND DISTRIBUTION OF PROCEEDS

Upon dissolution of the Partnership, unless the Partnership is reconstituted and continued as a new limited partnership, the person authorized to wind up the affairs of the Partnership (the "Liquidator") will, acting with all of the powers of the general partner that such Liquidator deems necessary or desirable in its good faith judgment in connection therewith, liquidate the Partnership's assets and apply the proceeds of the liquidation as follows: (i) first towards the payment of all creditors of the Partnership and the creation of a reserve for contingent liabilities and (ii) then to all partners in accordance with the positive balance in their respective capital accounts. Under certain circumstances and subject to certain limitations, the Liquidator may defer liquidation or distribution of the Partnership's assets for a reasonable period of time or distribute assets to partners in kind if it determines that a sale would be impractical or would cause undue loss to the partners.

## REGISTRATION RIGHTS

Pursuant to the terms of the Partnership Agreement and subject to certain limitations described therein, the Partnership has agreed to register for resale under the Securities Act of 1933 and applicable state securities laws any Units (or other securities of the Partnership) proposed to be sold by the General Partner (or its affiliates) if an exemption from such registration requirements is not otherwise available for such proposed transaction. The Partnership is obligated to pay all expenses incidental to such registration, excluding underwriting discounts and commissions.

## UNITS ELIGIBLE FOR FUTURE SALE

After the sale of the Common Units offered hereby, Ferrell will own 1,000,000 Common Units (if the Underwriters' overallotment option is exercised in full, all of such Common Units will be repurchased by the Partnership). In addition, Ferrell will hold 16,118,559 Subordinated Units, 5,372,853 of which may convert into Common Units after July 31, 1997 and all of which may convert into Common Units after termination of the Subordination Period, subject in each case to the satisfaction of certain conditions. The sale of these Common Units could have an adverse impact on the price of the Common Units or on any trading market that may develop. For a discussion of the transactions whereby Ferrell acquired the Common Units in connection with the organization of the Partnership, see "The Transactions."

The Common Units sold in this offering will generally be freely transferable without restriction or further registration under the Securities Act, except that any Units owned by an "affiliate" of the Partnership (as that term is defined in the rules and regulations under the Securities Act) may not be resold publicly except in compliance with the registration requirements of the Securities Act or pursuant to an exemption therefrom under Rule 144 thereunder ("Rule 144") or otherwise. Rule 144 permits securities acquired by an affiliate of the issuer in an offering to be sold into the market in an amount that does not exceed, during any three-month period, the greater of (i) 1% of the total number of such securities outstanding or (ii) the average weekly reported trading volume of the Units for the four calendar weeks prior to such sale. Sales under Rule 144 are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about the Partnership. A person who is not deemed to have been an affiliate of the Partnership at any time during the three months preceding a sale, and who has beneficially owned his Units for at least three years, would be entitled to sell such Units under Rule 144 without regard to the public information requirements, volume limitations, manner of sale provisions or notice requirements of Rule 144.

Prior to the end of the Subordination Period, the Partnership may not issue equity securities of the Partnership ranking prior or senior to the Common Units or an aggregate of more than 7,000,000 additional Common Units (excluding Common Units issued in connection with the exercise of the Underwriters' overallotment option or Common Units issued upon conversion of Subordinated Units) or an equivalent amount of securities ranking on a parity with the Common Units, in either case without the approval of the holders of at least 66 2/3% of the outstanding Common Units; provided, however, that the Partnership may also issue an unlimited number of additional Common Units or parity securities prior to the end of the Subordination Period and without the approval of the Unitholders if (a) such issuance occurs in connection with or (b) such issuance occurs within 270 days of, and the net proceeds from such issuance are used to repay debt incurred in connection with, a transaction in which the Partnership acquires (through an asset acquisition, merger, stock acquisition or other form of investment) control over assets and properties that would have, if acquired by the Partnership as of the date that is one year prior to the first day of the quarter in which such transaction is to be consummated, resulted in an increase in (i) the amount of Acquisition Pro Forma Available Cash constituting Cash from Operations generated by the Partnership on a per-Unit basis for all outstanding Units with respect to each of the four most recently completed quarters over (ii) the actual amount of Available Cash constituting Cash from Operations generated by the Partnership on a per-Unit basis for all outstanding Units with respect to each of such four quarters. After the Subordination Period, the General Partner, without a vote of the Unitholders, may cause the Partnership to issue additional Common Units or other equity securities of the Partnership on a parity with or senior to the Common Units. The Partnership Agreement does not impose any restriction on the Partnership's ability to issue equity securities ranking junior to the Common Units at any time. Any issuance of additional Units would result in a corresponding decrease in the proportionate ownership interest in the Partnership represented by, and could adversely affect the cash distributions to and market price of, Common Units then outstanding.

Pursuant to the Partnership Agreement, the General Partner and its affiliates will have the right, upon the terms and subject to the conditions therein, to cause the Partnership to register under the

Securities Act the offer and sale of any Units held by such party. Subject to the terms and conditions of the Partnership Agreement such registration rights allow the General Partner and its affiliates, or their assignees, holding any Units to require registration of any such Units and to include any such Units in a registration by the Partnership of other Units, including Units offered by the Partnership or by any Unitholder. Such registration rights will continue in effect for two years following any withdrawal or removal of the General Partner as the general partner of the Partnership. In connection with any such registration, the Partnership will indemnify each holder of Units participating in such registration and its officers, directors and controlling persons from and against any liabilities under the Securities Act or any state securities laws arising from the registration statement or prospectus. The Partnership will bear the reasonable costs of any such registration. In addition, the General Partner and its affiliates may sell their Units in private transactions at any time, in accordance with applicable law.

The Partnership has agreed not to offer, sell, contract to sell or otherwise dispose of any Common Units or Subordinated Units, or any securities substantially similar to the Common Units or Subordinated Units, including but not limited to any securities that are convertible into or exchangeable for or that represent the right to receive Common Units or Subordinated Units or any such substantially similar securities, for a period of 180 days after the date of this Prospectus without the prior written consent of the representatives of the Underwriters, except for the Common Units offered in connection with this offering and except for any Common Units which may be issued in connection with acquisitions by the Partnership. In addition, Ferrell has agreed that for a period of 24 months from the date of this Prospectus it will not offer, sell, contract to sell or otherwise dispose of any Common Units or Subordinated Units or any securities substantially similar to the Common Units or Subordinated Units, including but not limited to any securities that are convertible into or exchangeable for or that represent the right to receive Common Units or Subordinated Units or any such substantially similar securities, without the prior written consent of the representatives of the Underwriters, except (i) pursuant to the repurchase of a portion of such Common Units in connection with the exercise of the Underwriters' over-allotment option, (ii) transfers to James E. Ferrell or his spouse, lineal descendants or brothers or sisters, entities controlled by James E. Ferrell or his spouse, lineal descendants or brothers or sisters or trusts for the benefit of James E. Ferrell or his spouse, lineal descendants or brothers or sisters, (iii) in connection with the sale of the Partnership or substantially all of its assets, (iv) as collateral in connection with good faith borrowing, (v) gifts of up to 20% of such Units to charitable organizations or (vi) in the event of the death or permanent disability of James E. Ferrell, provided, however, that in the case of (ii) above the transferee shall enter into an agreement with the representatives of the Underwriters agreeing to comply with the above restrictions for the remainder of the 24 month period.

## TAX CONSIDERATIONS

This section is a summary of certain federal income tax considerations that may be relevant to prospective Unitholders and, to the extent set forth below under "--Legal Opinions and Advice," represents the opinion of Andrews & Kurth L.L.P., special counsel to the General Partner and the Partnership ("Counsel"), insofar as it relates to matters of law and legal conclusions. This section is based upon current provisions of the Internal Revenue Code of 1986, as amended ("Code"), existing and proposed regulations thereunder and current administrative rulings and court decisions, all of which are subject to change. Subsequent changes may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to "Partnership" are references to both the Partnership and the Operating Partnership.

No attempt has been made in the following discussion to comment on all federal income tax matters affecting the Partnership or the Unitholders. Moreover, the discussion focuses on Unitholders who are individual citizens or residents of the United States and has only limited application to corporations, estates, trusts or non-resident aliens. Accordingly, each prospective Unitholder should consult, and should depend on, his own tax advisor in analyzing the federal, state, local and foreign tax consequences to him of the purchase, ownership or disposition of Common Units.

### LEGAL OPINIONS AND ADVICE

Counsel has expressed its opinion that, based on the representations and subject to the qualifications set forth in the detailed discussion that follows, for federal income tax purposes (i) the Partnership will be treated as a partnership, and (ii) owners of Common Units (with certain exceptions, as described in "--Limited Partner Status" below) will be treated as partners of the Partnership (but not the Operating Partnership). In addition, all statements as to matters of law and legal conclusions contained in this section, unless otherwise noted, reflect the opinion of Counsel. Counsel has also advised the General Partner that, based on current law, the following general description of the principal federal income tax consequences that should arise from the purchase, ownership and disposition of Common Units, insofar as it relates to matters of law and legal conclusions, addresses all material tax consequences to Unitholders who are individual citizens or residents of the United States.

No ruling has been requested from the Internal Revenue Service (the "IRS") with respect to the foregoing issues or any other matter affecting the Partnership or the Unitholders. An opinion of counsel represents only such counsel's best legal judgment and does not bind the IRS or the courts. Thus, no assurance can be provided that the opinions and statements set forth herein would be sustained by a court if contested by the IRS. The costs of any contest with the IRS will be borne directly or indirectly by the Unitholders and the General Partner. Furthermore, no assurance can be given that the treatment of the Partnership or an investment therein will not be significantly modified by future legislative or administrative changes or court decisions. Any such modification may or may not be retroactively applied.

### CHANGES IN FEDERAL INCOME TAX LAWS

On August 10, 1993 the Omnibus Budget Reconciliation Act of 1993 (the "1993 Budget Act") was enacted. The 1993 Budget Act increases the top marginal income tax rate for individuals from 31% to 36% and imposes a 10% surtax on individuals with taxable income in excess of \$250,000 per year. The surtax is computed by applying a 39.6% rate to taxable income in excess of the threshold. Net capital gains remain subject to a maximum 28% tax rate. The increased rates are effective for taxable years beginning after December 31, 1992. It is not anticipated that the 1993 Budget Act will have any adverse impact on the Partnership or its operations.

Proposed legislation introduced in the Congress as part of the Tax Simplification Bill of 1993 (the "1993 Bill") and adopted by the Ways and Means Committee on November 16, 1993, would alter the tax reporting system and the deficiency collection system applicable to large partnerships (generally defined as partnerships with more than 250 partners) and would make certain additional changes to the treatment of large partnerships, such as the Partnership. Certain of the proposed changes are discussed later in this section. The 1993 Bill is generally intended to simplify the administration of the tax rules governing large partnerships.

As of the date of this Prospectus, it is not possible to predict whether any of the changes set forth in the 1993 Bill or any other changes in the federal income tax laws that would impact the Partnership and the Unitholders will ultimately be enacted, or if enacted, what form they will take, what the effective dates will be, and what, if any, transition rules will be provided.

#### PARTNERSHIP STATUS

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

No tax ruling has been sought from the IRS as to the status of the Partnership as a partnership for federal income tax purposes. Instead the Partnership has relied on the opinion of Counsel that, based upon the Code, the regulations thereunder, published revenue rulings and court decisions, the Partnership will be classified as a partnership for federal income tax purposes.

In rendering its opinion, Counsel has relied on certain factual representations made by the General Partner, including:

(a) With respect to the Partnership and the Operating Partnership, the General Partner, at all times while acting as general partner of the relevant partnership, will have a net worth, computed on a fair market value basis, excluding its interests in the Partnership and the Operating Partnership and any notes or receivables due from such partnerships, equal to \$25 million;

(b) The Partnership will be operated in accordance with (i) all applicable partnership statutes, (ii) the Partnership Agreement and (iii) this Prospectus;

(c) The Operating Partnership will be operated in accordance with (i) all applicable partnership statutes, (ii) the limited partnership agreement for the Operating Partnership and (iii) the description thereof in this Prospectus;

(d) The General Partner will at all times act independently of the limited partners; and

(e) For each taxable year, less than 10% of the gross income of the Partnership will be derived from sources other than (i) the exploration, development, production, processing, refining, transportation or marketing of any mineral or natural resource, including oil, gas or products thereof or (ii) other items of "qualifying income" within the meaning of Section 7704(d) of the Code.

Counsel's opinion as to the partnership classification of the Partnership in the event of a change in the general partner is based upon the assumption that the new general partner will satisfy the foregoing representations.

Section 7704 of the Code provides that publicly-traded partnerships will, as a general rule, be taxed as corporations. However, an exception (the "Qualifying Income Exception") exists with respect to publicly-traded partnerships of which 90% or more of the gross income for every taxable year consists of "qualifying income." "Qualifying income" includes income and gains derived from the



transportation and marketing of crude oil, natural gas, and products thereof. Counsel is of the opinion that qualifying income also includes the wholesale and retail marketing of propane. The General Partner has represented that in excess of 90% of the Partnership's gross income will be derived from these sources. Thus, based upon that representation at least 90% of the Partnership's gross income will constitute "qualifying income." The General Partner estimates that less than 7% of the Partnership's gross income will not constitute qualifying income.

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

If the Partnership were treated as an association or otherwise taxable as a corporation in any taxable year, as a result of a failure to meet the Qualifying Income Exception or otherwise, its items of income, gain, loss, deduction and credit would be reflected only on its tax return rather than being passed through to the Unitholders, and its net income would be taxed at the Partnership level at corporate rates. In addition, any distribution made to a Unitholder would be treated as either taxable dividend income (to the extent of the Partnerships current or accumulated earnings and profits), in the absence of earnings and profits as a nontaxable return of capital (to the extent of the Unitholders basis in his Common Units) or taxable capital gain (after the Unitholders basis in the Common Units is reduced to zero). Accordingly, treatment of either the Partnership or the Operating Partnership as an association taxable as a corporation would result in a material reduction in a Unitholder's cash flow and after-tax return.

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

#### LIMITED PARTNER STATUS

Unitholders who have become limited partners will be treated as partners of the Partnership for federal income tax purposes. Moreover, the IRS has ruled that assignees of partnership interests who have not been admitted to a partnership as partners, but who have the capacity to exercise substantial dominion and control over the assigned partnership interests, will be treated as partners for federal income tax purposes. On the basis of this ruling, except as otherwise described herein, Counsel is of the opinion that (a) assignees who have executed and delivered Transfer Applications, and are awaiting admission as limited partners and (b) Unitholders whose Common Units are held in street name or by another nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their Common Units will be treated as partners of the Partnership for federal income tax purposes. As this ruling does not extend, on its facts, to assignees of Common Units who are entitled to execute and deliver Transfer Applications and thereby become entitled to direct the exercise of attendant rights, but who fail to execute and deliver Transfer Applications, Counsel's opinion does not extend to these persons. Income, gain, deductions, losses or credits would not appear to be reportable by such a Unitholder, and any cash distributions received by such a Unitholder would therefore be fully taxable as ordinary income. These holders should consult their own tax advisors with respect to their status as partners in the Partnership for federal income tax purposes. A purchaser or other transferee of Common Units who does not execute and deliver a Transfer Application may not receive certain federal income tax information or reports furnished to record holders of Common Units unless the Common Units are held in a nominee or street name account and the nominee or broker has executed and delivered a Transfer Application with respect to such Common Units.

A beneficial owner of Common Units whose Common Units have been transferred to a short seller to complete a short sale would appear to lose his status as a partner with respect to such Common Units for federal income tax purposes. See "--Tax Treatment of Operations--Treatment of Short Sales" below.

#### TAX CONSEQUENCES OF UNIT OWNERSHIP

##### FLOW-THROUGH OF TAXABLE INCOME

No federal income tax will be paid by the Partnership. Instead, each Unitholder will be required to report on his income tax return his allocable share of the income, gains, losses and deductions of the Partnership without regard to whether corresponding cash distributions are received by such Unitholder. Consequently, a Unitholder may be allocated income from the Partnership although he has not received a cash distribution in respect of such income.

##### TREATMENT OF PARTNERSHIP DISTRIBUTIONS

Distributions by the Partnership to a Unitholder generally will not be taxable to the Unitholder for federal income tax purposes to the extent of his basis in his Common Units immediately before the distribution. Cash distributions in excess of a Unitholder's basis generally will be considered to be gain from the sale or exchange of the Common Units, taxable in accordance with the rules described under "--Disposition of Common Units" below. Any reduction in a Unitholder's share of the Partnership's liabilities for which no partner, including the General Partner, bears the economic risk of loss ("nonrecourse liabilities") will be treated as a distribution of cash to such Unitholder.

##### RATIO OF TAXABLE INCOME TO DISTRIBUTIONS

The General Partner estimates that a purchaser of Common Units pursuant to this offering (i) who holds such Common Units through the record date for the last quarter of the Partnership's fiscal year ending July 31, 1995 (assuming the Minimum Quarterly Distribution is made for each quarter or portion thereof during that period) will be allocated an amount of federal taxable income for such period that will be approximately 10% of the amount of cash distributed to such Unitholder with respect to such period and (ii) who holds such Common Units through the record date for the last quarter of the Partnership's fiscal year ending July 31, 1999 will be allocated, on a cumulative basis, no net federal taxable income for such period (assuming the Minimum Quarterly Distribution is made for each quarter or portion thereof during that period). The General Partner anticipates that after July 31, 1999 taxable income allocated to Unitholders will increase from year to year and will constitute a significantly higher percentage of cash distributed to Unitholders. The foregoing estimates are based upon the assumption that gross income from operations will approximate the amount required to make the Minimum Quarterly Distribution and other assumptions with respect to capital expenditures, cash flow and anticipated cash distributions. These estimates and assumptions are subject to, among other things, numerous business, economic, regulatory, political and competitive uncertainties which are beyond the control of the General Partner or the Partnership. Accordingly, no assurance can be given that the estimates will prove to be correct. The actual percentages could be higher or lower than as described above, and any such differences could be material. Further, the estimates are based on certain tax reporting positions that the General Partner intends to adopt and with which the IRS could disagree, including the amortization of customer relationships. In connection with the formation of the Partnership, the General Partner will contribute certain customer relationships to the Partnership. The General Partner intends to treat such customer relationships as amortizable assets of the Partnership for federal income tax purposes. The IRS has challenged the Company's amortization of customer relationships and it is possible that the IRS will challenge the amortization of customer relationships by the Partnership. If the IRS were to successfully challenge the amortization of customer relationships by the Partnership, the amount of amortization available to a Unitholder and, therefore, the after tax return

of a Unitholder with respect to his investment in the Partnership could be adversely affected, although the General Partner does not believe the impact of such effect will be material.

#### BASIS OF COMMON UNITS

A Unitholder's initial tax basis for his Common Units will be the amount paid for the Common Unit. The initial tax basis for a Common Unit will be increased by the Unitholder's share of Partnership income. The basis for a Common Unit will be decreased (but not below zero) by distributions from the Partnership by the Unitholder's share of Partnership losses and by the Unitholder's share of expenditures of the Partnership that are not deductible in computing its taxable income and are not required to be capitalized.

#### LIMITATIONS ON DEDUCTIBILITY OF PARTNERSHIP LOSSES

To the extent losses are incurred by the Partnership, a Unitholder's share of deductions for the losses will be limited to the tax basis of the Unitholder's Units or, in the case of an individual Unitholder or a corporate Unitholder if more than 50% in the value of its stock is owned directly or indirectly by five or fewer individuals or certain tax-exempt organizations, to the amount which the Unitholder is considered to be "at risk" with respect to the Partnership's activities, if that is less than the Unitholder's basis. A Unitholder must recapture losses deducted in previous years to the extent that Partnership distributions cause the Unitholder's at risk amount to be less than zero at the end of any taxable year. Losses disallowed to a Unitholder or recaptured as a result of these limitations will carry forward and will be allowable to the extent that the Unitholder's basis or at risk amount (whichever is the limiting factor) is increased.

In general, a Unitholder will be at risk to the extent of the purchase price of his Units. A Unitholder's at risk amount will increase or decrease as the basis of the Unitholder's Units increases or decreases.

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

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

#### LIMITATIONS ON INTEREST DEDUCTIONS

The deductibility of a non-corporate taxpayer's "investment interest expense" is generally limited to the amount of such taxpayer's "net investment income." As noted, a Unitholder's net passive income from the Partnership will be treated as investment income for this purpose. In addition, the Unitholder's share of the Partnership's portfolio income will be treated as investment income. Investment interest expense includes (i) interest on indebtedness properly allocable to property held for investment, (ii) a partnership's interest expense attributed to portfolio income and (iii) the portion of interest expense

incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income. The computation of a Unitholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a Unit to the extent attributable to portfolio income of the Partnership. Net investment income includes gross income from property held for investment and amounts treated as portfolio income pursuant to the passive loss rules less deductible expenses (other than interest) directly connected with the production of investment income, but for taxable years beginning after 1992 net investment income generally does not include gains attributable to the disposition of property held for investment.

#### ALLOCATION OF PARTNERSHIP INCOME, GAIN, LOSS AND DEDUCTION

The Partnership Agreement provides that a capital account be maintained for each partner, that the capital accounts generally be maintained in accordance with the applicable tax accounting principles set forth in applicable Treasury Regulations and that all allocations to a partner be reflected by an appropriate increase or decrease in his capital account. Distributions upon liquidation of the Partnership generally are to be made in accordance with positive capital account balances.

In general, if the Partnership has a net profit, items of income, gain, loss and deduction will be allocated among the General Partner and the Unitholders in accordance with their respective Percentage Interests in the Partnership. A class of Unitholders that receives more cash than another class, on a per Unit basis, with respect to a year, will be allocated additional income equal to that excess. If the Partnership has a net loss, items of income, gain, loss and deduction will generally be allocated for both book and tax purposes (1) first, to the General Partner and the Unitholders in accordance with their respective Percentage Interests to the extent of their positive capital accounts; and (2) second, to the General Partner. In addition, all items of Partnership income, gain, loss and deduction for the period beginning on the date of the closing of the offering made hereby and ending on July 31, 1994, will be allocated to the General Partner. An amount of items of income, gain, loss or deduction equal to 98% of any net income or net loss so allocated to the General Partner will be allocated to the Limited Partners, in accordance with their respective percentage interests, for the taxable year of the Partnership beginning August 1, 1994. The General Partner believes that the Partnership will generate a net taxable loss for the period beginning on the date of the closing of the offering made hereby and ending on July 31, 1994.

Notwithstanding the above, as required by Section 704(c) of the Code, certain items of Partnership income, deduction, gain and loss will be specially allocated to account for the difference between the tax basis and fair market value of property contributed to the Partnership by the General Partner ("Contributed Property"). In addition, certain items of recapture income will be allocated to the extent possible to the partner allocated the deduction giving rise to the treatment of such gain as recapture income in order to minimize the recognition of ordinary income by some Unitholders, but these allocations may not be respected. If these allocations of recapture income are not respected, the amount of the income or gain allocated to a Unitholder will not change but instead a change in the character of the income allocated to a Unitholder would result. Finally, although the Partnership does not expect that its operations will result in the creation of negative capital accounts, if negative capital accounts nevertheless result, items of Partnership income and gain will be allocated in an amount and manner sufficient to eliminate the negative balance as quickly as possible.

Regulations provide that an allocation of items of Partnership income, gain, loss, deduction or credit, other than an allocation required by Section 704(c) of the Code to eliminate the disparity between a partner's "book" capital account (credited with the fair market value of Contributed Property) and "tax" capital account (credited with the tax basis of Contributed Property) (the "Book-Tax Disparity"), will generally be given effect for federal income tax purposes in determining a partner's distributive share of an item of income, gain, loss or deduction only if the allocation has substantial economic effect. In any other case, a partner's distributive share of an item will be determined on the

basis of the partner's interest in the partnership, which will be determined by taking into account all the facts and circumstances, including the partner's relative contributions to the partnership, the interests of the partners in economic profits and losses, the interests of the partners in cash flow and other nonliquidating distributions and rights of the partners to distributions of capital upon liquidation.

Under the Code, the partners in a partnership cannot be allocated more depreciation, gain or loss than the total amount of any such item recognized by that partnership in a particular taxable period (the "ceiling limitation"). To the extent the ceiling limitation is or becomes applicable, the Partnership Agreement will require that certain items of income and deduction be allocated in a way designed to effectively "cure" this problem and eliminate the impact of the ceiling limitation. Such allocations will not have substantial economic effect because they will not be reflected in the capital accounts of the Unitholders. Recently released Temporary Regulations under Section 704(c) of the Code permit a partnership to make reasonable curative allocations to reduce or eliminate Book-Tax Disparities. Counsel believes the curative allocations provided in the Partnership Agreement are reasonable and will be respected for federal income tax purposes.

Counsel is of the opinion that, with the exception of the allocation of recapture income discussed above allocations under the Partnership Agreement will be given effect for federal income tax purposes in determining a partner's distributive share of an item of income, gain, loss or deduction. There are, however, uncertainties in the Treasury Regulations relating to allocations of partnership income, and investors should be aware that some of the allocations in the Partnership Agreement may be successfully challenged by the IRS.

#### TAX TREATMENT OF OPERATIONS

##### ACCOUNTING METHOD AND TAXABLE YEAR

The Partnership will use the fiscal year ending July 31 as its taxable year and will adopt the accrual method of accounting for federal income tax purposes. Each Unitholder will be required to include in income his allocable share of Partnership income, gain, loss and deduction for the fiscal year of the Partnership ending within or with the taxable year of the Unitholder. In addition, a Unitholder who disposes of Units following the close of the Partnership's taxable year but before the close of the Unitholder's taxable year must include his allocable share of Partnership income, gain, loss and deduction in income for the Unitholder's taxable year with the result that that Unitholder will be required to report in income for his taxable year his distributive share of more than one year of Partnership income, gain, loss and deduction. For example, a Unitholder reporting on a calendar year basis who acquires Common Units in the offering made hereby and who disposes of such Common Units after July 31, 1995 but before December 31, 1995 will be required to include in his 1995 taxable income his allocable share of Partnership income for the Partnership's fiscal year ending July 31, 1995, plus his allocable share of Partnership income for the period beginning August 1, 1995 and ending on the date such Common Units are disposed. See "Disposition of Common Units--Allocations Between Transferors and Transferees" below.

The Partnership may be required at some future date to adopt a taxable year ending December 31, rather than its current taxable year ending July 31. In that event, a Unitholder may be required to include in income for his taxable year his distributive share of more than one year of Partnership income, gain, loss and deduction.

##### INITIAL TAX BASIS, DEPRECIATION AND AMORTIZATION

The tax basis established for the various assets of the Partnership will be used for purposes of computing depreciation and cost recovery deductions and, ultimately, gain or loss on the disposition

of such assets. The Partnership assets will initially have an aggregate tax basis equal to the tax basis of the assets in the hands of the General Partner immediately prior to their contribution to the Partnership.

To the extent allowable, the General Partner may elect to use the depreciation and cost recovery methods that will result in the largest depreciation deductions in the early years of the Partnership. Property subsequently acquired or constructed by the Partnership may be depreciated using accelerated methods permitted by the Code.

If the Partnership disposes of depreciable property by sale, foreclosure, or otherwise, all or a portion of any gain (determined by reference to the amount of depreciation previously deducted and the nature of the property) may be subject to the recapture rules and taxed as ordinary income rather than capital gain. Similarly, a partner who has taken cost recovery or depreciation deductions with respect to property owned by the Partnership may be required to recapture such deductions upon a sale of his interest in the Partnership. See "--Allocation of Partnership Income, Gain, Loss and Deduction" above and "--Disposition of Common Units--Recognition of Gain or Loss" below.

Costs incurred in organizing the Partnership may be amortized over any period selected by the Partnership not shorter than 60 months. The costs incurred in promoting the issuance of Units must be capitalized and cannot be deducted currently, ratably or upon termination of the Partnership. There are uncertainties regarding the classification of costs as organization expenses, which may be amortized, and as syndication expenses, which may not be amortized.

The 1993 Budget Act added Section 197 to the Code which generally permits a taxpayer who after August 10, 1993 acquires an interest in goodwill, going concern value and certain other intangible property including customer relationships which are held in connection with the conduct of a trade or business or the production of income (an "amortizable Section 197 intangible") to amortize the adjusted basis of such amortizable Section 197 intangible ratably over a 15-year period. The IRS is currently challenging deductions for amortization claimed by the General Partner with respect to certain customer relationships. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Tax Audit." In connection with the formation of the Partnership, the General Partner will contribute those customer relationships and other customer relationships to the Partnership. The application of Section 197 of the Code to customer relationships held by the Partnership is unclear. The General Partner, however, intends to treat such customer relationships as amortizable assets of the Partnership for federal income tax purposes. It is possible that the IRS will challenge that treatment. If the IRS were to successfully challenge the amortization of customer relationships by the Partnership, the amount of amortization available to a Unitholder and, therefore, the after tax return of a Unitholder with respect to his investment in the Partnership could be adversely affected, although the Partnership does not believe the impact of such effect will be material. See "--Tax Consequences of Unit Ownership--Ratio of Taxable Income to Distributions" above.

#### SECTION 754 ELECTION

The Partnership will make the election permitted by Section 754 of the Code, which election is irrevocable without the consent of the IRS. The election will generally permit a purchaser of Common Units to adjust his share of the basis in the Partnership's properties ("inside basis") pursuant to Section 743(b) of the Code to fair market value (as reflected by his Unit price). The Section 743(b) adjustment is attributed solely to a purchaser of Common Units and is not added to the bases of the Partnership's assets associated with all of the Unitholders. (For purposes of this discussion, a partner's inside basis in the Partnership's assets will be considered to have two components: (1) his share of the Partnership's actual basis in such assets ("Common Basis") and (2) his Section 743(b) adjustment allocated to each such asset.)

Proposed Treasury Regulation Section 1.168-2(n) generally requires the Section 743(b) adjustment attributable to recovery property to be depreciated as if the total amount of such adjustment were attributable to newly-acquired recovery property placed in service when the purchaser acquires the Common Unit. Similarly, the legislative history of Section 197 indicates that the Section 743(b) adjustment attributable to an amortizable Section 197 intangible should be treated as a newly-acquired asset placed in service in the month when the purchaser acquires the Common Unit. Under Treasury Regulation Section 1.167(c)-1(a)(6), a Section 743(b) adjustment attributable to property subject to depreciation under Section 167 of the Code rather than cost recovery deductions under Section 168 is generally required to be depreciated using either the straight-line method or the 150% declining balance method. The depreciation and amortization methods and useful lives associated with the Section 743(b) adjustment, therefore, may differ from the methods and useful lives generally used to depreciate the Common Bases in such properties. Pursuant to the Partnership Agreement, the General Partner is authorized to adopt a convention to preserve the uniformity of Units even if such convention is not consistent with Treasury Regulation Section 1.167(c)-1(a)(6) or the legislative history of Section 197 of the Code. See "-- Uniformity of Units" below.

Although Counsel is unable to opine as to the validity of such an approach, the Partnership intends to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property (to the extent of any unamortized Book-Tax Disparity) using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the Common Basis of such property, despite its inconsistency with Proposed Treasury Regulation Section 1.168-2(n), Treasury Regulation Section 1.167(c)-1(a)(6) or the legislative history of Section 197 of the Code. If the Partnership determines that such position cannot reasonably be taken, the Partnership may adopt a depreciation or amortization convention under which all purchasers acquiring Units in the same month would receive depreciation or amortization, whether attributable to Common Basis or Section 743(b) basis, based upon the same applicable rate as if they had purchased a direct interest in the Partnership's property. Such an aggregate approach may result in lower annual depreciation or amortization deductions than would otherwise be allowable to certain Unitholders. See "-- Uniformity of Units" below.

The allocation of the Section 743(b) adjustment must be made in accordance with the principles of Section 1060 of the Code. Based on these principles, the IRS may seek to reallocate some or all of any Section 743(b) adjustment not so allocated by the Partnership to goodwill which, as an intangible asset, would be amortizable over a longer period of time than the Partnership's tangible assets. Alternatively, it is possible that the IRS might seek to treat the portion of such Section 743(b) adjustment attributable to the Underwriters' discount as if allocable to a non-deductible syndication cost.

A Section 754 election is advantageous if the transferee's basis in his Units is higher than such Units' share of the aggregate basis to the Partnership of the Partnership's assets immediately prior to the transfer. In such case, pursuant to the election, the transferee would take a new and higher basis in his share of the Partnership's assets for purposes of calculating, among other items, his depreciation deductions and his share of any gain or loss on a sale of the Partnership's assets. Conversely, a Section 754 election is disadvantageous if the transferee's basis in such Units is lower than such Units share of the aggregate basis of the Partnership's assets immediately prior to the transfer. Thus, the amount which a Unitholder will be able to obtain upon the sale of his Common Units may be affected either favorably or adversely by the election.

The calculations involved in the Section 754 election are complex and will be made by the Partnership on the basis of certain assumptions as to the value of Partnership assets and other matters. There is no assurance that the determinations made by the Partnership will not be successfully challenged by the IRS and that the deductions attributable to them will not be disallowed or reduced. Should the IRS require a different basis adjustment to be made, and should, in the General Partner's opinion, the expense of compliance exceed the benefit of the election, the General Partner may seek

permission from the IRS to revoke the Section 754 election for the Partnership. If such permission is granted, a purchaser of Units subsequent to such revocation probably will incur increased tax liability.

#### ALTERNATIVE MINIMUM TAX

Each Unitholder will be required to take into account his distributive share of any items of Partnership income, gain or loss for purposes of the alternative minimum tax. A portion of the Partnership's depreciation deductions may be treated as an item of tax preference for this purpose.

A Unitholder's alternative minimum taxable income derived from the Partnership may be higher than his share of Partnership net income because the Partnership may use accelerated methods of depreciation for purposes of computing federal taxable income or loss. The 1993 Budget Act increases the minimum tax rate applicable to noncorporate Unitholders from 24% to 26% on the first \$175,000 of alternative minimum taxable income in excess of the exemption amount and to 28% on any additional alternative minimum taxable income. Prospective Unitholders should consult with their tax advisors as to the impact of an investment in Common Units on their liability for the alternative minimum tax.

#### VALUATION OF PARTNERSHIP PROPERTY AND BASIS OF PROPERTIES

The federal income tax consequences of the acquisition, ownership and disposition of Units will depend in part on estimates by the General Partner of the relative fair market values, and determinations of the initial tax basis, of the assets of the Partnership. Although the General Partner may from time to time consult with professional appraisers with respect to valuation matters, many of the relative fair market value estimates will be made solely by the General Partner. These estimates and determinations of basis are subject to challenge and will not be binding on the IRS or the courts. If the estimates of fair market value or determinations of basis are subsequently found to be incorrect, the character and amount of items of income, gain, loss, deductions or credits previously reported by Unitholders might change, and Unitholders might be required to amend their previously filed tax returns or to file claims for refunds.

#### TREATMENT OF SHORT SALES

It would appear that a Unitholder whose Units are loaned to a "short seller" to cover a short sale of Units would be considered as having transferred beneficial ownership of those Units and would, thus, no longer be a partner with respect to those Units during the period of the loan. As a result, during this period, any Partnership income, gain, deduction, loss or credit with respect to those Units would appear not to be reportable by the Unitholder, any cash distributions received by the Unitholder with respect to those Units would be fully taxable and all of such distributions would appear to be treated as ordinary income. The IRS may also contend that a loan of Units to a "short seller" constitutes a taxable exchange. If this contention were successfully made, the lending Unitholder may be required to recognize gain or loss. Unitholders desiring to assure their status as partners should modify their brokerage account agreements, if any, to prohibit their brokers from borrowing their Units. The IRS has announced that it is actively studying issues relating to the tax treatment of short sales of partnership interests.

#### DISPOSITION OF COMMON UNITS

##### RECOGNITION OF GAIN OR LOSS

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



Gain or loss recognized by a Unitholder (other than a "dealer" in Units) on the sale or exchange of a Unit held for more than one year will generally be taxable as long-term capital gain or loss. A substantial portion of this gain or loss, however, will be separately computed and taxed as ordinary income or loss under Section 751 of the Code to the extent attributable to assets giving rise to depreciation recapture or other "unrealized receivables" or to "substantially appreciated inventory" owned by the Partnership. Inventory is considered to be "substantially appreciated" if its value exceeds 120% of its adjusted basis to the Partnership. The term "unrealized receivables" includes potential recapture items, including depreciation recapture. Ordinary income attributable to unrealized receivables, substantially appreciated inventory and depreciation recapture may exceed net taxable gain realized upon the sale of the Unit and may be recognized even if there is a net taxable loss realized on the sale of the Unit. Thus, a Unitholder may recognize both ordinary income and a capital loss upon a disposition of Units. Net capital loss may offset no more than \$3,000 of ordinary income in the case of individuals and may only be used to offset capital gain in the case of a corporation.

The IRS has ruled that a partner acquiring interests in a partnership in separate transactions at different prices must maintain an aggregate adjusted tax basis in a single partnership interest and that, upon sale or other disposition of some of the interests, a portion of such aggregate tax basis must be allocated to the interests sold on the basis of some equitable apportionment method. The ruling is unclear as to how the holding period is affected by this aggregation concept. If this ruling is applicable to the holders of Common Units, the aggregation of tax bases of a holder of Common Units effectively prohibits him from choosing among Common Units with varying amounts of unrealized gain or loss as would be possible in a stock transaction. Thus, the ruling may result in an acceleration of gain or deferral of loss on a sale of a portion of a Unitholder's Common Units. It is not clear whether the ruling applies to publicly-traded partnerships, such as the Partnership, the interests in which are evidenced by separate interests, and accordingly Counsel is unable to opine as to the effect such ruling will have on the Unitholders. A Unitholder considering the purchase of additional Common Units or a sale of Common Units purchased at differing prices should consult his tax advisor as to the possible consequences of such ruling.

#### ALLOCATIONS BETWEEN TRANSFERORS AND TRANSFEREES

In general, the Partnership's taxable income and losses will be determined annually and will be prorated on a monthly basis and subsequently apportioned among the Unitholders in proportion to the number of Units owned by them as of the opening of the first business day of the month to which they relate. However, gain or loss realized on a sale or other disposition of Partnership assets other than in the ordinary course of business shall be allocated among the Unitholders of record as of the opening of the New York Stock Exchange on the first business day of the month in which such gain or loss is recognized. As a result of this monthly allocation, a Unitholder transferring Units in the open market may be allocated income, gain, loss, deduction and credit accrued after the transfer.

The use of the monthly conventions discussed above may not be permitted by existing Treasury Regulations and, accordingly, Counsel is unable to opine on the validity of the method of allocating income and deductions between the transferors and the transferees of Common Units. If a monthly convention is not allowed by the Treasury Regulations (or only applies to transfers of less than all of the Unitholder's interest), taxable income or losses of the Partnership might be reallocated among the Unitholders. The General Partner is authorized to revise the Partnership's method of allocation between transferors and transferees (as well as among partners whose interests otherwise vary during a taxable period) to conform to a method permitted by future Treasury Regulations.

A Unitholder who owns Units at any time during a quarter and who disposes of such Units prior to the record date set for a distribution with respect to such quarter will be allocated items of Partnership income and gain attributable to such quarter during which such Units were owned but will not be entitled to receive such cash distribution.

## NOTIFICATION REQUIREMENTS

A Unitholder who sells or exchanges Units is required to notify the Partnership in writing of such sale or exchange within 30 days of the sale or exchange and in any event no later than January 15 of the year following the calendar year in which the sale or exchange occurred. The Partnership is required to notify the IRS of such transaction and to furnish certain information to the transferor and transferee. However, these reporting requirements do not apply with respect to a sale by an individual who is a citizen of the United States and who effects such sale through a broker. Additionally, a transferor and a transferee of a Unit will be required to furnish statements to the IRS, filed with their income tax returns for the taxable year in which the sale or exchange occurred, which set forth the amount of the consideration received for such Unit that is allocated to goodwill or going concern value of the Partnership. Failure to satisfy such reporting obligations may lead to the imposition of substantial penalties.

## CONSTRUCTIVE TERMINATION

The Partnership and the Operating Partnership will be considered to have been terminated if there is a sale or exchange of 50% or more of the total interests in Partnership capital and profits within a 12-month period. A constructive termination results in the closing of a partnership's taxable year for all partners and the partnership properties are regarded as having been distributed to the partners and reconveyed to the partnership, which is then treated as a new partnership. Such a termination could result in the non-uniformity of Units for federal income tax purposes. A constructive termination of the Partnership will cause a termination of the Operating Partnership. Such a termination could also result in penalties or loss of basis adjustments under Section 754 of the Code if the Partnership were unable to determine that the termination had occurred. (Under the 1993 Bill, termination of a large partnership such as the Partnership would not occur by reason of the sale or exchange of interests in the partnership.)

In the case of a Unitholder reporting on a taxable year other than a fiscal year ending July 31, the closing of a tax year of the Partnership may result in more than 12 months' taxable income or loss of the Partnership being includable in its taxable income for the year of termination. In addition, each Unitholder will realize taxable gain to the extent that any money constructively distributed to him exceeds the adjusted basis of his Units. New tax elections required to be made by the Partnership, including a new election under Section 754 of the Code, must be made subsequent to the constructive termination. A constructive termination could also result in a deferral of Partnership deductions for depreciation. In addition, a termination might either accelerate the application of or subject the Partnership to any tax legislation enacted with effective dates after the closing of this offering.

## ENTITY-LEVEL COLLECTIONS

If the Partnership is required or elects under applicable law to pay any federal, state or local income tax on behalf of any Unitholder or the General Partner or former Unitholder, the General Partner is authorized to pay such taxes from Partnership funds. Such payments, if made, will be deemed current distributions of cash to the Unitholders and the General Partner. The General Partner is authorized to amend the Partnership Agreement in the manner necessary to maintain uniformity of intrinsic tax characteristics of Units and to adjust subsequent distributions so that after giving effect to such deemed distributions, the priority and characterization of distributions otherwise applicable under the Partnership Agreement is maintained as nearly as is practicable. Payments by the Partnership as described above could give rise to an overpayment of tax on behalf of an individual partner in which event, the partner could file a claim for credit or refund.

## UNIFORMITY OF UNITS

Since the Partnership cannot match transferors and transferees of Common Units, uniformity of the economic and tax characteristics of the Common Units to a purchaser of such Common Units must

be maintained. In the absence of uniformity, compliance with a number of federal income tax requirements, both statutory and regulatory, could be substantially diminished. A lack of uniformity can result from a literal application of Proposed Treasury Regulation Section 1.168-2(n) and Treasury Regulation Section 1.167(c)-1 (a) (6) or the legislative history of Section 197 and from the application of the "ceiling limitation" on the Partnership's ability to make allocations to eliminate Book-Tax Disparities attributable to Contributed Properties and Partnership property that has been revalued and reflected in the partners' capital accounts ("Adjusted Properties"). Any such non-uniformity could have a negative impact on the value of a Unitholder's interest in the Partnership.

The Partnership intends to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property or Adjusted Property (to the extent of any unamortized Book-Tax Disparity) using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the Common Basis of such property, despite its inconsistency with Proposed Treasury Regulation Section 1.168-2(n) and Treasury Regulation Section 1.167(c)-1(a) (6) or the legislative history of Section 197. See "--Tax Treatment of Operations--Section 754 Election" above. If the Partnership determines that such a position cannot reasonably be taken, the Partnership may adopt a depreciation and amortization deductions convention under which all purchasers acquiring Common Units in the same month would receive depreciation and amortization deductions, whether attributable to common basis or Section 743(b) basis, based upon the same applicable rate as if they had purchased a direct interest in the Partnership's property. If such an aggregate approach is adopted, it may result in lower annual depreciation and amortization deductions than would otherwise be allowable to certain Unitholders and risk the loss of depreciation and amortization deductions not taken in the year that such deductions are otherwise allowable. This convention will not be adopted if the Partnership determines that the loss of depreciation and amortization deductions will have a material adverse effect on the Unitholders. If the Partnership chooses not to utilize this aggregate method, the Partnership may use any other reasonable depreciation and amortization convention to preserve the uniformity of the intrinsic tax characteristics of any Common Units that would not have a material adverse effect on the Unitholders. The IRS may challenge any method of depreciating the Section 743(b) adjustment described in this paragraph. If such a challenge were to be sustained, the uniformity of Common Units might be affected.

Items of income and deduction will be specially allocated in a manner that is intended to preserve the uniformity of intrinsic tax characteristics among all Units, despite the application of the "ceiling limitation" to Contributed Properties and Adjusted Properties. Such special allocations will be made solely for federal income tax purposes. See "--Tax Consequences of Unit Ownership" and "--Allocation of Partnership Income, Gain, Loss and Deduction" above.

#### TAX-EXEMPT ORGANIZATIONS AND CERTAIN OTHER INVESTORS

Ownership of Units by employee benefit plans, other tax-exempt organizations, nonresident aliens, foreign corporations, other foreign persons and regulated investment companies raises issues unique to such persons and, as described below, may have substantially adverse tax consequences.

Employee benefit plans and most other organizations exempt from federal income tax (including individual retirement accounts and other retirement plans) are subject to federal income tax on unrelated business taxable income. Virtually all of the taxable income derived by such an organization from the ownership of a Unit will be unrelated business taxable income and thus will be taxable to such a Unitholder.

Regulated investment companies are required to derive 90% or more of their gross income from interest, dividends, gains from the sale of stocks or securities or foreign currency or certain related sources. It is not anticipated that any significant amount of the Partnership's gross income will qualify as such income.

Non-resident aliens and foreign corporations, trusts or estates which acquire Units will be considered to be engaged in business in the United States on account of ownership of Units and as a consequence will be required to file federal tax returns in respect of their distributive shares of Partnership income, gain, loss, deduction or credit and pay federal income tax at regular rates on such income. Generally, a partnership is required to pay a withholding tax on the portion of the partnership's income which is effectively connected with the conduct of a United States trade or business and which is allocable to the foreign partners, regardless of whether any actual distributions have been made to such partners. However, under rules applicable to publicly-traded partnerships, the Partnership will withhold (currently at the rate of 31%) on actual cash distributions made quarterly to foreign Unitholders. Each foreign Unitholder must obtain a taxpayer identification number from the IRS and submit that number to the Transfer Agent of the Partnership on a Form W-8 in order to obtain credit for the taxes withheld. Subsequent adoption of Treasury Regulations or the issuance of other administrative pronouncements may require the Partnership to change these procedures.

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

Assuming that the Units are regularly traded on an established securities market, a foreign Unitholder who sells or otherwise disposes of a Unit and who has not held more than 5% in value of the Units at any time during the five-year period ending on the date of the disposition will not be subject to federal income tax on gain realized on the disposition that is attributable to real property held by the Partnership, but (regardless of a foreign Unitholder's percentage interest in the Partnership or whether Units are regularly traded) such Unitholder may be subject to federal income tax on any gain realized on the disposition that is treated as effectively connected with a United States trade or business of the foreign Unitholder. A foreign Unitholder will be subject to federal income tax on gain attributable to real property held by the Partnership if the holder held more than 5% in value of the Units during the five-year period ending on the date of the disposition or if the Units were not regularly traded on an established securities market at the time of the disposition.

## ADMINISTRATIVE MATTERS

### PARTNERSHIP INFORMATION RETURNS AND AUDIT PROCEDURES

The Partnership intends to furnish to each Unitholder within 90 days after the close of each calendar year, certain tax information, including a Schedule K-1, which sets forth each Unitholder's allocable share of the Partnership's income, gain, loss, deduction and credit for the preceding Partnership taxable year. In preparing this information, which will generally not be reviewed by counsel, the General Partner will use various accounting and reporting conventions, some of which have been mentioned in the previous discussion, to determine the respective Unitholders' allocable share of income, gain, loss, deduction and credits. There is no assurance that any such conventions will yield a result which conforms to the requirements of the Code, regulations or administrative interpretations of the IRS. The General Partner cannot assure prospective Unitholders that the IRS will not successfully contend in court that such accounting and reporting conventions are impermissible.

The federal income tax information returns filed by the Partnership may be audited by the IRS. Adjustments resulting from any such audit may require each Unitholder to file an amended tax return, and possibly may result in an audit of the Unitholder's own return. Any audit of a Unitholder's return could result in adjustments of non-Partnership as well as Partnership items.

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

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

A Unitholder must file a statement with the IRS identifying the treatment of any item on its federal income tax return that is not consistent with the treatment of the item on the Partnership's return to avoid the requirement that all items be treated consistently on both returns. Intentional or negligent disregard of the consistency requirement may subject a Unitholder to substantial penalties. Under the 1993 Bill, partners in large partnerships, such as the Partnership, would be required to treat all partnership items in a manner consistent with the partnership return.

Under the reporting provisions of the 1993 Bill, each partner of a large partnership, such as the Partnership, would take into account separately his share of the following items, determined at the partnership level: (1) taxable income or loss from passive loss limitation activities; (2) taxable income or loss from other activities (such as portfolio income or loss); (3) net capital gains to the extent allocable to passive loss limitation activities and other activities; (4) a net alternative minimum tax adjustment separately computed for passive loss limitation activities and other activities; (5) general credits; (6) low-income housing credit; (7) rehabilitation credit; (8) for certain partnerships, tax-exempt interest; and (9) for certain partnerships, foreign taxes paid and foreign source partnership items.

The 1993 Bill would also make a number of changes to the tax compliance and administrative rules relating to partnerships. One provision would require that each partner in a large partnership, such as the Partnership, take into account his share of any adjustments to partnership items in the year such adjustments are made. Under current law, adjustments relating to partnership items for a previous taxable year are taken into account by those persons who were partners in the previous taxable year. Alternatively, under the 1993 Bill a partnership could elect to or, in some circumstances, could be required to, directly pay the tax resulting from any such adjustments. In either case, therefore, Unitholders could bear significant economic burdens associated with tax adjustments relating to periods predating their acquisition of Units.

It cannot be predicted whether or in what form the 1993 Bill, or other tax legislation that might affect Unitholders, will be enacted. However, if tax legislation is enacted which includes provisions similar to those discussed above, a Unitholder might experience a reduction in cash distributions.

#### NOMINEE REPORTING

Persons who hold an interest in the Partnership as a nominee for another person are required to furnish to the Partnership (a) the name, address and taxpayer identification number of the beneficial owners and the nominee; (b) whether the beneficial owner is (i) a person that is not a United States person, (ii) a foreign government, an international organization or any wholly owned agency or

instrumentality of either of the foregoing or (iii) a tax-exempt entity; (c) the amount and description of Units held, acquired or transferred for the beneficial owners; and (d) certain information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales. Brokers and financial institutions are required to furnish additional information, including whether they are United States persons and certain information on Units they acquire, hold or transfer for their own account. A penalty of \$50 per failure (up to a maximum of \$100,000 per calendar year) is imposed by the Code for failure to report such information to the Partnership. The nominee is required to supply the beneficial owner of the Units with the information furnished to the Partnership.

#### REGISTRATION AS A TAX SHELTER

The Code requires that "tax shelters" be registered with the Secretary of the Treasury. The temporary Treasury Regulations interpreting the tax shelter registration provisions of the Code are extremely broad. It is arguable that the Partnership will not be subject to the registration requirement on the basis that it will not constitute a tax shelter. However, the General Partner, as a principal organizer of the Partnership, has registered the Partnership as a tax shelter with the IRS in the absence of assurance that the Partnership will not be subject to tax shelter registration and in light of the substantial penalties which might be imposed if registration is required and not undertaken. The Partnership has applied for a tax shelter registration number with the IRS. ISSUANCE OF THE REGISTRATION NUMBER DOES NOT INDICATE THAT AN INVESTMENT IN THE PARTNERSHIP OR THE CLAIMED TAX BENEFITS HAVE BEEN REVIEWED, EXAMINED OR APPROVED BY THE IRS. The Partnership must furnish the registration number to the Unitholders, and a Unitholder who sells or otherwise transfers a Unit in a subsequent transaction must furnish the registration number to the transferee. The penalty for failure of the transferor of a Common Unit to furnish such registration number to the transferee is \$100 for each such failure. The Unitholders must disclose the tax shelter registration number of the Partnership on Form 8271 to be attached to the tax return on which any deduction, loss, credit or other benefit generated by the Partnership is claimed or income of the Partnership is included. A Unitholder who fails to disclose the tax shelter registration number on his return, without reasonable cause for such failure, will be subject to a \$250 penalty for each such failure. Any penalties discussed herein are not deductible for federal income tax purposes.

#### ACCURACY-RELATED PENALTIES

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

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

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

#### OTHER TAX CONSIDERATIONS

In addition to federal income taxes, Unitholders may be subject to other taxes, such as state and local income taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which the Partnership does business or owns property. Although an analysis of those various taxes cannot be presented here, each prospective Unitholder should consider their potential impact on his investment in the Partnership. The Partnership will own property and conduct business in 45 states of the United States. A Unitholder may be required to file state income tax returns and to pay taxes in various states and may be subject to penalties for failure to comply with such requirements. The General Partner anticipates that approximately 46% of the Partnership's income will be generated in approximately six states. Based on the Company's income apportionment for 1992 state income tax purposes, the General Partner estimates that no other state will account for more than 4% of the Partnership's income. Of the six states in which the General Partner anticipates that a substantial portion of the Partnership's U.S. income will be generated, only Texas does not currently impose a personal income tax. In certain states, tax losses may not produce a tax benefit in the year incurred (if, for example, the Partnership has no income from sources within that state) and also may not be available to offset income in subsequent taxable years. Some of the states may require the Partnership to withhold a percentage of income from amounts to be distributed to a Unitholder who is not a resident of the state. Withholding, the amount of which may be greater or less than a particular Unitholder's income tax liability to the state, generally does not relieve the non-resident Unitholder from the obligation to file an income tax return. Amounts withheld will be treated as if distributed to Unitholders for purposes of determining the amounts distributed by the Partnership. Based on current law and its estimate of future Partnership operations, the General Partner anticipates that any amounts required to be withheld will not be material.

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

INVESTMENT IN THE PARTNERSHIP  
BY EMPLOYEE BENEFIT PLANS

An investment in the Partnership by an employee benefit plan is subject to certain additional considerations because the investments of such plans are subject to the fiduciary responsibility and prohibited transaction provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and restrictions imposed by Section 4975 of the Code. As used herein, the term "employee benefit plan" includes, but is not limited to, qualified pension, profit-sharing and stock bonus plans, Keogh plans, simplified employee pension plans and tax deferred annuities or Individual Retirement Accounts established or maintained by an employer or employee organization. Among other things, consideration should be given to (a) whether such investment is prudent under Section 404(a)(1)(B) of ERISA, (b) whether in making such investment, such plan will satisfy the diversification requirement of Section 404(a)(1)(C) of ERISA; and (c) whether such investment will result in recognition of unrelated business taxable income by such plan and, if so, the potential after-tax investment return. See "Tax Considerations--Tax Exempt Organizations and Certain Other Investors." The person with investment discretion with respect to the assets of an employee benefit plan (a "fiduciary") should determine whether an investment in the Partnership is authorized by the appropriate governing instrument and is a proper investment for such plan.

Section 406 of ERISA and Section 4975 of the Code (which also applies to Individual Retirement Accounts that are not considered part of an employee benefit plan) prohibit an employee benefit plan from engaging in certain transactions involving "plan assets" with parties that are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to the plan.

In addition to considering whether the purchase of Common Units is a prohibited transaction, a fiduciary of an employee benefit plan should consider whether such plan will, by investing in the Partnership, be deemed to own an undivided interest in the assets of the Partnership, with the result that the General Partner also would be a fiduciary of such plan and the operations of the Partnership would be subject to the regulatory restrictions of ERISA, including its prohibited transaction rules, as well as the prohibited transaction rules of the Code.

The Department of Labor issued final regulations on November 13, 1986 providing guidance with respect to whether the assets of an entity in which employee benefit plans acquire equity interests would be deemed "plan assets" under certain circumstances. Pursuant to these regulations, an entity's assets would not be considered to be "plan assets" if, among other things, (a) the equity interest acquired by employee benefit plans are publicly offered securities--i.e., the equity interests are widely held by 100 or more investors independent of the issuer and each other, freely transferable and registered pursuant to certain provisions of the federal securities laws, (b) the entity is an "operating company"--i.e., it is primarily engaged in the production or sale of a product or service other than the investment of capital either directly or through a majority owned subsidiary or subsidiaries or (c) there is no significant investment by benefit plan investors, which is defined to mean that less than 25% of the value of each class of equity interest (disregarding certain interests held by the General Partner, its affiliates, and certain other persons) is held by the employee benefit plans referred to above, Individual Retirement Accounts and other employee benefit plans not subject to ERISA (such as governmental plans). The Partnership's assets should not be considered "plan assets" under these regulations because it is expected that the investment will satisfy the requirements in (a) and (b) above and may also satisfy the requirements in (c).

Plan fiduciaries contemplating a purchase of Units should consult with their own counsel regarding the consequences under ERISA and the Code in light of the serious penalties imposed on persons who engage in prohibited transactions or other violations.



## UNDERWRITING

Subject to the terms and conditions set forth in the Underwriting Agreement, the Partnership has agreed to sell to each of the Underwriters named below, and each of the Underwriters, for whom Goldman, Sachs & Co., Donaldson, Lufkin & Jenrette Securities Corporation, A. G. Edwards & Sons, Inc., PaineWebber Incorporated, and Smith Barney Inc. are acting as representatives, has severally agreed to purchase from the Partnership, the respective number of Common Units set forth opposite its name below:

UNDERWRITER -----	NUMBER OF COMMON UNITS -----
Goldman, Sachs & Co.....	
Donaldson, Lufkin & Jenrette Securities Corporation.....	
A. G. Edwards & Sons, Inc.....	
PaineWebber Incorporated.....	
Smith Barney Inc.....	
 Total.....	 ----- 13,100,000 =====

Under the terms and conditions of the Underwriting Agreement, the Underwriters are committed to take and pay for all of such Common Units offered hereby, if any are taken.

The Underwriters propose to offer the Common Units in part directly to the public at the initial public offering price set forth on the cover page of this Prospectus, and in part to certain securities dealers at such price less a concession of \$      per Common Unit. The Underwriters may allow, and such dealers may reallocate, a concession not in excess of \$      per Common Unit to certain brokers and dealers. After the Common Units are released for sale to the public, the offering price and other selling terms may from time to time be varied by the representatives.

The Partnership has granted to the Underwriters an option exercisable for 30 days after the date of this Prospectus to purchase up to an aggregate of 1,965,000 additional Common Units to cover over-allotments, if any. If the Underwriters exercise their over-allotment option, the Underwriters have severally agreed, subject to certain conditions, to purchase approximately the same percentage thereof that the number of Common Units to be purchased by each of them, as shown in the foregoing table, bears to the 13,100,000 Common Units offered. The Underwriters may exercise such option only to cover over-allotments in connection with the sale of the 13,100,000 Common Units offered hereby.

The Partnership has agreed not to offer, sell, contract to sell or otherwise dispose of any Common Units or Subordinated Units, or any securities substantially similar to the Common Units or Subordinated Units, including but not limited to any securities that are convertible into or exchangeable for or that represent the right to receive Common Units or Subordinated Units or any such substantially similar securities, for a period of 180 days after the date of this Prospectus without the prior written consent of the representatives of the Underwriters, except for the Common Units offered in connection with this offering and except for any Common Units which may be issued in connection with acquisitions by the Partnership. In addition, Ferrell has agreed that for a period of 24 months from the date of this Prospectus it will not offer, sell, contract to sell or otherwise dispose of any Common Units or Subordinated Units or any securities substantially similar to the Common Units or Subordinated Units, including but not limited to any securities that are convertible into or exchangeable for or that

represent the right to receive Common Units or Subordinated Units or any such substantially similar securities, without the prior written consent of the representatives of the Underwriters, except (i) pursuant to the repurchase of a portion of such Common Units in connection with the exercise of the Underwriters' over-allotment option, (ii) transfers to James E. Ferrell or his spouse, lineal descendants or brothers or sisters, entities controlled by James E. Ferrell or his spouse, lineal descendants or brothers or sisters or trusts for the benefit of James E. Ferrell or his spouse, lineal descendants or brothers or sisters, (iii) in connection with the sale of the Partnership or substantially all of its assets, (iv) as collateral in connection with good faith borrowing, (v) gifts of up to 20% of such Units to charitable organizations or (vi) in the event of the death or permanent disability of James E. Ferrell, provided, however, that in the case of (ii) above the transferee shall enter into an agreement with the representatives of the Underwriters agreeing to comply with the above restrictions for the remainder of the 24 month period.

Because the National Association of Securities Dealers, Inc. ("NASD") is expected to view the Common Units offered hereby as interests in a direct participation program, the offering is being made in compliance with Appendix F of the NASD's Rules of Fair Practice. Investor suitability of the Common Units should be judged similarly to the suitability of other securities that are listed for trading on a national securities exchange. The Underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority without the prior written approval of the transaction by the customer.

Prior to this offering, there has been no public market for the Common Units. The initial public offering price will be negotiated among the Partnership and the representatives of the Underwriters. Among the factors to be considered in determining the initial public offering price of the Common Units, in addition to prevailing market conditions, are the historical performance of Ferrellgas, the proposed capital structure, assets and liabilities of the Partnership, the General Partner's estimates of the business potential and earnings prospects of the Partnership, an assessment of the Partnership's management and the consideration of the above factors in relation to market valuation of companies in related businesses.

The Common Units have been approved for listing on the NYSE, subject to official notice of issuance. In order to meet one of the requirements for listing the Common Units on the NYSE, the Underwriters have undertaken to sell lots of 100 or more Common Units to a minimum of 2,000 beneficial holders.

The Partnership, the General Partner and Ferrell have agreed to indemnify the several Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.

Each of Goldman, Sachs & Co. and Donaldson, Lufkin & Jenrette Securities Corporation is acting as an underwriter in connection with the concurrent offering of Senior Notes by the Operating Partnership and will receive underwriting discounts in connection therewith. See "The Transactions." In addition, the Company has retained Donaldson, Lufkin & Jenrette Securities Corporation as Dealer/Manager for the consent solicitation and tender offer with respect to its Existing Subordinated Debentures. Donaldson, Lufkin & Jenrette Securities Corporation has also acted as financial advisor to Ferrellgas in connection with various matters for which it has received customary fees.

#### VALIDITY OF COMMON UNITS

The validity of the Common Units will be passed upon for the Partnership by Andrews & Kurth L.L.P., New York, New York, and for the Underwriters by Sullivan & Cromwell, New York, New York.

## EXPERTS

The consolidated financial statements of Ferrellgas, Inc. as of April 30, 1994 and July 31, 1993 and 1992 and for the nine months ended April 30, 1994 and for each of the three years in the period ended July 31, 1993 included in this Prospectus and the related financial statement schedules included elsewhere in the Registration Statement have been audited by Deloitte & Touche, independent auditors, as stated in their reports appearing herein and elsewhere in the Registration Statement (which reports expressed an unqualified opinion and included an explanatory paragraph concerning an uncertainty involving an income tax matter) and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The balance sheet of Ferrellgas Partners, L.P. as of April 27, 1994, included in this Prospectus has been audited by Deloitte & Touche, independent auditors, as stated in their report appearing herein, and has been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The pro forma financial information of Ferrellgas Partners, L.P. included in this Prospectus has been examined by Deloitte & Touche, independent accountants, as stated in their report appearing herein, and has been so included in reliance upon the report of such firm given upon their authority as experts in accounting.

## ADDITIONAL INFORMATION

The Partnership has filed with the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, a Form S-1 Registration Statement under the Securities Act, for the registration of the securities to be offered by this Prospectus. Certain of the information contained in the Registration Statement is omitted from this Prospectus, and reference is hereby made to the Registration Statement and exhibits relating thereto for further information concerning the Partnership and the General Partner and the securities to which this Prospectus relates. Statements contained herein concerning the provisions of any document are not necessarily complete and in each instance reference is made to the copy of the document filed as an exhibit to the Registration Statement. Each such statement is qualified in its entirety by this reference.

The Registration Statement and the exhibits thereto are available for inspection in the principal office of the commission in Washington, D.C. and photostatic copies of such material may be obtained from the Commission upon payment of the fees prescribed by the Commission.

The Partnership intends to furnish to holders of the Common Units annual reports containing audited financial statements and an opinion thereon by its independent accountants and quarterly reports containing unaudited financial information on the first three quarters of each fiscal year.

FERRELLGAS PARTNERS, L.P.

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## INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors  
Ferrellgas Partners, L.P.  
Liberty, Missouri

We have examined the pro forma adjustments reflecting the proposed transactions described in the Notes to Pro Forma Combined Financial Statements and the application of those adjustments to the historical amounts in the accompanying pro forma combined balance sheet of Ferrellgas Partners, L.P. as of April 30, 1994, and the related pro forma combined statement of earnings for the nine-month period ended April 30, 1994, and the year ended July 31, 1993. The historical financial statements are derived from the historical financial statements of Ferrellgas, Inc. and subsidiaries, which were audited by us (on which we have issued our report dated June 3, 1994, which expressed an unqualified opinion and included an explanatory paragraph concerning an uncertainty involving an income tax matter) that appear elsewhere herein. Such pro forma adjustments are based upon management's assumptions described in the Notes to Pro Forma Combined Financial Statements. Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary in circumstances.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the proposed transactions occurred at an earlier date. However, the Pro Forma Combined Financial Statements are not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the above-mentioned proposed transactions actually occurred earlier.

In our opinion, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned proposed transactions described in the Notes to Pro Forma Combined Financial Statements, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma column reflects the proper application of those adjustments to the historical financial statement amounts in the Pro Forma Combined Balance Sheet of Ferrellgas Partners, L.P. as of April 30, 1994, and the related Pro Forma Combined Statement of Earnings for the nine-month period ended April 30, 1994, and the year ended July 31, 1993.

DELOITTE & TOUCHE  
Kansas City, Missouri  
June 3, 1994

FERRELLGAS PARTNERS, L.P.

PRO FORMA COMBINED BALANCE SHEET

APRIL 30, 1994  
(IN THOUSANDS)

	COMPANY HISTORICAL	ADJUSTMENTS	PARTNERSHIP PRO FORMA
	-----	-----	-----
ASSETS			
CURRENT ASSETS:			
Cash and short-term investments.....	\$ 88,151	\$ 260,314 (A) (254,001)(B) (33,679)(C) (39,105)(D)	\$ 21,680
Accounts and notes receivable..	55,869	(500)(D)	55,369
Inventories.....	29,781	--	29,781
Prepaid expenses and other current assets.....	3,272	--	3,272
	-----	-----	-----
TOTAL CURRENT ASSETS.....	177,073	(66,971)	110,102
Property, plant and equipment..	295,423	--	295,423
Intangible assets.....	65,569	--	65,569
Investment in Class B redeemable common stock of parent...	36,031	(36,031)(D)	--
Other assets.....	22,017	(14,857)(B), (C), (D)	7,160
Note receivable from parent....	4,000	(4,000)(D)	--
	-----	-----	-----
TOTAL ASSETS.....	\$600,113	\$(121,859)	\$478,254
	=====	=====	=====
LIABILITIES AND SPONSOR EQUITY/PARTNERS' CAPITAL			
CURRENT LIABILITIES:			
Accounts payable.....	\$ 34,266	\$ --	\$ 34,266
Current portion of long-term debt.....	1,486	--	1,486
Accrued interest expense.....	17,237	(17,111)(B), (C)	126
Other current liabilities.....	19,829	--	19,829
Payable to parent.....	91	--	91
	-----	-----	-----
TOTAL CURRENT LIABILITIES....	72,909	(17,111)	55,798
Long-term debt.....	476,471	(209,030)(B), (C)	267,441
Other liabilities.....	10,534	--	10,534
Deferred income taxes.....	9,351	(9,351)(D)	--
SPONSOR EQUITY/PARTNERS' CAPITAL:			
Equity of sponsor.....	30,848	260,314 (A) (24,641)(B) (38,597)(C) (83,443)(D) (144,481)(E)	--
PARTNERS' CAPITAL:			
Common unitholders.....	--	66,067 (E)	66,067
Subordinated unitholder.....	--	75,524 (E)	75,524
General partner.....	--	2,890 (E)	2,890
	-----	-----	-----
TOTAL SPONSOR EQUITY/PARTNERS' CAPITAL....	30,848	113,633	144,481
	-----	-----	-----
TOTAL LIABILITIES AND SPONSOR EQUITY/PARTNERS' CAPITAL....	\$600,113	\$(121,859)	\$478,254
	=====	=====	=====

See notes to pro forma combined financial statements.

FERRELLGAS PARTNERS, L.P.

PRO FORMA COMBINED STATEMENT OF EARNINGS  
(IN THOUSANDS, EXCEPT PER UNIT AMOUNTS)

	YEAR ENDED JULY 31, 1993			NINE MONTHS ENDED APRIL 30, 1994		
	COMPANY HISTORICAL	ADJUSTMENTS	PARTNERSHIP PRO FORMA	COMPANY HISTORICAL	ADJUSTMENTS	PARTNERSHIP PRO FORMA
REVENUES:						
Gas liquids and related product sales.....	\$516,891	\$ --	\$516,891	\$430,401	\$ --	\$430,401
Other.....	25,054	--	25,054	20,076	--	20,076
	-----	-----	-----	-----	-----	-----
Total revenues.....	541,945	--	541,945	450,477	--	450,477
COSTS AND EXPENSES:						
Cost of product sold..	298,033	--	298,033	229,326	--	229,326
Operating.....	139,617	--	139,617	112,687	--	112,687
Depreciation and amortization.....	30,840	--	30,840	21,688	--	21,688
General and administrative.....	10,079	500 (F)	10,579	8,128	375 (F)	8,503
Vehicle leases.....	4,823	--	4,823	3,203	--	3,203
	-----	-----	-----	-----	-----	-----
Total costs and expenses.....	483,392	500	483,892	375,032	375	375,407
	-----	-----	-----	-----	-----	-----
OPERATING INCOME.....	58,553	(500)	58,053	75,445	(375)	75,070
Loss on disposal of assets.....	(1,153)	--	(1,153)	(888)	--	(888)
Interest income.....	3,266	(2,387) (G)	879	2,791	(1,894) (G)	897
Interest expense.....	(60,071)	31,042 (H)	(29,029)	(44,233)	23,046 (H)	(21,187)
	-----	-----	-----	-----	-----	-----
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM.....	595	28,155	28,750	33,115	20,777	53,892
Income tax expense.....	486	(486) (I)	--	12,759	(12,759) (I)	--
	-----	-----	-----	-----	-----	-----
EARNINGS FROM CONTINUING OPERATIONS (BEFORE EXTRAORDINARY ITEM)....	\$ 109	\$28,641	28,750	\$ 20,356	\$33,536	53,892
	=====	=====		=====	=====	
GENERAL PARTNER'S INTEREST IN EARNINGS FROM CONTINUING OPERATIONS.....			575			1,078
			-----			-----
LIMITED PARTNERS' INTEREST IN NET EARNINGS FROM CONTINUING OPERATIONS..			\$ 28,175			\$ 52,814
			=====			=====
EARNINGS FROM CONTINUING OPERATIONS PER UNIT....			\$ 0.93			\$ 1.75
			=====			=====
WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING...			30,219			30,219
			=====			=====
RATIO OF EARNINGS TO FIXED CHARGES.....	1.0x			1.7x		
	=====			=====		

See notes to pro forma combined financial statements.

FERRELLGAS PARTNERS, L.P.  
NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS  
NINE MONTHS ENDED APRIL 30, 1994 AND YEAR ENDED JULY 31, 1993

The pro forma combined financial statements are based upon the historical financial position and results of operations of Ferrellgas, Inc. and its subsidiaries ("Ferrellgas"). The propane business of Ferrellgas will be owned and operated by a newly formed limited partnership (the "Partnership") and through a separate Operating Partnership (the "Operating Partnership"). Unless the context otherwise requires, references herein to the Partnership include the Partnership and the Operating Partnership.

At the closing of the sale of the Common Units offered hereby, Ferrellgas will convey substantially all of its assets to the Partnership (excluding cash, receivables from parent and affiliates and an investment in the Class B Stock of parent) and the Partnership will assume all of the liabilities, whether known or unknown, associated with the business that are reflected or should be reflected on the balance sheet of the Company prepared in accordance with generally accepted accounting principles (excluding income tax liabilities). In connection with the acquisition of the propane business, the Partnership will issue Common Units, Subordinated Units and Incentive Distribution Rights to Ferrellgas, as well as general partner interests in the Partnership and the Operating Partnership. Ferrellgas will make a dividend of the Common Units, Subordinated Units and Incentive Distribution Rights to its parent, Ferrell Companies, Inc.

The Operating Partnership has also agreed with Ferrellgas to be primarily responsible for all obligations of Ferrellgas under the approximately \$477,957,000 of Ferrellgas long-term debt outstanding as of April 30, 1994. Substantially all of this long-term debt will be retired with the net proceeds from the sale by the Partnership of the Common Units offered hereby (estimated to be approximately \$260,314,000), and the net proceeds from the issuance of an aggregate principal amount of Senior Notes due 2001 (the "Senior Notes") (estimated to be approximately \$245,250,000 and assuming a fixed interest rate of 9.75%) to be issued by the Operating Partnership concurrent with the closing of this offering. It is possible, however, that a portion of the Senior Notes, not anticipated to be in excess of \$50,000,000, will bear interest at a floating rate.

The following pro forma adjustments have been prepared as if the transactions to be effected at the closing of this offering (assuming that the Underwriters' over-allotment option is not exercised) had taken place on April 30, 1994, in the case of the pro forma consolidated balance sheet, or as of August 1, 1992, in the case of the pro forma consolidated statement of income for the year ended July 31, 1993, or as of August 1, 1993 in the case of the pro forma consolidated statement of income for the nine months ended April 30, 1994. The adjustments are based upon currently available information and certain estimates and assumptions, and therefore the actual adjustments may differ from the pro forma adjustments. However, management believes that the assumptions provide a reasonable basis for presenting the significant effects of the transactions as contemplated and that the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the pro forma financial information.

(A) Reflects the net proceeds to the Partnership of approximately \$260,314,000 from the issuance and sale of 13,100,000 Common Units at an assumed offering price of \$21.375 per Common Unit, net of the Underwriters' discount (estimated to be \$18,202,000) and offering expenses (estimated to be \$1,500,000).

(B) Reflects the retirement of \$227,600,000 in aggregate principal amount of Existing Senior Notes and the related accrued interest of \$6,051,000 and defeasance interest of \$814,000, from the net proceeds from the sale by the Partnership of the Common Units and existing cash balances of the Partnership. The early extinguishment of the Existing Senior Notes results in an extraordinary loss of approximately \$24,641,000, resulting from prepayment premiums of \$19,536,000, the write-off of unamortized financing costs of \$4,291,000, and defeasance interest of \$814,000.



(C) Reflects the net proceeds to the Partnership of approximately \$245,250,000 from the issuance of \$250,000,000 of Senior Notes, net of the Underwriters' discount (estimated to be \$4,250,000) and offering expenses (estimated to be \$500,000) by the Partnership concurrent with the offering made hereby, and the proceeds from term loan borrowings on the Partnership's Credit Facility of approximately \$15,000,000 (anticipated to be approximately \$10,000,000 at closing). The net proceeds from the issuance of the Senior Notes and existing cash balances of the Partnership are used to retire the \$250,000,000 face amount (carrying amount of \$246,430,000) Existing Subordinated Debentures and related accrued interest of \$11,060,000. The early extinguishment of the Existing Subordinated Debentures results in an extraordinary loss of approximately \$38,597,000 resulting from subordinated bondholder consent solicitation and tender offer fees of \$31,250,000, write-off of unamortized note discount of \$3,570,000, and write-off of unamortized financing costs of \$3,777,000. The Operating Partnership will incur estimated additional financing costs of approximately \$6,369,000 in connection with the issuance of the Senior Notes and entrance into the Credit Facility, each of which will be deferred and amortized over the term of the indebtedness.

(D) Reflects elimination of the assets, liabilities and equity of the Company that will not be conveyed to the Partnership, including approximately \$39,105,000 of cash, receivables from parent and affiliates of \$17,658,000, investment in Class B Stock of Ferrell of \$36,031,000, income tax liabilities of \$9,351,000 and equity of the Company of \$83,443,000.

(E) Reflects the allocation of Partnership equity resulting from the completion of the transactions associated with the closing of this offering, using the following relative partnership interests: (1) effective general partner interest in the Partnership equal to 2% of total partners' capital; (2) Common Units equal to an approximate 45.7% limited partner interest; and (3) Subordinated Units equal to an approximate 52.3% limited partner interest in the Partnership.

(F) Reflects estimated incremental general and administrative costs (e.g. costs of tax return preparation and annual and quarterly reports to Unitholders, investor relations and registrar and transfer agent fees) associated with the Partnership at an annual rate of \$500,000.

(G) Reflects the reduction of interest income to the Partnership as a result of the reduction in cash balances available for short-term investment opportunity.

(H) Reflects the adjustment to interest expense resulting from the transactions described in (B) and (C) above, reconciled as follows (in thousands):

	YEAR ENDED JULY 31, 1993 -----	NINE MONTHS ENDED APRIL 30, 1994 -----
Historical interest expense attributable to retired debt:		
Interest expense on senior notes.....	\$ 26,741	\$18,923
Interest expense on subordinated debentures.....	29,063	21,797
Amortization of note discount and financing costs.....	2,577	2,157
	-----	-----
	58,381	42,877
	-----	-----
Pro forma interest expense applicable to the Partnership:		
Interest expense assuming 9.75% per annum on the Senior Notes.....	(24,375)	(18,281)
Amortization of note discount and financing costs on all indebtedness.....	(912)	(684)
Interest expense attributable to Credit Facility.....	(2,052)	(866)
	-----	-----
	(27,339)	(19,831)
	-----	-----
Pro forma interest expense reductions.....	\$ 31,042	\$23,046
	=====	=====

If the fixed interest rate on the Senior Notes were to fluctuate one-half of one percent, pro forma interest expense would fluctuate approximately \$1,250,000, for the year ended July 31, 1993 and approximately \$938,000 for

the nine months ended April 30, 1994.

(I) Reflects the elimination of the provision for current and deferred income taxes as income taxes will be borne by the partners and not the Partnership.

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Ferrellgas Partners, L.P.  
Liberty, Missouri

We have audited the accompanying balance sheet of Ferrellgas Partners, L.P., as of April 27, 1994. This financial statement is the responsibility of the Partnership's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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 audit provides a reasonable basis for our opinion.

In our opinion, such balance sheet presents fairly, in all material respects, the financial position of Ferrellgas Partners, L.P. as of April 27, 1994 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE  
Kansas City, Missouri  
April 27, 1994

FERRELLGAS PARTNERS, L.P.

BALANCE SHEET

APRIL 27, 1994

ASSETS	
Cash.....	\$1,000
	-----
Total Assets.....	\$1,000
	=====
PARTNERS' CAPITAL	
General Partner.....	\$ 10
Limited Partner.....	990
	-----
Total Partners' Capital.....	\$1,000
	=====

See note to balance sheet.

FERRELLGAS PARTNERS, L.P.

NOTE TO BALANCE SHEET

APRIL 27, 1994

Ferrellgas Partners, L.P. (the "Partnership") was formed April 19, 1994 as a Delaware limited partnership. The Partnership was formed to acquire, own and operate substantially all of the assets of Ferrellgas, Inc. through Ferrellgas, L.P. (the "Operating Partnership") in which the Partnership will hold a 98.9899% limited partner interest and Ferrellgas, Inc. holds a 1.0101% general partner interest. Ferrellgas, Inc. will convey substantially all of its assets to the Operating Partnership (excluding cash, receivables from parent and affiliates and an investment in the Class B Stock of Parent) and all of the liabilities, whether known or unknown, associated with such assets (other than income tax liabilities). The Partnership has not commenced operations. The Partnership intends to offer Common Units, representing limited partner interests in the Partnership, to third parties and to concurrently issue Common Units, Subordinated Units and Incentive Distribution Rights, representing additional limited partner interests in the Partnership, to the general partner of the Partnership, Ferrellgas, Inc.

Ferrellgas, Inc., as general partner, contributed \$10 and the organizational limited partner contributed \$990 to the Partnership on April 27, 1994. There have been no other transactions involving the Partnership as of April 27, 1994.

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Ferrellgas, Inc.  
Liberty, Missouri

We have audited the accompanying consolidated balance sheet of Ferrellgas, Inc. (a wholly owned subsidiary of Ferrell Companies, Inc.) and subsidiaries as of April 30, 1994 and July 31, 1993 and 1992, and the related consolidated statements of operations, stockholder's equity and cash flows for the nine months ended April 30, 1994 and for each of the three years in the period ended July 31, 1993. 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 consolidated financial statements present fairly, in all material respects, the financial position of Ferrellgas, Inc. and subsidiaries as of April 30, 1994 and July 31, 1993 and 1992, and the results of their operations and their cash flows for the nine months ended April 30, 1994 and for each of the three years in the period ended July 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note J to the consolidated financial statements, the Internal Revenue Service has proposed certain adjustments to the Company's consolidated income tax returns for the years ended July 31, 1987 and 1986. The ultimate outcome of this matter cannot presently be determined. Accordingly, no provision for any loss that may result upon resolution of this matter has been made in the accompanying consolidated financial statements.

DELOITTE & TOUCHE  
Kansas City, Missouri  
June 3, 1994

FERRELLGAS, INC.  
(A WHOLLY-OWNED SUBSIDIARY OF FERRELL COMPANIES, INC.)  
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	APRIL 30, 1994	JULY 31, 1993	1992
-----	-----	-----	-----
CURRENT ASSETS:			
Cash and cash equivalents.....	\$ 58,806	\$ 32,706	\$ 27,959
Short-term investments.....	29,345	25,040	23,165
Accounts and notes receivable including related party (1994--\$500; 1993--\$500; 1992--\$1,000), less allowance for doubtful accounts (1994--\$884; 1993--\$607; 1992--\$837).....	55,869	52,190	53,802
Inventories.....	29,781	23,652	33,881
Prepaid expenses and other current assets.....	3,272	1,898	3,020
Receivable from parent and affiliate.....	--	916	26
	-----	-----	-----
TOTAL CURRENT ASSETS.....	177,073	136,402	141,853
Property, plant and equipment.....	295,423	303,816	313,126
Intangible assets.....	65,569	72,537	82,448
Other assets, including notes receivable from related parties (1994--\$13,158; 1993--\$10,909; 1992--\$10,088)...	22,017	21,833	23,137
Investment in Class B redeemable common stock of parent.....	36,031	36,031	32,813
Deferred income taxes.....	--	2,757	2,094
Note receivable from parent.....	4,000	--	3,142
	-----	-----	-----
TOTAL ASSETS.....	\$600,113	\$573,376	\$598,613
	=====	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY			
-----			
CURRENT LIABILITIES:			
Accounts payable.....	\$ 34,266	\$ 32,946	\$ 44,864
Other current liabilities.....	38,552	29,048	29,016
Payable to parent.....	91	--	--
	-----	-----	-----
TOTAL CURRENT LIABILITIES.....	72,909	61,994	73,880
Long-term debt.....	476,471	489,589	501,614
Other liabilities.....	10,534	10,434	8,907
Payable to parent.....	--	--	2,542
Note and accrued interest payable to parent and affiliate.....	--	--	2,862
Deferred income taxes.....	9,351	--	--
STOCKHOLDER'S EQUITY:			
Common stock, one dollar par value; 10,000 shares authorized; 990 shares issued.....	1	1	1
Additional paid-in capital.....	32,863	32,863	29,535
Accumulated deficit.....	(2,016)	(21,505)	(20,728)
	-----	-----	-----
TOTAL STOCKHOLDER'S EQUITY.....	30,848	11,359	8,808
	-----	-----	-----
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY...	\$600,113	\$573,376	\$598,613
	=====	=====	=====

See notes to consolidated financial statements.

FERRELLGAS, INC.  
(A WHOLLY-OWNED SUBSIDIARY OF FERRELL COMPANIES, INC.)  
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(IN THOUSANDS)

	FOR THE NINE MONTHS ENDED		FOR THE YEAR ENDED JULY 31,		
	APRIL 30, 1994	APRIL 30, 1993	1993	1992	1991
	(UNAUDITED)				
REVENUES:					
Gas liquids and related products.....	\$430,401	\$448,269	\$516,891	\$480,088	\$515,507
Other.....	20,076	20,033	25,054	21,041	28,426
Total revenues.....	450,477	468,302	541,945	501,129	543,933
COSTS AND EXPENSES:					
Cost of products sold..	229,326	256,736	298,033	267,279	297,968
Operating.....	112,687	112,553	139,617	134,165	129,684
Depreciation and amortization.....	21,688	23,238	30,840	31,196	36,151
General and administrative.....	8,128	7,385	10,079	7,561	12,953
Vehicle leases.....	3,203	3,682	4,823	4,520	4,132
Total costs and expenses.....	375,032	403,594	483,392	444,721	480,888
OPERATING INCOME.....	75,445	64,708	58,553	56,408	63,045
Loss on disposal of assets.....	(888)	(947)	(1,153)	(1,959)	(2,842)
Interest income, including related parties (\$787 and \$539 at April 30, 1994 and 1993, respectively; \$725, \$890, and \$696 at July 31, 1993, 1992 and 1991, respectively).....	2,791	2,333	3,266	4,401	3,841
Interest expense, including parent and affiliate (\$114 at April 30, 1993; \$153, \$180 and \$238 at July 31, 1993, 1992, and 1991, respectively).....	(44,233)	(45,056)	(60,071)	(61,219)	(60,507)
Earnings (loss) before income taxes and extraordinary loss.....	33,115	21,038	595	(2,369)	3,537
Income tax expense (benefit).....	12,759	8,253	486	(669)	1,558
Earnings (loss) before extraordinary loss.....	20,356	12,785	109	(1,700)	1,979
Extraordinary loss on early extinguishment of debt, net of income taxes (\$531 at April 30, 1994; \$543 and \$6,116 at July 31, 1993 and 1992, respectively).....	867	--	886	9,979	--
NET EARNINGS (LOSS).....	\$ 19,489	\$ 12,785	\$ (777)	\$ (11,679)	\$ 1,979

See notes to consolidated financial statements.





FERRELLGAS, INC.  
(A WHOLLY-OWNED SUBSIDIARY OF FERRELL COMPANIES, INC.)  
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY

(IN THOUSANDS, EXCEPT SHARE DATA)

	NUMBER OF COMMON SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL STOCKHOLDER'S EQUITY
BALANCE AUGUST 1, 1990...	990	\$ 1	\$22,490	\$(11,028)	\$ 11,463
Capital contribution from parent.....	--	--	6,687	--	6,687
Capital transaction-- Ferrell Companies, Inc. Long-Term Incentive Plan.....	--	--	1,558	--	1,558
Net earnings.....	--	--	--	1,979	1,979
	---	-----	-----	-----	-----
BALANCE JULY 31, 1991....	990	1	30,735	(9,049)	21,687
Capital transaction-- Ferrell Companies, Inc. Long-Term Incentive Plan.....	--	--	(1,200)	--	(1,200)
Net loss.....	--	--	--	(11,679)	(11,679)
	---	-----	-----	-----	-----
BALANCE JULY 31, 1992....	990	1	29,535	(20,728)	8,808
Capital contribution from parent.....	--	--	3,277	--	3,277
Capital transaction -- Ferrell Companies, Inc. Long-Term Incentive Plan.....	--	--	51	--	51
Net loss.....	--	--	--	(777)	(777)
	---	-----	-----	-----	-----
BALANCE JULY 31, 1993....	990	1	32,863	(21,505)	11,359
Net earnings.....	--	--	--	19,489	19,489
	---	-----	-----	-----	-----
BALANCE APRIL 30, 1994...	990	\$ 1	\$32,863	\$ (2,016)	\$ 30,848
	===	=====	=====	=====	=====

See notes to consolidated financial statements.

FERRELLGAS, INC.  
(A WHOLLY-OWNED SUBSIDIARY OF FERRELL COMPANIES, INC.)  
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(IN THOUSANDS)

	FOR THE NINE MONTHS ENDED		FOR THE YEAR ENDED JULY 31,		
	APRIL 30, 1994	APRIL 30, 1993	1993	1992	1991
	(UNAUDITED)				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Earnings (loss) before extraordinary loss.....	\$20,356	\$12,785	\$ 109	\$ (1,700)	\$ 1,979
Reconciliation of earnings (loss) to net cash provided by operating activities:					
Depreciation and amortization.....	21,688	23,238	30,840	31,196	36,151
Other.....	4,127	4,664	5,236	7,007	8,141
Decrease (increase) in assets:					
Accounts and notes receivable.....	(4,610)	(4,023)	(252)	(1,475)	(10,001)
Inventories.....	(6,129)	13,730	10,229	(12,447)	(4,620)
Prepaid expenses and other current assets.....	(1,374)	206	977	(801)	(218)
Increase (decrease) in liabilities:					
Accounts payable....	1,320	(23,323)	(11,918)	3,742	7,851
Other current liabilities.....	10,278	11,959	1,729	(1,912)	9,780
Other liabilities...	(49)	151	131	325	871
Deferred income taxes.....	12,639	7,694	(120)	(970)	1,006
Net cash provided by operating activities.....	58,246	47,081	36,961	22,965	50,940
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures....	(8,330)	(11,816)	(14,188)	(20,392)	(25,942)
Net short-term investment activity....	(4,305)	(25,894)	(1,875)	(23,165)	--
Proceeds from asset sales.....	643	1,670	1,983	3,040	1,315
Net additions to intangible assets.....	(62)	(1)	(82)	(3,175)	(9,619)
Net reductions (additions) to other assets.....	(271)	(2)	1	(520)	(14)
Net cash used in investing activities.....	(12,325)	(36,043)	(14,161)	(44,212)	(34,260)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Additions to long-term debt.....	--	--	81	246,804	3,202
Reductions of long-term debt.....	(13,336)	(1,863)	(12,796)	(212,637)	(2,964)
Additional payments to retire debt.....	(1,190)	--	(1,195)	(11,983)	--
Additions to financing costs.....	(53)	(24)	(627)	(4,918)	(644)
Investment in Class B redeemable common stock of parent.....	--	(3,218)	(3,218)	(9,092)	(7,249)

Net advances to related party.....	(2,249)	585	(59)	(3,832)	(2,756)
Net advances from (to) parent and affiliates..	(2,993)	(274)	(239)	(2,907)	718
	-----	-----	-----	-----	-----
Net cash provided by (used in) financing activities.	(19,821)	(4,794)	(18,053)	1,435	(9,693)
	-----	-----	-----	-----	-----
Increase (decrease) in cash and cash equivalents.....	26,100	6,244	4,747	(19,812)	6,987
Cash and cash equivalents--beginning of year.....	32,706	27,959	27,959	47,771	40,784
	-----	-----	-----	-----	-----
CASH AND CASH EQUIVALENTS--END OF PERIOD.....	\$58,806	\$34,203	\$ 32,706	\$ 27,959	\$ 47,771
	=====	=====	=====	=====	=====

See notes to consolidated financial statements.

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A. BASIS OF PRESENTATION:

The accompanying consolidated financial statements and related notes present the consolidated financial position, results of operations and cash flows of Ferrellgas, Inc. (the "Company") and its subsidiaries. The Company is a wholly-owned subsidiary of Ferrell Companies, Inc. ("Ferrell" or "Parent"). These consolidated financial statements are prepared in connection with the proposed public offering of limited partner interests in Ferrellgas Partners, L.P. (the "Partnership"), as described in Note B.

B. INITIAL PUBLIC OFFERING OF COMMON UNITS AND OTHER TRANSACTIONS

The Partnership was formed April 19, 1994, as a Delaware limited partnership. The Partnership was formed to acquire, own and operate the propane business and substantially all of the assets of the Company. In order to simplify the Partnership's obligations under the laws of several jurisdictions in which the Partnership will conduct business, the Partnership's activities will be conducted through a subsidiary operating partnership, Ferrellgas, L.P. (the "Operating Partnership"). The Company will convey substantially all of the assets to the Partnership (excluding cash, payables to or receivables from parent and affiliates and an investment in Class B Stock of Parent) and all of the liabilities, whether known or unknown, associated with such assets (other than income tax liabilities).

The Partnership intends to offer 13,100,000 Common Units, representing limited partner interests in the Partnership, to third parties and to concurrently issue Common Units, Subordinated Units and Incentive Distribution Rights, representing additional limited partner interests in the Partnership, to the Company, as well as a 2% general partner interest in the Partnership and the Operating Partnership, on a combined basis. The Company will make a dividend of such Common Units, Subordinated Units and Incentive Distribution Rights to its parent, Ferrell.

The Operating Partnership will assume the payment obligations of the Company under its Series A and Series C Floating Rate Senior Notes due 1996 (the "Existing Floating Rate Notes"), its Series B and Series D Fixed Rate Senior Notes (the "Existing Fixed Rate Notes" and together with the Existing Floating Rate Notes the "Existing Senior Notes") and its 11 5/8% Senior Subordinated Debentures (the "Existing Subordinated Debentures"). All of this long-term debt will be retired with the net proceeds from the sale by the Partnership of the Common Units offered and the net proceeds from the issuance of approximately \$250,000,000 in aggregate principal amount of Senior Notes due 2001 to be issued by the Operating Partnership concurrently with the closing of this offering.

Concurrent with the closing of the offering of Common Units, the Company will consummate a tender offer and consent solicitation with respect to the Existing Subordinated Debentures. The consent solicitation is necessary to modify the indenture related to the Existing Subordinated Debentures in order to permit the Company to consummate the transactions contemplated by this Prospectus. As of June 3, 1994, all of the outstanding Existing Subordinated Debentures have been tendered for repurchase and will be retired by the Operating Partnership, as described above.

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Concurrent with the closing of this offering, the Company will mail to the holders of the Existing Senior Notes a notice of redemption of all outstanding Existing Senior Notes, pursuant to the optional redemption provisions of the indenture governing the Existing Senior Notes (the "Existing Senior Notes Indenture"). The redemption date will be 30 days after the date of mailing of such notice. The Existing Senior Notes Indenture provides for a redemption price equal to 100% of the principal amount plus accrued and unpaid interest, if any, to the redemption date plus, in the case of the Existing Fixed Rate Notes, a premium which is based on certain yield information for U.S. Treasury securities as of three business days prior to the redemption date. The Operating Partnership will deposit with the trustee on the date of closing of this offering an amount expected to be more than sufficient to pay the redemption price. As a result of the transactions contemplated hereby, during the 30-day period prior to the redemption date, an event of default will exist under the Existing Senior Notes Indenture. The holders of at least 25% of the principal amount of Existing Senior Notes, therefore, will be entitled, by notice to the Company and the trustee, to declare the unpaid principal of, and accrued and unpaid interest and the applicable premium on, the Existing Senior Notes to be immediately due and payable. In the event of such a declaration, the amount already deposited by the Operating Partnership in payment of the redemption price would be applied to pay the amount so declared immediately due and payable.

C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(1) PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany profits, transactions and balances have been eliminated.

The interim financial data for the nine months ended April 30, 1994, is audited. The interim financial data for the nine months ended April 30, 1993, is unaudited; however, in the opinion of management, the 1993 interim data reflects all adjustments, consisting only of normal, recurring adjustments, necessary for a fair statement of the results of the interim period presented.

The propane industry is seasonal in nature with peak activity during the winter months. Therefore, the results of operations for the nine months ended April 30, 1994 and 1993, are not indicative of the results to be expected for a full fiscal year.

(2) RECLASSIFICATIONS:

Certain reclassifications have been made to the 1992 consolidated balance sheet and the 1993, 1992 and 1991 consolidated statement of cash flows in order to conform with the 1994 and 1993 presentation.

(3) SHORT-TERM INVESTMENTS:

Short-term investments consist of U.S. Treasury Bills and U.S. government obligations with remaining maturities as of April 30, 1994, ranging from approximately four to ten months. Short-term investments are carried at cost which approximates market value.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 115--Accounting for Certain Investments in Debt and Equity Securities, which is

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effective for fiscal years beginning after December 15, 1993. The statement addresses the accounting and reporting for certain investments in debt and equity securities and expands the use of fair value accounting for those securities but retains the use of the amortized cost method for investments that the Company has the positive intent and ability to hold to maturity. The Company does not believe that the adoption of this statement will have a material effect on the results of operations or financial condition of the Company.

(4) INVENTORIES:

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

The Company enters into forward purchase/sale agreements and options involving propane and related products which are for trading purposes. To the extent such contracts are entered into at fixed prices and thereby subject the Company to market risk, the contracts are accounted for on a mark-to-market basis.

(5) PROPERTY, PLANT AND EQUIPMENT AND OTHER NONCURRENT ASSETS:

Property, plant and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the assets ranging from two to thirty years. Expenditures for maintenance and routine repairs are expensed as incurred.

On August 1, 1991, the Company revised the estimated useful lives of storage tanks from twenty to thirty years in order to more closely reflect expected useful lives of the assets. The effect of this change in accounting estimate resulted in a favorable impact on loss before extraordinary loss of \$3,763,000 for the year ended July 31, 1992.

Intangible assets, consisting primarily of customer location values and goodwill, are stated at cost, net of amortization computed on the straight-line method over fifteen years for customer location values and forty years for goodwill. The Company evaluates its intangible assets for impairment by calculating the anticipated cash flow attributable to each acquisition over its expected remaining life. Such expected cash flows, on an undiscounted basis, are compared to the carrying value of the tangible and intangible assets, and if impairment is indicated, the carrying value of the intangible assets are adjusted. Accumulated amortization of intangible assets totaled \$66,211,000 as of April 30, 1994, and \$59,181,000 and \$49,188,000 as of July 31, 1993 and 1992, respectively.

Other assets consist primarily of non-current notes receivable and deferred financing costs. The deferred financing costs are amortized using the effective interest method over the terms of the respective debt agreements. Accumulated amortization of other assets totaled \$9,401,000 as of April 30, 1994 and \$7,592,000 and \$5,286,000 as of July 31, 1993 and 1992, respectively.

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(6) INCOME TAXES:

The Company files a consolidated Federal income tax return with its parent and affiliates. Income taxes are computed as though each company filed its own income tax return in accordance with the Company's tax sharing agreement.

Deferred income taxes are provided as a result of temporary differences between financial and tax reporting as described in NOTE I.

Effective August 1, 1992, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 109--Accounting for Income Taxes. The adoption of this statement changed the Company's method of accounting for income taxes from the deferred method, under APB 11, to the asset/liability method. Under SFAS No. 109, deferred income taxes are recognized for the tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The statement was adopted on a prospective basis and prior year amounts are not restated. The fiscal year 1993 and cumulative effects of adopting the statement as of August 1, 1992, did not have a material impact on earnings or cash flow and is therefore not disclosed separately.

(7) CONSOLIDATED STATEMENT OF CASH FLOWS:

For purposes of the consolidated statement of cash flows, the Company considers all highly liquid, debt instruments purchased with a maturity of three months or less to be cash equivalents.

Interest paid totaled \$35,062,000 and \$35,853,000 for the nine months ended April 30, 1994 and 1993, respectively, and \$57,563,000, \$59,054,000, and \$51,518,000 for the three fiscal years ended July 31, 1993, 1992 and 1991, respectively.

In 1993 and 1991, the Company received capital contributions, as described in NOTE M, from its parent.

In connection with the early extinguishment of certain senior notes in 1994 and 1993 and the refinancing of subordinated debentures in 1992, as described in NOTE H, the Company recorded noncash extraordinary losses from the write-off of financing costs, net of income tax benefits, of \$129,000, \$145,000 and \$2,550,000, respectively.

D. INVENTORIES:

	APRIL 30, 1994	JULY 31, ----- 1993	1992 -----
	(IN THOUSANDS)		
Liquified propane gas and related products.....	\$25,055	\$19,378	\$29,658
Appliances, parts and supplies.....	4,726	4,274	4,223
	-----	-----	-----
	\$29,781	\$23,652	\$33,881
	=====	=====	=====

In addition to inventories on hand, the Company 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.



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E. PROPERTY, PLANT AND EQUIPMENT:

	APRIL 30, 1994	JULY 31, 1993	JULY 31, 1992
	-----	-----	-----
	(IN THOUSANDS)		
Land and improvements.....	\$ 18,517	\$ 18,459	\$ 17,150
Buildings and improvements.....	22,860	23,001	20,339
Vehicles.....	37,229	37,564	39,205
Furniture and fixtures.....	17,368	16,402	14,194
Bulk equipment and market facilities.....	33,276	33,612	32,051
Tanks and customer equipment.....	316,801	314,127	313,634
Other.....	2,846	1,456	99
	-----	-----	-----
	448,897	444,621	436,672
Less accumulated depreciation and amortization.....	153,474	140,805	123,546
	-----	-----	-----
	\$295,423	\$303,816	\$313,126
	=====	=====	=====

F. INVESTMENT IN CLASS B REDEEMABLE COMMON STOCK OF PARENT:

The investment in Class B redeemable common stock of parent represents all of the authorized and issued shares of the parent's Class B redeemable common stock. All shares were purchased from unrelated parties and are recorded at historical cost. It is the intent of the parent to repay the Company the full amount of its investment in Class B redeemable common stock with funds from sources other than the Company. Upon redemption by the parent, the difference, if any, between the Company's cost and the redemption amount received from the parent will be recorded as a capital contribution from or dividend to the parent.

G. OTHER CURRENT LIABILITIES:

	APRIL 30, 1994	JULY 31, 1993	JULY 31, 1992
	-----	-----	-----
	(IN THOUSANDS)		
Current portion of long-term debt.....	\$ 1,486	\$ 1,766	\$ 1,912
Accrued insurance.....	7,996	8,846	10,515
Accrued interest.....	17,237	10,374	10,759
Accrued payroll.....	7,924	3,273	2,122
Other.....	3,909	4,789	3,708
	-----	-----	-----
	\$38,552	\$29,048	\$29,016
	=====	=====	=====

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H. LONG-TERM DEBT:

	APRIL 30, 1994	JULY 31, ----- 1993	1992 -----
	(IN THOUSANDS)		
Fixed rate senior notes, interest at 12%, due in August 1996.....	\$177,600	\$189,500	\$200,000
Floating rate senior notes, interest at applicable LIBOR rate plus 2.25% (5.5% at April 30, 1994), due in August 1996.....	50,000	50,000	50,000
Senior subordinated debentures, interest at 11 5/8%, \$250,000,000 face amount, due in December 2003....	246,430	246,293	246,293
Notes payable, including approximately \$2,329,000, \$2,975,000 and \$3,848,000 secured by property and equipment, interest rates ranging from noninterest-bearing to 12%, due on various dates through 2001..	3,927	5,562	7,233
	----- 477,957	----- 491,355	----- 503,526
Less current portion.....	1,486	1,766	1,912
	----- \$476,471	----- \$489,589	----- \$501,614
	=====	=====	=====

For the nine months ended April 30, 1994, the Company reacquired \$11,900,000 of its fixed rate senior notes, at an approximate price of 110.00% of face value together with accrued interest. The early extinguishment of senior notes resulted in an extraordinary loss from debt premium and write-off of financing costs of approximately \$867,000, net of income tax benefit of \$531,000.

In fiscal year 1993, the Company reacquired \$10,500,000 of its fixed rate senior notes, at an approximate aggregate price of 111.35% of face value, together with accrued interest. The early extinguishment of senior notes resulted in an extraordinary loss from debt premium and write-off of financing costs of approximately \$886,000, net of income tax benefit of \$543,000.

In December 1991, the Company issued, at 98.418% of face value, \$250,000,000 of 11 5/8% senior subordinated debentures due 2003. A portion of the proceeds was used to acquire the Company's existing subordinated debt, together with a prepayment premium, leaving the remainder available to finance future acquisitions and for additional working capital purposes. The refinancing of the subordinated debt resulted in an extraordinary loss from prepayment premium and write-off of financing costs of approximately \$9,979,000, net of income tax benefit of \$6,116,000.

The Company currently has a \$50,000,000 bank credit facility which terminates July 31, 1995. The facility provides for a working capital facility and a letter of credit facility. At April 30, 1994, there were no borrowings outstanding under the working capital facility and letters of credit outstanding under the letter of credit facility, which are used primarily to secure obligations under certain insurance and leasing arrangements, totaled \$32,778,000. Such letters of credit reduce the amount otherwise available for borrowings under the facility.

The various agreements for the senior notes and bank credit facility have similar requirements for maintaining certain working capital and net worth amounts and meeting interest coverage tests. These

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loan agreements and the senior subordinated debentures also place various limitations on the Company, the most restrictive relating to additional indebtedness and guarantees, sale and disposition of assets, intercompany transactions, common stock issuance, and essentially prohibit the payment of dividends. The Company is in compliance with all requirements, tests, limitations and covenants related to the senior notes and bank credit facility. The senior notes and bank credit agreement are collateralized by the stock of the Company.

Annual principal payments on long-term debt for each of the next five fiscal years are \$1,486,000 in 1995, \$1,022,000 in 1996, \$227,884,000 in 1997, \$125,000 in 1998 and \$94,000 in 1999.

I. INCOME TAXES:

Income tax expense (benefit) consists of (in thousands):

	NINE MONTHS ENDED APRIL 30,		FOR THE YEAR ENDED JULY 31,		
	1994	1993	1993	1992	1991
Current.....	\$ 120	\$ 559	\$ 606	\$ 301	\$ 552
Deferred.....	12,108	7,694	(663)	(7,086)	1,006
	<u>\$12,228</u>	<u>\$8,253</u>	<u>\$ (57)</u>	<u>\$(6,785)</u>	<u>\$1,558</u>
Allocated to:					
Operating activities.....	\$12,759	\$8,253	\$ 486	\$ (669)	\$1,558
Extraordinary loss.....	(531)	--	(543)	(6,116)	--
	<u>\$12,228</u>	<u>\$8,253</u>	<u>\$ (57)</u>	<u>\$(6,785)</u>	<u>\$1,558</u>

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 (benefit) are as follows (in thousands):

	NINE MONTHS ENDED APRIL 30,		FOR THE YEAR ENDED JULY 31,		
	1994	1993	1993	1992	1991
Depreciation expense.....	\$ (49)	\$1,175	\$ 1,568	\$ 7,010	\$ 19,555
Net operating loss.....	12,584	6,712	(1,975)	(9,055)	(15,539)
Net cash, accrual and other differences.....	(794)	(564)	(752)	(5,427)	(3,260)
Amortization.....	367	371	496	386	250
	<u>\$12,108</u>	<u>\$7,694</u>	<u>\$ (663)</u>	<u>\$(7,086)</u>	<u>\$ 1,006</u>

For Federal income tax purposes, the Company has net operating loss carryforwards of approximately \$187,000,000 at April 30, 1994 available to offset future taxable income. These net operating loss carryforwards expire at various dates through 2009.

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A reconciliation between the effective tax rate and the statutory Federal rate follows (amounts in thousands):

	NINE MONTHS ENDED APRIL 30,				FOR THE YEAR ENDED JULY 31,					
	1994		1993		1993		1992		1991	
	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
Income tax expense (benefit) at statutory rate.....	\$11,100	35.0	\$7,153	34.0	\$(284)	(34.0)	\$(6,278)	(34.0)	\$1,202	34.0
Statutory surtax.....	(317)	(1.0)	--	--	--	--	--	--	--	--
State income taxes, net of Federal benefit.....	1,402	4.4	970	4.6	182	21.8	(518)	(2.7)	310	8.7
Nondeductible meal and entertainment expense..	30	.1	27	.1	36	4.3	42	.2	41	1.2
Other.....	13	--	103	.5	9	1.1	(31)	(.2)	5	.1
	<u>\$12,228</u>	<u>38.5</u>	<u>\$8,253</u>	<u>39.2</u>	<u>\$(57)</u>	<u>(6.8)</u>	<u>\$(6,785)</u>	<u>(36.7)</u>	<u>\$1,558</u>	<u>44.0</u>
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

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

	APRIL 30, 1994	JULY 31, 1993
	-----	-----
DEFERRED TAX LIABILITIES:		
Differences between book and tax basis of property and intangible assets.....	\$(98,788)	\$(86,533)
Other.....	--	(3,267)
	-----	-----
Total deferred tax liabilities.....	(98,788)	(89,800)
DEFERRED TAX ASSETS:		
Operating loss carryforwards.....	72,871	85,790
Reserves not currently deductible.....	14,764	6,767
Other.....	1,802	--
	-----	-----
Total deferred tax assets.....	89,437	92,557
	-----	-----
Net deferred tax asset (liability).....	<u>\$ (9,351)</u>	<u>\$ 2,757</u>
	=====	=====

J. CONTINGENCIES AND COMMITMENTS:

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

The Internal Revenue Service ("IRS") has examined the Company's consolidated income tax returns for the years ended July 31, 1987 and 1986, and has proposed certain adjustments which relate principally to the purchase price allocations for an acquisition made during 1987. The IRS has proposed to

disallow \$61 million of deductions taken or to be taken for depreciation of customer tanks

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for which the Company asserts the methods and principles used during the valuation of the customer tanks are defensible. Also, the IRS has proposed to disallow \$90 million of deductions for amortization of customer relationships taken or to be taken in the Company's consolidated income tax returns. On April 20, 1993, the United States Supreme Court held in *Newark Morning Ledger v. United States* that a taxpayer may amortize customer based intangibles if that taxpayer can prove such intangibles are capable of being valued and the value diminishes over time. The Company contends it has met this burden of proof and feels this recent Supreme Court decision supports the positions taken during the Company's allocation of purchase price to customer relationships. The Company intends to vigorously defend against these proposed adjustments and is in the process of protesting these adjustments through the appeals process of the IRS. At this time, it is not possible to determine the ultimate resolution of this matter.

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 totalled \$7,822,000 and \$8,379,000 for the nine months ended April 30, 1994 and 1993, respectively, and \$10,903,000, \$10,317,000, and \$9,334,000 for the three fiscal years ended July 31, 1993, 1992 and 1991. Future minimum lease commitments for such leases are \$7,939,000 in 1995, \$5,703,000 in 1996, \$3,694,000 in 1997, \$1,707,000 in 1998, and \$441,000 in 1999.

K. EMPLOYEE BENEFITS:

The Company and its parent 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 the parent's Board of Directors. This plan also provides for matching contributions under a cash or deferred arrangement (401(k) plan) based upon participant salaries and employee contributions to the plan. Company contributions under the profit sharing provision of the plan were \$1,200,000 and \$1,000,000, for the nine months ended April 30, 1994 and 1993, respectively, and were \$1,000,000, \$2,711,000 and \$2,200,000, for the three fiscal years ended July 31, 1993, 1992 and 1991, respectively. Company matching contributions to the plan under the 401(k) provision of the plan were \$1,153,000 and \$1,175,000 for the nine months ended April 30, 1994 and 1993, respectively, and were \$1,541,000, \$1,420,000 and \$1,398,000 for the three fiscal years ended July 31, 1993, 1992 and 1991, respectively.

The Company has a defined benefit plan that provides participants who were covered under a previously terminated plan with a guaranteed retirement benefit at least equal to the benefit they would have received under the terminated plan. Benefits under the terminated plan are determined by years of credited service and salary levels. The Company's funding policy for this plan is to contribute amounts deductible for Federal income tax purposes. Plan assets consist primarily of corporate stocks and bonds, U.S. Treasury bonds and short-term cash investments.

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The following table sets forth the plan's projected funded status for the respective periods based on the most recent actuarial valuations:

ACTUARIALLY COMPUTED PENSION EXPENSE INCLUDES THE FOLLOWING COMPONENTS:

	NINE MONTHS ENDED APRIL 30,		FOR THE YEAR ENDED JULY 31,		
	1994	1993	1993	1992	1991
	(IN THOUSANDS)				
Service cost.....	\$ 184	\$ 213	\$ 285	\$ 318	\$ 361
Interest on obligations.....	277	284	378	407	407
Actual return on plan assets.....	109	(500)	(448)	(320)	92
Amortization and deferral of:					
Prior service cost.....	(23)	(23)	(31)	1	1
Gain.....	(139)	(74)	(98)	(98)	(83)
Deferred asset (gain)/loss.....	(347)	282	157	108	(310)
ACTUARIALLY COMPUTED PENSION EXPENSE.....	\$ 61	\$ 182	\$ 243	\$ 416	\$ 468
	=====	=====	=====	=====	=====

	APRIL 30,	JULY 31,	
	1994	1993	1992
	(IN THOUSANDS)		
ACTUARIAL PRESENT VALUE OF BENEFIT OBLIGATIONS:			
Vested benefit obligation.....	\$ 2,917	\$ 2,215	\$ 1,840
	=====	=====	=====
Accumulated benefit obligation.....	\$3,520	\$ 2,747	\$ 2,378
	=====	=====	=====
Projected benefit obligation.....	\$ 5,556	\$ 4,917	\$ 4,981
Less: plan assets at fair value.....	(3,142)	(3,605)	(2,727)
	-----	-----	-----
Benefit obligation in excess of plan assets.....	2,414	1,312	2,254
Unrecognized prior service cost.....	306	329	(12)
Unrecognized gain.....	1,454	2,573	2,054
	-----	-----	-----
ACCRUED BENEFIT OBLIGATION.....	\$ 4,174	\$ 4,214	\$ 4,296
	=====	=====	=====

The actuarial computations assumed a discount rate, annual salary increase and expected long-term rate of return on plan assets of 7.5%, 5% and 9.5%, respectively, for the nine months ended April 30, 1994, 8%, 5% and 9.5%, respectively, for fiscal year 1993 and 1992 and 8.5%, 5.5% and 9.5%, respectively, for fiscal year 1991.

In fiscal 1987, Ferrell Companies, Inc. (Ferrell) established the Ferrell Companies, Inc. Long-Term Incentive Plan (the Plan). The Plan provides long-term incentives to officers and executives of Ferrell and its subsidiaries in the form of units (Equity Units). The Plan provides for the redemption of the Equity Units after July 31, 1996, based upon the excess of an appraised value as of July 31, 1996, over a minimum value established at Plan inception. Earned awards are 100% vested by the participants at July 31, 1993.

Because the participants are primarily employees of Ferrellgas, compensation expense charges (credits) representing increases (decreases) in the estimated value of the vested Equity Units are





FERRELLGAS, INC.  
(A WHOLLY-OWNED SUBSIDIARY OF FERRELL COMPANIES, INC.)  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

FOR THE NINE MONTHS ENDED APRIL 30, 1994 AND 1993 (UNAUDITED)

AND FOR THE YEARS ENDED JULY 31, 1993, 1992 AND 1991

recorded by the Company. Compensation expense charged (credited) to income was \$720,000 and \$0 for the nine months ended April 30, 1994 and 1993, respectively, and was \$80,000, \$(1,934,000) and \$2,508,000, respectively, for the three fiscal years ended July 31, 1993, 1992 and 1991.

L. EMPLOYEE BENEFITS OTHER THAN PENSIONS:

The Company provides postretirement medical benefits to a closed group of approximately 400 retired employees and their spouses. The plan requires the Company to provide primary medical benefits to the participants until age 65, at which time the Company only pays a fixed amount of \$55 per month per participant for medical benefits. Effective August 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 106--Employers' Accounting for Postretirement Benefits Other Than Pensions which requires accrual of postretirement benefits (such as health care benefits) during the years an employee provides services. The Company elected to amortize the postretirement benefit obligation over a period not to exceed the average remaining life expectancy of the plan participants (since all of the plan participants are retired). The cumulative effect as of August 1, 1993, and impact for the nine months ended April 10, 1994, of adopting this statement was not material to the financial statements of the Company.

The Company has expensed \$560,000, \$471,000 and \$532,000 for the years ended July 31, 1993, 1992 and 1991, respectively, on a pay-as-you-go-basis relative to this postretirement benefit obligation.

The actuarial liabilities for these postretirement benefits, none of which have been funded, are as follows at April 30, 1994:

Accumulated Postretirement Benefit Obligation--Retirees.....	\$2,270,000
Fair Value of Assets.....	0
	-----
Accrued Liability.....	\$2,270,000
	=====

Net periodic postretirement benefit cost for the nine months ended April 30, 1994, included the following components:

Interest Cost on Obligation.....	\$145,647
Amortization of Transition Obligation.....	171,320
	-----
Net Periodic Postretirement Benefit Cost.....	\$316,967
	=====

The accumulated postretirement benefit obligation was determined using a discount rate of 7.75% and a health care cost trend rate of 10% in fiscal year 1994, 8% in fiscal years 1995 through 1997 and 5% thereafter for any individuals who have not attained the age of 65 by such cut-off dates.

Benefits relate to a closed group of retirees whose benefits convert to a fixed monthly supplement at age 65. Because of the nature of this group, a 1% change in the assumed health care cost trend

FERRELLGAS, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

FOR THE NINE MONTHS ENDED APRIL 30, 1994 AND 1993 (UNAUDITED)  
AND FOR THE YEARS ENDED JULY 31, 1993, 1992 AND 1991

rates does not have a significant impact on net periodic postretirement benefit cost or the accumulated postretirement benefit obligation.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 112--Employers' Accounting For Postemployment Benefits which is effective for fiscal years beginning after December 15, 1993. This statement requires that employers recognize over the service lives of employees the costs of postemployment benefits if certain conditions are met. The Company does not believe that adoption of the statement will have a material impact on results of operations or financial condition of the Company.

M. TRANSACTIONS WITH RELATED PARTIES:

All notes receivable from related parties bear interest at the prime rate plus 1.375% (8.125% at April 30, 1994) except for one note totaling \$8,896,000 which bears interest at the prime rate (6.75% at April 30, 1994).

In 1993 and 1991, the Company received capital contributions from its Parent. In 1993, the contribution consisted of (i) the forgiveness of a \$3,015,000 long-term note payable to affiliate, including interest, and (ii) a \$262,000 note receivable from affiliate. In 1991, the contribution consisted of forgiveness of \$6,687,000 long-term note payable to Parent, including interest.

In the second and third quarter of fiscal year 1993, Ferrell Leasing Corporation, a subsidiary of Ferrell Properties, Inc., sold to the Company for the fair market value of \$4,100,000, the land and two buildings comprising the Company's corporate headquarters in Liberty, Missouri. James E. Ferrell, a director and executive officer in the Company, owns all of the issued and outstanding stock of Ferrell Properties, Inc. Prior to the purchase of the buildings, the Company paid rent to Ferrell Leasing of \$403,000, \$692,000 and \$661,000 in fiscal years 1993, 1992 and 1991, respectively.

A. Andrew Levison, a director of the parent, is a Managing Director of Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ"). DLJ acted as placement agent with regard to the senior subordinated notes issued in December 1991 and was paid fees of \$3,545,000.

The law firm of Smith, Gill, Fisher & Butts, a Professional Corporation, is general counsel to the Company, the parent and their respective subsidiaries and affiliates. David S. Moubert, a director of the Parent, is a member of such law firm. The Company, the Parent and their respective subsidiaries paid such firm fees of \$987,000 and \$899,000 for the nine months ended April 30, 1994 and 1993, respectively, and paid fees of \$1,381,000, \$2,189,000 and \$2,776,000 during the three fiscal years ended July 31, 1993, 1992 and 1991, respectively.

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

In fiscal year 1993, the Company adopted Statement of Financial Accounting Standards No. 107--Disclosures about Fair Value of Financial Instruments which requires disclosing the fair value of financial instruments which can be reasonably determined.

FERRELLGAS, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

FOR THE NINE MONTHS ENDED APRIL 30, 1994 AND 1993 (UNAUDITED)  
AND FOR THE YEARS ENDED JULY 31, 1993, 1992 AND 1991

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Current Assets. The carrying amount of cash and cash equivalents and short-term investments approximates fair value because of the short maturity of those instruments.

Long-term Debt. The estimated fair value of the Company's long-term debt was \$505,597,000 and \$539,651,000 as of April 30, 1994 and July 31, 1993, respectively. The fair value is estimated based on quoted market prices and discounted cash flows.

The Company is a party to certain option and forward contracts in connection with its trading activities involving various liquified petroleum products. Contracts are executed with private counter-parties and to a lesser extent on national mercantile exchanges. Open contract positions are summarized as follows:

AS OF APRIL 30, 1994  
(IN THOUSANDS EXCEPT PRICE PER GALLON DATA)

	VOLUME (IN GALLONS)	PRICE (PER GALLON)	MATURITY DATES	CONTRACT AMOUNTS	MARKET VALUE OF CONTRACTS	UNREALIZED GAIN/(LOSS)
Exchange Traded Option						
Contracts to Buy.....	2,730	\$0.26	June-July 1994	\$ 723	\$ 820	\$ 97
Forward Contracts to						
Buy.....	61,893	\$ .19 to \$.34	May-December 1994	15,717	16,093	376
Forward Contracts to						
(Sell).....	(30,142)	\$.29 to \$.37	May-December 1994	(10,180)	(9,588)	592
Total.....	34,481			\$ 6,260	\$ 7,325	\$1,065
	=====			=====	=====	=====

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 Company 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.

In connection with its trading activities, at July 31, 1993, the Company had open forward and option contracts to buy \$10,394 and sell (\$11,347) of various liquified petroleum products expressed in dollars based on contract prices. At July 31, 1992, similar contracts to buy were \$7,582 and to sell (\$4,986). Net unrealized gains/(losses) on those open position were \$281 and \$0, respectively, at July 31, 1993 and 1992.

FERRELLGAS, INC.  
(A WHOLLY-OWNED SUBSIDIARY OF FERRELL COMPANIES, INC.)  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

FOR THE NINE MONTHS ENDED APRIL 30, 1994 AND 1993 (UNAUDITED)  
AND FOR THE YEARS ENDED JULY 31, 1993, 1992 AND 1991

O. SUMMARIZED FINANCIAL DATA--FERRELL COMPANIES, INC. AND SUBSIDIARIES:

The Company is the sole operating subsidiary of Ferrell Companies, Inc. Summarized consolidated financial information for Ferrell Companies, Inc. and subsidiaries is presented below (in thousands):

NINE MONTHS ENDED APRIL 30,		FOR THE YEAR ENDED JULY 31,		
1994	1993	1993	1992	1991
(UNAUDITED)				

SUMMARY OF OPERATIONS:

Operating revenues.....	\$450,482	\$468,308	\$542,116	\$501,297	\$544,021
Operating expenses.....	375,332	403,840	483,782	445,048	481,246
Earnings (loss) before ex- traordinary loss.....	20,142	12,784	174	(1,653)	2,102
Extraordinary loss.....	(867)	--	(886)	(9,979)	--
Net earnings (loss).....	19,275	12,784	(712)	(11,632)	2,102

APRIL 30,	JULY 31,	
1994	1993	1992
(UNAUDITED)		

SUMMARY OF FINANCIAL  
POSITION:

Current assets.....	\$180,648	\$136,373	\$142,161
Non-current assets.....	384,095	401,702	423,906
Current liabilities.....	72,924	62,804	74,517
Non-current liabilities and equity.....	491,819	475,271	491,550

FORM OF  
AGREEMENT  
OF  
LIMITED PARTNERSHIP  
OF  
FERRELLGAS PARTNERS, L.P.

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AGREEMENT OF LIMITED PARTNERSHIP OF

FERRELLGAS PARTNERS, L.P.

THIS AGREEMENT OF LIMITED PARTNERSHIP OF FERRELLGAS PARTNERS, L.P., dated as of \_\_\_\_\_, 1994, is entered into by and among Ferrellgas, Inc., a Delaware corporation, as the General Partner, and Danley K. Sheldon, as the Organizational Limited Partner, together with any other Persons who become Partners in the Partnership or parties hereto as provided herein. In consideration of the covenants, conditions and agreements contained herein, the parties hereto hereby agree as follows:

ARTICLE I

ORGANIZATIONAL MATTERS

1.1 FORMATION. (a) The General Partner and the Organizational Limited Partner have previously formed the Partnership as a limited partnership pursuant to the provisions of the Delaware Act. Except as expressly provided to the contrary in this Agreement, the rights and obligations of the Partners and the administration, dissolution and termination of the Partnership shall be governed by the Delaware Act. All Partnership Interests shall constitute personal property of the owner thereof for all purposes.

(b) In connection with the formation of the Partnership, Ferrellgas has been admitted as a general partner of the Partnership, and the Organizational Limited Partner has been admitted as a limited partner of the Partnership. As of the Closing Date, after giving effect to the transactions contemplated by Section 4.2 and after giving effect to the admission of the Initial Limited Partners as contemplated by Section 12.1 (but in no event prior to such time), the interest in the Partnership of the Organizational Limited Partner shall be terminated and the Organizational Limited Partner shall withdraw as a limited partner of the Partnership.

1.2 NAME. The name of the Partnership shall be "Ferrellgas Partners, L.P." The Partnership's business may be conducted under any other name or names deemed necessary or appropriate by the General Partner, including, without limitation, the name of the General Partner. The words "Limited Partnership," "L.P.," "Ltd." or similar words or letters shall be included in the Partnership's name where necessary for the purposes of complying with the laws of any jurisdiction that so requires. The General Partner in its sole discretion may change the name of the Partnership at any time and from time to time and shall notify the Limited Partners of such change in the next regular communication to the Limited Partners.

1.3 REGISTERED OFFICE; PRINCIPAL OFFICE. Unless and until changed by the General Partner, the registered office of the Partnership in the State of Delaware shall be located at The Corporation Trust Center, 1209 Orange Street, New Castle County, Wilmington, Delaware 19801, and the registered agent for service of process on the Partnership in the State of Delaware at such registered office shall be The Corporation Trust Company. The principal office of the Partnership shall be located at, and the address of the General Partner shall be, One Liberty Plaza, Liberty, Missouri 64068, or such other place as the General Partner may from time to time designate by notice to the Limited Partners. The Partnership may maintain offices at such other place or places within or outside the State of Delaware as the General Partner deems necessary or appropriate.

1.4 POWER OF ATTORNEY. (a) Each Limited Partner and each Assignee hereby constitutes and appoints each of the General Partner and, if a Liquidator shall have been selected pursuant to Section 14.3, the Liquidator severally (and any successor to either thereof by merger, transfer, assignment, election or otherwise) and each of their authorized officers and attorneys-in-fact, with full power of substitution, as his true and lawful agent and attorney-in-fact, with full power and authority in his name, place and stead, to:

(i) execute, swear to, acknowledge, deliver, file and record in the appropriate public offices (A) all certificates, documents and other instruments (including, without limitation, this Agreement and the Certificate of Limited Partnership and all amendments or restatements thereof) that the General Partner or the Liquidator deems necessary or appropriate to form, qualify or continue the existence or qualification of the Partnership as a limited partnership (or a partnership in which the limited partners have limited liability) in the State of Delaware and in all other jurisdictions in which the Partnership may conduct business or own property; (B) all certificates, documents and other instruments that the General Partner or the Liquidator deems necessary or appropriate to reflect, in accordance with its terms, any amendment, change, modification or restatement of this Agreement; (C) all certificates, documents and other instruments (including, without limitation, conveyances and a certificate of cancellation) that the General Partner or the Liquidator deems necessary or appropriate to reflect the dissolution and liquidation of the Partnership pursuant to the terms of this Agreement; (D) all certificates, documents and other instruments relating to the admission, withdrawal, removal or substitution of any Partner pursuant to, or other events described in, Article XI, XII, XIII or XIV or the Capital Contribution of any Partner; (E) all certificates, documents and other instruments relating to the determination of the rights, preferences and privileges of any class or series of Units or other Partnership Securities issued pursuant to Section 4.2; and (F) all certificates, documents and other instruments (including, without limitation, agreements and a certificate of merger) relating to a merger or consolidation of the Partnership pursuant to Article XVI; and

(ii) execute, swear to, acknowledge, deliver, file and record all ballots, consents, approvals, waivers, certificates, documents and other instruments necessary or appropriate, in the sole discretion of the General Partner or the Liquidator, to make, evidence, give, confirm or ratify any vote, consent, approval, agreement or other action that is made or given by the Partners hereunder or is consistent with the terms of this Agreement or is necessary or appropriate, in the sole discretion of the General Partner or the Liquidator, to effectuate the terms or intent of this Agreement; provided, that when required by Section 15.3 or any other provision of this Agreement that establishes a percentage of the Limited Partners or of the Limited Partners of any class or series required to take any action, the General Partner or the Liquidator may exercise the power of attorney made in this Section 1.4(a)(ii) only after the necessary vote, consent or approval of the Limited Partners or of the Limited Partners of such class or series, as applicable.

Nothing contained in this Section 1.4(a) shall be construed as authorizing the General Partner to amend this Agreement except in accordance with Article XV or as may be otherwise expressly provided for in this Agreement.

(b) The foregoing power of attorney is hereby declared to be irrevocable and a power coupled with an interest, and it shall survive and not be affected by the subsequent death, incompetency, disability, incapacity, dissolution, bankruptcy or termination of any Limited Partner or Assignee and the transfer of all or any portion of such Limited Partner's or Assignee's Partnership Interest and shall extend to such Limited Partner's or Assignee's heirs, successors, assigns and personal representatives. Each such Limited Partner or Assignee hereby agrees to be bound by any representation made by the General Partner or the Liquidator acting in good faith pursuant to such power of attorney; and each such Limited Partner or Assignee hereby waives any and all defenses that may be available to contest, negate or disaffirm the action of the General Partner or the Liquidator taken in good faith under such power of attorney. Each Limited Partner or Assignee shall execute and deliver to the General Partner or the Liquidator, within 15 days after receipt of the General Partner's or the Liquidator's request therefor, such further designation, powers of attorney and other instruments as the General Partner or the Liquidator deems necessary to effectuate this Agreement and the purposes of the Partnership.

1.5 TERM. The Partnership commenced upon the filing of the Certificate of Limited Partnership in accordance with the Delaware Act and shall continue in existence until the close of Partnership business on July 31, 2084, or until the earlier dissolution of the Partnership in accordance with the provisions of Article XIV.

1.6 POSSIBLE RESTRICTIONS ON TRANSFER. Notwithstanding anything to the contrary contained in this Agreement, in the event of (a) the enactment (or imminent enactment) of any legislation, (b) the publication of any temporary or final regulation by the Treasury Department, (c) any ruling by the Internal Revenue Service or (d) any judicial decision, that, in any such case, in the Opinion of Counsel, would result in the taxation of the Partnership as an association taxable as a corporation or would otherwise result in the Partnership's being taxed as an entity for federal income tax purposes, then, the General Partner may impose such restrictions on the transfer of Units or Partnership Interests as may be required, in the Opinion of Counsel, to prevent the Partnership from being taxed as an association taxable as a corporation or otherwise as an entity for federal income tax purposes, including, without limitation, making such amendments to this Agreement as the General Partner in its sole discretion may determine to be necessary or appropriate to impose such restrictions, provided, that any such amendment to this Agreement that would result in the delisting or suspension of trading of any class of Units on any National Securities Exchange on which such class of Units is then traded must be approved by the holders of at least two-thirds of the Outstanding Units of such class (excluding the vote in respect of Units held by the General Partner and its Affiliates).

## ARTICLE II

### DEFINITIONS

The following definitions shall be for all purposes, unless otherwise clearly indicated to the contrary, applied to the terms used in this Agreement.

"ACQUISITION" means any transaction in which the Partnership or the Operating Partnership acquires (through an asset acquisition, merger, stock acquisition or other form of investment) control over all or a portion of the assets, properties or business of another Person for the purpose of increasing the operating capacity of the Partnership and the Operating Partnership, taken as a whole, from the operating capacity of the Partnership and the Operating Partnership, taken as a whole, existing immediately prior to such transaction.

"ADDITIONAL LIMITED PARTNER" means a Person admitted to the Partnership as a Limited Partner pursuant to Section 12.4 and who is shown as such on the books and records of the Partnership.

"ADJUSTED CAPITAL ACCOUNT" means the Capital Account maintained for each Partner as of the end of each fiscal year of the Partnership, (a) increased by any amounts that such Partner is obligated to restore under the standards set by Treasury Regulation Section 1.704-1(b)(2)(ii)(c) (or is deemed obligated to restore under Treasury Regulation Sections 1.704-2(g) and 1.704-2(i)(5)) and (b) decreased by (i) the amount of all losses and deductions that, as of the end of such fiscal year, are reasonably expected to be allocated to such Partner in subsequent years under Sections 704(e)(2) and 706(d) of the Code and Treasury Regulation Section 1.751-1(b)(2)(ii), and (ii) the amount of all distributions that, as of the end of such fiscal year, are reasonably expected to be made to such Partner in subsequent years in accordance with the terms of this Agreement or otherwise to the extent they exceed offsetting increases to such Partner's Capital Account that are reasonably expected to occur during (or prior to) the year in which such distributions are reasonably expected to be made (other than increases as a result of a minimum gain chargeback pursuant to Section 5.1(d)(i) or 5.1(d)(ii)). The foregoing definition of Adjusted Capital Account is intended to comply with the provisions of Treasury Regulation Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith. The "Adjusted Capital Account" in respect of a Common Unit, a Subordinated Unit or any other specified interest in the Partnership

shall be the amount which such Adjusted Capital Account would be if such Common Unit, Subordinated Unit or other interest in the Partnership were the only interest in the Partnership held by a Limited Partner.

"ADJUSTED PROPERTY" means any property the Carrying Value of which has been adjusted pursuant to Section 4.5(d)(i) or 4.5(d)(ii). Once an Adjusted Property is deemed distributed by, and recontributed to, the Partnership for federal income tax purposes upon a termination thereof pursuant to Section 708 of the Code, such property shall thereafter constitute a Contributed Property until the Carrying Value of such property is subsequently adjusted pursuant to Section 4.5(d)(i) or 4.5(d)(ii).

"AFFILIATE" means, with respect to any Person, any other Person that directly or indirectly controls, is controlled by or is under common control with, the Person in question. As used herein, the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.

"AGREED ALLOCATION" means any allocation, other than a Required Allocation, of an item of income, gain, loss or deduction pursuant to the provisions of Section 5.1, including, without limitation, a Curative Allocation (if appropriate to the context in which the term "Agreed Allocation" is used).

"AGREED VALUE" of any Contributed Property means the fair market value of such property or other consideration at the time of contribution as determined by the General Partner using such reasonable method of valuation as it may adopt; provided, however, that the Agreed Value of any property deemed contributed to the Partnership for federal income tax purposes upon termination and reconstitution thereof pursuant to Section 708 of the Code shall be determined in accordance with Section 4.5(c)(i). Subject to Section 4.5(c)(i), the General Partner shall, in its sole discretion, use such method as it deems reasonable and appropriate to allocate the aggregate Agreed Value of Contributed Properties contributed to the Partnership in a single or integrated transaction among each separate property on a basis proportional to the fair market value of each Contributed Property.

"AGREEMENT" means this Agreement of Limited Partnership of Ferrellgas Partners, L.P., as it may be amended, supplemented or restated from time to time.

"ASSIGNEE" means a Non-citizen Assignee or a Person to whom one or more Units have been transferred in a manner permitted under this Agreement and who has executed and delivered a Transfer Application as required by this Agreement, but who has not become a Substituted Limited Partner.

"ASSOCIATE" means, when used to indicate a relationship with any Person, (i) any corporation or organization of which such Person is a director, officer or partner or is, directly or indirectly, the owner of 20% or more of any class of voting stock; (ii) any trust or other estate in which such Person has at least a 20% beneficial interest or as to which such Person serves as trustee or in a similar fiduciary capacity; and (iii) any relative or spouse of such Person, or any relative of such spouse, who has the same residence as such Person.

"AUDIT COMMITTEE" means a committee of the Board of Directors of the General Partner composed entirely of two or more directors who are neither officers nor employees of the General Partner or any of its Affiliates.

"AVAILABLE CASH" means, with respect to any Quarter and without duplication:

(a) the sum of:

(i) all cash receipts of the Partnership during such Quarter from all sources (including, without limitation, distributions of cash received from the Operating Partnership and cash proceeds from Interim Capital Transactions, but excluding cash proceeds from Termination Capital Transactions), plus, in the case of the Quarter ending

October 31, 1994, the cash balance of the Partnership as of the close of business on the Closing Date; and

(ii) any reduction with respect to such Quarter in a cash reserve previously established pursuant to clause (b)(ii) below (either by reversal or utilization) from the level of such reserve at the end of the prior Quarter;

(b) less the sum of:

(i) all cash disbursements of the Partnership during such Quarter, including, without limitation, disbursements for operating expenses, taxes, if any, debt service (including, without limitation, the payment of principal, premium and interest), redemption of Partnership Interests, capital expenditures, contributions, if any, to the Operating Partnership and cash distributions to Partners (but only to the extent that such cash distributions to Partners exceed Available Cash for the immediately preceding Quarter); and

(ii) any cash reserves established with respect to such Quarter, and any increase with respect to such Quarter in a cash reserve previously established pursuant to this clause (b)(ii) from the level of such reserve at the end of the prior Quarter, in such amounts as the General Partner determines in its reasonable discretion to be necessary or appropriate (A) to provide for the proper conduct of the business of the Partnership or the Operating Partnership (including, without limitation, reserves for future capital expenditures) or (B) to provide funds for distributions with respect to Units and any general partner interests in the Partnership in respect of any one or more of the next four Quarters or (C) because the distribution of such amounts would be prohibited by applicable law or by any loan agreement, security agreement, mortgage, debt instrument or other agreement or obligation to which the Partnership or the Operating Partnership is a party or by which any of them is bound or its assets are subject;

provided, however, that for purposes of determining Available Cash for the Quarter ending October 31, 1994, such Quarter shall be deemed to commence on the Closing Date. Notwithstanding the foregoing, "Available Cash" with respect to any Quarter shall not include any cash receipts or reductions in reserves or take into account any disbursements made or reserves established in each case after the Liquidation Date. Taxes paid by the Partnership on behalf of, or amounts withheld with respect to, all or less than all of the Partners shall not be considered cash disbursements of the Partnership that reduce Available Cash, but the payment or withholding thereof shall be deemed to be a distribution of Available Cash to such Partners. Alternatively, in the discretion of the General Partner, such taxes (if pertaining to all Partners) may be considered to be cash disbursements of the Partnership which reduce Available Cash, but the payment or withholding thereof shall not be deemed to be a distribution of Available Cash to such Partners.

"BOOK-TAX DISPARITY" means with respect to any item of Contributed Property or Adjusted Property, as of the date of any determination, the difference between the Carrying Value of such Contributed Property or Adjusted Property and the adjusted basis thereof for federal income tax purposes as of such date. A Partner's share of the Partnership's Book-Tax Disparities in all of its Contributed Property and Adjusted Property will be reflected by the difference between such Partner's Capital Account balance as maintained pursuant to Section 4.5 and the hypothetical balance of such Partner's Capital Account computed as if it had been maintained strictly in accordance with federal income tax accounting principles.

"BUSINESS DAY" means Monday through Friday of each week, except that a legal holiday recognized as such by the government of the United States or the states of New York or Missouri shall not be regarded as a Business Day.



"CAPITAL ACCOUNT" means the capital account maintained for a Partner pursuant to Section 4.5.

"CAPITAL ADDITIONS AND IMPROVEMENTS" means (a) additions or improvements to the capital assets owned by the Partnership or the Operating Partnership or (b) the acquisition of existing or the construction of new capital assets (including, without limitation, retail distribution outlets, propane tanks, pipeline systems, storage facilities and related assets), made to increase the operating capacity of the Partnership and the Operating Partnership, taken as a whole, from the operating capacity of the Partnership and the Operating Partnership, taken as a whole, existing immediately prior to such addition, improvement, acquisition or construction.

"CAPITAL CONTRIBUTION" means any cash, cash equivalents or the Net Agreed Value of Contributed Property that a Partner contributes to the Partnership pursuant to the Contribution Agreement or Sections 4.1, 4.2, 4.3, 4.5(c)(i), 13.3(c) or 14.8.

"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 any 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.

"CARRYING VALUE" means (a) with respect to a Contributed Property, the Agreed Value of such property reduced (but not below zero) by all depreciation, amortization and cost recovery deductions charged to the Partners' and Assignees' Capital Accounts in respect of such Contributed Property, and (b) with respect to any other Partnership property, the adjusted basis of such property for federal income tax purposes, all as of the time of determination. The Carrying Value of any property shall be adjusted from time to time in accordance with Sections 4.5(d)(i) and 4.5(d)(ii) and to reflect changes, additions or other adjustments to the Carrying Value for dispositions and acquisitions of Partnership properties, as deemed appropriate by the General Partner.

"CASH FROM INTERIM CAPITAL TRANSACTIONS" means, at any date, such amounts of Available Cash as are deemed to be Cash from Interim Capital Transactions pursuant to Section 5.3.

"CASH FROM OPERATIONS" means, at the close of any Quarter but prior to the Liquidation Date, on a cumulative basis and without duplication,

(a) the sum of all cash receipts of the Partnership and the Operating Partnership during the period since the Closing Date through such date (including, without limitation, the cash balance of the Partnership as of the close of business on the Closing Date, plus an initial balance of \$25 million, excluding any cash proceeds from any Interim Capital Transactions (except to the extent specified in Section 5.3) and Termination Capital Transactions),

(b) less the sum of:

(i) all cash operating expenditures of the Partnership and the Operating Partnership during such period, including, without limitation, taxes, if any, and amounts owed to the General Partner as reimbursement pursuant to Section 6.4,

(ii) all cash debt service payments of the Partnership and the Operating Partnership during such period (other than payments or prepayments of principal and premium (A) required by reason of loan agreements (including, without limitation, covenants and default provisions therein) or by lenders, in each case in connection with sales or other dispositions of assets or (B) made in connection with refinancings or refundings of indebtedness with the proceeds from new indebtedness or from the sale of equity interests, provided, that any payment or prepayment of principal and premium, whether or not then due, shall be deemed, at the election and in the discretion of the General

Partner, to be refunded or refinanced by any indebtedness incurred or to be incurred by the Partnership or the Operating Partnership simultaneously with or within 180 days prior to or after such payment or prepayment to the extent of the principal amount of such indebtedness so incurred),

(iii) all cash capital expenditures of the Partnership and the Operating Partnership during such period, including, without limitation, cash capital expenditures made in respect of Maintenance Capital Expenditures, but excluding (A) cash capital expenditures made in respect of Acquisitions and Capital Additions and Improvements and (B) cash expenditures made in payment of transaction expenses relating to Interim Capital Transactions,

(iv) any cash reserves of the Partnership or the Operating Partnership outstanding as of such date that the General Partner deems in its reasonable discretion to be necessary or appropriate to provide for the future cash payment of items of the type referred to in clauses (i) through (iii) of this sentence, and

(v) any cash reserves of the Partnership or the Operating Partnership outstanding as of such date that the General Partner deems in its reasonable discretion to be necessary or appropriate to provide funds for distributions with respect to Units and any general partner interests in the Partnership in respect of any one or more of the next four Quarters,

all as determined on a consolidated basis and after taking into account the General Partner's interest therein attributable to its general partner interest in the Operating Partnership. Where cash capital expenditures are made in part in respect of Acquisitions or Capital Additions and Improvements and in part for other purposes, the General Partner's good faith allocation thereof between the portion made for Acquisitions or Capital Additions and Improvements and the portion made for other purposes shall be conclusive. Taxes paid by the Partnership on behalf of, or amounts withheld with respect to, all or less than all of the Partners shall not be considered cash operating expenditures of the Partnership that reduce Cash from Operations, but the payment or withholding thereof shall be deemed to be a distribution of Available Cash to such Partners. Alternatively, in the discretion of the General Partner, such taxes (if pertaining to all Partners) may be considered to be cash operating expenditures of the Partnership which reduce Cash from Operations, but the payment or withholding thereof shall not be deemed to be a distribution of Available Cash to such Partners.

"CAUSE" means a court of competent jurisdiction has entered a final, non-appealable judgment finding the General Partner liable for actual fraud, gross negligence or willful or wanton misconduct in its capacity as general partner of the Partnership.

"CERTIFICATE" means a certificate, substantially in the form of Exhibit A to this Agreement or in such other form as may be adopted by the General Partner in its sole discretion, issued by the Partnership evidencing ownership of one or more Common Units, or a certificate, in such form as may be adopted by the General Partner in its sole discretion, issued by the Partnership evidencing ownership of one or more other Units.

"CERTIFICATE OF LIMITED PARTNERSHIP" means the Certificate of Limited Partnership filed with the Secretary of State of the State of Delaware as referenced in Section 6.2, as such Certificate of Limited Partnership may be amended, supplemented or restated from time to time.

"CITIZENSHIP CERTIFICATION" means a properly completed certificate in such form as may be specified by the General Partner by which an Assignee or a Limited Partner certifies that he (and if he is a nominee holding for the account of another Person, that to the best of his knowledge such other Person) is an Eligible Citizen.

"CLAIM" has the meaning assigned to such term in Section 6.13(c).

"CLOSING DATE" means the first date on which Common Units are sold by the Partnership to the Underwriters pursuant to the provisions of the Underwriting Agreement.

"CLOSING PRICE" has the meaning assigned to such term in Section 17.1(a).

"CODE" means the Internal Revenue Code of 1986, as amended and in effect from time to time, as interpreted by the applicable regulations thereunder. Any reference herein to a specific section or sections of the Code shall be deemed to include a reference to any corresponding provision of future law.

"COMBINED INTEREST" has the meaning assigned to such term in Section 13.3(a).

"COMMISSION" means the Securities and Exchange Commission.

"COMMON UNIT" means a Unit representing a fractional part of the Partnership Interests of all Limited Partners and Assignees and having the rights and obligations specified with respect to Common Units in this Agreement.

"COMMON UNIT ARREARAGE" means, with respect to any Common Unit, whenever issued, and as to any Quarter within the Subordination Period, the excess, if any, of (a) the Minimum Quarterly Distribution with respect to such Common Unit over (b) the sum of all Available Cash distributed with respect to such Common Unit in respect of such Quarter pursuant to Section 5.4(a)(i).

"CONTRIBUTED PROPERTY" means each property or other asset, in such form as may be permitted by the Delaware Act, but excluding cash, contributed to the Partnership (or deemed contributed to the Partnership on termination and reconstitution thereof pursuant to Section 708 of the Code). Once the Carrying Value of a Contributed Property is adjusted pursuant to Section 4.5(d), such property shall no longer constitute a Contributed Property, but shall be deemed an Adjusted Property.

"CONTRIBUTION AGREEMENT" means that certain Contribution, Conveyance and Assumption Agreement, dated as of the Closing Date, between Ferrellgas, the Partnership and the Operating Partnership, together with the additional conveyance documents and instruments contemplated or referenced thereunder.

"CUMULATIVE COMMON UNIT ARREARAGE" means, with respect to any Common Unit, whenever issued, and as of the end of any Quarter, the excess, if any, of (a) the sum resulting from adding together the Common Unit Arrearage as to such Common Unit for each of the Quarters within the Subordination Period ending on or before the last day of such Quarter over (b) the sum of any distributions theretofore made pursuant to Section 5.4(a)(ii) with respect to such Common Unit (including any distributions to be made in respect of the last of such Quarters).

"CURATIVE ALLOCATION" means any allocation of an item of income, gain, deduction, loss or credit pursuant to the provisions of Section 5.1(d)(xi).

"CURRENT MARKET PRICE" has the meaning assigned to such term in Section 17.1(a).

"DELAWARE ACT" means the Delaware Revised Uniform Limited Partnership Act, 6 Del C. (S) 17-101, et seq., as amended, supplemented or restated from time to time, and any successor to such statute.

"DEPARTING PARTNER" means a former General Partner from and after the effective date of any withdrawal or removal of such former General Partner pursuant to Section 13.1 or 13.2.

"ECONOMIC RISK OF LOSS" has the meaning set forth in Treasury Regulation Section 1.752-2(a).

"ELIGIBLE CITIZEN" means a Person qualified to own interests in real property in jurisdictions in which the Partnership or the Operating Partnership does business or proposes to do business

from time to time, and whose status as a Limited Partner or Assignee does not or would not subject the Partnership or the Operating Partnership to a substantial risk of cancellation or forfeiture of any of its properties or any interest therein.

"EVENT OF WITHDRAWAL" has the meaning assigned to such term in Section 13.1(a).

"FERRELL" means Ferrell Companies, Inc., a Kansas corporation.

"FERRELLGAS" means Ferrellgas, Inc., a Delaware corporation and a wholly owned subsidiary of Ferrell.

"FIRST LIQUIDATION TARGET AMOUNT" has the meaning assigned to such term in Section 5.1(c)(i)(D).

"FIRST TARGET DISTRIBUTION" means \$0.55 per Unit (or, with respect to the period commencing on the Closing Date and ending on October 31, 1994, the product of \$0.55 multiplied by a fraction of which the numerator is the number of days in such period and of which the denominator is 92), subject to adjustment in accordance with Sections 5.6 and 9.6.

"GENERAL PARTNER" means Ferrellgas, and its successors as general partner of the Partnership.

"GROUP" means a Person that with or through any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting (except voting pursuant to a revocable proxy or consent given to such Person in response to a proxy or consent solicitation made to 10 or more Persons) or disposing of any Partnership Securities with any other Person that beneficially owns, or whose Affiliates or Associates beneficially own, directly or indirectly, Partnership Interests.

"HOLDER" has the meaning assigned to such term in Section 6.13(a).

"IDR" means a Partnership Interest issued to Ferrellgas in connection with the transfer of its assets to the Partnership pursuant to Section 4.2, which Partnership Interest shall confer upon the holder thereof only the rights and obligations specifically provided in this Agreement with respect to IDRs (and no other rights otherwise available to holders of a Partnership Interest).

"INCENTIVE DISTRIBUTION" means any amount of cash distributed to the Special Limited Partners, pursuant to Sections 5.4(a)(v), (vi) or (vii) or 5.4(b)(iii), (iv) or (v).

"INDEMNIFIED PERSONS" has the meaning assigned to such term in Section 6.13(c).

"INDEMNITEE" means the General Partner, any Departing Partner, any Person who is or was an Affiliate of the General Partner or any Departing Partner, any Person who is or was an officer, director, employee, partner, agent or trustee of the General Partner or any Departing Partner or any such Affiliate, or any Person who is or was serving at the request of the General Partner or any Departing Partner or any such Affiliate as a director, officer, employee, partner, agent or trustee of another Person.

"INITIAL LIMITED PARTNERS" means Ferrellgas (with respect to the Common Units and the Subordinated Units received by it pursuant to Section 4.2) and the Underwriters, in each case upon being admitted to the Partnership in accordance with Section 12.1.

"INITIAL OFFERING" means the initial offering and sale of Common Units to the public, as described in the Registration Statement.

"INITIAL UNIT PRICE" means (a) the initial public offering price per Common Unit at which the Underwriters offered the Common Units to the public for sale as set forth on the cover page of the prospectus first issued at or after the time the Registration Statement first became effective or (b) with respect to any other class or series of Units, the price per Unit at which such class or series

of Units is initially sold by the Partnership, as determined by the General Partner, in each case adjusted as the General Partner determines to be appropriate to give effect to any distribution, subdivision or combination of Units.

"INTERIM CAPITAL TRANSACTIONS" means (a) borrowings, refinancings or refundings of indebtedness and sales of debt securities (other than for working capital purposes and other than for items purchased on open account in the ordinary course of business) by the Partnership or the Operating Partnership, (b) sales of equity interests (including Common Units sold to the Underwriters pursuant to the exercise of the Overallotment Option) by the Partnership or the Operating Partnership and (c) sales or other voluntary or involuntary dispositions of any assets of the Partnership or the Operating Partnership (other than (x) sales or other dispositions of inventory in the ordinary course of business, (y) sales or other dispositions of other current assets including, without limitation, receivables and accounts and (z) sales or other dispositions of assets as a part of normal retirements or replacements), in each case prior to the commencement of the dissolution and liquidation of the Partnership.

"ISSUE PRICE" means the price at which a Unit is purchased from the Partnership, less any sales commission or underwriting discount charged to the Partnership.

"LIMITED PARTNER" means, unless the context otherwise requires, (a) the Organizational Limited Partner, each Initial Limited Partner, each Substituted Limited Partner, each Additional Limited Partner and any Departing Partner upon the change of its status from General Partner to Limited Partner pursuant to Section 13.3, subject to the provisions of Section 5.7, (b) solely for the purposes of Section 1.4 and Articles VI and VII, each Special Limited Partner and (c) solely for purposes of Articles IV, V and VI and Sections 14.3 and 14.4, each Assignee.

"LIQUIDATION DATE" means (a) in the case of an event giving rise to the dissolution of the Partnership of the type described in clauses (a) and (b) of the first sentence of Section 14.2, the date on which the applicable time period during which the holders of Outstanding Units have the right to elect to reconstitute the Partnership and continue its business has expired without such an election being made, and (b) in the case of any other event giving rise to the dissolution of the Partnership, the date on which such event occurs.

"LIQUIDATOR" means the General Partner or other Person approved pursuant to Section 14.3 who performs the functions described therein.

"MAINTENANCE CAPITAL EXPENDITURES" means cash 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 the Partnership and the Operating Partnership, taken as a whole, as such assets existed at the time of such expenditure and shall, therefore, not include cash capital expenditures made in respect of Acquisitions and Capital Additions and Improvements. Where cash capital expenditures are made in part to maintain the operating capacity level referred to in the immediately preceding sentence and in part for other purposes, the General Partner's good faith allocation thereof between the portion used to maintain such operating capacity level and the portion used for other purposes shall be conclusive.

"MERGER AGREEMENT" has the meaning assigned to such term in Section 16.1.

"MINIMUM QUARTERLY DISTRIBUTION" means (a) \$0.50 per Unit per Quarter (or, with respect to the period commencing on the Closing Date and ending on October 31, 1994, the product of \$0.50 multiplied by a fraction of which the numerator is the number of days in such period and of which the denominator is 92), subject to adjustment in accordance with Sections 5.6 and 9.6.

"NATIONAL SECURITIES EXCHANGE" means an exchange registered with the Securities and Exchange Commission under Section 6(a) of the Securities Exchange Act of 1934, as amended, supplemented or restated from time to time, and any successor to such statute.

"NET AGREED VALUE" means, (a) in the case of any Contributed Property, the Agreed Value of such property reduced by any liabilities either assumed by the Partnership upon such contribution or to which such property is subject when contributed, and (b) in the case of any property distributed to a Partner or Assignee by the Partnership, the Partnership's Carrying Value of such property (as adjusted pursuant to Section 4.5(d)(ii)) at the time such property is distributed, reduced by any indebtedness either assumed by such Partner or Assignee upon such distribution or to which such property is subject at the time of distribution, in either case, as determined under Section 752 of the Code.

"NET INCOME" means, for any taxable period, the excess, if any, of the Partnership's items of income and gain (other than those items attributable to dispositions constituting Termination Capital Transactions) for such taxable period over the Partnership's items of loss and deduction (other than those items attributable to dispositions constituting Termination Capital Transactions) for such taxable period. The items included in the calculation of Net Income shall be determined in accordance with Section 4.5(b) and shall not include any items specially allocated under Section 5.1(d). Once an item of income, gain, loss or deduction that has been included in the initial computation of Net Income is subjected to a Required Allocation or a Curative Allocation, Net Income or Net Loss, whichever the case may be, shall be recomputed without regard to such item.

"NET LOSS" means, for any taxable period, the excess, if any, of the Partnership's items of loss and deduction (other than those items attributable to dispositions constituting Termination Capital Transactions) for such taxable period over the Partnership's items of income and gain (other than those items attributable to dispositions constituting Termination Capital Transactions) for such taxable period. The items included in the calculation of Net Loss shall be determined in accordance with Section 4.5(b) and shall not include any items specially allocated under Section 5.1(d). Once an item of income, gain, loss or deduction that has been included in the initial computation of Net Loss is subjected to a Required Allocation or a Curative Allocation, Net Income, or Net Loss, whichever the case may be, shall be recomputed without regard to such item.

"NET TERMINATION GAIN" means, for any taxable period, the sum, if positive, of all items of income, gain, loss or deduction recognized by the Partnership (including, without limitation, such amounts recognized through the Operating Partnership) from Termination Capital Transactions occurring in such taxable period. The items included in the determination of Net Termination Gain shall be determined in accordance with Section 4.5(b) and shall not include any items of income, gain or loss specially allocated under Section 5.1(d). Once an item of income, gain or loss that has been included in the initial computation of Net Termination Gain is subjected to a Required Allocation or a Curative Allocation, Net Termination Gain or Net Termination Loss, whichever the case may be, shall be recomputed without regard to such item.

"NET TERMINATION LOSS" means, for any taxable period, the sum, if negative, of all items of income, gain, loss or deduction recognized by the Partnership (including, without limitation, such amounts recognized through the Operating Partnership) from Termination Capital Transactions occurring in such taxable period. The items included in the determination of Net Termination Loss shall be determined in accordance with Section 4.5(b) and shall not include any items of income, gain or loss specially allocated under Section 5.1(d). Once an item of gain or loss that has been included in the initial computation of Net Termination Loss is subjected to a Required Allocation or a Curative Allocation, Net Termination Gain or Net Termination Loss, whichever the case may be, shall be recomputed without regard to such item.

"NON-CITIZEN ASSIGNEE" means a Person who the General Partner has determined in its sole discretion does not constitute an Eligible Citizen and as to whose Partnership Interest the General Partner has become the Substituted Limited Partner, pursuant to Section 11.5.

"NONRECOURSE BUILT-IN GAIN" means with respect to any Contributed Properties or Adjusted Properties that are subject to a mortgage or pledge securing a Nonrecourse Liability, the amount

of any taxable gain that would be allocated to the Partners pursuant to Sections 5.2(b)(i)(A), 5.2(b)(ii)(A) or 5.2(b)(iii) if such properties were disposed of in a taxable transaction in full satisfaction of such liabilities and for no other consideration.

"NONRECOURSE DEDUCTIONS" means any and all items of loss, deduction or expenditures (described in Section 705(a)(2)(B) of the Code) that, in accordance with the principles of Treasury Regulation Section 1.704-2(b), are attributable to a Nonrecourse Liability.

"NONRECOURSE LIABILITY" has the meaning set forth in Treasury Regulation Section 1.752-1(a)(2).

"NOTICE OF ELECTION TO PURCHASE" has the meaning assigned to such term in Section 17.1(b).

"OPERATING PARTNERSHIP" means Ferrellgas, L.P., a Delaware limited partnership.

"OPERATING PARTNERSHIP AGREEMENT" means the Agreement of Limited Partnership of the Operating Partnership, as it may be amended, supplemented or restated from time to time.

"OPINION OF COUNSEL" means a written opinion of counsel (who may be regular counsel to Ferrellgas, any Affiliate of Ferrellgas, the Partnership or the General Partner) acceptable to the General Partner.

"ORGANIZATIONAL LIMITED PARTNER" means Danley K. Sheldon, in his capacity as the organizational limited partner of the Partnership pursuant to this Agreement.

"OUTSTANDING" means, with respect to the Units or other Partnership Securities, all Units or other Partnership Securities that are issued by the Partnership and reflected as outstanding on the Partnership's books and records as of the date of determination; provided that, if at any time any Person or Group (other than Ferrellgas and its Affiliates) owns beneficially 20% or more of all Common Units, such Common Units so owned shall not be voted on any matter and shall not be considered to be Outstanding when sending notices of a meeting of Limited Partners (unless otherwise required by law), calculating required votes, determining the presence of a quorum or for other similar purposes under this Agreement, except that such Common Units shall be considered to be Outstanding for purposes of Section 13.1(b)(iv) (such Common Units shall not, however, be treated as a separate class of Partnership Securities for purposes of this Agreement).

"OVERALLOTMENT OPTION" means the over-allotment option granted to the Underwriters by the Partnership pursuant to the Underwriting Agreement.

"PARTNERS" means the General Partner, the Limited Partners and the Special Limited Partners.

"PARTNER NONRECOURSE DEBT" has the meaning set forth in Treasury Regulation Section 1.704-2(b)(4).

"PARTNER NONRECOURSE DEBT MINIMUM GAIN" has the meaning set forth in Treasury Regulation Section 1.704-2(i)(2).

"PARTNER NONRECOURSE DEDUCTIONS" means any and all items of loss, deduction or expenditure (including, without limitation, any expenditure described in Section 705(a)(2)(B) of the Code) that, in accordance with the principles of Treasury Regulation Section 1.704-2(i), are attributable to a Partner Nonrecourse Debt.

"PARTNERSHIP" means Ferrellgas Partners, L.P., a Delaware limited partnership established by the Certificate of Limited Partnership, and any successors thereto.

"PARTNERSHIP INTEREST" means an interest in the Partnership, which shall include general partner interests, Common Units, Subordinated Units, IDRs or other Partnership Securities, or a combination thereof or interest therein, as the case may be.

"PARTNERSHIP MINIMUM GAIN" means that amount determined in accordance with the principles of Treasury Regulation Section 1.704-2(d).

"PARTNERSHIP SECURITIES" has the meaning assigned to such term in Section 4.3(a).

"PER UNIT CAPITAL AMOUNT" means, as of any date of determination, the Capital Account, stated on a per Unit basis, underlying any Unit held by a Person other than the General Partner or any Affiliate of the General Partner who holds Units.

"PERCENTAGE INTEREST" means as of the date of such determination (a) as to the General Partner, 1%, (b) as to any Limited Partner or Assignee holding Units, the product of (i) 99% multiplied by (ii) the quotient of the number of Units held by such Limited Partner or Assignee divided by the total number of all Units then Outstanding; provided, however, that following any issuance of additional Partnership Securities by the Partnership in accordance with Section 4.3, proper adjustment shall be made to the Percentage Interest represented by each Unit to reflect such issuance, and (c) as to the holders of additional Partnership Securities issued by the Partnership in accordance with Section 4.3, the percentage established as a part of such issuance.

"PERSON" means an individual or a corporation, partnership, trust, unincorporated organization, association or other entity.

"PURCHASE DATE" means the date determined by the General Partner as the date for purchase of all Outstanding Units (other than Units owned by the General Partner and its Affiliates) pursuant to Article XVII.

"QUARTER" means, unless the context requires otherwise, a three month period of time ending on October 31, January 31, April 30, or July 31; provided, however, that the General Partner, in its sole discretion, may amend such period as it deems necessary or appropriate in connection with a change in the fiscal year of the Partnership.

"RECAPTURE INCOME" means any gain recognized by the Partnership (computed without regard to any adjustment required by Sections 734 or 743 of the Code) upon the disposition of any property or asset of the Partnership, which gain is characterized as ordinary income because it represents the recapture of deductions previously taken with respect to such property or asset.

"RECORD DATE" means the date established by the General Partner for determining (a) the identity of the Record Holder entitled to notice of, or to vote at, any meeting of Limited Partners or entitled to vote by ballot or give approval of Partnership action in writing without a meeting or entitled to exercise rights in respect of any lawful action of Limited Partners or (b) the identity of Record Holders entitled to receive any report or distribution.

"RECORD HOLDER" means the Person in whose name a Unit is registered on the books of the Transfer Agent as of the opening of business on a particular Business Day, or with respect to a holder of a general partner interest or an IDR, the Person in whose name such general partner interest or IDR is registered on the books of the General Partner as of the opening of business on such Business Day.

"REDEEMABLE UNITS" means any Units for which a redemption notice has been given, and has not been withdrawn, under Section 11.6.

"REGISTRATION STATEMENT" means the Registration Statement on Form S-1 (Registration No. 33-53383), as it has been or as it may be amended or supplemented from time to time, filed by the Partnership with the Commission under the Securities Act to register the offering and sale of the Common Units in the Initial Offering.

"REQUIRED ALLOCATIONS" means any allocation (or limitation imposed on any allocation) of an item of income, gain, deduction or loss pursuant to (a) Section 5.1(b)(ii) or (b) Sections 5.1(d)(i), 5.1(d)(ii), 5.1(d)(iv), 5.1(d)(v), 5.1(d)(vi), 5.1(d)(vii) and 5.1(d)(ix), such allocations (or limitations thereon) being directly or indirectly required by the Treasury regulations promulgated under Section 704(b) of the Code.



"RESIDUAL GAIN" or "RESIDUAL LOSS" means any item of gain or loss, as the case may be, of the Partnership recognized for federal income tax purposes resulting from a sale, exchange or other disposition of a Contributed Property or Adjusted Property, to the extent such item of gain or loss is not allocated pursuant to Sections 5.2(b)(i)(A) or 5.2(b)(ii)(A), respectively, to eliminate Book-Tax Disparities.

"RESTRICTED ACTIVITIES" means the retail sale of propane to end users within the continental United States in the manner engaged in by Ferrellgas immediately prior to the Closing Date.

"SECOND LIQUIDATION TARGET AMOUNT" has the meaning assigned to such term in Section 5.1(c)(i)(E).

"SECOND TARGET DISTRIBUTION" means \$0.63 per Unit (or, with respect to the period commencing on the Closing Date and ending on October 31, 1994, the product of \$0.63 multiplied by a fraction of which the numerator is equal to the number of days in such period and of which the denominator is 92), subject to adjustment in accordance with Sections 5.6 and 9.6.

"SECURITIES ACT" means the Securities Act of 1933, as amended, supplemented or restated from time to time and any successor to such statute.

"SPECIAL APPROVAL" means approval by the Audit Committee.

"SPECIAL LIMITED PARTNER" means each holder of an IDR.

"SPECIAL LIMITED PARTNERS BOOK CAPITAL" means, as of any date of determination, the amount equal to the sum of the balances of the Capital Accounts of all the Special Limited Partners, determined pursuant to Section 4.5 (prior to any adjustment pursuant to Section 4.5(d) arising upon the present event requiring a valuation of the Partnership's assets).

"SUBORDINATED UNIT" means a Unit representing a fractional part of the Partnership Interests of all Limited Partners and Assignees and having the rights and obligations specified with respect to Subordinated Units in this Agreement.

"SUBORDINATION PERIOD" means the period commencing on the Closing Date and ending on the first to occur of the following dates:

(a) the first day of any Quarter commencing on or after August 1, 1999, provided that each of the following two tests have been satisfied:

(i) the Partnership has, with respect to each of the three consecutive four-Quarter periods immediately preceding such date, made distributions of Available Cash constituting Cash from Operations in an amount equal to or greater than the Minimum Quarterly Distribution on each Common Unit and Subordinated Unit Outstanding for such periods; provided, however, that in determining the amount of Available Cash constituting Cash from Operations distributed in any four-Quarter period the following amounts shall not be included: (A) any positive balance in Cash from Operations at the beginning of such four-Quarter period, (B) any net increase in working capital borrowings in such four-Quarter period and (C) any net decrease in reserves in such four-Quarter period; and

(ii) as of such date, the Partnership and the Operating Partnership, on a combined basis, have made, directly or indirectly, cash capital expenditures attributable to Acquisitions and Capital Additions and Improvements since the Closing Date which equal or exceed \$50 million; and

(b) the date on which the General Partner is removed as general partner of the Partnership upon the requisite vote by Limited Partners under circumstances where Cause does not exist.

"SUBSIDIARY" means, with respect to any Person, (i) a corporation of which more than 50% of the voting power of shares of Capital Interests entitled (without regard to the occurrence of any contingency) to vote in the election of directors or other governing body of such corporation is owned, directly or indirectly, by such Person, by one or more Subsidiaries of such Person, or a combination thereof, (ii) a partnership (whether general or limited) in which such Person or a Subsidiary of such Person is, at the date of determination, a general or limited partner of such partnership, but only if more than 50% of the Capital Interests of such partnership (considering all of the Capital Interests of the partnership as a single class) is owned or controlled, directly or indirectly, by such Person, by one or more Subsidiaries of such Person, or a combination thereof, or (iii) any other Person (other than a corporation or a partnership) in which such Person, directly or indirectly, at the date of determination, has (x) at least a majority ownership interest or (y) the power to elect or direct the election of a majority of the directors or other governing body of such Person.

"SUBSTITUTED LIMITED PARTNER" means a Person who is admitted as a Limited Partner to the Partnership pursuant to Section 12.2 in place of and with all the rights of a Limited Partner and who is shown as a Limited Partner on the books and records of the Partnership.

"SURVIVING BUSINESS ENTITY" has the meaning assigned to such term in Section 16.2(b).

"TERMINATION CAPITAL TRANSACTIONS" means any sale, transfer or other disposition of property of the Partnership or the Operating Partnership occurring upon or incident to the liquidation and winding up of the Partnership and the Operating Partnership pursuant to Article XIV.

"THIRD TARGET DISTRIBUTION" means \$0.82 per Unit (or, with respect to the period commencing on the Closing Date and ending on October 31, 1994, the product of \$0.82 multiplied by a fraction of which the numerator is equal to the number of days in such period and of which the denominator is 92), subject to adjustment in accordance with Sections 5.6 and 9.6.

"TRADING DAY" has the meaning assigned to such term in Section 17.1(a).

"TRANSFER" has the meaning assigned to such term in Section 11.1(a).

"TRANSFER AGENT" means such bank, trust company or other Person (including, without limitation, the General Partner or one of its Affiliates) as shall be appointed from time to time by the Partnership to act as registrar and transfer agent for the Units.

"TRANSFER APPLICATION" means an application and agreement for transfer of Units in the form set forth on the back of a Certificate or in a form substantially to the same effect in a separate instrument.

"UNDERWRITER" means each Person named as an underwriter in Schedule I to the Underwriting Agreement who purchases Common Units pursuant thereto.

"UNDERWRITING AGREEMENT" means the Underwriting Agreement dated , 1994, among the Underwriters, the Partnership, the General Partner and Ferrell providing for the purchase of Common Units by such Underwriters.

"UNIT" means a Partnership Interest of a Limited Partner or Assignee in the Partnership representing a fractional part of the Partnership Interests of all Limited Partners and Assignees and shall include, without limitation, Common Units and Subordinated Units; provided, that each Common Unit at any time Outstanding shall represent the same fractional part of the Partnership Interests of all Limited Partners and Assignees holding Common Units as each other Common Unit and each Subordinated Unit at any time Outstanding shall represent the same fractional part of the Partnership Interests of all Limited Partners and Assignees holding Subordinated Units as each other Subordinated Unit.

"UNPAID MQD" has the meaning assigned to such term in Section 5.1(c)(i)(B).

"UNREALIZED GAIN" attributable to any item of Partnership property means, as of any date of determination, the excess, if any, of (a) the fair market value of such property as of such date (as determined under Section 4.5(d)) over (b) the Carrying Value of such property as of such date (prior to any adjustment to be made pursuant to Section 4.5(d) as of such date).

"UNREALIZED LOSS" attributable to any item of Partnership property means, as of any date of determination, the excess, if any, of (a) the Carrying Value of such property as of such date (prior to any adjustment to be made pursuant to Section 4.5(d) as of such date) over (b) the fair market value of such property as of such date (as determined under Section 4.5(d)).

"UNRECOVERED INITIAL UNIT PRICE" means, at any time, with respect to a class or series of Units (other than Subordinated Units), the price per Unit at which such class or series of Units was initially offered to the public for sale by the underwriters in respect of such offering, as determined by the General Partner, less the sum of all distributions theretofore made in respect of a Unit of such class or series that was sold in the initial offering of Units of said class or series constituting Cash from Interim Capital Transactions and any distributions of cash (or the Net Agreed Value of any distributions in kind) in connection with the dissolution and liquidation of the Partnership theretofore made in respect of a Unit of such class or series that was sold in the initial offering of Units of such class or series, adjusted as the General Partner determines to be appropriate to give effect to any distribution, subdivision or combination of Units.

"UNRECOVERED SUBORDINATED UNIT CAPITAL" means, at any time, with respect to a Subordinated Unit, prior to its conversion into a Common Unit pursuant to Sections 5.7(b) and (c), the excess, if any, of (a) the Net Agreed Value (at the time of conveyance) of the undivided interest in the Contributed Property conveyed to the Partnership pursuant to Section 4.2 in exchange for such Subordinated Unit, over (b) any distributions of cash (or the Net Agreed Value of any distributions in kind) in connection with the dissolution and liquidation of the Partnership, adjusted as the General Partner determines to be appropriate to give effect to any distribution, subdivision or combination of Subordinated Units.

"WITHDRAWAL OPINION OF COUNSEL" has the meaning assigned to such term in Section 13.1(b).

### ARTICLE III PURPOSE

3.1 PURPOSE AND BUSINESS. The purpose and nature of the business to be conducted by the Partnership shall be (a) to serve as a limited partner in the Operating Partnership and, in connection therewith, to exercise all of the rights and powers conferred upon the Partnership as a limited partner in the Operating Partnership pursuant to the Operating Partnership Agreement or otherwise, (b) to engage directly in, or to enter into or form any corporation, partnership, joint venture, limited liability company or other arrangement to engage in, any business activity that the Operating Partnership is permitted to engage in by the Operating Partnership Agreement and, in connection therewith, to exercise all of the rights and powers conferred upon the Partnership pursuant to the agreements relating to such business activity, (c) to engage directly in, or to enter into or form any corporation, partnership, joint venture, limited liability company or other arrangement to engage in, any business activity that is approved by the General Partner and which lawfully may be conducted by a limited partnership organized pursuant to the Delaware Act and, in connection therewith, to exercise all of the rights and powers conferred upon the Partnership pursuant to the agreements relating to such business activity, and (d) to do anything necessary or appropriate to the foregoing, including, without limitation, the making of capital contributions or loans to the Operating Partnership. The General Partner has no obligation or duty to the Partnership, the Limited Partners, the Special Limited Partners or the Assignees to propose or approve, and in its sole discretion may decline to propose or approve, the conduct by the Partnership of any business.

3.2 POWERS. The Partnership shall be empowered to do any and all acts and things necessary, appropriate, proper, advisable, incidental to or convenient for the furtherance and accomplishment of the purposes and business described in Section 3.1 and for the protection and benefit of the Partnership.

#### ARTICLE IV CAPITAL CONTRIBUTIONS

4.1 INITIAL CONTRIBUTIONS; RETURN OF INITIAL CONTRIBUTIONS. (a) In connection with the formation of the Partnership under the Delaware Act, the General Partner has made an initial Capital Contribution to the Partnership in the amount of \$10 for an interest in the Partnership and has been admitted as the general partner of the Partnership, and the Organizational Limited Partner has made a Capital Contribution to the Partnership in the amount of \$990 for an interest in the Partnership and has been admitted as a limited partner of the Partnership.

(b) As of the Closing Date, after giving effect to the transactions contemplated by Section 4.2 and the admission to the Partnership of the Initial Limited Partners in accordance with this Agreement, the interest of the Organizational Limited Partner shall be terminated, the \$10 Capital Contribution by the General Partner and the \$990 Capital Contribution by the Organizational Limited Partner as initial Capital Contributions shall be refunded and the Organizational Limited Partner shall cease to be a Limited Partner of the Partnership. Ninety-nine percent of any interest or other profit that may have resulted from the investment or other use of such initial Capital Contributions shall be allocated and distributed to the Organizational Limited Partner, and the balance thereof shall be allocated and distributed to the General Partner.

#### 4.2 CONTRIBUTIONS BY THE GENERAL PARTNER AND THE INITIAL LIMITED PARTNERS.

(a) On the Closing Date, the General Partner shall, as set forth in the Contribution Agreement, contribute, transfer, convey, assign and deliver to the Partnership, as a Capital Contribution, a limited partner interest in the Operating Partnership which, together with the Partnership Interest (as defined in the Operating Partnership Agreement) previously held by the Partnership, will represent a 98.9899% Percentage Interest (as defined in the Operating Partnership Agreement) in the Operating Partnership, in exchange for (i) the continuation of its Partnership Interest as general partner in the Partnership, subject to all of the rights, privileges and duties of the General Partner under this Agreement, (ii) 1,000,000 Common Units and 16,118,559 Subordinated Units and (iii) the IDRs.

(b) Subject to completion of the Capital Contributions referred to in Section 4.2(a), on the Closing Date, each Underwriter shall contribute and deliver to the Partnership cash in an amount equal to the Issue Price per Common Unit, multiplied by the number of Common Units specified in the Underwriting Agreement to be purchased by such Underwriter at the "First Closing Date", as such term is defined in the Underwriting Agreement. In exchange for such Capital Contribution by the Underwriters, the Partnership shall issue Common Units to each Underwriter on whose behalf such Capital Contribution is made in an amount equal to the quotient obtained by dividing (X) the cash contribution to the Partnership by or on behalf of such Underwriter by (Y) the Issue Price per Common Unit.

4.3 ISSUANCES OF ADDITIONAL UNITS AND OTHER SECURITIES. (a) Subject to Section 4.3(c), the General Partner is hereby authorized to cause the Partnership to issue, in addition to the Partnership Interests and Units issued pursuant to Sections 4.1 and 4.2, such additional Units, or classes or series thereof, or options, rights, warrants or appreciation rights relating thereto, or any other type of equity security that the Partnership may lawfully issue, any unsecured or secured debt obligations of the Partnership convertible into any class or series of equity securities of the Partnership (collectively, "PARTNERSHIP SECURITIES"), for any Partnership purpose, at any time or from time to time, to the Partners or to other Persons for such consideration and on such terms and conditions as shall be established by the General Partner in its sole discretion, all without the approval of any Limited Partners. The General Partner shall have sole discretion, subject to the guidelines set forth in this

Section 4.3 and the requirements of the Delaware Act, in determining the consideration and terms and conditions with respect to any future issuance of Partnership Securities.

(b) Additional Partnership Securities to be issued by the Partnership pursuant to this Section 4.3 shall be issuable from time to time in one or more classes, or one or more series of any of such classes, with such designations, preferences and relative, participating, optional or other special rights, powers and duties, including, without limitation, rights, powers and duties senior to existing classes and series of Partnership Securities (except as provided in Section 4.3(c)), all as shall be fixed by the General Partner in the exercise of its sole discretion, subject to Delaware law and Section 4.3(c), including, without limitation, (i) the allocations of items of Partnership income, gain, loss, deduction and credit to each such class or series of Partnership Securities; (ii) the right of each such class or series of Partnership Securities to share in Partnership distributions; (iii) the rights of each such class or series of Partnership Securities upon dissolution and liquidation of the Partnership; (iv) whether such class or series of additional Partnership Securities is redeemable by the Partnership and, if so, the price at which, and the terms and conditions upon which, such class or series of additional Partnership Securities may be redeemed by the Partnership; (v) whether such class or series of additional Partnership Securities is issued with the privilege of conversion and, if so, the rate at which, and the terms and conditions upon which, such class or series of Partnership Securities may be converted into any other class or series of Partnership Securities or other property; (vi) the terms and conditions upon which each such class or series of Partnership Securities will be issued, evidenced by certificates and assigned or transferred; and (vii) the right, if any, of each such class or series of Partnership Securities to vote on Partnership matters, including, without limitation, matters relating to the relative rights, preferences and privileges of each such class or series.

(c) Notwithstanding the terms of Sections 4.3(a) and 4.3(b), the issuance by the Partnership of any Partnership Securities pursuant to this Section 4.3 shall be subject to the following restrictions and limitations:

(i) During the Subordination Period, the Partnership shall not issue an aggregate of more than 7,000,000 additional Common Units (excluding Common Units issued in connection with the exercise of the Over-allotment Option and Common Units issued upon conversion of Subordinated Units pursuant to Section 5.7(b)) or an equivalent amount of other Units having rights to distributions or in liquidation ranking on a parity with the Common Units, without the prior approval of two-thirds of the Outstanding Common Units; provided, however, that in addition to such Units the Partnership may also issue an unlimited amount of additional Common Units or other Partnership Securities having rights to distribution or in liquidation ranking on a parity with the Common Units prior to the end of the Subordination Period and without the approval of the Unitholders if (A) such issuance occurs in connection with or (B) within 270 days of, and the net proceeds from the issuance of such Common Units or other Partnership Securities are used to repay debt incurred in connection with, an Acquisition or a Capital Addition and Improvement involving properties and assets that would have, if acquired by the Partnership as of the date that is one year prior to the first day of the Quarter in which such Acquisition is to be consummated or such Capital Addition and Improvement is to be completed, resulted in an increase in (1) the amount of Available Cash constituting Cash from Operations generated by the Partnership on a per-Unit basis (for all Outstanding Units) with respect to each of the four most recently completed Quarters (determined on a pro forma basis assuming that (w) all of the Common Units or other Partnership Securities to be issued in connection with or within 270 days of such Acquisition or Capital Addition and Improvement had been issued and outstanding, and (x) all indebtedness for borrowed money to be incurred or assumed in connection with such Acquisition or Capital Addition and Improvement (other than any such indebtedness that is to be repaid with the proceeds of such offering) had been incurred or assumed, in each case as of the commencement of such four-Quarter period), and computing expenses that would have been incurred by the Partnership in the operation of the assets and properties acquired by including (y) the personnel

expenses for employees to be retained by the Partnership in the operation of the assets and properties acquired and (z) the non-personnel costs and expenses on the same basis as those incurred by the Partnership in the operation of the Partnership's business at similarly situated Partnership facilities) over (2) the actual amount of Available Cash constituting Cash from Operations generated by the Partnership on a per-Unit basis (for all Outstanding Units) with respect to each of such four Quarters; and

(ii) During the Subordination Period, the Partnership shall not issue additional Partnership Securities having rights to distributions or in liquidation ranking prior or senior to the Common Units, without the prior approval of two-thirds of the Outstanding Common Units; and

(iii) Upon the issuance of any Partnership Interests by the Partnership or the making of any other Capital Contributions to the Partnership, the General Partner shall be required to make additional Capital Contributions to the Partnership in an amount equal to 1.01% of the additional Capital Contribution then made by a Person other than the General Partner.

(d) The General Partner is hereby authorized and directed to take all actions that it deems necessary or appropriate in connection with each issuance of Units, IDRs or other Partnership Securities pursuant to Section 4.3(a) and to amend this Agreement in any manner that it deems necessary or appropriate to provide for each such issuance, to admit Additional Limited Partners in connection therewith and to specify the relative rights, powers and duties of the holders of the Units, IDRs or other Partnership Securities being so issued.

(e) The General Partner shall do all things necessary to comply with the Delaware Act and is authorized and directed to do all things it deems to be necessary or advisable in connection with any future issuance of Partnership Securities, including, without limitation, compliance with any statute, rule, regulation or guideline of any federal, state or other governmental agency or any National Securities Exchange on which the Units or other Partnership Securities are listed for trading.

4.4 LIMITED PREEMPTIVE RIGHTS. Except as provided in this Section 4.4, no Person shall have any preemptive, preferential or other similar right with respect to (a) additional Capital Contributions; (b) issuance or sale of any class or series of Units, IDRs or other Partnership Securities, whether unissued, held in the treasury or hereafter created; (c) issuance of any obligations, evidences of indebtedness or other securities of the Partnership convertible into or exchangeable for, or carrying or accompanied by any rights to receive, purchase or subscribe to, any such Units, IDRs or other Partnership Securities; (d) issuance of any right of subscription to or right to receive, or any warrant or option for the purchase of, any such Units, IDRs or other Partnership Securities; or (e) issuance or sale of any other securities that may be issued or sold by the Partnership. The General Partner shall have the right, which it may from time to time assign in whole or in part to any of its Affiliates, to purchase Units, IDRs or other Partnership Securities from the Partnership whenever, and on the same terms that, the Partnership issues Units, IDRs or other Partnership Securities to Persons other than the General Partner and its Affiliates, to the extent necessary to maintain the Percentage Interests of the General Partner and its Affiliates equal to that which existed immediately prior to the issuance of such Units, IDRs or other Partnership Securities.

4.5 CAPITAL ACCOUNTS. (a) The Partnership shall maintain for each Partner (or a beneficial owner of Units held by a nominee in any case in which the nominee has furnished the identity of such owner to the Partnership in accordance with Section 6031(c) of the Code or any other method acceptable to the General Partner in its sole discretion) owning a Partnership Interest a separate Capital Account with respect to such Partnership Interest in accordance with the rules of Treasury Regulation Section 1.704-1(b)(2)(iv). Such Capital Account shall be increased by (i) the amount of all Capital Contributions made to the Partnership with respect to such Partnership Interest pursuant to this Agreement and (ii) all items of Partnership income and gain (including, without limitation, income and gain exempt from tax)

computed in accordance with Section 4.5(b) and allocated with respect to such Partnership Interest pursuant to Section 5.1, and decreased by (x) the amount of cash or Net Agreed Value of all actual and deemed distributions of cash or property made with respect to such Partnership Interest pursuant to this Agreement and (y) all items of Partnership deduction and loss computed in accordance with Section 4.5(b) and allocated with respect to such Partnership Interest pursuant to Section 5.1.

(b) For purposes of computing the amount of any item of income, gain, loss or deduction to be reflected in the Partners' Capital Accounts, the determination, recognition and classification of any such item shall be the same as its determination, recognition and classification for federal income tax purposes (including, without limitation, any method of depreciation, cost recovery or amortization used for that purpose), provided, that:

(i) Solely for purposes of this Section 4.5, the Partnership shall be treated as owning directly its proportionate share (as determined by the General Partner based upon the provisions of the Operating Partnership Agreements) of all property owned by the Operating Partnership.

(ii) All fees and other expenses incurred by the Partnership to promote the sale of (or to sell) a Partnership Interest that can neither be deducted nor amortized under Section 709 of the Code, if any, shall, for purposes of Capital Account maintenance, be treated as an item of deduction at the time such fees and other expenses are incurred and shall be allocated among the Partners pursuant to Section 5.1.

(iii) Except as otherwise provided in Treasury Regulation Section 1.704-1(b)(2)(iv)(m), the computation of all items of income, gain, loss and deduction shall be made without regard to any election under Section 754 of the Code which may be made by the Partnership and, as to those items described in Section 705(a)(1)(B) or 705(a)(2)(B) of the Code, without regard to the fact that such items are not includable in gross income or are neither currently deductible nor capitalized for federal income tax purposes.

(iv) Any income, gain or loss attributable to the taxable disposition of any Partnership property shall be determined as if the adjusted basis of such property as of such date of disposition were equal in amount to the Partnership's Carrying Value with respect to such property as of such date.

(v) In accordance with the requirements of Section 704(b) of the Code, any deductions for depreciation, cost recovery or amortization attributable to any Contributed Property shall be determined as if the adjusted basis of such property on the date it was acquired by the Partnership were equal to the Agreed Value of such property. Upon an adjustment pursuant to Section 4.5(d) to the Carrying Value of any Partnership property subject to depreciation, cost recovery or amortization, any further deductions for such depreciation, cost recovery or amortization attributable to such property shall be determined (A) as if the adjusted basis of such property were equal to the Carrying Value of such property immediately following such adjustment and (B) using a rate of depreciation, cost recovery or amortization derived from the same method and useful life (or, if applicable, the remaining useful life) as is applied for federal income tax purposes; provided, however, that, if the asset has a zero adjusted basis for federal income tax purposes, depreciation, cost recovery or amortization deductions shall be determined using any reasonable method that the General Partner may adopt.

(vi) If the Partnership's adjusted basis in a depreciable or cost recovery property is reduced for federal income tax purposes pursuant to Section 48(q)(1) or 48(q)(3) of the Code, the amount of such reduction shall, solely for purposes hereof, be deemed to be an additional depreciation or cost recovery deduction in the year such property is placed in service and shall be allocated among the Partners pursuant to Section 5.1. Any restoration of such basis pursuant to Section 48(q)(2) of the Code shall, to the extent possible, be allocated in the same manner to the Partners to whom such deemed deduction was allocated.

(c) (i) Except as otherwise provided in Section 4.5(c)(ii), a transferee of a Partnership Interest shall succeed to a pro rata portion of the Capital Account of the transferor relating to the Partnership Interest so transferred; provided, however, that, if the transfer causes a termination of the Partnership under Section 708(b)(1)(B) of the Code, the Partnership's properties shall be deemed to have been distributed in liquidation of the Partnership to the Partners (including any transferee of a Partnership Interest that is a party to the transfer causing such termination) pursuant to Sections 14.3 and 14.4 and recontributed by such Partners in reconstitution of the Partnership. Any such deemed distribution shall be treated as an actual distribution for purposes of this Section 4.5. In such event, the Carrying Values of the Partnership properties shall be adjusted immediately prior to such deemed distribution pursuant to Section 4.5(d)(ii) and such Carrying Values shall then constitute the Agreed Values of such properties upon such deemed contribution to the reconstituted Partnership. The Capital Accounts of such reconstituted Partnership shall be maintained in accordance with the principles of this Section 4.5.

(ii) Immediately prior to the conversion of a Subordinated Unit into a Common Unit pursuant to Sections 5.7(b) or (c) or the sale, exchange or other disposition of a Subordinated Unit by a holder thereof, the Capital Account maintained for such Person with respect to its Subordinated Units will (A) first, be allocated to the Subordinated Units to be converted or transferred, as the case may be, in an amount equal to the product of (x) the number of such Subordinated Units to be converted or transferred, as the case may be, and (y) the Per Unit Capital Amount for a Common Unit, and (B) second, any remaining balance in such Capital Account will be retained by the transferor, regardless of whether it has retained any Subordinated Units. Following any such allocation, the transferor's Capital Account, if any, maintained with respect to the retained Subordinated Units, if any, will have a balance equal to the amount allocated under clause (B) hereinabove, and the transferee's Capital Account established with respect to the transferred Subordinated Units will have a balance equal to the amount allocated under clause (A) hereinabove.

(d) (i) Consistent with the provisions of Treasury Regulation Section 1.704-1(b)(2)(iv)(f), on an issuance of additional Units for cash or Contributed Property or the conversion of the General Partner's Partnership Interest to Common Units pursuant to Section 13.3(b), the Capital Account of all Partners and the Carrying Value of each Partnership property immediately prior to such issuance shall be adjusted upward or downward to reflect any Unrealized Gain or Unrealized Loss attributable to such Partnership property, as if such Unrealized Gain or Unrealized Loss had been recognized on an actual sale of each such property immediately prior to such issuance and had been allocated to the Partners at such time pursuant to Sections 5.1(a) and 5.1(b). In determining such Unrealized Gain or Unrealized Loss, the aggregate cash amount and fair market value of all Partnership assets (including, without limitation, cash or cash equivalents) immediately prior to the issuance of additional Units shall be determined by the General Partner using such reasonable method of valuation as it may adopt; provided, however, the General Partner, in arriving at such valuation, must take fully into account the fair market value of the Partnership Interests of all Partners at such time. The General Partner shall allocate such aggregate value among the assets of the Partnership (in such manner as it determines in its sole discretion to be reasonable) to arrive at a fair market value for individual properties.

(ii) In accordance with Treasury Regulation Section 1.704-1(b)(2)(iv)(f), immediately prior to any actual or deemed distribution to a Partner of any Partnership property (other than a distribution of cash that is not in redemption or retirement of a Partnership Interest), the Capital Accounts of all Partners and the Carrying Value of all Partnership property shall be adjusted upward or downward to reflect any Unrealized Gain or Unrealized Loss attributable to such Partnership property, as if such Unrealized Gain or Unrealized Loss had been recognized in a sale of such property immediately prior to such distribution for an amount equal to its fair market value, and had been allocated to the Partners, at such time, pursuant to Section 5.1. Any Unrealized Gain or



Unrealized Loss attributable to such property shall be allocated in the same manner as Net Termination Gain or Net Termination Loss pursuant to Section 5.1(c); provided, however, that, in making any such allocation, Net Termination Gain or Net Termination Loss actually realized shall be allocated first. In determining such Unrealized Gain or Unrealized Loss the aggregate cash amount and fair market value of all Partnership assets (including, without limitation, cash or cash equivalents) immediately prior to a distribution shall (A) in the case of a deemed distribution occurring as a result of a termination of the Partnership pursuant to Section 708 of the Code, be determined and allocated in the same manner as that provided in Section 4.5(d)(i) or (B) in the case of a liquidating distribution pursuant to Section 14.3 or 14.4, be determined and allocated by the Liquidator using such reasonable method of valuation as it may adopt.

4.6 INTEREST. No interest shall be paid by the Partnership on Capital Contributions or on balances in Partners' Capital Accounts.

4.7 NO WITHDRAWAL. No Partner shall be entitled to withdraw any part of its Capital Contributions or its Capital Account or to receive any distribution from the Partnership, except as provided in Section 4.1, and Articles V, VII, XIII and XIV.

4.8 LOANS FROM PARTNERS. Loans by a Partner to the Partnership shall not constitute Capital Contributions. If any Partner shall advance funds to the Partnership in excess of the amounts required hereunder to be contributed by it to the capital of the Partnership, the making of such excess advances shall not result in any increase in the amount of the Capital Account of such Partner. The amount of any such excess advances shall be a debt obligation of the Partnership to such Partner and shall be payable or collectible only out of the Partnership assets in accordance with the terms and conditions upon which such advances are made.

4.9 NO FRACTIONAL UNITS. No fractional Units shall be issued by the Partnership.

4.10 SPLITS AND COMBINATIONS. (a) Subject to Section 4.10(d), the General Partner may make a pro rata distribution of Units or other Partnership Securities to all Record Holders or may effect a subdivision or combination of Units or other Partnership Securities; provided, however, that after any such distribution, subdivision or combination, each Partner shall have the same Percentage Interest in the Partnership as before such distribution, subdivision or combination.

(b) Whenever such a distribution, subdivision or combination of Units or other Partnership Securities is declared, the General Partner shall select a Record Date as of which the distribution, subdivision or combination shall be effective and shall send notice of the distribution, subdivision or combination at least 20 days prior to such Record Date to each Record Holder as of the date not less than 10 days prior to the date of such notice. The General Partner also may cause a firm of independent public accountants selected by it to calculate the number of Units to be held by each Record Holder after giving effect to such distribution, subdivision or combination. The General Partner shall be entitled to rely on any certificate provided by such firm as conclusive evidence of the accuracy of such calculation.

(c) Promptly following any such distribution, subdivision or combination, the General Partner may cause Certificates to be issued to the Record Holders of Units as of the applicable Record Date representing the new number of Units held by such Record Holders, or the General Partner may adopt such other procedures as it may deem appropriate to reflect such distribution, subdivision or combination; provided, however, if any such distribution, subdivision or combination results in a smaller total number of Units Outstanding, the General Partner shall require, as a condition to the delivery to a Record Holder of such new Certificate, the surrender of any Certificate held by such Record Holder immediately prior to such Record Date.

(d) The Partnership shall not issue fractional Units upon any distribution, subdivision or combination of Units. If a distribution, subdivision or combination of Units would result in the issuance of fractional Units but for the provisions of Section 4.9 and this Section 4.10(d), each fractional Unit shall be rounded to the nearest whole Unit (and a 0.5 Unit shall be rounded to the next higher Unit).

ARTICLE V  
ALLOCATIONS AND DISTRIBUTIONS

5.1 ALLOCATIONS FOR CAPITAL ACCOUNT PURPOSES. For purposes of maintaining the Capital Accounts and in determining the rights of the Partners among themselves, the Partnership's items of income, gain, loss and deduction (computed in accordance with Section 4.5(b)) shall be allocated among the Partners in each taxable year (or portion thereof) as provided hereinbelow.

(a) Net Income. After giving effect to the special allocations set forth in Section 5.1(d), Net Income for each taxable period and all items of income, gain, loss and deduction taken into account in computing Net Income for such taxable period shall be allocated as follows:

(i) First, 100% to the General Partner until the aggregate Net Income allocated to the General Partner pursuant to this Section 5.1(a)(i) for the current taxable year and all previous taxable years is equal to the aggregate Net Losses allocated to the General Partner pursuant to Section 5.1(b)(iii) for all previous taxable years;

(ii) Second, 100% to the General Partner and the Limited Partners, in accordance with their respective Percentage Interests, until the aggregate Net Income allocated to such Partners pursuant to this Section 5.1(a)(ii) for the current taxable year and all previous taxable years is equal to the aggregate Net Losses allocated to such Partners pursuant to Section 5.1(b)(ii) for all previous taxable years; and

(iii) Third, the balance, if any, 100% to the General Partner and the Limited Partners in accordance with their respective Percentage Interests.

(b) Net Losses. After giving effect to the special allocations set forth in Section 5.1(d), Net Losses for each taxable period and all items of income, gain, loss and deduction taken into account in computing Net Losses for such taxable period shall be allocated as follows:

(i) First, 100% to the General Partner and the Limited Partners, in accordance with their respective Percentage Interests, until the aggregate Net Losses allocated pursuant to this Section 5.1(b)(i) for the current taxable year and all previous taxable years is equal to the aggregate Net Income allocated to such Partners pursuant to Section 5.1(a)(iii) for all previous taxable years;

(ii) Second, 100% to the General Partner and the Limited Partners in accordance with their respective Percentage Interests; provided, that Net Losses shall not be allocated pursuant to this Section 5.1(b)(ii) to the extent that such allocation would cause any Limited Partner to have a deficit balance in its Adjusted Capital Account at the end of such taxable year (or increase any existing deficit balance in its Adjusted Capital Account); and

(iii) Third, the balance, if any, 100% to the General Partner.

(c) Net Termination Gains and Losses. After giving effect to the special allocations set forth in Section 5.1(d), all items of income gain, loss and deduction taken into account in computing Net Termination Gain or Net Termination Loss for such taxable period shall be allocated in the same manner as such Net Termination Gain or Net Termination Loss is allocated hereunder. All allocations under this Section 5.1(c) shall be made after Capital Account balances have been adjusted by all other allocations provided under this Section 5.1 and after all distributions of Available Cash provided under Section 5.4 have been made with respect to the taxable period ending on the date of the Partnership's liquidation pursuant to Section 14.3.

(i) If a Net Termination Gain is recognized (or deemed recognized pursuant to Section 4.5(d)) from Termination Capital Transactions, such Net Termination Gain shall be allocated among the General Partner, the Limited Partners and the Special Limited Partners in the following manner (and the Adjusted Capital Accounts of the Partners shall be increased by the amount so allocated in each of the following subclauses, in the order listed, before an allocation is made pursuant to the next succeeding subclause):

(A) First, to each Partner having a deficit balance in its Adjusted Capital Account, in the proportion that such deficit balance bears to the total deficit balances in the Adjusted Capital Accounts of all Partners, until each such Partner has been allocated Net Termination Gain equal to any such deficit balance in its Adjusted Capital Account;

(B) Second, 99% to all Limited Partners holding Common Units, in accordance with their relative Percentage Interests, and 1% to the General Partner until the Adjusted Capital Account in respect of each Common Unit then Outstanding is equal to the sum of (1) its Unrecovered Initial Unit Price plus (2) the Minimum Quarterly Distribution for the Quarter during which such Net Termination Gain is recognized, reduced by any distribution pursuant to Sections 5.4(a)(i) or (b)(i) with respect to such Common Unit for such Quarter (the amount determined pursuant to this clause (2) is hereinafter defined as the "UNPAID MQD") plus (3) any then existing Cumulative Common Unit Arrearage with respect to a Common Unit sold by the Underwriters on the Closing Date;

(C) Third, if such Termination Capital Transaction occurs (or is deemed to occur) prior to the expiration of the Subordination Period, 99% to the Limited Partners holding Subordinated Units, in the proportion that the total number of Subordinated Units held by each such Limited Partner bears to the total number of Subordinated Units then Outstanding, and 1% to the General Partner, in the amount which will increase the Adjusted Capital Account of each such Limited Partner maintained with respect to such Subordinated Units to that amount which equals the sum of (1) the Unrecovered Subordinated Unit Capital attributable to such Subordinated Units, determined for the taxable year (or portion thereof) to which this allocation of gain relates plus (2) the Minimum Quarterly Distribution for the Quarter during which such Net Termination Gain is recognized, reduced by any distribution pursuant to Section 5.4(a)(iii) with respect to such Subordinated Unit for such Quarter;

(D) Fourth, 99% to all Limited Partners, in accordance with their relative Percentage Interests, and 1% to the General Partner until the Adjusted Capital Account in respect of each Common Unit then Outstanding is equal to the sum of (1) its Unrecovered Initial Unit Price, plus (2) the Unpaid MQD, if any, for such Common Unit with respect to the Quarter during which such Net Termination Gain is recognized, plus (3) any then existing Cumulative Common Unit Arrearage with respect to a Common Unit sold by the Underwriters on the Closing Date, plus (4) the excess of (aa) the First Target Distribution less the Minimum Quarterly Distribution for each Quarter of the Partnership's existence over (bb) the amount of any distributions of Cash from Operations that was distributed pursuant to Sections 5.4(a)(iv) or 5.4 (b)(ii) (the sum of (1) plus (2) plus (3) plus (4) is hereinafter defined as the "FIRST LIQUIDATION TARGET AMOUNT");

(E) Fifth, 85.8673% to all Limited Partners, in accordance with their relative Percentage Interests, and 13.1327% to the Special Limited Partners, pro rata, and 1% to the General Partner until the Adjusted Capital Account in respect of each Common Unit then Outstanding is equal to the sum of (1) the First Liquidation Target Amount, plus (2) the excess of (aa) the Second Target Distribution less the First Target Distribution for each Quarter of the Partnership's existence over (bb) the amount of any distributions of Cash from Operations that was distributed pursuant to Section 5.4(a)(v) or 5.4(b)(iii) (the sum of (1) plus (2) is hereinafter defined as the "SECOND LIQUIDATION TARGET AMOUNT");

(F) Sixth, 75.7653% to all Limited Partners, in accordance with their relative Percentage Interests, and 23.2347% to the Special Limited Partners, pro rata, and 1% to the General Partner until the Adjusted Capital Account in respect of each Common Unit then Outstanding is equal to the sum of (1) the Second Liquidation Target Amount, plus (2) the excess of (aa) the Third Target Distribution less the Second Target Distribution for each Quarter of the Partnership's existence over (bb) the amount of any distributions of Cash from Operations that was distributed pursuant to Section 5.4(a)(vi) or 5.4(b)(iv); and

(G) Finally, any remaining amount 50.5102% to all Limited Partners, in accordance with their relative Percentage Interests, and 48.4898% to the Special Limited Partners, pro rata, and 1% to the General Partner.

(ii) If a Net Termination Loss is recognized (or deemed recognized pursuant to Section 4.5(d)) from Termination Capital Transactions, such Net Termination Loss shall be allocated to the Partners in the following manner:

(A) First, if such Termination Capital Transaction occurs (or is deemed to occur) prior to the conversion of the last outstanding Subordinated Unit, 99% to the Partners holding Subordinated Units, in proportion that the total number of Subordinated Units held by each such Limited Partner bears to the total number of Subordinated Units then Outstanding, and 1% to the General Partner, until the Adjusted Capital Account in respect of each Subordinated Unit then Outstanding has been reduced to zero;

(B) Second, 99% to all Limited Partners holding Common Units, in accordance with their relative Percentage Interests, and 1% to the General Partner, until the Adjusted Capital Account in respect of each Common Unit then Outstanding has been reduced to zero; and

(C) Third, the balance, if any, 100% to the General Partner.

(d) Special Allocations. Notwithstanding any other provision of this Section 5.1, the following special allocations shall be made for such taxable period:

(i) Partnership Minimum Gain Chargeback. Notwithstanding any other provision of this Section 5.1, if there is a net decrease in Partnership Minimum Gain during any Partnership taxable period, each Partner shall be allocated items of Partnership income and gain for such period (and, if necessary, subsequent periods) in the manner and amounts provided in Treasury Regulation Sections 1.704-2(f)(6), 1.704-2(g)(2) and 1.704-2(j)(2)(i), or any successor provision. For purposes of this Section 5.1(d), each Partner's Adjusted Capital Account balance shall be determined, and the allocation of income or gain required hereunder shall be effected, prior to the application of any other allocations pursuant to this Section 5.1(d) with respect to such taxable period (other than an allocation pursuant to Sections 5.1(d)(vi) and 5.1(d)(vii)). This Section 5.1(d)(i) is intended to comply with the Partnership Minimum Gain chargeback requirement in Treasury Regulation Section 1.704-2(f) and shall be interpreted consistently therewith.

(ii) Chargeback of Partner Nonrecourse Debt Minimum Gain. Notwithstanding the other provisions of this Section 5.1 (other than Section 5.1(d)(i)), except as provided in Treasury Regulation Section 1.704-2(i)(4), if there is a net decrease in Partner Nonrecourse Debt Minimum Gain during any Partnership taxable period, any Partner with a share of Partner Nonrecourse Debt Minimum Gain at the beginning of such taxable period shall be allocated items of Partnership income and gain for such period (and, if necessary, subsequent periods) in the manner and amounts provided in Treasury Regulation Sections 1.704-2(i)(4) and 1.704-2(j)(2)(ii), or any successor provisions. For purposes of this Section 5.1(d), each Partner's Adjusted Capital Account balance shall be determined, and the allocation of income or gain required hereunder shall be effected, prior to the application of any other allocations pursuant

to this Section 5.1(d), other than Section 5.1(d)(i) and other than an allocation pursuant to Sections 5.1(d)(vi) and 5.1(d)(vii), with respect to such taxable period. This Section 5.1(d)(ii) is intended to comply with the chargeback of items of income and gain requirement in Treasury Regulation Section 1.704-2(i)(4) and shall be interpreted consistently therewith.

(iii) Priority Allocations. If the amount of cash or the Net Agreed Value of any property distributed (except cash or property distributed pursuant to Section 14.3 or 14.4) to any Limited Partner with respect to a taxable year is greater (on a per Unit basis) than the amount of cash or the Net Agreed Value of property distributed to the other Limited Partners (on a per Unit basis), then (1) each Limited Partner receiving such greater cash or property distribution shall be allocated gross income in an amount equal to the product of (aa) the amount by which the distribution (on a per Unit basis) to such Limited Partner exceeds the distribution (on a per Unit basis) to the Limited Partners receiving the smallest distribution and (bb) the number of Units owned by the Limited Partner receiving the greater distribution; and (2) the General Partner shall be allocated gross income in an aggregate amount equal to 1/99 of the sum of the amounts allocated in clause (1) above. All or a portion of the remaining items of Partnership gross income or gain for the taxable period, if any, shall be allocated 100% to the Special Limited Partners, pro rata, until the aggregate amount of such items allocated to the Special Limited Partners, pro rata, under this paragraph (iii) for the current taxable period and all previous taxable periods is equal to the cumulative amount of cash distributed to the Special Limited Partners, pro rata, from the Closing Date through the end of such taxable period.

(iv) Qualified Income Offset. In the event any Partner unexpectedly receives any adjustments, allocations or distributions described in Treasury Regulation Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), or 1.704-1(b)(2)(ii)(d)(6), items of Partnership income and gain shall be specifically allocated to such Partner in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulations promulgated under Section 704(b) of the Code, the deficit balance, if any, in its Adjusted Capital Account created by such adjustments, allocations or distributions as quickly as possible unless such deficit balance is otherwise eliminated pursuant to Section 5.1(d)(i) or (ii).

(v) Gross Income Allocations. In the event any Partner has a deficit balance in its Adjusted Capital Account at the end of any Partnership taxable period, such Partner shall be specially allocated items of Partnership gross income and gain in the amount of such excess as quickly as possible; provided, that an allocation pursuant to this Section 5.1(d)(v) shall be made only if and to the extent that such Partner would have a deficit balance in its Adjusted Capital Account after all other allocations provided for in this Section 5.1 have been tentatively made as if this Section 5.1(d)(v) were not in this Agreement.

(vi) Nonrecourse Deductions. Nonrecourse Deductions for any taxable period shall be allocated to the Partners in accordance with their respective Percentage Interests. If the General Partner determines in its good faith discretion that the Partnership's Nonrecourse Deductions must be allocated in a different ratio to satisfy the safe harbor requirements of the Treasury Regulations promulgated under Section 704(b) of the Code, the General Partner is authorized, upon notice to the Limited Partners, to revise the prescribed ratio to the numerically closest ratio that does satisfy such requirements.

(vii) Partner Nonrecourse Deductions. Partner Nonrecourse Deductions for any taxable period shall be allocated 100% to the Partner that bears the Economic Risk of Loss with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable in accordance with Treasury Regulation Section 1.704-2(i). If more than one Partner bears the Economic Risk of Loss with respect to a Partner Nonrecourse Debt, such Partner Nonrecourse Deductions attributable thereto shall be allocated between or among such Partners in accordance with the ratios in which they share such Economic Risk of Loss.

(viii) Nonrecourse Liabilities. For purposes of Treasury Regulation Section 1.752-3(a)(3), the Partners agree that Nonrecourse Liabilities of the Partnership in excess of the sum of (A) the amount of Partnership Minimum Gain and (B) the total amount of Nonrecourse Built-in Gain shall be allocated among the Partners in accordance with their respective Percentage Interests.

(ix) Code Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any Partnership asset pursuant to Section 734(b) or 743(b) of the Code is required, pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such item of gain or loss shall be specially allocated to the Partners in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such Section of the Treasury regulations.

(x) Economic Uniformity. At the election of the General Partner with respect to any taxable period ending upon, or after, the termination of the Subordination Period, all or a portion of the remaining items of Partnership gross income or gain for such taxable period, if any, shall be allocated 100% to each Partner holding Subordinated Units in the proportion of the number of Subordinated Units held by such Partner to the total number of Subordinated Units then Outstanding, until each such Partner has been allocated an amount of gross income or gain which increases the Capital Account maintained with respect to such Subordinated Units to an amount equal to the product of (A) the number of Subordinated Units held by such Partner and (B) the Per Unit Capital Amount for a Common Unit. The purpose of this allocation is to establish uniformity between the Capital Accounts underlying Subordinated Units and the Capital Accounts underlying Common Units held by Persons other than the General Partner and its Affiliates immediately prior to the conversion of such Subordinated Units into Common Units. This allocation method for establishing such economic uniformity will only be available to the General Partner if the method for allocating the Capital Account maintained with respect to the Subordinated Units between the transferred and retained Subordinated Units pursuant to Section 4.5(c)(ii) does not otherwise provide such economic uniformity to the Subordinated Units.

(xi) Curative Allocation.

(A) Notwithstanding any other provision of this Section 5.1, other than the Required Allocations, the Required Allocations shall be taken into account in making the Agreed Allocations so that, to the extent possible, the net amount of items of income, gain, loss and deduction allocated to each Partner pursuant to the Required Allocations and the Agreed Allocations, together, shall be equal to the net amount of such items that would have been allocated to each such Partner under the Agreed Allocations had the Required Allocations and the related Curative Allocation not otherwise been provided in this Section 5.1. Notwithstanding the preceding sentence, Required Allocations relating to (1) Nonrecourse Deductions shall not be taken into account except to the extent that there has been a decrease in Partnership Minimum Gain and (2) Partner Nonrecourse Deductions shall not be taken into account except to the extent that there has been a decrease in Partner Nonrecourse Debt Minimum Gain. Allocations pursuant to this Section 5.1(d)(xi)(A) shall only be made with respect to Required Allocations to the extent the General Partner reasonably determines that such allocations will otherwise be inconsistent with the economic agreement among the Partners. Further, allocations pursuant to this Section 5.1(d)(xi)(A) shall be deferred with respect to allocations pursuant to clauses (1) and (2) hereof to the extent the General Partner reasonably determines that such allocations are likely to be offset by subsequent Required Allocations.

(B) The General Partner shall have reasonable discretion, with respect to each taxable period, to (1) apply the provisions of Section 5.1(d)(xi)(A) in whatever order is most likely to minimize the economic distortions that might otherwise result from the Required Allocations, and (2) divide all allocations pursuant to Section 5.1(d)(xi)(A) among the Partners in a manner that is likely to minimize such economic distortions.

(xii) Retirement of Assumed Indebtedness. All losses or deductions attributable to premiums, consent fees, or other expenditures incurred by the Partnership to retire indebtedness assumed from the General Partner pursuant to the Contribution Agreement shall be allocated to the General Partner.

(xiii) First Year Allocation. Net Income or Net Loss of the Partnership for the period beginning on the Closing Date and ending on the last day of the taxable year of the Partnership that includes the Closing Date shall be allocated 100% to the General Partner. For the immediately succeeding taxable year of the Partnership, items of income or gain (if the allocation in the prior year was an allocation of Net Income) or items of loss and deduction (if the allocation in the prior year was an allocation of Net Loss) shall be allocated 100% to the Limited Partners, in accordance with their Percentage Interests, in an amount equal to 99% of the Net Income or Net Loss allocated to the General Partner in the prior taxable year.

5.2 ALLOCATIONS FOR TAX PURPOSES. (a) Except as otherwise provided herein, for federal income tax purposes, each item of income, gain, loss and deduction shall be allocated among the Partners in the same manner as its correlative item of "book" income, gain, loss or deduction is allocated pursuant to Section 5.1.

(b) In an attempt to eliminate Book-Tax Disparities attributable to a Contributed Property or Adjusted Property, items of income, gain, loss, depreciation, amortization and cost recovery deductions shall be allocated for federal income tax purposes among the Partners as follows:

(i) (A) In the case of a Contributed Property, such items attributable thereto shall be allocated among the Partners in the manner provided under Section 704(c) of the Code that takes into account the variation between the Agreed Value of such property and its adjusted basis at the time of contribution; and (B) except as otherwise provided in Section 5.2(b)(iii), any item of Residual Gain or Residual Loss attributable to a Contributed Property shall be allocated among the Partners in the same manner as its correlative item of "book" gain or loss is allocated pursuant to Section 5.1.

(ii) (A) In the case of an Adjusted Property, such items shall (1) first, be allocated among the Partners in a manner consistent with the principles of Section 704(c) of the Code to take into account the Unrealized Gain or Unrealized Loss attributable to such property and the allocations thereof pursuant to Section 4.5(d)(i) or (ii), and (2) second, in the event such property was originally a Contributed Property, be allocated among the Partners in a manner consistent with Section 5.2(b)(i)(A); and (B) except as otherwise provided in Section 5.2(b)(iii), any item of Residual Gain or Residual Loss attributable to an Adjusted Property shall be allocated among the Partners in the same manner as its correlative item of "book" gain or loss is allocated pursuant to Section 5.1.

(iii) The General Partner shall apply the principles of Temporary Regulation Section 1.704-3T to eliminate Book-Tax Disparities.

(c) For the proper administration of the Partnership and for the preservation of uniformity of the Units (or any class or classes thereof), the General Partner shall have sole discretion to (i) adopt such conventions as it deems appropriate in determining the amount of depreciation, amortization and cost recovery deductions; (ii) make special allocations for federal income tax purposes of income (including, without limitation, gross income) or deductions; and (iii) amend the provisions of this Agreement as

appropriate (x) to reflect the proposal or promulgation of Treasury regulations under Section 704(b) or Section 704(c) of the Code or (y) otherwise to preserve or achieve uniformity of the Units (or any class or classes thereof). The General Partner may adopt such conventions, make such allocations and make such amendments to this Agreement as provided in this Section 5.2(c) only if such conventions, allocations or amendments would not have a material adverse effect on the Partners, the holders of any class or classes of Units issued and Outstanding or the Partnership, and if such allocations are consistent with the principles of Section 704 of the Code.

(d) The General Partner in its sole discretion may determine to depreciate or amortize the portion of an adjustment under Section 743(b) of the Code attributable to unrealized appreciation in any Adjusted Property (to the extent of the unamortized Book-Tax Disparity) using a predetermined rate derived from the depreciation or amortization method and useful life applied to the Partnership's common basis of such property, despite the inconsistency of such approach with Proposed Treasury Regulation Section 1.168-2(n), Treasury Regulation Section 1.167(c)-1(a)(6) or the legislative history of Section 197 of the Code. If the General Partner determines that such reporting position cannot reasonably be taken, the General Partner may adopt depreciation and amortization conventions under which all purchasers acquiring Units in the same month would receive depreciation and amortization deductions, based upon the same applicable rate as if they had purchased a direct interest in the Partnership's property. If the General Partner chooses not to utilize such aggregate method, the General Partner may use any other reasonable depreciation and amortization conventions to preserve the uniformity of the intrinsic tax characteristics of any Units that would not have a material adverse effect on the Limited Partners or the Record Holders of any class or classes of Units.

(e) Any gain allocated to the Partners upon the sale or other taxable disposition of any Partnership asset shall, to the extent possible, after taking into account other required allocations of gain pursuant to this Section 5.2, be characterized as Recapture Income in the same proportions and to the same extent as such Partners (or their predecessors in interest) have been allocated any deductions directly or indirectly giving rise to the treatment of such gains as Recapture Income.

(f) All items of income, gain, loss, deduction and credit recognized by the Partnership for federal income tax purposes and allocated to the Partners in accordance with the provisions hereof shall be determined without regard to any election under Section 754 of the Code which may be made by the Partnership; provided, however, that such allocations, once made, shall be adjusted as necessary or appropriate to take into account those adjustments permitted or required by Sections 734 and 743 of the Code.

(g) Each item of Partnership income, gain, loss and deduction attributable to a transferred Partnership Interest of the General Partner or to transferred Units shall, for federal income tax purposes, be determined on an annual basis and prorated on a monthly basis and shall be allocated to the Partners as of the opening of the New York Stock Exchange on the first Business Day of each month; provided, however, that (i) if the Underwriter's Overallotment Option is not exercised, such items for the period beginning on the Closing Date and ending on the last day of the month in which the Closing Date occurs shall be allocated to Partners as of the opening of the New York Stock Exchange on the first Business Day of the next succeeding month or (ii) if the Underwriters' Overallotment Option is exercised, such items for the period beginning on the Closing Date and ending on the last day of the month in which the Second Time of Delivery (as defined in the Underwriting Agreement) occurs shall be allocated to the Partners as of the opening of the New York Stock Exchange on the first Business Day of the next succeeding month; and provided, further, that gain or loss on a sale or other disposition of any assets of the Partnership other than in the ordinary course of business shall be allocated to the Partners as of the opening of the New York Stock Exchange on the first Business Day of the month in which such gain or loss is recognized for federal income tax purposes. The General Partner may revise, alter or otherwise modify such methods of allocation as it determines necessary, to the extent permitted or required by Section 706 of the Code and the regulations or rulings promulgated thereunder.



(h) Allocations that would otherwise be made to a Limited Partner under the provisions of this Article V shall instead be made to the beneficial owner of Units held by a nominee in any case in which the nominee has furnished the identity of such owner to the Partnership in accordance with Section 6031(c) of the Code or any other method acceptable to the General Partner in its sole discretion.

5.3 REQUIREMENT AND CHARACTERIZATION OF DISTRIBUTIONS. (a) Within 45 days following the end of (i) the period beginning on the Closing Date and ending on October 31, 1994 and (ii) each Quarter commencing with the Quarter beginning on November 1, 1994, an amount equal to 100% of Available Cash with respect to such period or Quarter shall be distributed in accordance with this Article V by the Partnership to the Partners, as of the Record Date selected by the General Partner in its reasonable discretion. All amounts of Available Cash distributed by the Partnership on any date from any source shall be deemed to be Cash from Operations until the sum of all amounts of Available Cash theretofore distributed by the Partnership to Partners pursuant to Section 5.4 equals the aggregate amount of all Cash from Operations generated by the Partnership since the Closing Date through the close of the immediately preceding Quarter. Any remaining amounts of Available Cash distributed by the Partnership on such date shall, except as otherwise provided in Section 5.5, be deemed to be Cash from Interim Capital Transactions.

(b) Notwithstanding the definitions of Available Cash and Cash from Operations contained herein, disbursements (including, without limitation, contributions to the Operating Partnership or disbursements on behalf of the Operating Partnership) made or cash reserves established, increased or reduced after the end of any Quarter but on or before the date on which the Partnership makes its distribution of Available Cash in respect of such Quarter pursuant to Section 5.3(a) shall be deemed to have been made, established, increased or reduced for purposes of determining Available Cash and Cash from Operations, within such Quarter if the General Partner so determines. Notwithstanding the foregoing, in the event of the dissolution and liquidation of the Partnership, all proceeds of such liquidation shall be applied and distributed in accordance with, and subject to the terms and conditions of, Sections 14.3 and 14.4.

5.4 DISTRIBUTIONS OF CASH FROM OPERATIONS. (a) During Subordination Period. Available Cash with respect to any Quarter within the Subordination Period that is deemed to be Cash from Operations pursuant to the provisions of Section 5.3 or 5.5 shall be distributed as follows, except as otherwise required by Section 4.2(b) in respect of additional Partnership Securities issued pursuant thereto:

(i) First, 99% to the Limited Partners holding Common Units, in accordance with their relative Percentage Interests, and 1% to the General Partner until there has been distributed in respect of each Common Unit then Outstanding an amount equal to the Minimum Quarterly Distribution;

(ii) Second, 99% to the Limited Partners holding Common Units, in accordance with their relative Percentage Interests, and 1% to the General Partner until there has been distributed in respect of each Common Unit then Outstanding an amount equal to the Cumulative Common Unit Arrearage, if any, existing with respect to such Quarter;

(iii) Third, 99% to the Limited Partners holding Subordinated Units, in accordance with their relative Percentage Interests, and 1% to the General Partner until there has been distributed in respect of each Subordinated Unit then Outstanding an amount equal to the Minimum Quarterly Distribution;

(iv) Fourth, 99% to all Limited Partners, in accordance with their relative Percentage Interests, and 1% to the General Partner until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the First Target Distribution over the Minimum Quarterly Distribution;

(v) Fifth, 85.8673% to all Limited Partners, in accordance with their relative Percentage Interests, 13.1327% to the Special Limited Partners, pro rata, and 1% to the General Partner until

there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the Second Target Distribution over the First Target Distribution;

(vi) Sixth, 75.7653% to all Limited Partners, in accordance with their relative Percentage Interests, 23.2347% to the Special Limited Partners, pro rata, and 1% to the General Partner until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the Third Target Distribution over the Second Target Distribution; and

(vii) Thereafter, 50.5102% to all Limited Partners, in accordance with their relative Percentage Interests, 48.4898% to the Special Limited Partners, pro rata, and 1% to the General Partner;

provided, however, if the Minimum Quarterly Distribution, the First Target Distribution, the Second Target Distribution and the Third Target Distribution have been reduced to zero pursuant to the second sentence of Section 5.6, the distributions of Available Cash that is deemed to be Cash from Operations with respect to any Quarter will be made in accordance with Section 5.4(a)(vii).

(b) After Subordination Period. Available Cash with respect to any Quarter after the Subordination Period that is deemed to be Cash from Operations pursuant to the provisions of Section 5.3 or 5.5 shall be distributed as follows, except as otherwise required by Section 4.2(b) in respect of additional Partnership Securities issued pursuant thereto:

(i) First, 99% to all Limited Partners, in accordance with their relative Percentage Interests, and 1% to the General Partner until there has been distributed in respect of each Unit then Outstanding an amount equal to the Minimum Quarterly Distribution;

(ii) Second, 99% to all Limited Partners, in accordance with their relative Percentage Interests, and 1% to the General Partner until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the First Target Distribution over the Minimum Quarterly Distribution;

(iii) Third, 85.8673% to all Limited Partners, in accordance with their relative Percentage Interests, 13.1327% to the Special Limited Partners, pro rata, and 1% to the General Partner until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the Second Target Distribution over the First Target Distribution;

(iv) Fourth, 75.7653% to all Limited Partners, in accordance with their relative Percentage Interests, 23.2347% to the Special Limited Partners, pro rata, and 1% to the General Partner until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the Third Target Distribution over the Second Target Distribution; and

(v) Thereafter, 50.5102% to all Limited Partners, in accordance with their relative Percentage Interests, 48.4898% to the Special Limited Partners, pro rata, and 1% to the General Partner;

provided, however, if the Minimum Quarterly Distribution, the First Target Distribution, the Second Target Distribution and the Third Target Distribution have been reduced to zero pursuant to the second sentence of Section 5.6, the distributions of Available Cash that is deemed to be Cash from Operations with respect to any Quarter will be made in accordance with Section 5.4(b)(v).

5.5 DISTRIBUTIONS OF CASH FROM INTERIM CAPITAL TRANSACTIONS. Available Cash that constitutes Cash from Interim Capital Transactions shall be distributed, unless the provisions of Section 5.3 require otherwise, 99% to all Limited Partners, in accordance with their relative Percentage Interests, and 1% to the General Partner until a hypothetical holder of a Common Unit acquired on the Closing Date has received with respect to such Common Unit, during the period since the Closing Date through such date, distributions of Available Cash that are deemed to be Cash from Interim Capital Transactions in an aggregate amount equal to the Initial Unit Price. Thereafter, all Available Cash shall be distributed as if it were Cash from Operations and shall be distributed in accordance with Section 5.4.

5.6 ADJUSTMENT OF MINIMUM QUARTERLY DISTRIBUTION AND TARGET DISTRIBUTION LEVELS. (a) The Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution and Third Target Distribution shall be proportionately adjusted in the event of any distribution, combination or subdivision (whether effected by a distribution payable in Units or otherwise) of Units or other Partnership Securities in accordance with Section 4.10. In the event of a distribution of Available Cash that is deemed to be Cash from Interim Capital Transactions, the Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution and Third Target Distribution shall be adjusted proportionately downward to equal the product obtained by multiplying the otherwise applicable Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution and Third Target Distribution, as the case may be, by a fraction of which the numerator is the Unrecovered Initial Unit Price of the Common Units immediately after giving effect to such distribution and of which the denominator is the Unrecovered Initial Unit Price of the Common Units immediately prior to giving effect to such distribution.

(b) The Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution and Third Target Distribution shall also be subject to adjustment pursuant to Section 9.6.

#### 5.7 SPECIAL PROVISIONS RELATING TO THE SUBORDINATED UNITS.

(a) Except with respect to the right to vote on or approve matters requiring the vote or approval of a percentage of the holders of Outstanding Common Units and the right to participate in allocations of income, gain, loss and deduction and distributions of cash made with respect to Common Units pursuant to this Article V, the holder of a Subordinated Unit shall have all of the rights and obligations of a Limited Partner holding Common Units hereunder; provided, however, that immediately upon the end of the Subordination Period or upon the conversion of Subordinated Units as provided in subparagraph (b) below, the holder of a Subordinated Unit shall possess all of the rights and obligations of a Limited Partner holding Common Units hereunder, including, without limitation, the right to vote as a Common Unitholder, the right to participate in allocations of income, gain, loss and deduction and distributions of cash made with respect to Common Units pursuant to this Article V (but such Subordinated Units shall remain subject to the provisions of Sections 4.5(c)(ii) and 5.1(d)(x)).

(b) A total of 5,372,853 Subordinated Units will convert into Common Units (subject to paragraph (c) immediately below) on the first day of any Quarter commencing on or after August 1, 1997, provided that each of the following two tests have been satisfied:

(i) the Partnership has, with respect to each of the two consecutive four-Quarter periods immediately preceding such date, made distributions of Available Cash constituting Cash from Operations on the Common Units and the Subordinated Units in an amount equal to or greater than the Minimum Quarterly Distribution on each Common Unit and Subordinated Unit Outstanding for such periods; provided, however, that in determining the amount of Available Cash constituting Cash from Operations distributed in any four-Quarter period the following amounts shall not be included: (A) any positive balance in Cash from Operations at the beginning of such four-Quarter period, (B) any net increase in working capital borrowings in such four-Quarter period and (C) any net decrease in reserves in such four-Quarter period; and

(ii) the amount of Available Cash constituting Cash from Operations generated by the Partnership in each of the two consecutive four-Quarter periods immediately preceding such date, equaled or exceeded 125% of the Minimum Quarterly Distribution on all Common Units and all Subordinated Units for such periods; provided, however, that in determining the amount of Available Cash constituting Cash from Operations generated by the Partnership in any four-Quarter period (A) the following amounts shall not be included: (1) any positive balance in Cash from Operations at the beginning of such four-Quarter period, (2) any net increase in working capital borrowings in such four-Quarter period and (3) any net decrease in reserves in such four-

Quarter period, and (B) any net increase in reserves in such four-Quarter period to provide funds for distributions with respect to Units and any general partner interests in the Partnership shall be included.

(c) After the end of the Subordination Period or upon the occurrence of the events described in subparagraph (b) of this Section 5.7, once the General Partner determines, based on advice of counsel, that a Subordinated Unit has, as a substantive matter, like intrinsic economic and federal income tax characteristics, in all material respects, to the intrinsic economic and federal income tax characteristics of a Common Unit then Outstanding, then the Subordinated Unit shall be converted to a Common Unit (on a one-for-one basis) and from that time forward (which time shall, except as provided in subparagraph (b) above, in no event commence before the first day following the end of the Subordination Period) shall constitute a Common Unit for all purposes under this Agreement. In connection with the condition set forth above, it is understood that the General Partner may take whatever reasonable steps are required to provide economic uniformity to the Subordinated Units in preparation for a conversion into Common Units, including the application of Sections 4.5(c) and 5.1(d)(x); provided, however, that no such steps may be taken that would have a material adverse effect on the Limited Partners holding Common Units or the Record Holders of any class of Units.

#### 5.8 SPECIAL PROVISIONS RELATING TO THE SPECIAL LIMITED PARTNERS.

Notwithstanding anything to the contrary set forth in this Agreement, the Special Limited Partners (a) shall (i) possess the rights and obligations provided in this Agreement with respect to a Limited Partner pursuant to Articles VI and VII and (ii) have a Capital Account as a Partner pursuant to Section 4.5 and all other provisions related thereto and (b) shall not (i) be entitled to vote on any matters requiring the approval or vote of the holders of Outstanding Units, (ii) be entitled to any distributions other than to Partners pursuant to Sections 5.4(a)(v), (vi) and (vii), 5.4(b)(iii), (iv) and (v), 14.3 and 14.4 or (iii) be allocated items of income, gain, loss or deduction other than as specified in this Article V.

### ARTICLE VI MANAGEMENT AND OPERATION OF BUSINESS

6.1 MANAGEMENT. (a) The General Partner shall conduct, direct and manage all activities of the Partnership. Except as otherwise expressly provided in this Agreement, all management powers over the business and affairs of the Partnership shall be exclusively vested in the General Partner, and no Limited Partner or Assignee shall have any management power over the business and affairs of the Partnership. In addition to the powers now or hereafter granted a general partner of a limited partnership under applicable law or which are granted to the General Partner under any other provision of this Agreement, the General Partner, subject to Section 6.3, shall have full power and authority to do all things and on such terms as it, in its sole discretion, may deem necessary or appropriate to conduct the business of the Partnership, to exercise all powers set forth in Section 3.2 and to effectuate the purposes set forth in Section 3.1, including, without limitation, (i) the making of any expenditures, the lending or borrowing of money, the assumption or guarantee of, or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness and the incurring of any other obligations; (ii) the making of tax, regulatory and other filings, or rendering of periodic or other reports to governmental or other agencies having jurisdiction over the business or assets of the Partnership; (iii) the acquisition, disposition, mortgage, pledge, encumbrance, hypothecation or exchange of any or all of the assets of the Partnership or the merger or other combination of the Partnership with or into another Person (the matters described in this clause (iii) being subject, however, to any prior approval that may be required by Section 6.3); (iv) the use of the assets of the Partnership (including, without limitation, cash on hand) for any purpose consistent with the terms of this Agreement, including, without limitation, the financing of the conduct of the operations of the Partnership or the Operating Partnership, the lending of funds to other Persons (including, without limitation, the Operating Partnership, the General Partner and Affiliates of the General Partner) and the repayment of obligations of the Partnership and the Operating Partnership and the making of capital contributions to the

Operating Partnership; (v) the negotiation, execution and performance of any contracts, conveyances or other instruments (including, without limitation, instruments that limit the liability of the Partnership under contractual arrangements to all or particular assets of the Partnership, with the other party to the contract to have no recourse against the General Partner or its assets other than its interest in the Partnership, even if same results in the terms of the transaction being less favorable to the Partnership than would otherwise be the case); (vi) the distribution of Partnership cash; (vii) the selection and dismissal of employees and agents (including, without limitation, employees having titles such as "president," "vice president," "secretary" and "treasurer") and agents, outside attorneys, accountants, consultants and contractors and the determination of their compensation and other terms of employment or hiring; (viii) the maintenance of such insurance for the benefit of the Partnership, the Operating Partnership and the Partners (including, without limitation, the assets of the Operating Partnership and the Partnership) as it deems necessary or appropriate; (ix) the formation of, or acquisition of an interest in, and the contribution of property and the making of loans to, any further limited or general partnerships, joint ventures, corporations or other relationships (including, without limitation, the acquisition of interests in, and the contributions of property to, the Operating Partnership from time to time); (x) the control of any matters affecting the rights and obligations of the Partnership, including, without limitation, the bringing and defending of actions at law or in equity and otherwise engaging in the conduct of litigation and the incurring of legal expense and the settlement of claims and litigation; (xi) the indemnification of any Person against liabilities and contingencies to the extent permitted by law; (xii) the entering into of listing agreements with The New York Stock Exchange, Inc. and any other securities exchange and the delisting of some or all of the Units from, or requesting that trading be suspended on, any such exchange (subject to any prior approval that may be required under Section 1.6); (xiii) the purchase, sale or other acquisition or disposition of Units; and (xiv) the undertaking of any action in connection with the Partnership's participation in the Operating Partnership as the limited partner (including, without limitation, contributions or loans of funds by the Partnership to the Operating Partnership).

(b) Notwithstanding any other provision of this Agreement, the Operating Partnership Agreement, the Delaware Act or any applicable law, rule or regulation, each of the Partners and Assignees and each other Person who may acquire an interest in Units hereby (i) approves, ratifies and confirms the execution, delivery and performance by the parties thereto of the Operating Partnership Agreement, the Underwriting Agreement, the Contribution Agreement, the agreements and other documents filed as exhibits to the Registration Statement, and the other agreements described in or filed as a part of the Registration Statement, and the engaging by any Affiliate of the General Partner in business and activities (other than Restricted Activities) that are in direct competition with the business and activities of the Partnership and the Operating Partnership; (ii) agrees that the General Partner (on its own or through any officer of the Partnership) is authorized to execute, deliver and perform the agreements referred to in clause (i) of this sentence and the other agreements, acts, transactions and matters described in or contemplated by the Registration Statement on behalf of the Partnership without any further act, approval or vote of the Partners or the Assignees or the other Persons who may acquire an interest in Units; and (iii) agrees that the execution, delivery or performance by the General Partner, the Partnership, the Operating Partnership or any Affiliate of any of them, of this Agreement or any agreement authorized or permitted under this Agreement (including, without limitation, the exercise by the General Partner or any Affiliate of the General Partner of the rights accorded pursuant to Article XVII), or the engaging by any Affiliate of the General Partner in any business and activities (other than Restricted Activities) that are in direct competition with the business and activities of the Partnership and the Operating Partnership, shall not constitute a breach by the General Partner of any duty that the General Partner may owe the Partnership or the Limited Partners or the Assignees or any other Persons under this Agreement (or any other agreements) or of any duty stated or implied by law or equity. The term "Affiliate" when used in this Section 6.1(b) with respect to the General Partner shall not include the Partnership or any Subsidiary of the Partnership.

6.2 CERTIFICATE OF LIMITED PARTNERSHIP. The General Partner has caused the Certificate of Limited Partnership to be filed with the Secretary of State of the State of Delaware as required by the Delaware Act and shall use all reasonable efforts to cause to be filed such other certificates or documents as may be determined by the General Partner in its sole discretion to be reasonable and necessary or appropriate for the formation, continuation, qualification and operation of a limited partnership (or a partnership in which the limited partners have limited liability) in the State of Delaware or any other state in which the Partnership may elect to do business or own property. To the extent that such action is determined by the General Partner in its sole discretion to be reasonable and necessary or appropriate, the General Partner shall file amendments to and restatements of the Certificate of Limited Partnership and do all things to maintain the Partnership as a limited partnership (or a partnership in which the limited partners have limited liability) under the laws of the State of Delaware or of any other state in which the Partnership may elect to do business or own property. Subject to the terms of Section 7.5(a), the General Partner shall not be required, before or after filing, to deliver or mail a copy of the Certificate of Limited Partnership, any qualification document or any amendment thereto to any Limited Partner or Assignee.

6.3 RESTRICTIONS ON GENERAL PARTNER'S AUTHORITY. (a) The General Partner may not, without written approval of the specific act by all of the Outstanding Units or by other written instrument executed and delivered by all of the Outstanding Units subsequent to the date of this Agreement, take any action in contravention of this Agreement, including, without limitation, (i) any act that would make it impossible to carry on the ordinary business of the Partnership, except as otherwise provided in this Agreement; (ii) possess Partnership property, or assign any rights in specific Partnership property, for other than a Partnership purpose; (iii) admit a Person as a Partner, except as otherwise provided in this Agreement; (iv) amend this Agreement in any manner, except as otherwise provided in this Agreement; or (v) transfer its interest as general partner of the Partnership, except as otherwise provided in this Agreement.

(b) Except as provided in Articles XIV and XVI, the General Partner may not sell, exchange or otherwise dispose of all or substantially all of the Partnership's assets in a single transaction or a series of related transactions or approve on behalf of the Partnership the sale, exchange or other disposition of all or substantially all of the assets of the Operating Partnership, without the approval of at least a majority of the Outstanding Units (other than Units owned by the General Partner and its Affiliates) during the Subordination Period and thereafter without the approval of at least a majority of the Outstanding Units; provided, however, that this provision shall not preclude or limit the General Partner's ability to mortgage, pledge, hypothecate or grant a security interest in all or substantially all of the Partnership's assets and shall not apply to any forced sale of any or all of the Partnership's assets pursuant to the foreclosure of, or other realization upon, any such encumbrance. Without the approval of at least two-thirds of the Outstanding Units, the General Partner shall not, on behalf of the Partnership, (i) consent to any amendment to the Operating Partnership Agreement or, except as expressly permitted by Section 6.9(d), take any action permitted to be taken by a partner of the Operating Partnership, in either case, that would have a material adverse effect on the Partnership as a partner of the Operating Partnership or (ii) except as permitted under Sections 11.2, 13.1 and 13.2 elect or cause the Partnership to elect a successor general partner of the Operating Partnership.

(c) Unless approved by the affirmative vote of the holders of at least two-thirds of each class of Outstanding Units, including two-thirds of the Common Units (excluding for purposes of such determination Common Units owned by the General Partner and its Affiliates), 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 Partnership or the Operating Partnership to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes; provided that this Section 6.3(c) shall not be construed to apply to amendments to this Agreement (which are governed by Article XV) or mergers or consolidations of the Partnership with any Person (which are governed by Article XVI).

(d) At all times while serving as the general partner of the Partnership, the General Partner shall not (except as provided below) make any dividend or distribution on, or repurchase any shares of, its stock or take any other action within its control unless it shall first receive an Opinion of Counsel that the effect of such dividend, distribution, repurchase or other action would not reduce its net worth below an amount such that the Partnership will be treated as an association taxable as a corporation for federal income tax purposes; provided, however, to the extent the General Partner receives distributions of cash from the Partnership, the Operating Partnership or any other partnership of which the Partnership is, directly or indirectly, a partner, the General Partner shall not use such cash to make any dividend or distribution on, or repurchase any shares of, its stock or take any other action within its control if the effect of such dividend, distribution, repurchase or other action would be to reduce its net worth below an amount necessary to receive an Opinion of Counsel that the Partnership will be treated as a partnership for federal income tax purposes.

6.4 REIMBURSEMENT OF THE GENERAL PARTNER. (a) Except as provided in this Section 6.4 and elsewhere in this Agreement or in the Operating Partnership Agreement, the General Partner shall not be compensated for its services as general partner of the Partnership or the Operating Partnership.

(b) The General Partner shall be reimbursed on a monthly basis, or such other basis as the General Partner may determine in its sole discretion, for (i) all direct and indirect expenses it incurs or payments it makes on behalf of the Partnership (including, without limitation, salary, bonus, incentive compensation and other amounts paid to any Person to perform services for the Partnership or for the General Partner in the discharge of its duties to the Partnership), and (ii) 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 (including, without limitation, expenses allocated to the General Partner by its Affiliates). The General Partner shall determine the fees and expenses that are allocable to the Partnership in any reasonable manner determined by the General Partner in its sole discretion. Reimbursements pursuant to this Section 6.4 shall be in addition to any reimbursement to the General Partner as a result of indemnification pursuant to Section 6.7.

(c) Subject to Section 4.3(c), the General Partner in its sole discretion and without the approval of the Limited Partners (who shall have no right to vote in respect thereof) may propose and adopt on behalf of the Partnership, employee benefit and incentive plans (including, without limitation, plans involving the issuance of Units), or issue Partnership Securities pursuant to any employee benefit or incentive plan maintained or sponsored by the General Partner or one of its Affiliates, in each case for the benefit of employees of the General Partner, the Partnership, the Operating Partnership or any Affiliate of any of them in respect of services performed, directly or indirectly, for the benefit of the Partnership or the Operating Partnership. The Partnership agrees to issue and sell to the General Partner any Units or other Partnership Securities that the General Partner is obligated to provide to any employees pursuant to any such benefit or incentive plans. Expenses incurred by the General Partner in connection with any such plans (including the net cost to the General Partner of Units purchased by the General Partner from the Partnership to fulfill options or awards under such plans) shall be reimbursed in accordance with Section 6.4(b). Any and all obligations of the General Partner under any employee benefit or incentive plans adopted by the General Partner as permitted by this Section 6.4(c) shall constitute obligations of the General Partner hereunder and shall be assumed by any successor General Partner approved pursuant to Section 13.1 or 13.2 or the transferee of or successor to all of the General Partner's Partnership Interest as a general partner in the Partnership pursuant to Section 11.2.

6.5 OUTSIDE ACTIVITIES. (a) After the Closing Date, the General Partner, for so long as it is the general partner of the Partnership, (i) agrees that its sole business will be to act as a general partner of the Partnership, the Operating Partnership and any other partnership of which the Partnership or the Operating Partnership is, directly or indirectly, a partner and to undertake activities that are ancillary or

related thereto (including being a limited partner in the Partnership), (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 this Agreement or the Operating Partnership Agreement or described in or contemplated by the Registration Statement and (B) the acquisition, ownership or disposition of Partnership Interests in the Partnership or partnership interests in the Operating Partnership or any other partnership of which the Partnership or the Operating Partnership is, directly or indirectly, a partner, except that, notwithstanding the foregoing, employees of the General Partner may perform services for Ferrell and its Affiliates, and (iii) shall not and shall cause its Affiliates not to engage in any Restricted Activity.

(b) Except as described in Section 6.5(a), no Indemnitee shall be expressly or implicitly restricted or proscribed pursuant to this Agreement, the Operating Partnership Agreement or the partnership relationship established hereby or thereby from engaging in other activities for profit, whether in the businesses engaged in by the Partnership or the Operating Partnership or anticipated to be engaged in by the Partnership, the Operating Partnership or otherwise, including, without limitation, in the case of any Affiliates of the General Partner those businesses and activities (other than Restricted Activities) in direct competition with the business and activities of the Partnership or the Operating Partnership or otherwise described in or contemplated by the Registration Statement. Without limitation of and subject to the foregoing each Indemnitee (other than the General Partner) shall have the right to engage in businesses of every type and description and to engage in and possess an interest in other business ventures of any and every type or description, independently or with others, including, without limitation, in the case of any Affiliates of the General Partner business interests and activities (other than Restricted Activities) in direct competition with the business and activities of the Partnership or the Operating Partnership, and none of the same shall constitute a breach of this Agreement or any duty to the Partnership, the Operating Partnership or any Partner or Assignee. Neither the Partnership, the Operating Partnership, any Limited Partner nor any other Person shall have any rights by virtue of this Agreement, the Operating Partnership Agreement or the partnership relationship established hereby or thereby in any business ventures of any Indemnitee (subject, in the case of the General Partner, to compliance with Section 6.5(c)) and such Indemnities shall have no obligation to offer any interest in any such business ventures to the Partnership, the Operating Partnership, any Limited Partner or any other Person. The General Partner and any other Persons affiliated with the General Partner may acquire Units or other Partnership Securities in addition to those acquired by any of such Persons on the Closing Date, and, except as otherwise provided in this Agreement, shall be entitled to exercise all rights of an Assignee or Limited Partner, as applicable, relating to such Units or Partnership Securities, as the case may be.

(c) Subject to the terms of Sections 6.5(a) and (b) but otherwise notwithstanding anything to the contrary in this Agreement, (i) the competitive activities of any Indemnities (other than the General Partner) are hereby approved by the Partnership and all Partners and (ii) it shall be deemed not to be a breach of the General Partner's fiduciary duty or any other obligation of any type whatsoever of the General Partner for the General Partner to permit an Affiliate of the General Partner to engage, or for any such Affiliate to engage, in business interests and activities (other than Restricted Activities) in preference to or to the exclusion of the Partnership.

(d) The term "Affiliates" when used in this Section 6.5 with respect to the General Partner shall not include the Partnership or any Subsidiary of the Partnership.

6.6 LOANS TO AND FROM THE GENERAL PARTNER; CONTRACTS WITH AFFILIATES. (a) The General Partner or any Affiliate thereof may lend to the Partnership or the Operating Partnership, and the Partnership and the Operating Partnership may borrow, funds needed or desired by the Partnership and the Operating Partnership for such periods of time as the General Partner may determine and (ii) the General Partner or any Affiliate thereof may borrow from the Partnership or the Operating Partnership,



and the Partnership and the Operating Partnership may lend to the General Partner or such Affiliate, excess funds of the Partnership and the Operating Partnership for such periods of time and in such amounts as the General Partner may determine; provided, however, that in either such case the lending party may not charge the borrowing party interest at a rate greater than the rate that would be charged the borrowing party (without reference to the lending party's financial abilities or guarantees), by unrelated lenders on comparable loans. The borrowing party shall reimburse the lending party for any costs (other than any additional interest costs) incurred by the lending party in connection with the borrowing of such funds. For purposes of this Section 6.6(a) and Section 6.6(b), the term "Partnership" shall include any Affiliate of the Partnership that is controlled by the Partnership and the term "Operating Partnership" shall include any Affiliate of the Operating Partnership that is controlled by the Operating Partnership.

(b) The Partnership may lend or contribute to the Operating Partnership, and the Operating Partnership may borrow, funds on terms and conditions established in the sole discretion of the General Partner; provided, however, that the Partnership may not charge the Operating Partnership interest at a rate greater than the rate that would be charged to the Operating Partnership (without reference to the General Partner's financial abilities or guarantees), by unrelated lenders on comparable loans. The foregoing authority shall be exercised by the General Partner in its sole discretion and shall not create any right or benefit in favor of the Operating Partnership or any other Person.

(c) The General Partner may itself, or may enter into an agreement with any of its Affiliates to, render services to the Partnership or to the General Partner in the discharge of its duties as general partner of the Partnership. Any services rendered to the Partnership by the General Partner or any of its Affiliates shall be on terms that are fair and reasonable to the Partnership; provided, however, that the requirements of this Section 6.6(c) shall be deemed satisfied as to (i) any transaction approved by Special Approval, (ii) any transaction, the terms of which are no less favorable to the Partnership than those generally being provided to or available from unrelated third parties or (iii) any transaction that, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership), is equitable to the Partnership. The provisions of Section 6.4 shall apply to the rendering of services described in this Section 6.6(c).

(d) The Partnership may transfer assets to joint ventures, other partnerships, corporations, limited liability companies or other business entities in which it is or thereby becomes a participant upon such terms and subject to such conditions as are consistent with this Agreement and applicable law.

(e) Neither the General Partner nor any of its Affiliates shall sell, transfer or convey any property to, or purchase any property from, the Partnership, directly or indirectly, except pursuant to transactions that are fair and reasonable to the Partnership; provided, however, that the requirements of this Section 6.6(e) shall be deemed to be satisfied as to (i) the transactions effected pursuant to Sections 4.1, 4.2 and 4.3, the Contribution Agreement and any other transactions described in or contemplated by the Registration Statement, (ii) any transaction approved by Special Approval, (iii) any transaction, the terms of which are no less favorable to the Partnership than those generally being provided to or available from unrelated third parties, or (iv) any transaction that, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership), is equitable to the Partnership.

(f) The General Partner and its Affiliates will have no obligation to permit the Partnership or the Operating Partnership to use any facilities or assets of the General Partner and its Affiliates, except as may be provided in contracts entered into from time to time specifically dealing with such use, nor shall there be any obligation on the part of the General Partner or its Affiliates to enter into such contracts.

(g) Without limitation of Sections 6.6(a) through 6.6(f), and notwithstanding anything to the contrary in this Agreement, the existence of the conflicts of interest described in the Registration Statement are hereby approved by all Partners.

6.7 INDEMNIFICATION. (a) To the fullest extent permitted by law but subject to the limitations expressly provided in this Agreement, the General Partner, any Departing Partner and any Person who is or was an officer or director of the General Partner or any Departing Partner and all other Indemnitees shall be indemnified and held harmless by the Partnership from and against any and all losses, claims, damages, liabilities, joint or several, expenses (including, without limitation, legal fees and expenses), judgments, fines, penalties, interest, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative, in which any Indemnatee may be involved, or is threatened to be involved, as a party or otherwise, by reason of its status as (i) the General Partner, a Departing Partner or any of their Affiliates, (ii) an officer, director, employee, partner, agent or trustee of the Partnership, the General Partner, any Departing Partner or any of their Affiliates or (iii) a Person serving at the request of the Partnership in another entity in a similar capacity, provided, that in each case the Indemnatee acted in good faith and in a manner which such Indemnatee reasonably believed to be in, or not opposed to, the best interests of the Partnership and, with respect to any criminal proceeding, had no reasonable cause to believe its conduct was unlawful; provided, further, no indemnification pursuant to this Section 6.7 shall be available to the General Partner with respect to its obligations incurred pursuant to the Underwriting Agreement or the Contribution Agreement (other than obligations incurred by the General Partner on behalf of the Partnership or the Operating Partnership). The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that the Indemnatee acted in a manner contrary to that specified above. Any indemnification pursuant to this Section 6.7 shall be made only out of the assets of the Partnership, it being agreed that the General Partner shall not be personally liable for such indemnification and shall have no obligation to contribute or loan any monies or property to the Partnership to enable it to effectuate such indemnification.

(b) To the fullest extent permitted by law, expenses (including, without limitation, legal fees and expenses) incurred by an Indemnatee who is indemnified pursuant to Section 6.7(a) in defending any claim, demand, action, suit or proceeding shall, from time to time, be advanced by the Partnership prior to the final disposition of such claim, demand, action, suit or proceeding upon receipt by the Partnership of an undertaking by or on behalf of the Indemnatee to repay such amount if it shall be determined that the Indemnatee is not entitled to be indemnified as authorized in this Section 6.7.

(c) The indemnification provided by this Section 6.7 shall be in addition to any other rights to which an Indemnatee may be entitled under any agreement, pursuant to any vote of the holders of Outstanding Units, as a matter of law or otherwise, both as to actions in the Indemnatee's capacity as (i) the General Partner, a Departing Partner or an Affiliate thereof, (ii) an officer, director, employee, partner, agent or trustee of the Partnership, the General Partner, any Departing Partner or an Affiliate thereof or (iii) a Person serving at the request of the Partnership in another entity in a similar capacity, and as to actions in any other capacity (including, without limitation, any capacity under the Underwriting Agreement), and shall continue as to an Indemnatee who has ceased to serve in such capacity and shall inure to the benefit of the heirs, successors, assigns and administrators of the Indemnatee.

(d) The Partnership may purchase and maintain (or reimburse the General Partner or its Affiliates for the cost of) insurance, on behalf of the General Partner and such other Persons as the General Partner shall determine, against any liability that may be asserted against or expense that may be incurred by such Person in connection with the Partnership's activities, regardless of whether the Partnership would have the power to indemnify such Person against such liability under the provisions of this Agreement.

(e) For purposes of this Section 6.7, the Partnership shall be deemed to have requested an Indemnitee to serve as fiduciary of an employee benefit plan whenever the performance by it of its duties to the Partnership also imposes duties on, or otherwise involves services by, it to the plan or participants or beneficiaries of the plan; excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law shall constitute "fines" within the meaning of Section 6.7(a); and action taken or omitted by it with respect to an employee benefit plan in the performance of its duties for a purpose reasonably believed by it to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is in, or not opposed to, the best interests of the Partnership.

(f) In no event may an Indemnitee subject the Limited Partners to personal liability by reason of the indemnification provisions set forth in this Agreement.

(g) An Indemnitee shall not be denied indemnification in whole or in part under this Section 6.7 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.

(h) The provisions of this Section 6.7 are for the benefit of the Indemnitees, their heirs, successors, assigns and administrators and shall not be deemed to create any rights for the benefit of any other Persons.

(i) No amendment, modification or repeal of this Section 6.7 or any provision hereof shall in any manner terminate, reduce or impair the right of any past, present or future Indemnitee to be indemnified by the Partnership, nor the obligation of the Partnership to indemnify any such Indemnitee under and in accordance with the provisions of this Section 6.7 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

**6.8 LIABILITY OF INDEMNITEES.** (a) Notwithstanding anything to the contrary set forth in this Agreement, no Indemnitee shall be liable for monetary damages to the Partnership, the Limited Partners, the Assignees or any other Persons who have acquired interests in the Units, for losses sustained or liabilities incurred as a result of any act or omission if such Indemnitee acted in good faith.

(b) Subject to its obligations and duties as General Partner set forth in Section 6.1(a), the General Partner may exercise any of the powers granted to it by this Agreement and perform any of the duties imposed upon it hereunder either directly or by or through its agents, and the General Partner shall not be responsible for any misconduct or negligence on the part of any such agent appointed by the General Partner in good faith.

(c) Any amendment, modification or repeal of this Section 6.8 or any provision hereof shall be prospective only and shall not in any way affect the limitations on the liability to the Partnership and the Limited Partners of the General Partner, its directors, officers and employees under this Section 6.8 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

**6.9 RESOLUTION OF CONFLICTS OF INTEREST.** (a) Unless otherwise expressly provided in this Agreement or the Operating Partnership Agreement, whenever a potential conflict of interest exists or arises between the General Partner or any of its Affiliates, on the one hand, and the Partnership, the Operating Partnership, any Partner or any Assignee, on the other, any resolution or course of action in respect of such conflict of interest shall be permitted and deemed approved by all Partners, and shall not constitute a breach of this Agreement, of the Operating Partnership Agreement, of any agreement contemplated herein or therein, or of any duty stated or implied by law or equity, if the resolution or course of action is, or by operation of this Agreement is deemed to be, fair and reasonable to the Partnership. The General Partner shall be authorized but not required in connection with its resolution

of such conflict of interest to seek Special Approval of a resolution of such conflict or course of action. Any conflict of interest and any resolution of such conflict of interest shall be conclusively deemed fair and reasonable to the Partnership if such conflict of interest or resolution is (i) approved by Special Approval, (ii) on terms no less favorable to the Partnership than those generally being provided to or available from unrelated third parties or (iii) fair to the Partnership, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership). The General Partner may also adopt a resolution or course of action that has not received Special Approval. The General Partner (including the Audit Committee in connection with Special Approval) shall be authorized in connection with its determination of what is "fair and reasonable" to the Partnership and in connection with its resolution of any conflict of interest to consider (A) the relative interests of any party to such conflict, agreement, transaction or situation and the benefits and burdens relating to such interest; (B) any customary or accepted industry practices and any customary or historical dealings with a particular Person; (C) any applicable generally accepted accounting practices or principles; and (D) such additional factors as the General Partner (including such Audit Committee) determines in its sole discretion to be relevant, reasonable or appropriate under the circumstances. Nothing contained in this Agreement, however, is intended to nor shall it be construed to require the General Partner (including such Audit Committee) to consider the interests of any Person other than the Partnership. In the absence of bad faith by the General Partner, the resolution, action or terms so made, taken or provided by the General Partner with respect to such matter shall not constitute a breach of this Agreement or any other agreement contemplated herein or a breach of any standard of care or duty imposed herein or therein or under the Delaware Act or any other law, rule or regulation.

(b) Whenever this Agreement or any other agreement contemplated hereby provides that the General Partner or any of its Affiliates is permitted or required to make a decision (i) in its "sole discretion" or "discretion," that it deems "necessary or appropriate" or under a grant of similar authority or latitude, the General Partner or such Affiliate shall be entitled to consider only such interests and factors as it desires and shall have no duty or obligation to give any consideration to any interest of, or factors affecting, the Partnership, the Operating Partnership, any Limited Partner or any Assignee, (ii) it may make such decision in its sole discretion (regardless of whether there is a reference to "sole discretion" or "discretion") unless another express standard is provided for, or (iii) in "good faith" or under another express standard, the General Partner or such Affiliate shall act under such express standard and shall not be subject to any other or different standards imposed by this Agreement, the Operating Partnership Agreement, any other agreement contemplated hereby or under the Delaware Act or any other law, rule or regulation. In addition, any actions taken by the General Partner or such Affiliate consistent with the standards of "reasonable discretion" set forth in the definitions of Available Cash or Cash from Operations shall not constitute a breach of any duty of the General Partner to the Partnership or the Limited Partners. The General Partner shall have no duty, express or implied, to sell or otherwise dispose of any asset of the Operating Partnership or of the Partnership, other than in the ordinary course of business. No borrowing by the Partnership or the Operating Partnership or the approval thereof by the General Partner shall be deemed to constitute a breach of any duty of the General Partner to the Partnership or the Limited Partners by reason of the fact that the purpose or effect of such borrowing is directly or indirectly to (A) enable Incentive Distributions or (B) hasten the expiration of the Subordination Period or the conversion of any Subordinated Units into Common Units.

(c) Whenever a particular transaction, arrangement or resolution of a conflict of interest is required under this Agreement to be "fair and reasonable" to any Person, the fair and reasonable nature of such transaction, arrangement or resolution shall be considered in the context of all similar or related transactions.

(d) The Limited Partners hereby authorize the General Partner, on behalf of the Partnership as a partner of the Operating Partnership, to approve of actions by the general partner of the Operating Partnership similar to those actions permitted to be taken by the General Partner pursuant to this Section 6.9.

6.10 OTHER MATTERS CONCERNING THE GENERAL PARTNER. (a) The General Partner may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) The General Partner may consult with legal counsel, accountants, appraisers, management consultants, investment bankers and other consultants and advisers selected by it, and any act taken or omitted to be taken in reliance upon the opinion (including, without limitation, an Opinion of Counsel) of such Persons as to matters that such General Partner reasonably believes to be within such Person's professional or expert competence shall be conclusively presumed to have been done or omitted in good faith and in accordance with such opinion.

(c) The General Partner shall have the right, in respect of any of its powers or obligations hereunder, to act through any of its duly authorized officers, a duly appointed attorney or attorneys-in-fact or the duly authorized officers of the Partnership. Each such attorney shall, to the extent provided by the General Partner in the power of attorney, have full power and authority to do and perform each and every act and duty that is permitted or required to be done by the General Partner hereunder.

(d) Any standard of care and duty imposed by this Agreement or under the Delaware Act or any applicable law, rule or regulation shall be modified, waived or limited as required to permit the General Partner to act under this Agreement or any other agreement contemplated by this Agreement and to make any decision pursuant to the authority prescribed in this Agreement so long as such action is reasonably believed by the General Partner to be in, or not inconsistent with, the best interests of the Partnership.

6.11 TITLE TO PARTNERSHIP ASSETS. Title to Partnership assets, whether real, personal or mixed and whether tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and no Partner or Assignee, individually or collectively, shall have any ownership interest in such Partnership assets or any portion thereof. Title to any or all of the Partnership assets may be held in the name of the Partnership, the General Partner, one or more of its Affiliates or one or more nominees, as the General Partner may determine. The General Partner hereby declares and warrants that any Partnership assets for which record title is held in the name of the General Partner or one or more of its Affiliates or one or more nominees shall be held by the General Partner or such Affiliate or nominee for the use and benefit of the Partnership in accordance with the provisions of this Agreement; provided, however, that the General Partner shall use its reasonable efforts to cause record title to such assets (other than those assets in respect of which the General Partner determines that the expense and difficulty of conveyancing makes transfer of record title to the Partnership impracticable) to be vested in the Partnership as soon as reasonably practicable; provided that, prior to the withdrawal or removal of the General Partner or as soon thereafter as practicable, the General Partner shall use reasonable efforts to effect the transfer of record title to the Partnership and, prior to any such transfer, will provide for the use of such assets in a manner satisfactory to the Partnership. All Partnership assets shall be recorded as the property of the Partnership in its books and records, irrespective of the name in which record title to such Partnership assets is held. The General Partner covenants and agrees that at the Closing Date, the Partnership and the Operating Partnership shall have all licenses, permits, certificates, franchises, or other governmental authorizations or permits necessary for the ownership of their properties or for the conduct of their businesses, except for such licenses, permits, certificates, franchises, or other governmental authorizations or permits, failure to have obtained which will not, individually or in the aggregate, have a material adverse effect on the Partnership or the Operating Partnership.

6.12 PURCHASE OR SALE OF UNITS. The General Partner may cause the Partnership to purchase or otherwise acquire Units; provided that, except as permitted pursuant to Section 11.6, the General Partner may not cause the Partnership to purchase Subordinated Units during the Subordination

Period. As long as Units are held by the Partnership or the Operating Partnership, such Units shall not be considered Outstanding for any purpose, except as otherwise provided herein. The General Partner or any Affiliate of the General Partner may also purchase or otherwise acquire and sell or otherwise dispose of Units for its own account, subject to the provisions of Articles XI and XII.

6.13 REGISTRATION RIGHTS OF FERRELLGAS AND ITS AFFILIATES. (a) If (i) Ferrellgas or any Affiliate of Ferrellgas (including, without limitation, for purposes of this Section 6.13, any Person that is an Affiliate of Ferrellgas at the date hereof notwithstanding that it may later cease to be an Affiliate of Ferrellgas) holds Units or other Partnership Securities that it desires to sell and (ii) Rule 144 of the Securities Act (or any successor rule or regulation to Rule 144) or another exemption from registration is not available to enable such holder of Units (the "HOLDER") to dispose of the number of Units or other securities it desires to sell at the time it desires to do so without registration under the Securities Act, then upon the request of Ferrellgas or any of its Affiliates, the Partnership shall file with the Commission as promptly as practicable after receiving such request, and use all reasonable efforts to cause to become effective and remain effective for a period of not more than six months following its effective date, a registration statement under the Securities Act registering the offering and sale of the number of Units or other securities specified by the Holder; provided, however, that the Partnership shall not be required to effect more than three registrations pursuant to this Section 6.13(a); and provided further, that if the General Partner or, if at the time a request pursuant to this Section 6.13 is submitted to the Partnership, Ferrellgas or its Affiliate requesting registration is an Affiliate of the General Partner, the Audit Committee in connection with Special Approval determines in its good faith judgment that a postponement of the requested registration for up to six months would be in the best interests of the Partnership and its Partners due to a pending transaction, investigation or other event, the filing of such registration statement or the effectiveness thereof may be deferred for up to six months, but not thereafter. In connection with any registration pursuant to the immediately preceding sentence, the Partnership shall promptly prepare and file (x) such documents as may be necessary to register or qualify the securities subject to such registration under the securities laws of such states as the Holder shall reasonably request; provided, however, that no such qualification shall be required in any jurisdiction where, as a result thereof, the Partnership would become subject to general service of process or to taxation or qualification to do business as a foreign corporation or partnership doing business in such jurisdiction, and (y) such documents as may be necessary to apply for listing or to list the securities subject to such registration on such National Securities Exchange as the Holder shall reasonably request, and do any and all other acts and things that may reasonably be necessary or advisable to enable the Holder to consummate a public sale of such Units in such states. Except as set forth in Section 6.13(c), all costs and expenses of any such registration and offering (other than the underwriting discounts and commissions) shall be paid by the Partnership, without reimbursement by the Holder.

(b) If the Partnership shall at any time propose to file a registration statement under the Securities Act for an offering of equity securities of the Partnership for cash (other than an offering relating solely to an employee benefit plan), the Partnership shall use all reasonable efforts to include such number or amount of securities held by the Holder in such registration statement as the Holder shall request. If the proposed offering pursuant to this Section 6.13(b) shall be an underwritten offering, then, in the event that the managing underwriter of such offering advises the Partnership and the Holder in writing that in its opinion the inclusion of all or some of the Holder's securities would adversely and materially affect the success of the offering, the Partnership shall include in such offering only that number or amount, if any, of securities held by the Holder which, in the opinion of the managing underwriter, will not so adversely and materially affect the offering. Except as set forth in Section 6.13(c), all costs and expenses of any such registration and offering (other than the underwriting discounts and commissions) shall be paid by the Partnership, without reimbursement by the Holder.

(c) If underwriters are engaged in connection with any registration referred to in this Section 6.13, the Partnership shall provide indemnification, representations, covenants, opinions and other

assurance to the underwriters in form and substance reasonably satisfactory to such underwriters. Further, in addition to and not in limitation of the Partnership's obligation under Section 6.7, the Partnership shall, to the fullest extent permitted by law, indemnify and hold harmless the Holder, its officers, directors and each Person who controls the Holder (within the meaning of the Securities Act) and any agent thereof (collectively, "INDEMNIFIED PERSONS") against any losses, claims, demands, actions, causes of action, assessments, damages, liabilities (joint or several), costs and expenses (including, without limitation, interest, penalties and reasonable attorneys' fees and disbursements), resulting to, imposed upon, or incurred by the Indemnified Persons, directly or indirectly, under the Securities Act or otherwise (hereinafter referred to in this Section 6.13(c) as a "CLAIM" and in the plural as "CLAIMS"), based upon, arising out of, or resulting from any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which any Units were registered under the Securities Act or any state securities or Blue Sky laws, in any preliminary prospectus (if used prior to the effective date of such registration statement), or in any summary or final prospectus or in any amendment or supplement thereto (if used during the period the Partnership is required to keep the registration statement current), or arising out of, based upon or resulting from the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements made therein not misleading; provided, however, that the Partnership shall not be liable to any Indemnified Person to the extent that any such claim arises out of, is based upon or results from an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, such preliminary, summary or final prospectus or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Partnership by or on behalf of such Indemnified Person specifically for use in the preparation thereof.

(d) The provisions of Sections 6.13(a) and 6.13(b) shall continue to be applicable with respect to Ferrellgas (and any of Ferrellgas' Affiliates) after it ceases to be a Partner of the Partnership, during a period of two years subsequent to the effective date of such cessation and for so long thereafter as is required for the Holder to sell all of the Units or other securities of the Partnership with respect to which it has requested during such two year period that a registration statement be filed; provided, however, that the Partnership shall not be required to file successive registration statements covering the same securities for which registration was demanded during such two-year period. The provisions of Section 6.13(c) shall continue in effect thereafter.

(e) Any request to register Partnership Securities pursuant to this Section 6.13 shall (i) specify the Partnership Securities intended to be offered and sold by the Person making the request, (ii) express such Person's present intent to offer such shares for distribution, (iii) describe the nature or method of the proposed offer and sale of Partnership Securities, and (iv) contain the undertaking of such Person to provide all such information and materials and take all action as may be required in order to permit the Partnership to comply with all applicable requirements in connection with the registration of such Partnership Securities.

6.14 RELIANCE BY THIRD PARTIES. Notwithstanding anything to the contrary in this Agreement, any Person dealing with the Partnership shall be entitled to assume that the General Partner and any officer of the Partnership authorized by the General Partner to act on behalf and in the name of the Partnership has full power and authority to encumber, sell or otherwise use in any manner any and all assets of the Partnership and to enter into any contracts on behalf of the Partnership, and such Person shall be entitled to deal with the General Partner or any such officer as if it were the Partnership's sole party in interest, both legally and beneficially. Each Limited Partner hereby waives any and all defenses or other remedies that may be available against such Person to contest, negate or disaffirm any action of the General Partner or any such officer in connection with any such dealing. In no event shall any Person dealing with the General Partner or any such officer or its representatives be obligated to ascertain that the terms of this Agreement have been complied with or to inquire into the necessity or expedience of any act or action of the General Partner or any such officer. Each and every certificate, document or

other instrument executed on behalf of the Partnership by the General Partner or any such officer shall be conclusive evidence in favor of any and every Person relying thereon or claiming thereunder that (a) at the time of the execution and delivery of such certificate, document or instrument, this Agreement was in full force and effect, (b) the Person executing and delivering such certificate, document or instrument was duly authorized and empowered to do so for and on behalf of the Partnership and (c) such certificate, document or instrument was duly executed and delivered in accordance with the terms and provisions of this Agreement and is binding upon the Partnership.

## ARTICLE VII RIGHTS AND OBLIGATIONS OF LIMITED PARTNERS

7.1 LIMITATION OF LIABILITY. The Limited Partners, the Organizational Limited Partner and the Assignees shall have no liability under this Agreement except as expressly provided in this Agreement or the Delaware Act.

7.2 MANAGEMENT OF BUSINESS. No Limited Partner or Assignee (other than the General Partner, any of its Affiliates or any officer, director, employee, partner, agent or trustee of the General Partner or any of its Affiliates, in its capacity as such, if such Person shall also be a Limited Partner or Assignee) shall participate in the operation, management or control (within the meaning of the Delaware Act) of the Partnership's business, transact any business in the Partnership's name or have the power to sign documents for or otherwise bind the Partnership. The transaction of any such business by the General Partner, any of its Affiliates or any officer, director, employee, partner, agent or trustee of the General Partner or any of its Affiliates, in its capacity as such, shall not affect, impair or eliminate the limitations on the liability of the Limited Partners or Assignees under this Agreement.

7.3 OUTSIDE ACTIVITIES. Subject to the provisions of Section 6.5, which shall continue to be applicable to the Persons referred to therein, regardless of whether such Persons shall also be Limited Partners or Assignees, any Limited Partner or Assignee shall be entitled to and may have business interests and engage in business activities in addition to those relating to the Partnership, including, without limitation, business interests and activities in direct competition with the Partnership or the Operating Partnership. Neither the Partnership nor any of the other Partners or Assignees shall have any rights by virtue of this Agreement in any business ventures of any Limited Partner or Assignee.

7.4 RETURN OF CAPITAL. No Limited Partner or Assignee shall be entitled to the withdrawal or return of its Capital Contribution, except to the extent, if any, that distributions made pursuant to this Agreement or upon termination of the Partnership may be considered as such by law and then only to the extent provided for in this Agreement. Except to the extent provided by Article V or as otherwise expressly provided in this Agreement, no Limited Partner or Assignee shall have priority over any other Limited Partner or Assignee either as to the return of Capital Contributions or as to profits, losses or distributions. Any such return shall be a compromise to which all Partners and Assignees agree within the meaning of (S) 17-502(b) of the Delaware Act.

7.5 RIGHTS OF LIMITED PARTNERS RELATING TO THE PARTNERSHIP. (a) In addition to other rights provided by this Agreement or by applicable law, and except as limited by Section 7.5(b), each Limited Partner shall have the right, for a purpose reasonably related to such Limited Partner's interest as a limited partner in the Partnership, upon reasonable demand and at such Limited Partner's own expense:

(i) to obtain true and full information regarding the status of the business and financial condition of the Partnership;

(ii) promptly after becoming available, to obtain a copy of the Partnership's federal, state and local tax returns for each year;

(iii) to have furnished to him, upon notification to the General Partner, a current list of the name and last known business, residence or mailing address of each Partner;



(iv) to have furnished to him, upon notification to the General Partner, a copy of this Agreement and the Certificate of Limited Partnership and all amendments thereto, together with a copy of the executed copies of all powers of attorney pursuant to which this Agreement, the Certificate of Limited Partnership and all amendments thereto have been executed;

(v) to obtain true and full information regarding the amount of cash and a description and statement of the Agreed Value of any other Capital Contribution by each Partner and which each Partner has agreed to contribute in the future, and the date on which each became a Partner; and

(vi) to obtain such other information regarding the affairs of the Partnership as is just and reasonable.

(b) Notwithstanding any other provision of this Agreement, the General Partner may keep confidential from the Limited Partners and Assignees, for such period of time as the General Partner deems reasonable, any information that the General Partner reasonably believes to be in the nature of trade secrets or other information the disclosure of which the General Partner in good faith believes is not in the best interests of the Partnership or the Operating Partnership or could damage the Partnership or the Operating Partnership or that the Partnership or the Operating Partnership are required by law or by agreements with third parties to keep confidential (other than agreements with Affiliates the primary purpose of which is to circumvent the obligations set forth in this Section 7.5).

#### ARTICLE VIII BOOKS, RECORDS, ACCOUNTING AND REPORTS

8.1 RECORDS AND ACCOUNTING. The General Partner shall keep or cause to be kept at the principal office of the Partnership appropriate books and records with respect to the Partnership's business, including, without limitation, all books and records necessary to provide to the Limited Partners any information, lists and copies of documents required to be provided pursuant to Section 7.5(a). Any books and records maintained by or on behalf of the Partnership in the regular course of its business, including, without limitation, the record of the Record Holders and Assignees of Units or other Partnership Securities, books of account and records of Partnership proceedings, may be kept on, or be in the form of, computer disks, hard drives, punch cards, magnetic tape, photographs, micrographics or any other information storage device, provided, that the books and records so maintained are convertible into clearly legible written form within a reasonable period of time. The books of the Partnership shall be maintained, for both tax and financial reporting purposes, on an accrual basis in accordance with generally accepted accounting principles.

8.2 FISCAL YEAR. The fiscal year of the Partnership shall be August 1 to July 31.

8.3 REPORTS. (a) As soon as practicable, but in no event later than 120 days after the close of each fiscal year of the Partnership, the General Partner shall cause to be mailed to each Record Holder of a Unit as of a date selected by the General Partner in its sole discretion, an annual report containing financial statements of the Partnership for such fiscal year of the Partnership, presented in accordance with generally accepted accounting principles, including a balance sheet and statements of operations, Partners' equity and cash flows, such statements to be audited by a firm of independent public accountants selected by the General Partner.

(b) As soon as practicable, but in no event later than 90 days after the close of each Quarter except the last Quarter of each year, the General Partner shall cause to be mailed to each Record Holder of a Unit, as of a date selected by the General Partner in its sole discretion, a report containing unaudited financial statements of the Partnership and such other information as may be required by applicable law, regulation or rule of any National Securities Exchange on which the Units are listed for trading, or as the General Partner determines to be necessary or appropriate.

ARTICLE IX  
TAX MATTERS

9.1 PREPARATION OF TAX RETURNS. The General Partner shall arrange for the preparation and timely filing of all returns of Partnership income, gains, deductions, losses and other items required of the Partnership for federal and state income tax purposes and shall use all reasonable efforts to furnish, within 90 days of the close of each calendar year, the tax information reasonably required by holders of Outstanding Units for federal and state income tax reporting purposes. The classification, realization and recognition of income, gain, losses and deductions and other items shall be on the accrual method of accounting for federal income tax purposes. The taxable year of the Partnership shall be August 1 to July 31.

9.2 TAX ELECTIONS. Except as otherwise provided herein, the General Partner shall, in its sole discretion, determine whether to make any available election pursuant to the Code; provided, however, that the General Partner shall make the election under Section 754 of the Code in accordance with applicable regulations thereunder. The General Partner shall have the right to seek to revoke any such election (including, without limitation, the election under Section 754 of the Code) upon the General Partner's determination in its sole discretion that such revocation is in the best interests of the Limited Partners and Assignees. For purposes of computing the adjustments under Section 743(b) of the Code, the General Partner shall be authorized (but not required) to adopt a convention whereby the price paid by a transferee of Units will be deemed to be the lowest quoted closing price of the Units on any National Securities Exchange on which such Units are traded during the calendar month in which such transfer is deemed to occur pursuant to Section 5.2(g) without regard to the actual price paid by such transferee.

9.3 TAX CONTROVERSIES. Subject to the provisions hereof, the General Partner is designated the Tax Matters Partner (as defined in Section 6231 of the Code), and is authorized and required to represent the Partnership (at the Partnership's expense) in connection with all examinations of the Partnership's affairs by tax authorities, including, without limitation, resulting administrative and judicial proceedings, and to expend Partnership funds for professional services and costs associated therewith. Each Partner and Assignee agrees to cooperate with the General Partner and to do or refrain from doing any or all things reasonably required by the General Partner to conduct such proceedings.

9.4 ORGANIZATIONAL EXPENSES. The Partnership shall elect to deduct expenses, if any, incurred by it in organizing the Partnership ratably over a 60-month period as provided in Section 709 of the Code.

9.5 WITHHOLDING. Notwithstanding any other provision of this Agreement, the General Partner is authorized to take any action that it determines in its sole discretion to be necessary or appropriate to cause the Partnership and the Operating Partnership to comply with any withholding requirements established under the Code or any other federal, state or local law including, without limitation, pursuant to Sections 1441, 1442, 1445 and 1446 of the Code. To the extent that the Partnership is required to withhold and pay over to any taxing authority any amount resulting from the allocation or distribution of income to any Partner or Assignee (including, without limitation, by reason of Section 1446 of the Code), the amount withheld shall be treated as a distribution of cash pursuant to Section 5.3 in the amount of such withholding from such Partner.

9.6 ENTITY-LEVEL TAXATION. If legislation is enacted or the interpretation of existing language is modified which causes the Partnership or the Operating Partnership to be treated as an association taxable as a corporation or otherwise subjects the Partnership or the Operating Partnership to entity-level taxation for federal income tax purposes, the Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution or Third Target Distribution, as the case may be, shall be equal to the product obtained by multiplying (a) the amount thereof by (b) 1 minus the sum of (i) the highest marginal federal corporate (or other entity, as applicable) income tax rate of the Partnership for the

taxable year of the Partnership in which such Quarter occurs (expressed as a percentage) plus (ii) the effective overall state and local income tax rate (expressed as a percentage) applicable to the Partnership for the calendar year next preceding the calendar year in which such Quarter occurs (after taking into account the benefit of any deduction allowable for federal income tax purposes with respect to the payment of state and local income taxes), but only to the extent of the increase in such rates resulting from such legislation or interpretation. Such effective overall state and local income tax rate shall be determined for the taxable year next preceding the first taxable year during which the Partnership or the Operating Partnership is taxable for federal income tax purposes as an association taxable as a corporation or is otherwise subject to entity-level taxation by determining such rate as if the Partnership or the Operating Partnership had been subject to such state and local taxes during such preceding taxable year.

9.7 ENTITY-LEVEL ARREARAGE COLLECTIONS. If the Partnership is required by applicable law to pay any federal, state or local income tax on behalf of, or withhold such amount with respect to, any Partner or Assignee or any former Partner or Assignee (a) the General Partner shall cause the Partnership to pay such tax on behalf of such Partner or Assignee or former Partner or Assignee from the funds of the Partnership; (b) any amount so paid on behalf of, or withheld with respect to, any Partner or Assignee shall constitute a distribution out of Available Cash to such Partner or Assignee pursuant to Section 5.3; provided, however, in the discretion of the General Partner, such taxes (if pertaining to all Partners) may be considered to be cash disbursements of the Partnership which reduce Available Cash, but the payment or withholding thereof shall not be deemed to be a distribution of Available Cash to such Partners; and (c) to the extent any such Partner or Assignee (but not a former Partner or Assignee) is not then entitled to such distribution under this Agreement, the General Partner shall be authorized, without the approval of any Partner or Assignee, to amend this Agreement insofar as is necessary to maintain the uniformity of intrinsic tax characteristics as to all Units and to make subsequent adjustments to distributions in a manner which, in the reasonable judgment of the General Partner, will make as little alteration as practicable in the priority and amount of distributions otherwise applicable under this Agreement, and will not otherwise alter the distributions to which Partners and Assignees are entitled under this Agreement. If the Partnership is permitted (but not required) by applicable law to pay any such tax on behalf of, or withhold such amount with respect to, any Partner or Assignee or former Partner or Assignee, the General Partner shall be authorized (but not required) to cause the Partnership to pay such tax from the funds of the Partnership and to take any action consistent with this Section 9.7. The General Partner shall be authorized (but not required) to take all necessary or appropriate actions to collect all or any portion of a deficiency in the payment of any such tax that relates to prior periods and that is attributable to Persons who were Limited Partners or Assignees when such deficiencies arose, from such Persons.

9.8 OPINIONS OF COUNSEL. Notwithstanding any other provision of this Agreement, if the Partnership or the Operating Partnership is treated as an association taxable as a corporation at any time or is otherwise taxable for federal income tax purposes as an entity at any time and, pursuant to the provisions of this Agreement, an Opinion of Counsel would otherwise be required to the effect that an action will not cause the Partnership or the Operating Partnership to become so treated as an association taxable as a corporation or otherwise taxable as an entity for federal income tax purposes, such requirement for an Opinion of Counsel shall be deemed automatically waived.

#### ARTICLE X CERTIFICATES

10.1 CERTIFICATES. Upon the Partnership's issuance of Common Units or Subordinated Units to any Person, the Partnership shall issue one or more Certificates in the name of such Person evidencing the number of such Units being so issued. Certificates shall be executed on behalf of the Partnership by the General Partner. No Common Unit Certificate shall be valid for any purpose until it has been

countersigned by the Transfer Agent. The Partners holding Certificates evidencing Subordinated Units may exchange such Certificates for Certificates evidencing Common Units on or after the date on which such Subordinated Units are converted into Common Units pursuant to the terms of Section 5.7(c).

10.2 REGISTRATION, REGISTRATION OF TRANSFER AND EXCHANGE. (a) The General Partner shall cause to be kept on behalf of the Partnership a register in which, subject to such reasonable regulations as it may prescribe and subject to the provisions of Section 10.2(b), the General Partner will provide for the registration and transfer of Units. The Transfer Agent is hereby appointed registrar and transfer agent for the purpose of registering Units and transfers of such Units as herein provided. The Partnership shall not recognize transfers of Certificates representing Units unless same are effected in the manner described in this Section 10.2. Upon surrender for registration of transfer of any Units evidenced by a Certificate, and subject to the provisions of Section 10.2(b), the General Partner on behalf of the Partnership shall execute, and the Transfer Agent shall countersign and deliver, in the name of the holder or the designated transferee or transferees, as required pursuant to the holder's instructions, one or more new Certificates evidencing the same aggregate number of Units as was evidenced by the Certificate so surrendered.

(b) Except as otherwise provided in Section 11.5, the Partnership shall not recognize any transfer of Units until the Certificates evidencing such Units are surrendered for registration of transfer and such Certificates are accompanied by a Transfer Application duly executed by the transferee (or the transferee's attorney-in-fact duly authorized in writing). No charge shall be imposed by the Partnership for such transfer, provided, that as a condition to the issuance of any new Certificate under this Section 10.2, the General Partner may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed with respect thereto.

10.3 MUTILATED, DESTROYED, LOST OR STOLEN CERTIFICATES. (a) If any mutilated Certificate is surrendered to the Transfer Agent, the General Partner on behalf of the Partnership shall execute, and upon its request the Transfer Agent shall countersign and deliver in exchange therefor, a new Certificate evidencing the same number of Units as the Certificate so surrendered.

(b) The General Partner on behalf of the Partnership shall execute, and upon its request the Transfer Agent shall countersign and deliver a new Certificate in place of any Certificate previously issued if the Record Holder of the Certificate:

(i) makes proof by affidavit, in form and substance satisfactory to the General Partner, that a previously issued Certificate has been lost, destroyed or stolen;

(ii) requests the issuance of a new Certificate before the Partnership has notice that the Certificate has been acquired by a purchaser for value in good faith and without notice of an adverse claim;

(iii) if requested by the General Partner, delivers to the Partnership a bond, in form and substance satisfactory to the General Partner, with surety or sureties and with fixed or open penalty as the General Partner may reasonably direct, in its sole discretion, to indemnify the Partnership, the General Partner and the Transfer Agent against any claim that may be made on account of the alleged loss, destruction or theft of the Certificate; and

(iv) satisfies any other reasonable requirements imposed by the General Partner.

If a Limited Partner or Assignee fails to notify the Partnership within a reasonable time after he has notice of the loss, destruction or theft of a Certificate, and a transfer of the Units represented by the Certificate is registered before the Partnership, the General Partner or the Transfer Agent receives such notification, the Limited Partner or Assignee shall be precluded from making any claim against the Partnership, the General Partner or the Transfer Agent for such transfer or for a new Certificate.

(c) As a condition to the issuance of any new Certificate under this Section 10.3, the General Partner may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including, without limitation, the fees and expenses of the Transfer Agent) reasonably connected therewith.

10.4 RECORD HOLDER. In accordance with Section 10.2(b), the Partnership shall be entitled to recognize the Record Holder as the Limited Partner or Assignee with respect to any Units and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such Units on the part of any other Person, whether or not the Partnership shall have actual or other notice thereof, except as otherwise provided by law or any applicable rule, regulation, guideline or requirement of any National Securities Exchange on which the Units are listed for trading. Without limiting the foregoing, when a Person (such as a broker, dealer, bank, trust company or clearing corporation or an agent of any of the foregoing) is acting as nominee, agent or in some other representative capacity for another Person in acquiring and/or holding Units, as between the Partnership on the one hand, and such other Persons, on the other, such representative Person (a) shall be the Limited Partner or Assignee (as the case may be) of record and beneficially, (b) must execute and deliver a Transfer Application and (c) shall be bound by this Agreement and shall have the rights and obligations of a Limited Partner or Assignee (as the case may be) hereunder and as provided for herein.

#### ARTICLE XI TRANSFER OF INTERESTS

11.1 TRANSFER. (a) The term "TRANSFER," when used in this Article XI with respect to a Partnership Interest, shall be deemed to refer to a transaction by which the General Partner assigns its Partnership Interest as a general partner in the Partnership to another Person, by which the holder of a Unit assigns such Unit to another Person who is or becomes an Assignee or by which a Special Limited Partner holding an IDR assigns such IDR to another Person, and includes a sale, assignment, gift, pledge, encumbrance, hypothecation, mortgage, exchange or any other disposition by law or otherwise.

(b) No Partnership Interest shall be transferred, in whole or in part, except in accordance with the terms and conditions set forth in this Article XI. Any transfer or purported transfer of a Partnership Interest not made in accordance with this Article XI shall be null and void.

(c) Nothing contained in this Article XI shall be construed to prevent a disposition by the parent entity of the General Partner of any or all of the issued and outstanding capital stock of the General Partner.

(d) Nothing contained in this Article XI, or elsewhere in this Partnership Agreement, shall preclude the settlement of any transactions involving Common Units entered into through the facilities of the New York Stock Exchange.

11.2 TRANSFER OF A GENERAL PARTNER'S PARTNERSHIP INTEREST. Except for a transfer by the General Partner of all, but not less than all, of its Partnership Interest as a general partner in the Partnership to (a) an Affiliate of the General Partner or (b) another Person in connection with the merger or consolidation of the General Partner with or into another Person or the transfer by the General Partner of all or substantially all of its assets to another Person, the transfer by the General Partner of all or any part of its Partnership Interest as a general partner in the Partnership to a Person prior to July 31, 2004 shall be subject to the prior approval of at least a majority of the Outstanding Units (excluding for purposes of such determination Units owned by the General Partner and its Affiliates). Notwithstanding anything herein to the contrary, no transfer by the General Partner of all or any part of its Partnership Interest as a general partner in the Partnership to another Person shall be permitted unless (i) the transferee agrees to assume the rights and duties of the General Partner under this Agreement and

the Operating Partnership Agreement and to be bound by the provisions of this Agreement and the Operating Partnership Agreement, (ii) the Partnership receives an Opinion of Counsel that such transfer would not result in the loss of limited liability of any Limited Partner or of any limited partner of the Operating Partnership or cause the Partnership or any of the Operating Partnership to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes and (iii) such transferee also agrees to purchase all (or the appropriate portion thereof, if applicable) of the partnership interest of the General Partner as the general partner of the Operating Partnership. In the case of a transfer pursuant to and in compliance with this Section 11.2, the transferee or successor (as the case may be) shall, subject to compliance with the terms of Section 12.3, be admitted to the Partnership as a General Partner immediately prior to the transfer of the Partnership Interest, and the business of the Partnership shall continue without dissolution.

11.3 TRANSFER OF UNITS. (a) Units may be transferred only in the manner described in Section 10.2. The transfer of any Units and the admission of any new Partner shall not constitute an amendment to this Agreement.

(b) Until admitted as a Substituted Limited Partner pursuant to Article XII, the Record Holder of a Unit shall be an Assignee in respect of such Unit. Limited Partners may include custodians, nominees, or any other individual or entity in its own or any representative capacity.

(c) Each distribution in respect of Units shall be paid by the Partnership, directly or through the Transfer Agent or through any other Person or agent, only to the Record Holders thereof as of the Record Date set for the distribution. Such payment shall constitute full payment and satisfaction of the Partnership's liability in respect of such payment, regardless of any claim of any Person who may have an interest in such payment by reason of an assignment or otherwise.

(d) A transferee who has completed and delivered a Transfer Application shall be deemed to have (i) requested admission as a Substituted Limited Partner, (ii) agreed to comply with and be bound by and to have executed this Agreement, (iii) represented and warranted that such transferee has the right, power and authority and, if an individual, the capacity to enter into this Agreement, (iv) granted the powers of attorney set forth in this Agreement and (v) given the consents and approvals and made the waivers contained in this Agreement.

11.4 RESTRICTIONS ON TRANSFERS. Notwithstanding the other provisions of this Article XI, no transfer of any Unit or interest therein of any Limited Partner, Special Limited Partner or Assignee shall be made if such transfer would (a) violate the then applicable federal or state securities laws or rules and regulations of the Securities and Exchange Commission, any state securities commission or any other governmental authorities with jurisdiction over such transfer, (b) result in the taxation of the Partnership or the Operating Partnership as an association taxable as a corporation or otherwise subject the Partnership or the Operating Partnership to entity-level taxation for federal income tax purposes or (c) affect the Partnership's or the Operating Partnership's existence or qualification as a limited partnership under the Delaware Act.

11.5 CITIZENSHIP CERTIFICATES; NON-CITIZEN ASSIGNEES. (a) If the Partnership or the Operating Partnership is or becomes subject to any federal, state or local law or regulation that, in the reasonable determination of the General Partner, creates a substantial risk of cancellation or forfeiture of any property in which the Partnership or the Operating Partnership has an interest based on the nationality, citizenship or other related status of a Limited Partner or Assignee, the General Partner may request any Limited Partner or Assignee to furnish to the General Partner, within 30 days after receipt of such request, an executed Citizenship Certification or such other information concerning his nationality, citizenship or other related status (or, if the Limited Partner or Assignee is a nominee holding for the account of another Person, the nationality, citizenship or other related status of such Person) as the

General Partner may request. If a Limited Partner or Assignee fails to furnish to the General Partner within the aforementioned 30-day period such Citizenship Certification or other requested information or if upon receipt of such Citizenship Certification or other requested information the General Partner determines, with the advice of counsel, that a Limited Partner or Assignee is not an Eligible Citizen, the Units owned by such Limited Partner or Assignee shall be subject to redemption in accordance with the provisions of Section 11.6. In addition, the General Partner may require that the status of any such Limited Partner or Assignee be changed to that of a Non-citizen Assignee, and, thereupon, the General Partner shall be substituted for such Non-citizen Assignee as the Limited Partner in respect of his Units.

(b) The General Partner shall, in exercising voting rights in respect of Units held by it on behalf of Non-citizen Assignees, distribute the votes in the same ratios as the votes of Limited Partners in respect of Units other than those of Non-citizen Assignees are cast, either for, against or abstaining as to the matter.

(c) Upon dissolution of the Partnership, a Non-citizen Assignee shall have no right to receive a distribution in kind pursuant to Section 14.4 but shall be entitled to the cash equivalent thereof, and the General Partner shall provide cash in exchange for an assignment of the Non-citizen Assignee's share of the distribution in kind. Such payment and assignment shall be treated for Partnership purposes as a purchase by the General Partner from the Non-citizen Assignee of his Partnership Interest (representing his right to receive his share of such distribution in kind).

(d) At any time after he can and does certify that he has become an Eligible Citizen, a Non-citizen Assignee may, upon application to the General Partner, request admission as a Substituted Limited Partner with respect to any Units of such Non-citizen Assignee not redeemed pursuant to Section 11.6, and upon his admission pursuant to Section 12.2 the General Partner shall cease to be deemed to be the Limited Partner in respect of the Non-citizen Assignee's Units.

**11.6 REDEMPTION OF INTERESTS.** (a) If at any time a Limited Partner or Assignee fails to furnish a Citizenship Certification or other information requested within the 30-day period specified in Section 11.5(a), or if upon receipt of such Citizenship Certification or other information the General Partner determines, with the advice of counsel, that a Limited Partner or Assignee is not an Eligible Citizen, the Partnership may, unless the Limited Partner or Assignee establishes to the satisfaction of the General Partner that such Limited Partner or Assignee is an Eligible Citizen or has transferred his Units to a Person who furnishes a Citizenship Certification to the General Partner prior to the date fixed for redemption as provided below, redeem the Partnership Interest of such Limited Partner or Assignee as follows:

(i) The General Partner shall, not later than the 30th day before the date fixed for redemption, give notice of redemption to the Limited Partner or Assignee, at his last address designated on the records of the Partnership or the Transfer Agent, by registered or certified mail, postage prepaid. The notice shall be deemed to have been given when so mailed. The notice shall specify the Redeemable Units, the date fixed for redemption, the place of payment, that payment of the redemption price will be made upon surrender of the Certificate evidencing the Redeemable Units and that on and after the date fixed for redemption no further allocations or distributions to which the Limited Partner or Assignee would otherwise be entitled in respect of the Redeemable Units will accrue or be made.

(ii) The aggregate redemption price for Redeemable Units shall be an amount equal to the Current Market Price (the date of determination of which shall be the date fixed for redemption) of Units of the class to be so redeemed multiplied by the number of Units of each such class included among the Redeemable Units. The redemption price shall be paid, in the sole discretion of the General Partner, in cash or by delivery of a promissory note of the Partnership in the principal amount of the redemption price, bearing interest at the rate of 10% annually and payable in three

equal annual installments of principal together with accrued interest, commencing one year after the redemption date.

(iii) Upon surrender by or on behalf of the Limited Partner or Assignee, at the place specified in the notice of redemption, of the Certificate evidencing the Redeemable Units, duly endorsed in blank or accompanied by an assignment duly executed in blank, the Limited Partner or Assignee or his duly authorized representative shall be entitled to receive the payment therefor.

(iv) After the redemption date, Redeemable Units shall no longer constitute issued and Outstanding Units.

(b) The provisions of this Section 11.6 shall also be applicable to Units held by a Limited Partner or Assignee as nominee of a Person determined to be other than an Eligible Citizen.

(c) Nothing in this Section 11.6 shall prevent the recipient of a notice of redemption from transferring his Units before the redemption date if such transfer is otherwise permitted under this Agreement. Upon receipt of notice of such a transfer, the General Partner shall withdraw the notice of redemption, provided, the transferee of such Units certifies in the Transfer Application that he is an Eligible Citizen. If the transferee fails to make such certification, such redemption shall be effected from the transferee on the original redemption date.

11.7 TRANSFER OF IDRS. A Special Limited Partner holding IDRs may transfer any or all of the IDRs held by such Special Limited Partner. The General Partner shall have the authority (but shall not be required) to adopt such reasonable restrictions on the transfer of IDRs, consistent with the restrictions on transfer of Units provided for in this Agreement, and requirements for registering the transfer of IDRs as the General Partner, in its sole discretion, shall determine are necessary or appropriate including, without limitation, if the General Partner shall so determine, in its sole discretion, the right of the Partnership to redeem IDRs upon terms and conditions similar to those applicable to Units.

## ARTICLE XII ADMISSION OF PARTNERS

12.1 ADMISSION OF INITIAL LIMITED PARTNERS. Upon the issuance by the Partnership of Common Units, Subordinated Units and IDRs to the General Partner as described in Section 4.2, the General Partner shall be deemed to have been admitted to the Partnership as a Limited Partner in respect of the Common Units and Subordinated Units issued to it and as a Special Limited Partner in respect of the IDRs issued to it. Upon the issuance by the Partnership of Common Units to the Underwriters as described in Section 4.2 in connection with the Initial Offering and the execution by each Underwriter of a Transfer Application, the General Partner shall admit the Underwriters to the Partnership as Initial Limited Partners in respect of the Common Units purchased by them.

12.2 ADMISSION OF SUBSTITUTED LIMITED PARTNERS. By transfer of a Unit in accordance with Article XI, the transferor shall be deemed to have given the transferee the right to seek admission as a Substituted Limited Partner subject to the conditions of, and in the manner permitted under, this Agreement. A transferor of a Certificate shall, however, only have the authority to convey to a purchaser or other transferee who does not execute and deliver a Transfer Application (a) the right to negotiate such Certificate to a purchaser or other transferee and (b) the right to transfer the right to request admission as a Substituted Limited Partner to such purchaser or other transferee in respect of the transferred Units. Each transferee of a Unit (including, without limitation, any nominee holder or an agent acquiring such Unit for the account of another Person) who executes and delivers a Transfer Application shall, by virtue of such execution and delivery, be an Assignee and be deemed to have applied to become a Substituted Limited Partner with respect to the Units so transferred to such Person. Such Assignee shall become a Substituted Limited Partner (x) at such time as the General



Partner consents thereto, which consent may be given or withheld in the General Partner's sole discretion, and (y) when any such admission is shown on the books and records of the Partnership. If such consent is withheld, such transferee shall be an Assignee. An Assignee shall have an interest in the Partnership equivalent to that of a Limited Partner with respect to allocations and distributions, including, without limitation, liquidating distributions, of the Partnership. With respect to voting rights attributable to Units that are held by Assignees, the General Partner shall be deemed to be the Limited Partner with respect thereto and shall, in exercising the voting rights in respect of such Units on any matter, vote such Units at the written direction of the Assignee who is the Record Holder of such Units. If no such written direction is received, such Units will not be voted. An Assignee shall have no other rights of a Limited Partner.

12.3 ADMISSION OF SUCCESSOR GENERAL PARTNER. A successor General Partner approved pursuant to Section 13.1 or 13.2 or the transferee of or successor to all of the General Partner's Partnership Interest as a general partner in the Partnership pursuant to Section 11.2 who is proposed to be admitted as a successor General Partner shall be admitted to the Partnership as the General Partner, effective immediately prior to the withdrawal or removal of the General Partner pursuant to Section 13.1 or 13.2 or the transfer of the General Partner's Partnership Interest as a general partner in the Partnership pursuant to Section 11.2; provided, however, that no such successor shall be admitted to the Partnership until compliance with the terms of Section 11.2 has occurred and such successor has executed and delivered such other documents or instruments as may be required to effect such admission. Any such successor shall, subject to the terms hereof, carry on the business of the Partnership and Operating Partnership without dissolution.

12.4 ADMISSION OF ADDITIONAL LIMITED PARTNERS. (a) A Person (other than the General Partner, an Initial Limited Partner or a Substituted Limited Partner) who makes a Capital Contribution to the Partnership in accordance with this Agreement shall be admitted to the Partnership as an Additional Limited Partner only upon furnishing to the General Partner (i) evidence of acceptance in form satisfactory to the General Partner of all of the terms and conditions of this Agreement, including, without limitation, the power of attorney granted in Section 1.4, and (ii) such other documents or instruments as may be required in the discretion of the General Partner to effect such Person's admission as an Additional Limited Partner.

(b) Notwithstanding anything to the contrary in this Section 12.4, no Person shall be admitted as an Additional Limited Partner without the consent of the General Partner, which consent may be given or withheld in the General Partner's sole discretion. The admission of any Person as an Additional Limited Partner shall become effective on the date upon which the name of such Person is recorded as such in the books and records of the Partnership, following the consent of the General Partner to such admission.

12.5 AMENDMENT OF AGREEMENT AND CERTIFICATE OF LIMITED PARTNERSHIP. To effect the admission to the Partnership of any Partner, the General Partner shall take all steps necessary and appropriate under the Delaware Act to amend the records of the Partnership to reflect such admission and, if necessary, to prepare as soon as practical an amendment of this Agreement and, if required by law, to prepare and file an amendment to the Certificate of Limited Partnership and may for this purpose, among others, exercise the power of attorney granted pursuant to Section 1.4.

#### ARTICLE XIII WITHDRAWAL OR REMOVAL OF PARTNERS

13.1 WITHDRAWAL OF THE GENERAL PARTNER. (a) The General Partner shall be deemed to have withdrawn from the Partnership upon the occurrence of any one of the following events (each such event herein referred to as an "EVENT OF WITHDRAWAL");

(i) the General Partner voluntarily withdraws from the Partnership by giving written notice to the other Partners (and it shall be deemed that the General Partner has withdrawn pursuant to this Section 13.1(a)(i) if the General Partner voluntarily withdraws as general partner of the Operating Partnership);

(ii) the General Partner transfers all of its rights as General Partner pursuant to Section 11.2;

(iii) the General Partner is removed pursuant to Section 13.2;

(iv) the General Partner (A) makes a general assignment for the benefit of creditors; (B) files a voluntary bankruptcy petition; (C) files a petition or answer seeking for itself a reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any law; (D) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against the General Partner in a proceeding of the type described in clauses (A)-(C) of this Section 13.1(a)(iv); or (E) seeks, consents to or acquiesces in the appointment of a trustee, receiver or liquidator of the General Partner or of all or any substantial part of its properties;

(v) a final and non-appealable judgment is entered by a court with appropriate jurisdiction ruling that the General Partner is bankrupt or insolvent, or a final and non-appealable order for relief is entered by a court with appropriate jurisdiction against the General Partner, in each case under any federal or state bankruptcy or insolvency laws as now or hereafter in effect; or

(vi) a certificate of dissolution or its equivalent is filed for the General Partner, or 90 days expire after the date of notice to the General Partner of revocation of its charter without a reinstatement of its charter, under the laws of its state of incorporation.

If an Event of Withdrawal specified in Section 13.1(a)(iv), (v) or (vi) occurs, the withdrawing General Partner shall give notice to the Limited Partners within 30 days after such occurrence. The Partners hereby agree that only the Events of Withdrawal described in this Section 13.1 shall result in the withdrawal of the General Partner from the Partnership.

(b) Withdrawal of the General Partner from the Partnership upon the occurrence of an Event of Withdrawal shall not constitute a breach of this Agreement under the following circumstances: (i) at any time during the period beginning on the Closing Date and ending at 12:00 midnight, Central Standard Time, on July 31, 2004, the General Partner voluntarily withdraws by giving at least 90 days' advance notice of its intention to withdraw to the Limited Partners, provided, that prior to the effective date of such withdrawal the withdrawal is approved by Limited Partners holding at least two-thirds of the Outstanding Units (excluding for purposes of such determination Units owned by the General Partner and its Affiliates) and the General Partner delivers to the Partnership an Opinion of Counsel ("WITHDRAWAL OPINION OF COUNSEL") that such withdrawal (following the selection of the successor General Partner) would not result in the loss of the limited liability of any Limited Partner or of the limited partner of the Operating Partnership or cause the Partnership or the Operating Partnership to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes; (ii) at any time after 12:00 midnight, Central Standard Time, on July 31, 2004, the General Partner voluntarily withdraws by giving at least 90 days' advance notice to the Limited Partners, such withdrawal to take effect on the date specified in such notice; (iii) at any time that the General Partner ceases to be a General Partner pursuant to Section 13.1(a)(ii) or is removed pursuant to Section 13.2; or (iv) notwithstanding clause (i) of this sentence, at any time that the General Partner voluntarily withdraws by giving at least 90 days' advance notice of its intention to withdraw to the Limited Partners, such withdrawal to take effect on the date specified in the notice, if at the time such notice is given one Person and its Affiliates (other than the General Partner and its Affiliates) own beneficially or of record or control at least 50% of the Outstanding Units. The withdrawal of the General Partner from the Partnership upon the occurrence of an Event of Withdrawal shall also constitute the withdrawal of the General Partner as general partner of the Operating Partnership. If the General Partner gives a notice of withdrawal pursuant to Section 13.1(a)(i), holders of at least a majority of the

Outstanding Units (excluding for purposes of such determination Units owned by the General Partner and its Affiliates) may, prior to the effective date of such withdrawal, elect a successor General Partner. If, prior to the effective date of the General Partner's withdrawal, a successor is selected by the Limited Partners as provided herein, the Partnership, as the limited partner of the Operating Partnership, shall cause such Person to become the successor general partner of the Operating Partnership, as provided in the Operating Partnership Agreement. If, prior to the effective date of the General Partner's withdrawal, a successor is not selected by the Limited Partners as provided herein or the Partnership does not receive a Withdrawal Opinion of Counsel, the Partnership shall be dissolved in accordance with Section 14.1. Any successor General Partner elected in accordance with the terms of this Section 13.1 shall be subject to the provisions of Section 12.3.

13.2 REMOVAL OF THE GENERAL PARTNER. The General Partner may be removed if such removal is approved by Limited Partners holding at least two-thirds of the Outstanding Units. Any such action by such Limited Partners for removal of the General Partner must also provide for the election of a successor General Partner by Limited Partners holding at least a majority of the Outstanding Units. Such removal shall be effective immediately following the admission of a successor General Partner pursuant to Article XII. The removal of the General Partner shall also automatically constitute the removal of the General Partner as general partner of the Operating Partnership, as provided in the Operating Partnership Agreement. If a Person is elected as a successor General Partner in accordance with the terms of this Section 13.2, the Partnership, as the limited partner of the Operating Partnership, shall cause such Person to become the successor general partner of the Operating Partnership, as provided in the Operating Partnership Agreement. The right of the Limited Partners holding Outstanding Units to remove the General Partner shall not exist or be exercised unless the Partnership has received an opinion opining as to the matters covered by a Withdrawal Opinion of Counsel. Any successor General Partner elected in accordance with the terms of this Section 13.2 shall be subject to the provisions of Section 12.3.

13.3 INTEREST OF DEPARTING PARTNER AND SUCCESSOR GENERAL PARTNER. (a) In the event of (i) withdrawal of the General Partner under circumstances where such withdrawal does not violate this Agreement or (ii) removal of the General Partner by the Limited Partners under circumstances where Cause does not exist, if a successor General Partner is elected in accordance with the terms of Section 13.1 or 13.2, the Departing Partner shall have the option exercisable prior to the effective date of the departure of such Departing Partner to require its successor to purchase its Partnership Interest as a general partner in the Partnership and its partnership interest as the general partner in the Operating Partnership (collectively, the "COMBINED INTEREST") in exchange for an amount in cash equal to the fair market value of such Combined Interest, such amount to be determined and payable as of the effective date of its departure. If the General Partner is removed by the Limited Partners under circumstances where Cause exists or if the General Partner withdraws under circumstances where such withdrawal violates this Agreement or the Operating Partnership Agreement, and if a successor General Partner is elected in accordance with the terms of Section 13.1 or 13.2, such successor shall have the option, exercisable prior to the effective date of the departure of such Departing Partner, to purchase the Combined Interest of the Departing Partner for such fair market value of such Combined Interest. In either event, the Departing Partner shall be entitled to receive all reimbursements due such Departing Partner pursuant to Section 6.4, including, without limitation, any employee-related liabilities (including, without limitation, severance liabilities), incurred in connection with the termination of any employees employed by the General Partner for the benefit of the Partnership or the Operating Partnership. Subject to Section 13.3(b), the Departing Partner shall, as of the effective date of its departure, cease to share in any allocations or distributions with respect to its Partnership Interest as a general partner in the Partnership and Partnership income, gain, loss, deduction and credit will be prorated and allocated as set forth in Section 5.2(g).

For purposes of this Section 13.3(a), the fair market value of the Departing Partner's Combined Interest shall be determined by agreement between the Departing Partner and its successor or, failing

agreement within 30 days after the effective date of such Departing Partner's departure, by an independent investment banking firm or other independent expert selected by the Departing Partner and its successor, which, in turn, may rely on other experts and the determination of which shall be conclusive as to such matter. If such parties cannot agree upon one independent investment banking firm or other independent expert within 45 days after the effective date of such departure, then the Departing Partner shall designate an independent investment banking firm or other independent expert, the Departing Partner's successor shall designate an independent investment banking firm or other independent expert, and such firms or experts shall mutually select a third independent investment banking firm or independent expert, which shall determine the fair market value of the Combined Interest. In making its determination, such independent investment banking firm or other independent expert shall consider the then current trading price of Units on any National Securities Exchange on which Units are then listed, the value of the Partnership's assets, the rights and obligations of the General Partner and other factors it may deem relevant.

(b) If the Combined Interest is not purchased in the manner set forth in Section 13.3(a), the Departing Partner shall become a Limited Partner and the Combined Interest shall be converted into Common Units pursuant to a valuation made by an investment banking firm or other independent expert selected pursuant to Section 13.3(a), without reduction in such Partnership Interest (but subject to proportionate dilution by reason of the admission of its successor). Any successor General Partner shall indemnify the Departing Partner as to all debts and liabilities of the Partnership arising on or after the date on which the Departing Partner becomes a Limited Partner. For purposes of this Agreement, conversion of the General Partner's Combined Interest to Common Units will be characterized as if the General Partner contributed its Combined Interest to the Partnership in exchange for the newly issued Common Units.

(c) If a successor General Partner is elected in accordance with the terms of Section 13.1 or 13.2 and the option described in Section 13.3(a) is not exercised by the party entitled to do so, the successor General Partner shall, at the effective date of its admission to the Partnership, contribute to the capital of the Partnership cash in an amount such that its Capital Account, after giving effect to such contribution and any adjustments made to the Capital Accounts of all Partners pursuant to Section 4.4(d)(i), shall be equal to that percentage of the Capital Accounts of all Partners that is equal to its Percentage Interest as the General Partner. In such event, such successor General Partner shall, subject to the following sentence, be entitled to such Percentage Interest of all Partnership allocations and distributions and any other allocations and distributions to which the Departing Partner was entitled. In addition, such successor General Partner shall cause this Agreement to be amended to reflect that, from and after the date of such successor General Partner's admission, the successor General Partner's interest in all Partnership distributions and allocations shall be 1%, and that of the holders of Outstanding Units shall be 99%.

13.4 WITHDRAWAL OF LIMITED PARTNERS. No Limited Partner shall have any right to withdraw from the Partnership; provided, however, that when a transferee of a Limited Partner's Units becomes a Record Holder, such transferring Limited Partner shall cease to be a Limited Partner with respect to the Units so transferred.

#### ARTICLE XIV DISSOLUTION AND LIQUIDATION

14.1 DISSOLUTION. The Partnership shall not be dissolved by the admission of Substituted Limited Partners or Additional Limited Partners or by the admission of a successor General Partner in accordance with the terms of this Agreement. Upon the removal or withdrawal of the General Partner, if a successor General Partner is elected pursuant to Section 13.1 or 13.2, the Partnership shall not be dissolved and such successor General Partner shall continue the business of the Partnership. The Partnership shall dissolve, and (subject to Section 14.2) its affairs should be wound up, upon:

(a) the expiration of its term as provided in Section 1.5;

(b) an Event of Withdrawal of the General Partner as provided in Section 13.1(a) (other than Section 13.1(a)(ii)), unless a successor is elected and an Opinion of Counsel is received as provided in Section 13.1(b) or 13.2 and such successor is admitted to the Partnership pursuant to Section 12.3;

(c) an election to dissolve the Partnership by the General Partner that (i) during the Subordination Period, is approved by at least a majority of the Outstanding Units other than Units held by the General Partner or its Affiliates or (ii) after the expiration of the Subordination Period, is approved by at least a majority of the Outstanding Units (and all Limited Partners hereby expressly consent that in either case such approval may be effected upon written consent of said applicable percentage of the Outstanding Units);

(d) entry of a decree of judicial dissolution of the Partnership pursuant to the provisions of the Delaware Act; or

(e) the sale of all or substantially all of the assets and properties of the Partnership and the Operating Partnership taken as a whole.

14.2 CONTINUATION OF THE BUSINESS OF THE PARTNERSHIP AFTER DISSOLUTION. Upon (a) dissolution of the Partnership following an Event of Withdrawal caused by the withdrawal or removal of the General Partner as provided in Section 13.1(a)(i) or (iii) and the failure of the Partners to select a successor to such Departing Partner pursuant to Section 13.1 or 13.2, then within 90 days thereafter or (b) dissolution of the Partnership upon an event constituting an Event of Withdrawal as defined in Section 13.1(a)(iv), (v) or (vi), then within 180 days thereafter, a majority of the Outstanding Units may elect to reconstitute the Partnership and continue its business on the same terms and conditions set forth in this Agreement by forming a new limited partnership on terms identical to those set forth in this Agreement and having as the successor general partner a Person approved by a majority of the Outstanding Units. Upon any such election by a majority of the Outstanding Units, all Partners shall be bound thereby and shall be deemed to have approved thereof. Unless such an election is made within the applicable time period as set forth above, the Partnership shall conduct only activities necessary to wind up its affairs. If such an election is so made, then:

(i) the reconstituted Partnership shall continue until the end of the term set forth in Section 1.5 unless earlier dissolved in accordance with this Article XIV;

(ii) if the successor General Partner is not the former General Partner, then the interest of the former General Partner shall be treated thenceforth as the interest of a Limited Partner and converted into Common Units in the manner provided in Section 13.3(b); and

(iii) all necessary steps shall be taken to cancel this Agreement and the Certificate of Limited Partnership and to enter into and, as necessary, to file a new partnership agreement and certificate of limited partnership, and the successor general partner may for this purpose exercise the powers of attorney granted the General Partner pursuant to Section 1.4; provided, that the right of a majority of Outstanding Units to approve a successor General Partner and to reconstitute and to continue the business of the Partnership shall not exist and may not be exercised unless the Partnership has received an Opinion of Counsel that (x) the exercise of the right would not result in the loss of limited liability of any Limited Partner and (y) neither the Partnership, the reconstituted limited partnership nor the Operating Partnership would be treated as an association taxable as a corporation or otherwise be taxable as an entity for federal income tax purposes upon the exercise of such right to continue.

14.3 LIQUIDATION. Upon dissolution of the Partnership, unless the Partnership is continued under an election to reconstitute and continue the Partnership pursuant to Section 14.2, the General Partner, or in the event the General Partner has been dissolved or removed, become bankrupt as set forth in

Section 13.1 or withdrawn from the Partnership, a liquidator or liquidating committee approved by a majority of the Outstanding Units, shall be the Liquidator. The Liquidator (if other than the General Partner) shall be entitled to receive such compensation for its services as may be approved by a majority of the Outstanding Units. The Liquidator shall agree not to resign at any time without 15 days' prior notice and (if other than the General Partner) may be removed at any time, with or without cause, by notice of removal approved by a majority of the Outstanding Units. Upon dissolution, removal or resignation of the Liquidator, a successor and substitute Liquidator (who shall have and succeed to all rights, powers and duties of the original Liquidator) shall within 30 days thereafter be approved by a majority of the Outstanding Units. The right to approve a successor or substitute Liquidator in the manner provided herein shall be deemed to refer also to any such successor or substitute Liquidator approved in the manner herein provided. Except as expressly provided in this Article XIV, the Liquidator approved in the manner provided herein shall have and may exercise, without further authorization or consent of any of the parties hereto, all of the powers conferred upon the General Partner under the terms of this Agreement (but subject to all of the applicable limitations, contractual and otherwise, upon the exercise of such powers, other than the limitation on sale set forth in Section 6.3(b)) to the extent necessary or desirable in the good faith judgment of the Liquidator to carry out the duties and functions of the Liquidator hereunder for and during such period of time as shall be reasonably required in the good faith judgment of the Liquidator to complete the winding up and liquidation of the Partnership as provided for herein. The Liquidator shall liquidate the assets of the Partnership, and apply and distribute the proceeds of such liquidation in the following order of priority, unless otherwise required by mandatory provisions of applicable law:

(a) the payment to creditors of the Partnership, including, without limitation, Partners who are creditors, in the order of priority provided by law; and the creation of a reserve of cash or other assets of the Partnership for contingent liabilities in an amount, if any, determined by the Liquidator to be appropriate for such purposes; and

(b) to all Partners in accordance with, and to the extent of, the positive balances in their respective Capital Accounts, as determined after taking into account all Capital Account adjustments (other than those made by reason of this clause) for the taxable year of the Partnership during which the liquidation of the Partnership occurs (with the date of such occurrence being determined pursuant to Treasury Regulation Section 1.704-1(b)(2)(ii)(g)); and such distribution shall be made by the end of such taxable year (or, if later, within 90 days after said date of such occurrence).

14.4 DISTRIBUTIONS IN KIND. (a) Notwithstanding the provisions of Section 14.3, which require the liquidation of the assets of the Partnership, but subject to the order of priorities set forth therein, if prior to or upon dissolution of the Partnership the Liquidator determines that an immediate sale of part or all of the Partnership's assets would be impractical or would cause undue loss to the Partners, the Liquidator may, in its absolute discretion, defer for a reasonable time the liquidation of any assets except those necessary to satisfy liabilities of the Partnership (including, without limitation, those to Partners as creditors) and or distribute to the Partners or to specific classes of Partners, in lieu of cash, as tenants in common and in accordance with the provisions of Section 14.3, undivided interests in such Partnership assets as the Liquidator deems not suitable for liquidation. Any such distributions in kind shall be made only if, in the good faith judgment of the Liquidator, such distributions in kind are in the best interest of the Limited Partners, and shall be subject to such conditions relating to the disposition and management of such properties as the Liquidator deems reasonable and equitable and to any agreements governing the operation of such properties at such time. The Liquidator shall determine the fair market value of any property distributed in kind using such reasonable method of valuation as it may adopt.

(b) In accordance with Section 704(c)(1)(B) of the Code, in the case of any deemed distribution occurring as a result of a termination of the Partnership pursuant to Section 708(b)(1)(B) of the Code,

to the maximum extent possible consistent with the priorities of Section 14.3, the General Partner shall have sole discretion to treat the deemed distribution of Partnership assets to Partners as occurring in a manner that will not cause a shift of the Book-Tax Disparity attributable to a Partnership asset existing immediately prior to the deemed distribution to another asset upon the deemed contribution of assets to the reconstituted Partnership, including, without limitation, deeming the distribution of any Partnership assets to be made either to the Partner who contributed such assets or to the transferee of such Partner.

14.5 CANCELLATION OF CERTIFICATE OF LIMITED PARTNERSHIP. Upon the completion of the distribution of Partnership cash and property as provided in Sections 14.3 and 14.4 in connection with the liquidation of the Partnership, the Partnership shall be terminated and the Certificate of Limited Partnership and all qualifications of the Partnership as a foreign limited partnership in jurisdictions other than the State of Delaware shall be cancelled and such other actions as may be necessary to terminate the Partnership shall be taken.

14.6 REASONABLE TIME FOR WINDING UP. A reasonable time shall be allowed for the orderly winding up of business and affairs of the Partnership and the liquidation of its assets pursuant to Section 14.3 in order to minimize any losses otherwise attendant upon such winding up, and the provisions of this Agreement shall remain in effect between the Partners during the period of liquidation.

14.7 RETURN OF CAPITAL. The General Partner shall not be personally liable for, and shall have no obligation to contribute or loan any monies or property to the Partnership to enable it to effectuate, the return of the Capital Contributions of the Limited Partners, or any portion thereof, it being expressly understood that any such return shall be made solely from Partnership assets.

14.8 CAPITAL ACCOUNT RESTORATION. No Limited Partner shall have any obligation to restore any negative balance in its Capital Account upon liquidation of the Partnership. The General Partner shall be obligated to restore any negative balance in its Capital Account upon liquidation of its interest in the Partnership by the end of the taxable year of the Partnership during which such liquidation occurs, or, if later, within 90 days after the date of such liquidation.

14.9 WAIVER OF PARTITION. Each Partner hereby waives any right to partition of the Partnership property.

ARTICLE XV  
AMENDMENT OF PARTNERSHIP AGREEMENT;  
MEETINGS; RECORD DATE

15.1 AMENDMENT TO BE ADOPTED SOLELY BY GENERAL PARTNER. Each Limited Partner agrees that the General Partner (pursuant to its powers of attorney from the Limited Partners, Special Limited Partners and Assignees), without the approval of any Limited Partner or Assignee, may amend any provision of this Agreement, and execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith, to reflect:

(a) a change in the name of the Partnership, the location of the principal place of business of the Partnership, the registered agent of the Partnership or the registered office of the Partnership;

(b) admission, substitution, withdrawal or removal of Partners in accordance with this Agreement;

(c) a change that, in the sole discretion of the General Partner, is necessary or appropriate to qualify or continue the qualification of the Partnership as a limited partnership or a partnership in which the limited partners have limited liability under the laws of any state or that is necessary or advisable in the opinion of the General Partner to ensure that the Partnership and the Operating

Partnership will not be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes;

(d) a change (i) that, in the sole discretion of the General Partner, does not adversely affect the Limited Partners in any material respect, (ii) that is necessary or desirable to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute (including, without limitation, the Delaware Act) or that is necessary or desirable to facilitate the trading of the Units (including, without limitation, the division of Outstanding Units into different classes to facilitate uniformity of tax consequences within such classes of Units) or comply with any rule, regulation, guideline or requirement of any National Securities Exchange on which the Units are or will be listed for trading, compliance with any of which the General Partner determines in its sole discretion to be in the best interests of the Partnership and the Limited Partners or (iii) that is necessary or desirable to implement certain tax-related provisions of the Partnership Agreement, or (iv) that is required to effect the intent of the provisions of this Agreement or is otherwise contemplated by this Agreement;

(e) a change in the fiscal year and taxable year of the Partnership and any changes that, in the sole discretion of the General Partner, are necessary or appropriate as a result of a change in the fiscal year and taxable year of the Partnership including, without limitation, if the General Partner shall so determine, a change in the definition of "Quarter" and the dates on which distributions are to be made by the Partnership;

(f) an amendment that is necessary, in the Opinion of Counsel, to prevent the Partnership or the General Partner or its directors or officers from in any manner being subjected to the provisions of the Investment Company Act of 1940, as amended, the Investment Advisers Act of 1940, as amended, or "plan asset" regulations adopted under the Employee Retirement Income Security Act of 1974, as amended, whether or not substantially similar to plan asset regulations currently applied or proposed by the United States Department of Labor;

(g) subject to the terms of Section 4.3, an amendment that, in the sole discretion of the General Partner, is necessary or desirable in connection with the authorization for issuance of any class or series of Partnership Securities pursuant to Section 4.3;

(h) any amendment expressly permitted in this Agreement to be made by the General Partner acting alone;

(i) an amendment effected, necessitated or contemplated by a Merger Agreement approved in accordance with Section 16.3;

(j) an amendment that, in the sole discretion of the General Partner, is necessary or desirable to reflect, account for and deal with appropriately the formation by the Partnership of, or investment by the Partnership in, any corporation, partnership, joint venture, limited liability company or other entity other than the Operating Partnership, in connection with the conduct by the Partnership of activities permitted by the terms of Section 3.1; or

(k) any other amendments substantially similar to the foregoing.

15.2 AMENDMENT PROCEDURES. Except as provided in Sections 15.1 and 15.3, all amendments to this Agreement shall be made in accordance with the following requirements. Amendments to this Agreement may be proposed only by or with the consent of the General Partner. A proposed amendment shall be effective upon its approval by the holders of at least two-thirds of the Outstanding Units during the Subordination Period and thereafter upon its approval by the holders of at least a majority of the Outstanding Units, unless, in either case, a greater or different percentage is required under this Agreement. Each proposed amendment that requires the approval of the holders of a specified percentage of Outstanding Units shall be set forth in a writing that contains the text of the



proposed amendment. If such an amendment is proposed, the General Partner shall seek the written approval of the requisite percentage of Outstanding Units or call a meeting of the Limited Partners to consider and vote on such proposed amendment. The General Partner shall notify all Record Holders upon final adoption of any such proposed amendments.

15.3 AMENDMENT REQUIREMENTS. (a) Notwithstanding the provisions of Sections 15.1 and 15.2, no provision of this Agreement that establishes a percentage of Outstanding Units required to take any action shall be amended, altered, changed, repealed or rescinded in any respect that would have the effect of reducing such voting requirement unless such amendment is approved by the written consent or the affirmative vote of holders of Outstanding Units whose aggregate Outstanding Units constitute not less than the voting requirement sought to be reduced.

(b) Notwithstanding the provisions of Sections 15.1 and 15.2, no amendment to this Agreement may (i) enlarge the obligations of any Limited Partner without its consent, (ii) enlarge the obligations of the General Partner without its consent, which may be given or withheld in its sole discretion, (iii) modify the amounts distributable, reimbursable or otherwise payable to the General Partner by the Partnership or the Operating Partnership, (iv) change Section 14.1(a) or (c), (v) restrict in any way any action by or rights of the General Partner as set forth in this Agreement or (vi) change the term of the Partnership or, except as set forth in Section 14.1(c), give any Person the right to dissolve the Partnership.

(c) Except as otherwise provided, and without limitation of the General Partner's authority to adopt amendments to this Agreement as contemplated in Section 15.1, any amendment that would have a material adverse effect on the rights or preferences of any class of Outstanding Units in relation to other classes of Units must be approved by the holders of not less than a majority of the Outstanding Units of the class affected (excluding for purposes of such determination Units owned by the General Partner and its Affiliates).

(d) Notwithstanding any other provision of this Agreement, except for amendments pursuant to Section 6.3 or 15.1 and except as otherwise provided by Section 16.3(b), no amendments shall become effective without the approval of the holders of at least 95% of the Outstanding Units unless the Partnership obtains an Opinion of Counsel to the effect that (a) such amendment will not cause the Partnership or the Operating Partnership to be treated as an association taxable as a corporation or otherwise taxable as an entity for federal income tax purposes and (b) such amendment will not affect the limited liability of any Limited Partner or any limited partner of the Operating Partnership under applicable law.

(e) This Section 15.3 shall only be amended with the approval of the holders of not less than 95% of the Outstanding Units.

15.4 MEETINGS. All acts of Limited Partners to be taken pursuant to this Agreement shall be taken in the manner provided in this Article XV. Meetings of the Limited Partners may be called by the General Partner or by Limited Partners owning 20% or more of the Outstanding Units of the class or classes for which a meeting is proposed. Limited Partners shall call a meeting by delivering to the General Partner one or more requests in writing stating that the signing Limited Partners wish to call a meeting and indicating the general or specific purposes for which the meeting is to be called. Within 60 days after receipt of such a call from Limited Partners or within such greater time as may be reasonably necessary for the Partnership to comply with any statutes, rules, regulations, listing agreements or similar requirements governing the holding of a meeting or the solicitation of proxies for use at such a meeting, the General Partner shall send a notice of the meeting to the Limited Partners either directly or indirectly through the Transfer Agent. A meeting shall be held at a time and place determined by the General Partner on a date not more than 60 days after the mailing of notice of the meeting. Limited Partners shall not vote on matters that would cause the Limited Partners to be deemed to be taking part in the management and control of the business and affairs of the Partnership so as to jeopardize the Limited

Partners' limited liability under the Delaware Act or the law of any other state in which the Partnership is qualified to do business.

15.5 NOTICE OF A MEETING. Notice of a meeting called pursuant to Section 15.4 shall be given to the Record Holders in writing by mail or other means of written communication in accordance with Section 18.1. The notice shall be deemed to have been given at the time when deposited in the mail or sent by other means of written communication.

15.6 RECORD DATE. For purposes of determining the Limited Partners entitled to notice of or to vote at a meeting of the Limited Partners or to give approvals without a meeting as provided in Section 15.11, the General Partner may set a Record Date, which shall not be less than 10 nor more than 60 days before (a) the date of the meeting (unless such requirement conflicts with any rule, regulation, guideline or requirement of any National Securities Exchange on which the Units are listed for trading, in which case the rule, regulation, guideline or requirement of such exchange shall govern) or (b) in the event that approvals are sought without a meeting, the date by which Limited Partners are requested in writing by the General Partner to give such approvals.

15.7 ADJOURNMENT. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting and a new Record Date need not be fixed, if the time and place thereof are announced at the meeting at which the adjournment is taken, unless such adjournment shall be for more than 45 days. At the adjourned meeting, the Partnership may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 45 days or if a new Record Date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given in accordance with this Article XV.

15.8 WAIVER OF NOTICE; APPROVAL OF MEETING; APPROVAL OF MINUTES. The transactions of any meeting of Limited Partners, however called and noticed, and whenever held, shall be as valid as if had at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after the meeting, Limited Partners representing such quorum who were present in person or by proxy and entitled to vote, sign a written waiver of notice or an approval of the holding of the meeting or an approval of the minutes thereof. All waivers and approvals shall be filed with the Partnership records or made a part of the minutes of the meeting. Attendance of a Limited Partner at a meeting shall constitute a waiver of notice of the meeting, except when the Limited Partner does not approve, at the beginning of the meeting, of the transaction of any business because the meeting is not lawfully called or convened; and except that attendance at a meeting is not a waiver of any right to disapprove the consideration of matters required to be included in the notice of the meeting, but not so included, if the disapproval is expressly made at the meeting.

15.9 QUORUM. The holders of two-thirds of the Outstanding Units of the class or classes for which a meeting has been called represented in person or by proxy shall constitute a quorum at a meeting of Limited Partners of such class or classes unless any such action by the Limited Partners requires approval by holders of a majority in interest of such Units, in which case the quorum shall be a majority (excluding, in either case, if such are to be excluded from the vote, Outstanding Units owned by the General Partner and its Affiliates). At any meeting of the Limited Partners duly called and held in accordance with this Agreement at which a quorum is present, the act of Limited Partners holding Outstanding Units that in the aggregate represent a majority of the Outstanding Units entitled to vote and be present in person or by proxy at such meeting shall be deemed to constitute the act of all Limited Partners, unless a greater or different percentage is required with respect to such action under the provisions of this Agreement, in which case the act of the Limited Partners holding Outstanding Units that in the aggregate represent at least such greater or different percentage shall be required. The Limited Partners present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough Limited Partners to leave less than a quorum, if any action taken (other than adjournment) is approved by the

required percentage of Outstanding Units specified in this Agreement. In the absence of a quorum, any meeting of Limited Partners may be adjourned from time to time by the affirmative vote of a majority of the Outstanding Units represented either in person or by proxy, but no other business may be transacted, except as provided in Section 15.7.

15.10 CONDUCT OF MEETING. The General Partner shall have full power and authority concerning the manner of conducting any meeting of the Limited Partners or solicitation of approvals in writing, including, without limitation, the determination of Persons entitled to vote, the existence of a quorum, the satisfaction of the requirements of Section 15.4, the conduct of voting, the validity and effect of any proxies and the determination of any controversies, votes or challenges arising in connection with or during the meeting or voting. The General Partner shall designate a Person to serve as chairman of any meeting and shall further designate a Person to take the minutes of any meeting. All minutes shall be kept with the records of the Partnership maintained by the General Partner. The General Partner may make such other regulations consistent with applicable law and this Agreement as it may deem advisable concerning the conduct of any meeting of the Limited Partners or solicitation of approvals in writing, including, without limitation, regulations in regard to the appointment of proxies, the appointment and duties of inspectors of votes and approvals, the submission and examination of proxies and other evidence of the right to vote, and the revocation of approvals in writing.

15.11 ACTION WITHOUT A MEETING. Any action that may be taken at a meeting of the Limited Partners may be taken without a meeting if an approval in writing setting forth the action so taken is signed by Limited Partners owning not less than the minimum percentage of the Outstanding Units that would be necessary to authorize or take such action at a meeting at which all the Limited Partners were present and voted. Prompt notice of the taking of action without a meeting shall be given to the Limited Partners who have not approved in writing. The General Partner may specify that any written ballot submitted to Limited Partners for the purpose of taking any action without a meeting shall be returned to the Partnership within the time period, which shall be not less than 20 days, specified by the General Partner. If a ballot returned to the Partnership does not vote all of the Units held by the Limited Partner, the Partnership shall be deemed to have failed to receive a ballot for the Units that were not voted. If approval of the taking of any action by the Limited Partners is solicited by any Person other than by or on behalf of the General Partner, the written approvals shall have no force and effect unless and until (a) they are deposited with the Partnership in care of the General Partner, (b) approvals sufficient to take the action proposed are dated as of a date not more than 90 days prior to the date sufficient approvals are deposited with the Partnership and (c) an Opinion of Counsel is delivered to the General Partner to the effect that the exercise of such right and the action proposed to be taken with respect to any particular matter (i) will not cause the Limited Partners to be deemed to be taking part in the management and control of the business and affairs of the Partnership so as to jeopardize the Limited Partners' limited liability, (ii) will not jeopardize the status of the Partnership as a partnership under applicable tax laws and regulations and (iii) is otherwise permissible under the state statutes then governing the rights, duties and liabilities of the Partnership and the Partners.

15.12 VOTING AND OTHER RIGHTS. (a) Only those Record Holders of Units on the Record Date set pursuant to Section 15.6 (and also subject to the limitations contained in the definition of "Outstanding") shall be entitled to notice of, and to vote at, a meeting of Limited Partners or to act with respect to matters as to which the holders of the Outstanding Units have the right to vote or to act. All references in this Agreement to votes of, or other acts that may be taken by, the Outstanding Units shall be deemed to be references to the votes or acts of the Record Holders of such Outstanding Units.

(b) With respect to Units that are held for a Person's account by another Person (such as a broker, dealer, bank, trust company or clearing corporation, or an agent of any of the foregoing), in whose name such Units are registered, such broker, dealer or other agent shall, in exercising the voting rights in respect of such Units on any matter, and unless the arrangement between such Persons provides otherwise, vote such Units in favor of, and at the direction of, the Person who is the beneficial owner,

and the Partnership shall be entitled to assume it is so acting without further inquiry. The provisions of this Section 15.12(b) (as well as all other provisions of this Agreement) are subject to the provisions of Section 10.4.

#### ARTICLE XVI MERGER

16.1 AUTHORITY. The Partnership may merge or consolidate with one or more corporations, business trusts or associations, real estate investment trusts, common law trusts or unincorporated businesses, including, without limitation, a general partnership or limited partnership, formed under the laws of the State of Delaware or any other state of the United States of America, pursuant to a written agreement of merger or consolidation ("MERGER AGREEMENT") in accordance with this Article XVI.

16.2 PROCEDURE FOR MERGER OR CONSOLIDATION. Merger or consolidation of the Partnership pursuant to this Article XVI requires the prior approval of the General Partner. If the General Partner shall determine, in the exercise of its sole discretion, to consent to the merger or consolidation, the General Partner shall approve the Merger Agreement, which shall set forth:

(a) The names and jurisdictions of formation or organization of each of the business entities proposing to merge or consolidate;

(b) The name and jurisdictions of formation or organization of the business entity that is to survive the proposed merger or consolidation (the "SURVIVING BUSINESS ENTITY");

(c) The terms and conditions of the proposed merger or consolidation;

(d) The manner and basis of exchanging or converting the equity securities of each constituent business entity for, or into, cash, property or general or limited partnership interests, rights, securities or obligations of the Surviving Business Entity; and (i) if any general or limited partnership interests, securities or rights of any constituent business entity are not to be exchanged or converted solely for, or into, cash, property or general or limited partnership interests, rights, securities or obligations of the Surviving Business Entity, the cash, property or general or limited partnership interests, rights, securities or obligations of any limited partnership, corporation, trust or other entity (other than the Surviving Business Entity) which the holders of such general or limited partnership interests, securities or rights are to receive in exchange for, or upon conversion of, their general or limited partnership interests, securities or rights, and (ii) in the case of securities represented by certificates, upon the surrender of such certificates, which cash, property or general or limited partnership interests, rights, securities or obligations of the Surviving Business Entity or any general or limited partnership, corporation, trust or other entity (other than the Surviving Business Entity), or evidences thereof, are to be delivered;

(e) A statement of any changes in the constituent documents or the adoption of new constituent documents (the articles or certificate of incorporation, articles of trust, declaration of trust, certificate or agreement of limited partnership or other similar charter or governing document) of the Surviving Business Entity to be effected by such merger or consolidation;

(f) The effective time of the merger, which may be the date of the filing of the certificate of merger pursuant to Section 16.4 or a later date specified in or determinable in accordance with the Merger Agreement (provided, that if the effective time of the merger is to be later than the date of the filing of the certificate of merger, the effective time shall be fixed no later than the time of the filing of the certificate of merger and stated therein); and

(g) Such other provisions with respect to the proposed merger or consolidation as are deemed necessary or appropriate by the General Partner.

16.3 APPROVAL BY LIMITED PARTNERS OF MERGER OR CONSOLIDATION. (a) The General Partner of the Partnership, upon its approval of the Merger Agreement, shall direct that the Merger Agreement be submitted to a vote of Limited Partners whether at a meeting or by written consent, in either case in accordance with the requirements of Article XV. A copy or a summary of the Merger Agreement shall be included in or enclosed with the notice of a meeting or the written consent.

(b) The Merger Agreement shall be approved upon receiving the affirmative vote or consent of the holders of at least a majority of the Outstanding Units (excluding for purposes of such determination Units owned by the General Partner and its Affiliates) during the Subordination Period and at least a majority of the Outstanding Units thereafter unless the Merger Agreement contains any provision which, if contained in an amendment to this Agreement, the provisions of this Agreement or the Delaware Act would require the vote or consent of a greater percentage of the Outstanding Units or of any class of Limited Partners, in which case such greater percentage vote or consent shall be required for approval of the Merger Agreement; provided that, in the case of a merger or consolidation in which the surviving entity is a corporation or other entity intended to be treated as an association taxable as a corporation or otherwise taxable as an entity for federal income tax purposes, if in the opinion of the General Partner it is necessary to effect, in contemplation of such merger or consolidation, an amendment that would otherwise require a vote pursuant to Section 15.3(d), no such vote pursuant to Section 15.3(d) shall be required unless such amendment by its terms will be applicable to the Partnership in the event the merger or consolidation is abandoned or unless such amendment will be applicable to the Partnership during a period in excess of ten days prior to the merger or consolidation.

(c) After such approval by vote or consent of the Limited Partners, and at any time prior to the filing of the certificate of merger pursuant to Section 16.4, the merger or consolidation may be abandoned pursuant to provisions therefor, if any, set forth in the Merger Agreement.

16.4 CERTIFICATE OF MERGER. Upon the required approval by the General Partner and the Limited Partners of a Merger Agreement, a certificate of merger shall be executed and filed with the Secretary of State of the State of Delaware in conformity with the requirements of the Delaware Act.

16.5 EFFECT OF MERGER. (a) At the effective time of the certificate of merger:

(i) all of the rights, privileges and powers of each of the business entities that has merged or consolidated, and all property, real, personal and mixed, and all debts due to any of those business entities and all other things and causes of action belonging to each of those business entities shall be vested in the Surviving Business Entity and after the merger or consolidation shall be the property of the Surviving Business Entity to the extent they were of each constituent business entity;

(ii) the title to any real property vested by deed or otherwise in any of those constituent business entities shall not revert and is not in any way impaired because of the merger or consolidation;

(iii) all rights of creditors and all liens on or security interests in property of any of those constituent business entities shall be preserved unimpaired; and

(iv) all debts, liabilities and duties of those constituent business entities shall attach to the Surviving Business Entity, and may be enforced against it to the same extent as if the debts, liabilities and duties had been incurred or contracted by it.

(b) A merger or consolidation effected pursuant to this Article shall not be deemed to result in a transfer or assignment of assets or liabilities from one entity to another having occurred.

ARTICLE XVII  
RIGHT TO ACQUIRE UNITS

17.1 RIGHT TO ACQUIRE UNITS. (a) Notwithstanding any other provision of this Agreement, if at any time not more than 20% of the total Units of any class then Outstanding are held by Persons other than the General Partner and its Affiliates, the General Partner shall then have the right, which right it may assign and transfer to the Partnership or any Affiliate of the General Partner, exercisable in its sole discretion, to purchase all, but not less than all, of the Units of such class then Outstanding held by Persons other than the General Partner and its Affiliates, at the greater of (x) the Current Market Price as of the date three days prior to the date that the notice described in Section 17.1(b) is mailed, and (y) the highest cash price paid by the General Partner or any of its Affiliates for any such Unit purchased during the 90-day period preceding the date that the notice described in Section 17.1(b) is mailed. As used in this Agreement, (i) "CURRENT MARKET PRICE" as of any date of any class of Units listed or admitted to trading on any National Securities Exchange means the average of the daily Closing Prices (as hereinafter defined) per Unit of such class for the 20 consecutive Trading Days (as hereinafter defined) immediately prior to such date; (ii) "CLOSING PRICE" for any day means the last sale price on such day, regular way, or in case no such sale takes place on such day, the average of the closing bid and asked prices on such day, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal National Securities Exchange on which the Units of such class are listed or admitted to trading or if the Units of such class are not listed or admitted to trading on any National Securities Exchange, the last quoted price on such day or, if not so quoted, the average of the high bid and low asked prices on such day in the over the counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or such other system then in use, or if on any such day the Units of such class are not quoted by any such organization, the average of the closing bid and asked prices on such day as furnished by a professional market maker making a market in the Units of such class selected by the Board of Directors of the General Partner, or if on any such day no market maker is making a market in the Units of such class, the fair value of such Units on such day as determined reasonably and in good faith by the Board of Directors of the General Partner; and (iii) "TRADING DAY" means a day on which the principal National Securities Exchange on which the Units of any class are listed or admitted to trading is open for the transaction of business or, if Units of a class are not listed or admitted to trading on any National Securities Exchange, a day on which banking institutions in New York City generally are open.

(b) If the General Partner, any Affiliate of the General Partner or the Partnership elects to exercise the right to purchase Units granted pursuant to Section 17.1(a), the General Partner shall deliver to the Transfer Agent notice of such election to purchase (the "NOTICE OF ELECTION TO PURCHASE") and shall cause the Transfer Agent to mail a copy of such Notice of Election to Purchase to the Record Holders of Units (as of a Record Date selected by the General Partner) at least 10, but not more than 60, days prior to the Purchase Date. Such Notice of Election to Purchase shall also be published for a period of at least three consecutive days in at least two daily newspapers of general circulation printed in the English language and published in the Borough of Manhattan, New York. The Notice of Election to Purchase shall specify the Purchase Date and the price (determined in accordance with Section 17.1(a) at which Units will be purchased and state that the General Partner, its Affiliate or the Partnership, as the case may be, elects to purchase such Units, upon surrender of Certificates representing such Units in exchange for payment, at such office or offices of the Transfer Agent as the Transfer Agent may specify, or as may be required by any National Securities Exchange on which the Units are listed or admitted to trading. Any such Notice of Election to Purchase mailed to a Record Holder of Units at his address as reflected in the records of the Transfer Agent shall be conclusively presumed to have been given whether or not the owner receives such notice. On or prior to the Purchase Date, the General Partner, its Affiliate or the Partnership, as the case may be, shall deposit with the Transfer Agent cash in an amount sufficient to pay the aggregate purchase price of all of the Units to be purchased in

accordance with this Section 17.1. If the Notice of Election to Purchase shall have been duly given as aforesaid at least 10 days prior to the Purchase Date, and if on or prior to the Purchase Date the deposit described in the preceding sentence has been made for the benefit of the holders of Units subject to purchase as provided herein, then from and after the Purchase Date, notwithstanding that any Certificate shall not have been surrendered for purchase, all rights of the holders of such Units (including, without limitation, any rights pursuant to Articles IV, V and XIV) shall thereupon cease, except the right to receive the purchase price (determined in accordance with Section 17.1(a)) for Units therefor, without interest, upon surrender to the Transfer Agent of the Certificates representing such Units, and such Units shall thereupon be deemed to be transferred to the General Partner, its Affiliate or the Partnership, as the case may be, on the record books of the Transfer Agent and the Partnership, and the General Partner or any Affiliate of the General Partner, or the Partnership, as the case may be, shall be deemed to be the owner of all such Units from and after the Purchase Date and shall have all rights as the owner of such Units (including, without limitation, all rights as owner of such Units pursuant to Articles IV, V and XIV).

(c) At any time from and after the Purchase Date, a holder of an Outstanding Unit subject to purchase as provided in this Section 17.1 may surrender his Certificate, as the case may be, evidencing such Unit to the Transfer Agent in exchange for payment of the amount described in Section 17.1(a), therefor, without interest thereon.

#### ARTICLE XVIII GENERAL PROVISIONS

18.1 ADDRESSES AND NOTICES. Any notice, demand, request, report or proxy materials required or permitted to be given or made to a Partner or Assignee under this Agreement shall be in writing and shall be deemed given or made when delivered in person or when sent by first class United States mail or by other means of written communication to the Partner or Assignee at the address described below. Any notice, payment or report to be given or made to a Partner or Assignee hereunder shall be deemed conclusively to have been given or made, and the obligation to give such notice or report or to make such payment shall be deemed conclusively to have been fully satisfied, upon sending of such notice, payment or report to the Record Holder of such Unit at his address as shown on the records of the Transfer Agent or as otherwise shown on the records of the Partnership, regardless of any claim of any Person who may have an interest in such Unit or the Partnership Interest of a General Partner by reason of any assignment or otherwise. An affidavit or certificate of making of any notice, payment or report in accordance with the provisions of this Section 18.1 executed by the General Partner, the Transfer Agent or the mailing organization shall be prima facie evidence of the giving or making of such notice, payment or report. If any notice, payment or report addressed to a Record Holder at the address of such Record Holder appearing on the books and records of the Transfer Agent or the Partnership is returned by the United States Post Office marked to indicate that the United States Postal Service is unable to deliver it, such notice, payment or report and any subsequent notices, payments and reports shall be deemed to have been duly given or made without further mailing (until such time as such Record Holder or another Person notifies the Transfer Agent or the Partnership of a change in his address) if they are available for the Partner or Assignee at the principal office of the Partnership for a period of one year from the date of the giving or making of such notice, payment or report to the other Partners and Assignees. Any notice to the Partnership shall be deemed given if received by the General Partner at the principal office of the Partnership designated pursuant to Section 1.3. The General Partner may rely and shall be protected in relying on any notice or other document from a Partner, Assignee or other Person if believed by it to be genuine.

18.2 REFERENCES. Except as specifically provided otherwise, references to "Articles" and "Sections" are to Articles and Sections of this Agreement.

18.3 PRONOUNS AND PLURALS. Whenever the context may require, any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa.

18.4 FURTHER ACTION. The parties shall execute and deliver all documents, provide all information and take or refrain from taking action as may be necessary or appropriate to achieve the purposes of this Agreement.

18.5 BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their heirs, executors, administrators, successors, legal representatives and permitted assigns.

18.6 INTEGRATION. This Agreement constitutes the entire agreement among the parties hereto pertaining to the subject matter hereof and supersedes all prior agreements and understandings pertaining thereto.

18.7 CREDITORS. None of the provisions of this Agreement shall be for the benefit of, or shall be enforceable by, any creditor of the Partnership.

18.8 WAIVER. No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute waiver of any such breach or any other covenant, duty, agreement or condition.

18.9 COUNTERPARTS. This Agreement may be executed in counterparts, all of which together shall constitute an agreement binding on all the parties hereto, notwithstanding that all such parties are not signatories to the original or the same counterpart. Each party shall become bound by this Agreement immediately upon affixing its signature hereto or, in the case of a Person acquiring a Unit, upon accepting the certificate evidencing such Unit or executing and delivering a Transfer Application as herein described, independently of the signature of any other party.

18.10 APPLICABLE LAW. This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to the principles of conflicts of law.

18.11 INVALIDITY OF PROVISIONS. If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby.



IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

GENERAL PARTNER:

FERRELLGAS, INC.

By: \_\_\_\_\_

ORGANIZATIONAL LIMITED PARTNER:

\_\_\_\_\_  
Danley K. Sheldon

LIMITED PARTNERS:

All Limited Partners now and hereafter admitted as limited partners of the Partnership, pursuant to Powers of Attorney now and hereafter executed in favor of, and granted and delivered to, the General Partner.

By: FERRELLGAS, INC.  
General Partner, as attorney-in-fact for all Limited Partners pursuant to the Powers of Attorney granted pursuant to Section 1.4.

By: \_\_\_\_\_

A-70

TO THE AGREEMENT OF  
LIMITED PARTNERSHIP OF  
FERRELLGAS PARTNERS, L.P.

CERTIFICATE EVIDENCING COMMON UNITS  
REPRESENTING LIMITED PARTNER INTERESTS  
FERRELLGAS PARTNERS, L.P.

No. Common Units

FERRELLGAS, INC., a Delaware corporation, as the General Partner of FERRELLGAS PARTNERS, L.P., a Delaware limited partnership (the "Partnership"), hereby certifies that (the "Holder") is the registered owner of Common Units representing limited partner interests in the Partnership (the "Common Units") transferable on the books of the Partnership, in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed and accompanied by a properly executed application for transfer of the Common Units represented by this Certificate. The rights, preferences and limitations of the Common Units are set forth in, and this Certificate and the Common Units represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Agreement of Limited Partnership of FERRELLGAS PARTNERS, L.P., as amended, supplemented or restated from time to time (the "Partnership Agreement"). Copies of the Partnership Agreement are on file at, and will be furnished without charge on delivery of written request to the Partnership at, the principal office of the Partnership located at One Liberty Plaza, Liberty, Missouri 64068. Capitalized terms used herein but not defined shall have the meaning given them in the Partnership Agreement.

The Holder, by accepting this Certificate, is deemed to have (i) requested admission as, and agreed to become, a Limited Partner and to have agreed to comply with and be bound by and to have executed the Partnership Agreement, (ii) represented and warranted that the Holder has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (iii) granted the powers of attorney provided for in the Partnership Agreement and (iv) made the waivers and given the consents and approvals contained in the Partnership Agreement.

This Certificate shall not be valid for any purpose unless it has been countersigned and registered by the Transfer Agent and Registrar.

Dated:\_\_\_\_\_

FERRELLGAS, INC.,  
as General Partner

Countersigned and Registered by:

By: \_\_\_\_\_  
President

\_\_\_\_\_,  
as Transfer Agent and Registrar Secretary

By: \_\_\_\_\_  
Authorized Signature

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as follows according to applicable laws or regulations:

TEN COM-	as tenants in common	UNIF GIFT MIN ACT-
TEN ENT-	as tenants by the entirety	..... Custodian .....
JT TEN-	as joint tenants with right of	(Cust) (Minor)
	survivorship and not as	under Uniform Gifts to
	tenants in common	Minors
		Act .....
		State

Additional abbreviations, though not in the above list, may also be used.

ASSIGNMENT OF COMMON UNITS  
in  
FERRELLGAS PARTNERS, L.P.

IMPORTANT NOTICE REGARDING INVESTOR RESPONSIBILITIES  
DUE TO TAX SHELTER STATUS OF FERRELLGAS PARTNERS, L.P.

You have acquired an interest in Ferrellgas Partners, L.P., One Liberty Plaza, Liberty, Missouri 64068, whose taxpayer identification number is 43-1675728. The Internal Revenue Service has issued Ferrellgas Partners, L.P. the following tax shelter registration number:

YOU MUST REPORT THIS REGISTRATION NUMBER TO THE INTERNAL REVENUE SERVICE IF YOU CLAIM ANY DEDUCTION, LOSS, CREDIT, OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OF YOUR INVESTMENT IN FERRELLGAS PARTNERS, L.P.

You must report the registration number as well as the name and taxpayer identification number of Ferrellgas Partners, L.P. on Form 8271. FORM 8271 MUST BE ATTACHED TO THE RETURN ON WHICH YOU CLAIM THE DEDUCTION, LOSS, CREDIT, OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OF YOUR INVESTMENT IN FERRELLGAS PARTNERS, L.P.

If you transfer your interest in Ferrellgas Partners, L.P. to another person, you are required by the Internal Revenue Service to keep a list containing (a) that person's name, address and taxpayer identification number, (b) the date on which you transferred the interest and (c) the name, address and tax shelter registration number of Ferrellgas Partners, L.P. If you do not want to keep such a list, you must (1) send the information specified above to the Partnership, which will keep the list for this tax shelter, and (2) give a copy of this notice to the person to whom you transfer your interest. Your failure to comply with any of the above-described responsibilities could result in the imposition of a penalty under Section 6707(b) or 6708(a) of the Internal Revenue Service Code of 1986, as amended, unless such failure is shown to be due to reasonable cause.

ISSUANCE OF A REGISTRATION NUMBER DOES NOT INDICATE THAT THIS INVESTMENT OR THE CLAIMED TAX BENEFITS HAVE BEEN REVIEWED, EXAMINED, OR APPROVED BY THE INTERNAL REVENUE SERVICE.

FOR VALUE RECEIVED, \_\_\_\_\_ hereby assigns, conveys,  
sells and transfers unto \_\_\_\_\_

-----  
(Please print or typewrite name  
and address of Assignee)

-----  
(Please insert Social Security or other  
identifying number of Assignee)

\_\_\_\_\_ Common Units representing limited partner interests  
evidenced by this Certificate, subject to the Partnership Agreement, and does  
hereby irrevocably constitute and appoint \_\_\_\_\_ as its  
attorney-in-fact with full power of substitution to transfer the same on the  
books of Ferrellgas Partners, L.P.

Date: \_\_\_\_\_

NOTE: The signature to any endorsement hereon  
must correspond with the name as written  
upon the face of this Certificate in  
every particular, without alteration,  
enlargement or change.

SIGNATURE(S) MUST BE GUARANTEED BY  
A MEMBER FIRM OF THE NATIONAL  
ASSOCIATION OF SECURITIES DEALERS,  
INC. OR BY A COMMERCIAL BANK OR  
TRUST COMPANY

-----  
(Signature)

-----  
(Signature)

SIGNATURE(S) GUARANTEED

No transfer of the Common Units evidenced hereby will be registered on the  
books of the Partnership, unless the Certificate evidencing the Common Units  
to be transferred is surrendered for registration or transfer and an  
Application for Transfer of Common Units has been executed by a transferee  
either (a) on the form set forth below or (b) on a separate application that  
the Partnership will furnish on request without charge. A transferor of the  
Common Units shall have no duty to the transferee with respect to execution of  
the transfer application in order for such transferee to obtain registration  
of the transfer of the Common Units.

APPLICATION FOR TRANSFER OF COMMON UNITS

The undersigned ("Assignee") hereby applies for transfer to the name of the Assignee of the Common Units evidenced hereby.

The Assignee (a) requests admission as a Substituted Limited Partner and agrees to comply with and be bound by, and hereby executes, the Agreement of Limited Partnership of Ferrellgas Partners, L.P. (the "Partnership"), as amended, supplemented or restated to the date hereof (the "Partnership Agreement"), (b) represents and warrants that the Assignee has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (c) grants the powers of attorney provided for in the Partnership Agreement and (d) makes the waivers and gives the consents and approvals contained in the Partnership Agreement.

Capitalized terms not defined herein have the meanings assigned to such terms in the Partnership Agreement.

Date: \_\_\_\_\_  
Signature of Assignee

-----  
Social Security or other identifying number of Assignee  
Name and Address of Assignee

-----  
Purchase Price  
including commissions, if any

Type of Entity (check one)

\_\_\_\_\_ Individual \_\_\_\_\_ Partnership \_\_\_\_\_ Corporation

\_\_\_\_\_ Trust \_\_\_\_\_ Other (specify) \_\_\_\_\_

Nationality (Check One):

\_\_\_\_\_ U.S. Citizen, Resident or Domestic Entity

\_\_\_\_\_ Foreign Corporation, or \_\_\_\_\_ Non-resident alien

If the U.S. Citizen, Resident or Domestic Entity box is checked, the following certification must be completed.

Under Section 1445(e) of the Internal Revenue Code of 1986, as amended (the "Code"), the Partnership must withhold tax with respect to certain transfers of property if a holder of an interest in the Partnership is a foreign person. To inform the Partnership that no withholding is required with respect to the undersigned interest holder's interest in it, the undersigned hereby certifies the following (or, if applicable, certifies the following on behalf of the interest holder).

Complete Either A or B:

A. Individual Interest Holder

1. I am not a non-resident alien for purposes of U.S. income taxation.

2. My U.S. taxpayer identifying number (Social Security Number) is

\_\_\_\_\_.

3. My home address is \_\_\_\_\_.

B. Partnership, Corporate or Other Interest-Holder

1. \_\_\_\_\_ is not a  
(Name of Interest-Holder)

foreign corporation, foreign partnership, foreign trust or foreign estate (as those terms are defined in the Code and Treasury Regulations).

2. The interest-holder's U.S. employer identification number is \_\_\_\_\_.

3. The interest-holder's office address and place of incorporation (if applicable) is \_\_\_\_\_.

The interest-holder agrees to notify the Partnership within 60 days of the date the interest-holder becomes a foreign person.

The interest-holder understands that this certificate may be disclosed to the Internal Revenue Service by the Partnership and that any false statement contained herein could be punishable by fine, imprisonment or both.

Under penalties of perjury, I declare that I have examined this certification and to the best of my knowledge and belief it is true, correct and complete and, if applicable, I further declare that I have authority to sign this document on behalf of

-----  
(Name of Interest-Holder)

-----  
Signature and Date

-----  
Title (if applicable)

Note: If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee holder or an agent of any of the foregoing, and is holding for the account of any other person, this application should be completed by an officer thereof or, in the case of a broker or dealer, by a registered representative who is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or, in the case of any other nominee holder, a person performing a similar function. If the Assignee is a broker, dealer, bank trust company, clearing corporation, other nominee owner or an agent of any of the foregoing, the above certification as to any person for whom the Assignee will hold the Common Units shall be made to the best of the Assignee's knowledge.

No transfer of the Common Units evidenced hereby will be registered on the books of the Partnership, unless the Certificate evidencing the Common Units to be transferred is surrendered for registration or transfer and an Application for Transfer of Common Units has been executed by a transferee either (a) on the form set forth below or (b) on a separate application that the Partnership will furnish on request without charge. A transferor of the Common Units shall have no duty to the transferee with respect to execution of the transfer application in order for such transferee to obtain registration of the transfer of the Common Units.

## APPLICATION FOR TRANSFER OF COMMON UNITS

The undersigned ("Assignee") hereby applies for transfer to the name of the Assignee of the Common Units evidenced hereby.

The Assignee (a) requests admission as a Substituted Limited Partner and agrees to comply with and be bound by, and hereby executes, the Agreement of Limited Partnership of Ferrellgas Partners, L.P. (the "Partnership"), as amended, supplemented or restated to the date hereof (the "Partnership Agreement"), (b) represents and warrants that the Assignee has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (c) appoints the General Partner and, if a Liquidator shall be appointed, the Liquidator of the Partnership as the Assignee's attorney-in-fact to execute, swear to, acknowledge and file any document, including, without limitation, the Partnership Agreement and any amendment thereto and the Certificate of Limited Partnership of the Partnership and any amendment thereto, necessary or appropriate for the Assignee's admission as a Substituted Limited Partner and as a party to the Partnership Agreement, (d) gives the powers of attorney provided for in the Partnership Agreement and (e) makes the waivers and gives the consents and approvals contained in the Partnership Agreement. Capitalized terms not defined herein have the meanings assigned to such terms in the Partnership Agreement.

Date: \_\_\_\_\_  
 \_\_\_\_\_  
 SIGNATURE OF ASSIGNEE

-----  
 SOCIAL SECURITY OR OTHER IDENTIFYING  
 NUMBER OF ASSIGNEE

-----  
 NAME AND ADDRESS OF ASSIGNEE

-----  
 PURCHASE PRICE INCLUDING  
 COMMISSIONS, IF ANY

Type of Entity (check one)

☐ Individual                      ☐ Partnership                      ☐ Corporation  
☐ Trust                              ☐ Other (specify) \_\_\_\_\_

Nationality (check one):

☐ U.S. Citizen, Resident or Domestic Entity  
☐ Foreign Corporation, or                      ☐ Non-resident alien

If the U.S. Citizen, Resident or Domestic Entity box is checked, the following certification must be completed.

Under Section 1445(e) of the Internal Revenue Code of 1986, as amended (the "Code"), the Partnership must withhold tax with respect to certain transfers of property if a holder of an interest in the Partnership is a foreign person. To inform the Partnership that no withholding is required with respect to the undersigned interest-holder's interest in it, the undersigned hereby certifies the following (or, if applicable, certifies the following on behalf of the interestholder).

Complete Either A or B:

A. Individual Interestholder

1. I am not a non-resident alien for purposes of U.S. income taxation.

2. My U.S. taxpayer identifying number (Social Security Number) is \_\_\_\_\_ .

3. My home address is \_\_\_\_\_ .

B. Partnership, Corporate or Other Interestholder

1. \_\_\_\_\_ is not a foreign  
(NAME OF INTERESTHOLDER)  
corporation, foreign partnership, foreign trust or foreign estate  
(as those terms are defined in the Code and Treasury Regulations).

2. The interestholder's U.S. employer identification number is \_\_\_\_\_ .

3. The interestholder's office address and place of incorporation (if applicable) is \_\_\_\_\_ .

The interestholder agrees to notify the Partnership within sixty (60) days of the date the interest-holder becomes a foreign person.

The interestholder understands that this certificate may be disclosed to the Internal Revenue Service by the Partnership and that any false statement contained herein could be punishable by fine, imprisonment or both.

Under penalties of perjury, I declare that I have examined this certification and to the best of my knowledge and belief it is true, correct and complete and, if applicable, I further declare that I have authority to sign this document on behalf of

-----  
(NAME OF INTERESTHOLDER)

-----  
SIGNATURE AND DATE

-----  
TITLE (IF APPLICABLE)

Note: If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee holder or an agent of any of the foregoing, and is holding for the account of any other person, this application should be completed by an officer thereof or, in the case of a broker or dealer, by a registered representative who is a member of a registered national securities exchange or a member of the National Association of Securities Dealers Inc., or, in the case of any other nominee holder, a person performing a similar function. If the Assignee is a broker, dealer, bank trust company, clearing corporation, other nominee owner or an agent of any of the foregoing, the above certification as to any person for whom the Assignee will hold the Common Units shall be made to the best of the Assignee's knowledge.



## GLOSSARY OF TERMS

**ACQUISITION PRO FORMA AVAILABLE CASH CONSTITUTING CASH FROM OPERATIONS:** The amount of Available Cash constituting Cash from Operations generated by the Partnership on a per Unit basis for all outstanding Units with respect to each of the four most recently completed quarters prior to the referenced acquisition, determined on a pro forma basis assuming that all of the Common Units or any such parity securities to be issued in connection with, or in repayment of any debt incurred in connection with, such transaction had been issued and outstanding and all indebtedness for borrowed money to be incurred or assumed in connection with such transaction (other than any such indebtedness that is to be repaid with the proceeds of such issuance) had been incurred or assumed, as of the commencement of such four-quarter period, and computing expenses that would have been incurred by the Partnership in the operation of the assets and properties acquired by including (i) the personnel expenses for employees to be retained by the Partnership in the operation of the assets and properties acquired and (ii) the non-personnel costs and expenses on the same basis as those incurred by the Partnership in the operation of the Partnership's business at similarly situated Partnership facilities.

**AUDIT COMMITTEE:** A committee of the board of directors of the General Partner who are neither officers nor employees of the General Partner or any affiliate of the General Partner with the authority to review, at the request of the board of directors of the General Partner, specific matters as to which the board of directors of 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.

**AVAILABLE CASH:** Generally, for any quarter, all of the cash receipts of the Partnership during such quarter (other than cash receipts that are attributable to the liquidation of the Partnership) plus net reductions to reserves less all of its cash disbursements and net additions to reserves during such quarter, including, for the period from the closing of this offering through October 31, 1994, the cash balance of the Partnership on the date the Partnership commences operations. The full definition of Available Cash is set forth in the Partnership Agreement, a form of which is included in this Prospectus as Appendix A. The definition of Available Cash permits the General Partner to maintain reserves for distributions with respect to any of the next four succeeding quarters in order to reduce quarter-to-quarter variations in distributions. The General Partner has broad discretion in establishing reserves for other purposes, and its decisions regarding reserves could have a significant impact on the amount of Available Cash available for distribution.

**BTU:** British thermal unit. The quantity of heat required to raise the temperature of one pound of water by one degree Fahrenheit.

**CASH FROM INTERIM CAPITAL TRANSACTIONS:** To avoid the difficulty of trying to determine whether Available Cash distributed by the Partnership is Cash from Operations or Cash from Interim Capital Transactions, all Available Cash distributed by the Partnership from any source will be treated as Cash from Operations until the sum of all Available Cash distributed as Cash from Operations equals the cumulative amount of Cash from Operations actually generated from the date the Partnership commenced operations through the end of the fiscal quarter prior to such distribution. Any excess Available Cash (irrespective of its source) will be deemed to be Cash from Interim Capital Transactions and distributed accordingly. The full definition of Cash from Interim Capital Transactions is set forth in the Partnership Agreement, a form of which is included in this Prospectus as Appendix A.

**CASH FROM OPERATIONS:** Cash from Operations, which is determined on a cumulative basis, generally refers to the cash balance of the Partnership on the date the Partnership commences operations, plus an initial balance of \$25 million, plus all cash receipts of the Partnership operations

(excluding any cash proceeds from Interim Capital Transactions), after deducting all cash operating expenditures, cash debt service payments (other than refinancings or refundings of debt with the proceeds from new debt or the sale of equity interests), cash capital expenditures of the Partnership necessary to maintain the facilities and operations of the Partnership (as distinguished from capital expenditures made to increase the operating capacity of the Partnership) and any cash reserves that the General Partner determines in its reasonable discretion to be necessary or appropriate to provide for the future cash payment of items of the type referred to above. The General Partner has the discretion to determine whether capital expenditures made by the Partnership were necessary or desirable to maintain the facilities and operations of the Partnership or whether they were made to increase the operating capacity of the Partnership. The General Partner's determination will in turn determine whether the capital expenditures in question will reduce the amount of Cash from Operations. The full definition of Cash from Operations is set forth in the Partnership Agreement, a form of which is included in this Prospectus as Appendix A.

**COMMON UNIT ARREARAGES:** With respect to any Common Units for any quarter within the Subordination Period, the amount by which the Minimum Quarterly Distribution in such quarter exceeds the amount of Available Cash constituting Cash from Operations actually distributed on such Common Unit for such quarter. Common Unit Arrearages are calculated on a cumulative basis for all quarters during the Subordination Period. Common Units will not accrue arrearages for any quarter after the Subordination Period. Common Unit Arrearages do not accrue interest.

**COMMON UNITS:** The 13,100,000 Common Units (15,065,000 if the Underwriters' overallotment option is exercised in full) offered hereby and to be issued at the closing of this offering together with the 1,000,000 Common Units (if the Underwriters' overallotment option is exercised in full, all of such Common Units will be repurchased by the Partnership) to be held by Ferrell at the closing of this offering. Each Common Unit represents a fractional part of the partnership interests of all limited partners and assignees and has the rights and obligations specified with respect to Common Units in the Partnership Agreement.

**COMPANY:** Ferrellgas, Inc., a Delaware corporation and a wholly owned subsidiary of Ferrell. Also referred to in this Prospectus as "Ferrellgas" and the "General Partner."

**CONTRIBUTION AGREEMENT:** The Contribution, Conveyance and Assumption Agreement dated as of the closing date of this offering between Ferrellgas, the Partnership and the Operating Partnership, which provides for, among other things, the principal transactions required to effect the transfer of assets to the Operating Partnership prior to or concurrent with the consummation of this offering.

**CREDIT FACILITY:** The credit facility to be entered into by the Operating Partnership and Bank of America National Trust and Savings Association, as Agent, which will permit borrowings by the Operating Partnership of up to \$100 million on a senior unsecured revolving line of credit basis and up to \$85 million on a senior unsecured credit facility.

**CURRENT MARKET PRICE:** The 20-day average of the closing prices of the applicable security on the NYSE ending three days prior to the date on which such notice is first mailed.

**EBITDA:** Earnings before interest, income taxes and depreciation and amortization, calculated as operating income plus depreciation and amortization excluding interest.

**FERRELL:** Ferrell Companies, Inc., a Kansas corporation.

**FERRELLGAS:** Ferrellgas, Inc., a Delaware corporation and a wholly owned subsidiary of Ferrell. Also referred to in this Prospectus as the "Company" and the "General Partner."

**FIXED CHARGE COVERAGE RATIO:** Earnings from continuing operations before income taxes, plus interest expense (including amortization of original issue discount) plus depreciation and amortization (excluding amortization of prepaid cash expenses) as a ratio of fixed charges (consisting of interest expense, including amortization of original issue discount and letter of credit commissions and fees).

**FGP:** The trading symbol for the Common Units on the NYSE.

GENERAL PARTNER: Ferrellgas, a wholly owned subsidiary of Ferrell, and its successors as general partner of the Partnership.

INCENTIVE DISTRIBUTION RIGHTS: The right to receive specified incentive distributions of Available Cash constituting Cash from Operations if quarterly distributions of Available Cash constituting Cash from Operations exceed certain specified target levels, issued to Ferrellgas in connection with the transfer of its assets to the Partnership.

INDENTURE: The indenture pursuant to which the Senior Notes will be issued (the form of which has been filed as an exhibit to the registration statement of which this Prospectus is a part).

INITIAL UNIT PRICE: An amount per Unit equal to the initial public offering price of the Common Units.

INTERIM CAPITAL TRANSACTIONS: (a) borrowings, refinancings and refundings of indebtedness and sales of debt securities (other than for working capital purposes and other than for items purchased on open account in the ordinary course of business) by the Partnership, (b) sales of equity interests (including the Common Units sold to the Underwriters pursuant to the exercise of their overallotment option) by the Partnership and (c) sales or other voluntary or involuntary dispositions of any assets of the Partnership (other than (i) sales or other dispositions of inventory in the ordinary course of business, (ii) sales or other dispositions of other current assets, including, without limitation, receivables and accounts and (iii) sales or other dispositions of assets as a part of normal retirements or replacements), in each case prior to the commencement of the dissolution and liquidation of the Partnership.

MINIMUM QUARTERLY DISTRIBUTION OR MQD: \$0.50 per Unit with respect to each quarter, subject to adjustment as described in "Cash Distribution Policy--Quarterly Distributions of Available Cash--Distributions of Cash from Interim Capital Transactions" and "Cash Distribution Policy--Quarterly Distributions of Available Cash--Adjustment of Minimum Quarterly Distribution and Target Distribution Levels."

OPERATING PARTNERSHIP: Ferrellgas, L.P., a Delaware limited partnership of which the Partnership will own a 99% limited partner interest and Ferrellgas will own a 1% general partner interest. The Operating Partnership will conduct the Partnership's business and has been established to simplify the Partnership's obligations under the laws of certain jurisdictions in which it will conduct business.

OPERATING PARTNERSHIP AGREEMENT: The partnership agreement for the Operating Partnership (the form of which has been filed as an exhibit to the registration statement of which this Prospectus is a part).

PARTNERSHIP: Ferrellgas Partners, L.P., a Delaware limited partnership.

PARTNERSHIP AGREEMENT: The partnership agreement for the Partnership (the form of which has been filed as an exhibit to the registration statement of which this Prospectus is a part), and unless the context requires otherwise, references to the Partnership Agreement constitute references to the Partnership Agreements of the Partnership and of the Operating Partnership, collectively.

SENIOR NOTES: The \$250 million in aggregate principal amount of % senior notes due 2001 to be issued pursuant to the Indenture and sold by the Operating Partnership in a registered public offering concurrent with the sale of the Common Units offered by this Prospectus. The Senior Notes will be unsecured general joint and several obligations of the Operating Partnership and will be recourse to the General Partner in its capacity as general partner of the Operating Partnership.

SUBORDINATED UNITS: The subordinated limited partner interests to be issued to Ferrellgas in connection with the transfer of its assets to the Partnership.

**SUBORDINATION PERIOD:** The Subordination Period will extend from the closing of this offering until the first day of any quarter beginning on or after August 1, 1999 in respect of which (i) distributions of Available Cash on the Common Units and the Subordinated Units equaled or exceeded the Minimum Quarterly Distribution for each of the three consecutive four-quarter periods immediately preceding such date (excluding any such Available Cash that is attributable to net increases in working capital borrowings, net decreases in reserves and any positive balance in Cash from Operations at the beginning of such four-quarter periods) and (ii) the Partnership has invested at least \$50 million in acquisitions and capital additions or improvements made to increase the operating capacity of the Partnership. In addition, the Subordination Period ends if the General Partner is removed other than for cause.

**TARGET DISTRIBUTIONS:** The distribution level at which all Unitholders have received a total of \$0.55 for such quarter in respect of each Unit, in addition to any distributions to Common Unitholders of Common Unit Arrearages (the "First Target Distribution"), and the distribution levels at which the interest in distributions for holders of Incentive Distribution Rights increase from 0% to 13% (the "Second Target Distribution") and from 13% to 23% (the "Third Target Distribution"). See "Cash Distribution Policy--Quarterly Distributions of Available Cash."

**TRANSFER APPLICATION:** The application that all purchasers of Common Units in this offering and purchasers of Common Units in the open market who wish to become Common Unitholders of record must deliver before the transfer of such Common Units will be registered and before cash distributions and federal income tax allocations will be made to the transferee. A form of Transfer Application is included in this Prospectus as Appendix B.

**UNITHOLDERS:** Holders of the Common Units and the Subordinated Units.

**UNITS:** The Common Units and the Subordinated Units, collectively.

**UNRECOVERED INITIAL UNIT PRICE:** At any time, with respect to a class or series of Units (other than Subordinated Units), the price per Unit at which such class or series of Units was initially offered to the public for sale by the Underwriters in respect of such offering, as determined by the General Partner, less the sum of all distributions theretofore made in respect of a Unit of such class or series that was sold in the initial offering of Units of said class or series constituting Cash from Interim Capital Transactions and any distributions of cash (or the net agreed value of any distributions in kind) in connection with the dissolution and liquidation of the Partnership theretofore made in respect of a Unit of such class or series that was sold in the initial offering of Units of such class or series, adjusted as the General Partner determines to be appropriate to give effect to any distribution, subdivision or combination of Units.

**UNRECOVERED SUBORDINATED UNIT CAPITAL:** At any time, with respect to a Subordinated Unit, prior to its conversion into a Common Unit, the excess, if any, of (a) the net agreed value (at the time of conveyance) of the undivided interest in any property conveyed to the Partnership in exchange for such Subordinated Unit, over (b) any distributions of cash (or the net agreed value of any distributions in kind) in connection with the dissolution and liquidation of the Partnership, adjusted as the General Partner determines to be appropriate to give effect to any distribution, subdivision or combination of Subordinated Units.

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NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE SECURITIES TO WHICH IT RELATES OR AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SUCH SECURITIES IN ANY CIRCUMSTANCES IN WHICH SUCH OFFER OR SOLICITATION IS UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE PARTNERSHIP SINCE THE DATE HEREOF, OR THAT INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

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13,100,000 COMMON UNITS

REPRESENTING

LIMITED PARTNER INTERESTS

FERRELLGAS PARTNERS, L. P.

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[LOGO OF FERRELLGAS APPEARS HERE]

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GOLDMAN, SACHS & CO.

DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION

A.G. EDWARDS & SONS, INC.

PAINWEBBER INCORPORATED

SMITH BARNEY INC.

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- - - - -

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

Set forth below are the expenses (other than underwriting discounts and commissions) expected to be incurred in connection with the issuance and distribution of the securities registered hereby. With the exception of the Securities and Exchange Commission registration fee and the NASD filing fee, the amounts set forth below are estimates.

Securities and Exchange Commission registration fee.....	\$ 115,586
NASD filing fee.....	30,500
The New York Stock Exchange, Inc. listing fee.....	120,000
Printing and engraving expenses.....	300,000
Legal fees and expenses.....	817,182
Accounting fees and expenses.....	206,250
Blue Sky fees and expenses.....	26,000
Transfer agent and registrar fees.....	1,000
Miscellaneous.....	125,416
	-----
Total.....	\$1,741,934
	=====

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Section of the Prospectus entitled "The Partnership Agreement--Indemnification" is incorporated herein by reference.

Article VII of the Company's bylaws provides, with respect to indemnification, as follows:

"Section 7.01. Indemnification of Authorized Representatives in Third Party Proceedings. The Corporation shall indemnify any person who was or is an "authorized representative" of the Corporation (which shall mean for purposes of this Article a Director or officer of the Corporation, or a person serving at the request of the Corporation as a director, officer, or trustee, of another corporation, partnership, joint venture, trust or other enterprise) and who was or is a "party" (which shall include for purposes of this Article the giving of testimony or similar involvement) or is threatened to be made a party to any "third party proceeding" (which shall mean for purposes of this Article any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative, other than an action by or in the right of the Corporation) by reason of the fact that such person was or is an authorized representative of the Corporation, against expenses (which shall include for purposes of this Article attorneys' fees), judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such third party proceeding if such person acted in good faith and in a manner such person reasonably believed to be in, or not opposed to, the best interests of the Corporation and, with respect to any criminal third party proceeding (which could or does lead to a criminal third party proceeding) had no reasonable cause to believe such conduct was unlawful. The termination of any third party proceeding by judgment, order, settlement, indictment, conviction or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the authorized representative did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal third party proceeding, had reasonable cause to believe that such conduct was unlawful.

Section 7.02. Indemnification of Authorized Representatives in Corporate Proceedings. The Corporation shall indemnify any person who was or is an authorized representative of the Corporation and who was or is a party or is threatened to be made a party to any "corporate proceeding" (which shall mean for purposes of this Article any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor or investigative proceeding by the Corporation) by reason of the fact that such person was or is an authorized representative of the Corporation, against expenses actually and reasonably incurred by such person in connection with the defense or settlement of such corporate action if such person acted in good faith and in a manner reasonably believed to be in, or not opposed to, the best interests of the Corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of such person's duty to the Corporation unless and only to the extent that the Court of Chancery or the court in which such corporate proceeding was pending shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such authorized representative is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 7.03. Mandatory Indemnification of Authorized Representatives. To the extent that an authorized representative of the Corporation has been successful on the merits or otherwise in defense of any third party or corporate proceeding or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses actually and reasonably incurred by such person in connection therewith.

Section 7.04. Determination of Entitlement to Indemnification. Any indemnification under Section 7.01, 7.02 or 7.03 of this Article (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the authorized representative is proper in the circumstances because such person has either met the applicable standards of conduct set forth in Section 7.01 or 7.02 or has been successful on the merits or otherwise as set forth in Section 7.03 and that the amount requested has been actually and reasonably incurred. Such determination shall be made:

(1) By the Board of Directors by a majority of a quorum consisting of Directors who were not parties to such third party or corporate proceeding, or

(2) If such a quorum is not obtainable, or, even if obtainable, a majority vote of such a quorum so directs, by independent legal counsel in a written opinion, or

(3) By the stockholders.

Section 7.05. Advancing Expenses. Expenses actually and reasonably incurred in defending a third party or corporate proceeding shall be paid on behalf of an authorized representative by the Corporation in advance of the final disposition of such third party or corporate proceeding as authorized in the manner provided in Section 7.04 of this Article upon receipt of an undertaking by or on behalf of the authorized representative to repay such amount unless it shall ultimately be determined that such person is entitled to be indemnified by the Corporation as authorized in this Article. The financial ability of such authorized representative to make such repayment shall not be a prerequisite to the making of an advance.

Section 7.06. Employee Benefit Plans. For purposes of this Article, the Corporation shall be deemed to have requested an authorized representative to serve an employee benefit plan where the performance by such person of duties to the Corporation also imposes duties on, or otherwise involves services by, such person to the plan or participants or beneficiaries of the plan; excise taxes assessed on an authorized representative with respect to an employee benefit plan pursuant to applicable law shall be deemed "fines"; and action taken or omitted by such person with respect to an employee



benefit plan in the performance of duties for a purpose reasonably believed to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is not opposed to the best interests of the Corporation.

Section 7.07. Scope of Article. The indemnification of authorized representatives, as authorized by this Article, shall (1) not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any statute, agreement, vote of stockholders or disinterested Directors or otherwise, both as to action in an official capacity and as to action in another capacity, (2) continue as to a person who has ceased to be an authorized representative and (3) inure to the benefit of the heirs, executors and administrators of such a person.

Section 7.08. Reliance on Provisions. Each person who shall act as an authorized representative of the Corporation shall be deemed to be doing so in reliance upon rights of indemnification provided by this Article."

Article EIGHTH of Ferrell's Articles of Incorporation provides, with respect to indemnification, as follows:

"Article EIGHTH. No Director shall be personally liable to this Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director provided that nothing in this Article EIGHTH shall be construed so as to eliminate or limit the liability of a director (A) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (B) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (C) under the provisions of K.S.A. 17-6424 and amendments thereto, (D) for any transaction from which the director derived an improper personal benefit or (E) for any act or omission occurring prior to the effective date of this Article EIGHTH. No amendment to or repeal of this Article EIGHTH shall adversely affect any right, benefit or protection of a director of the Corporation existing at the time of such amendment or repeal with respect to any acts or omissions occurring prior to such amendment or repeal."

In addition, paragraph 22 of Ferrell's bylaws provides as follows:

"22. Indemnification of Directors and Officers. (a) Subject to subparagraph (c) below, the corporation shall indemnify every director and officer who is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), by reason of the fact that he is or was a director or officer of the corporation, or is or was serving at the request of the corporation, as a director or officer, of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement, actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

(b) Subject to subparagraph (c) below, the corporation shall indemnify every person who is a party or is threatened to be made a party, to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director or officer of the corporation, or is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise against expenses, including attorneys' fees, and amounts paid in settlement actually and reasonably incurred by him in connection with the defense or settlement of the action or suit if he acted in good faith and in a manner

he reasonably believed to be in or not opposed to the best interests of the corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the corporation unless and only to the extent that the court in which the action or suit was brought determines upon application that, despite the adjudication of liability and in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for such expense which the court shall deem proper.

(c) Any indemnification under the subparagraphs (a) or (b) above, unless ordered by a court, shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because he has met the applicable standard of conduct set forth in this Section 22. The determination shall be made by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to the action, suit or proceeding, or if such a quorum is not obtainable, or even if obtainable a quorum of disinterested directors so directs, by independent counsel in a written opinion, or by the stockholders.

(d) It is the intent of this Section 22 that the corporation shall be obligated to indemnify every officer and director of this corporation to the fullest extent permitted by law provided that the officer and director has met the standard of conduct applicable by law which entitles such director and officer to such indemnification. To such end:

(i) The indemnification and advancement of expenses provided by this Section 22 shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person; and

(ii) In the event the matter with respect to which indemnification is sought under this Section 22 is required by law to be authorized in accordance with subparagraph (c) above, then the exercise of discretion in granting any such authorization shall be on the basis of the utmost good faith consistent with the intent of this Section 22 to indemnify every officer and director of this corporation to the fullest extent permitted by law.

(e) Expenses incurred in defending a civil or criminal action, suit or proceeding shall be paid by the corporation in advance of the final disposition of the action, suit or proceeding upon receipt of an undertaking by or on behalf of the director or officer to repay such amounts if it is ultimately determined that the director or officer is not entitled to be indemnified by the corporation as authorized in this Section 22.

(f) Absent a vote by a majority of the Board of Directors or a determination by independent legal counsel appointed by a majority of the Board of Directors upon the facts of a specific case, indemnification described in this Section 22 will be limited to defensive application.

(g) The corporation may purchase and maintain insurance on behalf of any person who is or was a director or officer of the corporation, or is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of this Section 22.

(h) For purposes of this Section, references to "the corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed

in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors or officers so that any person who is or was a director or officer of such constituent corporation, or is or was serving at the request of such constituent corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under this Section with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

(i) For purposes of this Section, reference to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to "serving at the request of the corporation" shall include any service as director or officer of the corporation which imposes duties on, or involves services by, such director or officer, with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the corporation" as referred to in this Section."

Section 145 of the General Corporation Law of the State of Delaware authorizes the indemnification of directors and officers of a corporation against liability incurred by reason of being a director or officer and against expenses (including attorneys' fees) in connection with defending any action seeking to establish such liability, in the case of third party claims, if the director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and in the case of action by or in the right of the corporation, if the director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and if such director or officer shall not have been adjudged liable to the corporation, unless a court otherwise determines. Indemnification is also authorized with respect to any criminal action or proceeding where the director or officer had no reasonable cause to believe his conduct was unlawful.

Reference is made to Section 8 of the Underwriting Agreement filed as Exhibit 1.1 to this Registration Statement.

Subject to any terms, conditions or restrictions set forth in the Partnership Agreements, Section 17-108 of the Delaware Revised Limited Partnership Act empowers a Delaware limited partnership to indemnify and hold harmless any partner or other person from and against any and all claims and demands whatsoever.

Under insurance policies maintained by Ferrell, directors and officers of Ferrell and its subsidiaries may be indemnified against losses arising from certain claims, including claims under the Securities Act of 1933, as amended, which may be made against such persons by reason of their being directors or officers.

#### ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

There has been no sale of securities of the Partnership within the past three years.

#### ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

##### (a) EXHIBITS

\*\*1.1 --Form of Underwriting Agreement

\*3.1 --Form of Agreement of Limited Partnership of Ferrellgas Partners, L.P. (included as Appendix A to the Prospectus)

\*3.2 --Form of Agreement of Limited Partnership of Ferrellgas, L.P.

- \*\*5.1 --Opinion of Andrews & Kurth L.L.P. as to the legality of the securities being registered
- \*\*8.1 --Opinion of Andrews & Kurth L.L.P. relating to tax matters
- \*10.1 --Form of working capital credit agreement among Ferrellgas, L.P. and certain banks in the amount of \$185,000,000
- \*10.2 --Form of Indenture among Ferrellgas, L.P., and Norwest Bank Minnesota, as Trustee, relating to % Senior Notes due 2001
- \*\*10.3 --\$250,000,000 11 5/8% Senior Subordinated Debenture Indenture due 2003, dated as of December 1, 1991, between the Company and Norwest Bank Minnesota, National Association, as Trustee
- \*\*10.4 --Assignment and Agreement dated as of January 1, 1989 between BP Oil Company and Ferrell Petroleum, Inc., as amended
- \*\*10.5 --Ferrell Long-Term Incentive Plan, dated June 23, 1987, between Ferrell and the participants in the Plan
- \*\*10.6 --Ferrell 1992 Key Employee Stock Option Plan
- \*10.7 --Form of Contribution, Conveyance and Assumption Agreement between Ferrellgas, the Partnership and the Operating Partnership
- \*\*10.8 --First Supplemental Indenture dated June 2, 1994 relating to \$250,000,000 11 5/8% Senior Subordinated Debentures
- \*\*21.1 --List of subsidiaries
- \*23.1 --Consent of Deloitte & Touche
- \*\*23.2 --Consent of Andrews & Kurth L.L.P. (included in Exhibit 5.1)
- \*\*23.3 --Consent of Andrews & Kurth L.L.P. (included in Exhibit 8.1)
- \*\*24.1 --Powers of Attorney

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- \* Filed herewith
- \*\*Previously filed

#### (b) FINANCIAL STATEMENT SCHEDULES

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All other financial statement schedules are omitted because the information is not required, is not material or is otherwise included in the financial statements or related notes thereto.

#### ITEM 17. UNDERTAKINGS

The undersigned Registrant hereby undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Act") may be permitted to directors, officers or controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling

person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Act, the information omitted from the form of Prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of Prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Act shall be deemed to be a part of this Registration Statement as of the time it was declared effective.

(2) For the purposes of determining any liability under the Act, each post-effective amendment that contains a form of Prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, AS AMENDED, THE REGISTRANT HAS DULY CAUSED THIS AMENDMENT NO. 2 TO THE REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF LIBERTY, STATE OF MISSOURI, ON THE 23RD DAY OF JUNE, 1994.

Ferrellgas Partners, L.P.

By: Ferrellgas, Inc., as General  
Partner

\*

By: \_\_\_\_\_  
JAMES E. FERRELLCHAIRMAN OF THE  
BOARD ANDCHIEF EXECUTIVE OFFICER

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, AS AMENDED, THIS AMENDMENT TO THE REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE	TITLE	DATE
* ----- JAMES E. FERRELL	Director, Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	June 23, 1994
/s/ Danley K. Sheldon ----- DANLEY K. SHELDON	Chief Financial Officer/Treasurer (Principal Financial and Accounting Officer)	June 23, 1994

/s/ Danley K. Sheldon  
\*By: \_\_\_\_\_  
DANLEY K. SHELDON ATTORNEY-IN-  
FACT

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Ferrellgas, Inc.  
Liberty, Missouri

We have audited the consolidated financial statements of Ferrellgas, Inc. and subsidiaries as of April 30, 1994 and July 31, 1993 and 1992, and for the nine months ended April 30, 1994 and for each of the three years in the period ended July 31, 1993, and have issued our report thereon dated June 3, 1994, which expressed an unqualified opinion and included an explanatory paragraph concerning an uncertainty involving an income tax matter. Our audits also included the financial statement schedules listed at Item 16(b). These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. 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  
Kansas City, Missouri  
June 3, 1994



## FERRELLGAS, INC. AND SUBSIDIARIES

MARKETABLE SECURITIES--OTHER INVESTMENTS  
(IN THOUSANDS)

ISSUANCE/ISSUER -----	SHARES/ PAR VALUE -----	COST -----	MARKET VALUE -----	BALANCE SHEET VALUE -----
Year ended July 31, 1993				
United States Treasury Bills				
United States Government.....	\$15,000	\$14,497	\$14,703	\$14,497(1)
United States Treasury Notes				
United States Government.....	\$ 5,000	\$ 5,116	\$ 5,171	\$ 5,116(1)
Corporate Commercial Paper				
Beta Finance, Inc.....	\$ 2,500	\$ 2,474	\$ 2,474	\$ 2,474(1)
General Electric Capital Corp..	\$ 3,000	\$ 2,953	\$ 2,977	\$ 2,953(1)
Class B Redeemable Common Stock				
Ferrell Companies, Inc.....	643(4)	\$36,031	\$36,031(2)	\$36,031(3)
Year ended July 31, 1992				
United States Treasury Bills				
United States Government.....	\$24,000	\$23,165	\$23,600	\$23,165(1)
Class B Redeemable Common Stock				
Ferrell Companies, Inc.....	576	\$32,813	\$32,813(2)	\$32,813(3)
Year ended July 31, 1991				
Class B Redeemable Common Stock				
Ferrell Companies, Inc. ....	394	\$23,721	\$23,721(2)	\$23,721(3)

- - - - -

- (1) Short-term investments on Consolidated Balance Sheet.
- (2) Class B redeemable common stock is not publicly traded. Therefore, market value was considered the same as cost for this schedule.
- (3) Investment in Class B redeemable common stock of parent (eliminated in consolidation) on Balance Sheet.
- (4) Total authorized and issued shares of Ferrell's Class B redeemable common stock.

## FERRELLGAS, INC. AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM RELATED PARTIES AND EMPLOYEES  
(IN THOUSANDS)

NAME OF DEBTOR -----	BALANCE AT BEGINNING OF PERIOD			BALANCE AT END OF PERIOD	
	ADDITIONS -----	AMOUNTS COLLECTED -----	-----		
			CURRENT	NOT CURRENT -----	
Year ended July 31, 1993					
One Liberty Plaza, Inc. (1).....	\$3,000 =====	\$ -- =====	\$ -- =====	\$ -- =====	\$3,000 =====
Ferrell Development, Inc. (1).....	\$1,500 =====	\$ -- =====	\$ -- =====	\$ -- =====	\$1,500 =====
Ferrell Properties, Inc. (1).....	\$ -- =====	\$ 262(3) =====	\$ -- =====	\$ -- =====	\$ 262 =====
James E. Ferrell (2)....	\$6,588 =====	\$4,400 =====	\$4,341 =====	\$ 500 =====	\$6,147 =====
Year ended July 31, 1992					
One Liberty Plaza, Inc. (1).....	\$3,000 =====	\$ -- =====	\$ -- =====	\$ -- =====	\$3,000 =====
Ferrell Development, Inc. (1).....	\$1,500 =====	\$ -- =====	\$ -- =====	\$ -- =====	\$1,500 =====
James E. Ferrell (2)....	\$2,756 =====	\$5,480 =====	\$1,648 =====	\$1,000 =====	\$5,588 =====
Year ended July 31, 1991					
One Liberty Plaza, Inc. (1).....	\$3,000 =====	\$ -- =====	\$ -- =====	\$ -- =====	\$3,000 =====
Ferrell Development, Inc. (1).....	\$1,500 =====	\$ -- =====	\$ -- =====	\$ -- =====	\$1,500 =====
James E. Ferrell (2)....	\$ -- =====	\$6,216 =====	\$3,460 =====	\$2,756 =====	\$ -- =====

(1) Notes are due December 31, 1997, and bear interest at the prime rate plus 1.375%.

(2) Note is due on demand and bears interest at the prime rate.

(3) Contributed by Ferrell in fiscal year 1993.

## FERRELLGAS, INC. AND SUBSIDIARIES

PROPERTY, PLANT AND EQUIPMENT  
(IN THOUSANDS)

	YEAR ENDED JULY 31, 1993	YEAR ENDED JULY 31, 1992	YEAR ENDED JULY 31, 1991
	-----	-----	-----
Land and improvements...	\$ 18,459	\$ 17,150	\$ 16,974
Buildings and improve-			
ments.....	23,001	20,339	18,560
Vehicles.....	37,564	39,205	40,662
Furniture and fixtures..	16,402	14,194	11,182
Bulk equipment and mar-			
ket facilities.....	33,612	32,051	30,462
Tanks and customer			
equipment.....	314,127	313,634	307,210
Other.....	1,456	99	1,790
	-----	-----	-----
	\$444,621	\$436,672	\$426,840
	=====	=====	=====
Additions, at cost.....	\$ 14,187	\$ 20,392	\$ 25,942
	=====	=====	=====
Retirements.....	\$ 6,238	\$ 10,560	\$ 9,854
	=====	=====	=====

- - - - -  
Note: See Notes to financial statements for a description of the methods and estimated useful lives used in computing depreciation and amortization. Detail of additions and retirements by major classification is not provided as the totals for such additions and retirements are less than 10% of the total property, plant and equipment for each year.

## FERRELLGAS, INC. AND SUBSIDIARIES

ACCUMULATED DEPRECIATION AND AMORTIZATION OF  
PROPERTY, PLANT AND EQUIPMENT

(IN THOUSANDS)

	BEGINNING OF YEAR	ADDITIONS CHARGED TO COSTS AND EXPENSES	RETIREMENTS	END OF YEAR
	-----	-----	-----	-----
Year ended July 31, 1993				
Land and improvements.....	\$ 1,293	\$ 263	\$ 5	\$ 1,551
Buildings and improvements.....	5,831	996	124	6,703
Vehicles.....	21,804	4,466	2,260	24,010
Furniture and fixtures.....	8,162	2,433	92	10,503
Bulk equipment and market facili- ties.....	9,186	1,712	92	10,806
Tanks and customer equipment.....	77,270	10,579	617	87,232
	-----	-----	-----	-----
	\$123,546	\$20,449	\$3,190	\$140,805
	=====	=====	=====	=====
Year ended July 31, 1992				
Land and improvements.....	\$ 1,049	\$ 248	\$ 4	\$ 1,293
Buildings and improvements.....	5,033	979	181	5,831
Vehicles.....	20,403	5,107	3,706	21,804
Furniture and fixtures.....	6,742	2,072	652	8,162
Bulk equipment and market facili- ties.....	7,955	1,507	276	9,186
Tanks and customer equipment.....	67,455	10,573	758	77,270
	-----	-----	-----	-----
	\$108,637	\$20,486	\$5,577	\$123,546
	=====	=====	=====	=====
Year ended July 31, 1991				
Land and improvements.....	\$ 826	\$ 234	\$ 11	\$ 1,049
Buildings and improvements.....	5,095	1,057	1,119	5,033
Vehicles.....	17,323	5,115	2,035	20,403
Furniture and fixtures.....	5,301	1,978	537	6,742
Bulk equipment and market facili- ties.....	6,263	1,826	134	7,955
Tanks and customer equipment.....	52,521	15,775	841	67,455
	-----	-----	-----	-----
	\$ 87,329	\$25,985	\$4,677	\$108,637
	=====	=====	=====	=====

## FERRELLGAS, INC. AND SUBSIDIARIES

## VALUATION AND QUALIFYING ACCOUNTS

(IN THOUSANDS)

DESCRIPTION -----	BALANCE AT BEGINNING OF PERIOD -----	CHARGED TO COST/ EXPENSES -----	DEDUCTIONS (AMOUNTS CHARGED-OFF) -----	BALANCE AT END OF PERIOD -----
Year ended July 31, 1993				
Allowance for uncollectible re- ceivables.....	\$ 837 =====	\$ 1,343 =====	\$1,573 =====	\$ 607 =====
Accumulated amortization of intan- gible assets.....	\$49,188 =====	\$ 9,993 =====	\$ -- =====	\$59,181 =====
Accumulated amortization of other assets.....	\$ 5,286 =====	\$ 2,538 =====	\$ 232 =====	\$ 7,592 =====
Year ended July 31, 1992				
Allowance for uncollectible re- ceivables.....	\$ 1,005 =====	\$ 2,071 =====	\$2,239 =====	\$ 837 =====
Accumulated amortization of intan- gible assets.....	\$38,901 =====	\$10,306 =====	\$ 19 =====	\$49,188 =====
Accumulated amortization of other assets.....	\$ 6,895 =====	\$ 2,654 =====	\$4,263 =====	\$ 5,286 =====
Year ended July 31, 1991				
Allowance for uncollectible re- ceivables.....	\$ 1,005 =====	\$ 2,423 =====	\$2,423 =====	\$ 1,005 =====
Accumulated amortization of intan- gible assets.....	\$29,116 =====	\$ 9,785 =====	\$ -- =====	\$38,901 =====
Accumulated amortization of other assets.....	\$ 4,309 =====	\$ 2,586 =====	\$ -- =====	\$ 6,895 =====

## FERRELLGAS, INC. AND SUBSIDIARIES

## SHORT-TERM BORROWINGS

(IN THOUSANDS)

CATEGORY	BALANCE AT END OF YEAR	WEIGHTED AVERAGE INTEREST RATE	MAXIMUM AMOUNT OUTSTANDING DURING THE YEAR	AVERAGE OUTSTANDING DURING THE YEAR	WEIGHTED AVERAGE INTEREST RATE DURING THE YEAR*
-----	-----	-----	-----	-----	-----
Year ended July 31, 1993					
(There were no short-term borrowings during the fiscal year ended July 31, 1993).					
Year ended July 31, 1992					
Working capital loan....	\$ --	--	\$1,000	\$ 453	7.82%
	====	====	=====	=====	=====
Revolving loan.....	\$ --	--	\$4,275	\$2,640	7.53%
	====	====	=====	=====	=====
Year ended July 31, 1991					
(There were no short-term borrowings during the fiscal year ended July 31, 1991).					

- -----  
 \* Based upon the actual rate in effect and the average daily outstanding balance.

FERRELLGAS, INC. AND SUBSIDIARIES  
SUPPLEMENTARY INCOME STATEMENT INFORMATION  
(IN THOUSANDS)

	CHARGED TO COSTS AND EXPENSES		
	YEAR ENDED JULY 31, 1993	YEAR ENDED JULY 31, 1992	YEAR ENDED JULY 31, 1991
1. Maintenance and repairs.....	\$10,110	\$ 9,855	\$ 8,819
	=====	=====	=====
2. Depreciation.....	\$20,472	\$20,486	\$25,985
Amortization of intangibles.....	9,993	10,306	9,785
Amortization of other assets.....	2,538	2,654	2,586
	-----	-----	-----
	\$33,003	\$33,446	\$38,356
	=====	=====	=====

- - - - -  
Note: Detail for the other items required for this schedule has been omitted  
since each of the other items is less than 1% of total revenues.

# GRAPHICS APPENDIX LIST

PAGE WHERE GRAPHIC -----	DESCRIPTION OF GRAPHIC OR CROSS-REFERENCE -----
INSIDE FRONT COVER PAGE OF PROSPECTUS	A map depicting the locations of assets and operations of Ferrellgas Partners, L.P. (the "Partnership") in the United States. The map is coded to reflect the locations of the following: (1) retail markets; (ii) the headquarters; (iii) the Houston headquarters; (iv) a service center; (v) owned underground storage; and (vi) owned throughput terminals. The map also depicts LPG common carrier pipelines not owned by the Partnership and seaborne import terminals not owned by the Partnership.
PAGE 9	A chart depicting the organization and ownership of the Partnership and Ferrellgas, L.P. (the "Operating Partnership") after giving effect to the sale of the Common Units. The ownership interests as depicted are as follow: (1) Ferrell Companies, Inc. ("Ferrell") will own 1,000,000 Common Units, 16,118,559 Subordinated Units and Incentive Distribution Rights representing a 56.1% limited partner interest in the Partnership; Ferrellgas, Inc. ("Ferrellgas"), a wholly owned subsidiary of Ferrell, will own a 1% general partner interest in the Partnership and a 1.0101% general partner interest in the Operating Partnership; the Partnership will own a 98.9899% limited partner interest in the Operating Partnership; and the public unitholders will own 13,100,000 Common Units representing a 42.9% limited partner interest in the Partnership.



AGREEMENT  
  
OF  
  
LIMITED PARTNERSHIP  
  
OF  
  
FERRELLGAS, L.P.

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AGREEMENT OF LIMITED PARTNERSHIP OF  
FERRELLGAS, L.P.

THIS AGREEMENT OF LIMITED PARTNERSHIP OF FERRELLGAS, L.P., dated as of \_\_\_\_\_, 1994, is entered into by and among Ferrellgas, Inc., a Delaware corporation, as the General Partner, and Ferrellgas Partners, L.P., a Delaware limited partnership, as the Initial Limited Partner, together with any other Persons who become Partners in the Partnership as provided herein. In consideration of the covenants, conditions and agreements contained herein, the parties hereto hereby agree as follows:

ARTICLE I

ORGANIZATIONAL MATTERS

1.1 Formation. (a) The General Partner and the Initial Limited Partner have previously formed the Partnership as a limited partnership pursuant to the provisions of the Delaware Act. Except as expressly provided to the contrary in this Agreement, the rights and obligations of the Partners and the administration, dissolution and termination of the Partnership shall be governed by the Delaware Act. All Partnership Interests shall constitute personal property of the owner thereof for all purposes.

1.2 Name. The name of the Partnership shall be, and the business of the Partnership shall be conducted under the name of, "Ferrellgas, L.P." The Partnership's business may be conducted under any other name or names deemed necessary or appropriate by the General Partner, including, without limitation, the name of the General Partner or any Affiliate thereof. The words "Limited Partnership," "L.P.," "Ltd." or similar words or letters shall be included in the Partnership's name where necessary for the purposes of complying with the laws of any jurisdiction that so requires. The General Partner in its sole discretion may change the name of the Partnership at any time and from time to time and shall notify the Limited Partner of such change in the next regular communication to the Limited Partner.

1.3 Registered Office; Principal Office. Unless and until changed by the General Partner, the registered office of the Partnership in the State of Delaware shall be located at The Corporation Trust Center, 1209 Orange Street, New Castle County, Wilmington, Delaware 19801, and the registered agent for service of process on the Partnership in the State of Delaware at such registered office shall be The Corporation Trust Company. The principal office of the Partnership and the address of the General Partner shall be One Liberty Plaza, Liberty, Missouri 64068, or such other place as the General Partner may from time to time designate by notice to the Limited Partner. The Partnership may maintain offices at such other place or places within or outside the State of Delaware as the General Partner deems necessary or appropriate.

1.4 Power of Attorney. (a) The Limited Partner hereby constitutes and appoints each of the General Partner and, if a Liquidator shall have been selected pursuant to Section 13.3, the Liquidator severally (and any successor to either thereof by merger, transfer, assignment, election or otherwise) and each of their authorized officers and attorneys-in-fact, with full power of substitution, as its true and lawful agent and attorney-in-fact, with full power and authority in its name, place and stead, to:

(i) execute, swear to, acknowledge, deliver, file and record in the appropriate public offices (A) all certificates, documents and other instruments (including, without limitation, this Agreement and the Certificate of Limited Partnership and all amendments or restatements thereof) that the General Partner or the Liquidator deems necessary or appropriate to form, qualify or continue the existence or qualification of the Partnership as a limited partnership (or a partnership in which the limited partners have limited liability) in the State of Delaware and in all other jurisdictions in which the Partnership may conduct business or own property; (B) all certificates, documents and other instruments that the General Partner or the Liquidator deems necessary or appropriate to reflect, in accordance with its terms, any amendment, change, modification or restatement of this Agreement;

(C) all certificates, documents and other instruments (including, without limitation, conveyances and a certificate of cancellation) that the General Partner or the Liquidator deems necessary or appropriate to reflect the dissolution and liquidation of the Partnership pursuant to the terms of this Agreement; (D) all certificates, documents and other instruments relating to the admission, withdrawal, removal or substitution of any Partner pursuant to, or other events described in, Article X, XI, XII or XIII or the Capital Contribution of any Partner; (E) all certificates, documents and other instruments relating to the determination of the rights, preferences and privileges of any class or series of Partnership Interests; and (F) all certificates, documents and other instruments (including, without limitation, agreements and a certificate of merger) relating to a merger or consolidation of the Partnership pursuant to Article XV; and

(ii) execute, swear to, acknowledge, deliver, file and record all ballots, consents, approvals, waivers, certificates, documents and other instruments necessary or appropriate, in the sole discretion of the General Partner or the Liquidator, to make, evidence, give, confirm or ratify any vote, consent, approval, agreement or other action that is made or given by the Partners hereunder or is consistent with the terms of this Agreement or is necessary or appropriate, in the sole discretion of the General Partner or the Liquidator, to effectuate the terms or intent of this Agreement; provided, that when the consent or approval of the Limited Partner is required by any provision of this Agreement, the General Partner or the Liquidator may exercise the power of attorney made in this Section 1.4(a)(ii) only after the necessary consent or approval of the Limited Partner is obtained.

Nothing contained in this Section 1.4(a) shall be construed as authorizing the General Partner to amend this Agreement except in accordance with Article XIV or as may be otherwise expressly provided for in this Agreement.

(b) The foregoing power of attorney is hereby declared to be irrevocable and a power coupled with an interest, and it shall survive and not be affected by the subsequent death, incompetency, disability, incapacity, dissolution, bankruptcy or termination of the Limited Partner and the transfer of all or any portion of the Limited Partner's Partnership Interest and shall extend to the Limited Partner's heirs, successors, assigns and personal representatives. The Limited Partner hereby agrees to be bound by any representation made by the General Partner or the Liquidator acting in good faith pursuant to such power of attorney; and the Limited Partner hereby waives any and all defenses that may be available to contest, negate or disaffirm the action of the General Partner or the Liquidator taken in good faith under such power of attorney. The Limited Partner shall execute and deliver to the General Partner or the Liquidator, within 15 days after receipt of the General Partner's or the Liquidator's request therefor, such further designation, powers of attorney and other instruments as the General Partner or the Liquidator deems necessary to effectuate this Agreement and the purposes of the Partnership.

1.5 Term. The Partnership commenced upon the filing of the Certificate of Limited Partnership in accordance with the Delaware Act and shall continue in existence until the close of Partnership business on July 31, 2084, or until the earlier termination of the Partnership in accordance with the provisions of Article XIII.

1.6 Possible Restrictions on Transfer. Notwithstanding anything to the contrary contained in this Agreement, in the event of (a) the enactment (or imminent enactment) of any legislation, (b) the publication of any temporary or final regulation by the Treasury Department, (c) any ruling by the Internal Revenue Service or (d) any judicial decision, that, in any such case, in the Opinion of Counsel, would result in the taxation of the Partnership as an association taxable as a corporation or would otherwise result in the Partnership being taxed as an entity for federal income tax purposes, then, the General Partner may impose such restrictions on the transfer of Partnership Interests as may be required, in the Opinion of Counsel, to prevent the Partnership from being taxed as an association taxable as a corporation or otherwise as an entity for federal income tax purposes, including, without limitation, making any amendments to this Agreement as the General Partner in its sole discretion may determine to be necessary or appropriate to impose such restrictions.



ARTICLE II  
DEFINITIONS

The following definitions shall be for all purposes, unless otherwise clearly indicated to the contrary, applied to the terms used in this Agreement.

"ADDITIONAL LIMITED PARTNER" means a Person admitted to the Partnership as a Limited Partner pursuant to Section 11.6 and who is shown as such on the books and records of the Partnership.

"ADJUSTED CAPITAL ACCOUNT" means the Capital Account maintained for each Partner as of the end of each fiscal year of the Partnership, (a) increased by any amounts that such Partner is obligated to restore under the standards set by Treasury Regulation Section 1.704-1(b)(2)(ii)(c) (or is deemed obligated to restore under Treasury Regulation Sections 1.704-2(g) and 1.704-2(i)(5)), and (b) decreased by (i) the amount of all losses and deductions that, as of the end of such fiscal year, are reasonably expected to be allocated to such Partner in subsequent years under Sections 704(e)(2) and 706(d) of the Code and Treasury Regulation Section 1.751-1(b)(2)(ii), and (ii) the amount of all distributions that, as of the end of such fiscal year, are reasonably expected to be made to such Partner in subsequent years in accordance with the terms of this Agreement or otherwise to the extent they exceed offsetting increases to such Partner's Capital Account that are reasonably expected to occur during (or prior to) the year in which such distributions are reasonably expected to be made (other than increases as a result of a minimum gain chargeback pursuant to Section 5.1(d)(i) or 5.1(d)(ii)). The foregoing definition of Adjusted Capital Account is intended to comply with the provisions of Treasury Regulation Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

"ADJUSTED PROPERTY" means any property the Carrying Value of which has been adjusted pursuant to Section 4.5(d)(i) or 4.5(d)(ii). Once an Adjusted Property is deemed distributed by, and recontributed to, the Partnership for federal income tax purposes upon a termination thereof pursuant to Section 708 of the Code, such property shall thereafter constitute a Contributed Property until the Carrying Value of such property is subsequently adjusted pursuant to Section 4.5(d)(i) or 4.5(d)(ii).

"AFFILIATE" means, with respect to any Person, any other Person that directly or indirectly controls, is controlled by or is under common control with, the Person in question. As used herein, the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.

"AGREED ALLOCATION" means any allocation, other than a Required Allocation, of an item of income, gain, loss or deduction pursuant to the provisions of Section 5.1, including, without limitation, a Curative Allocation (if appropriate to the context in which the term "Agreed Allocation" is used).

"AGREED VALUE" of any Contributed Property means the fair market value of such property or other consideration at the time of contribution as determined by the General Partner using such reasonable method of valuation as it may adopt; provided, however, that the Agreed Value of any property deemed contributed by the Partnership for federal income tax purposes upon termination and reconstitution thereof pursuant to Section 708 of the Code shall be determined in accordance with Section 4.5(c)(i). Subject to Section 4.5(c)(i), the General Partner shall, in its sole discretion, use such method as it deems reasonable and appropriate to allocate the aggregate Agreed Value of Contributed Properties contributed to the Partnership in a single or integrated transaction among each separate property on a basis proportional to the fair market value of each Contributed Property.

"AGREEMENT" means this Agreement of Limited Partnership of Ferrellgas, L.P., as it may be amended, supplemented or restated from time to time.

"AUDIT COMMITTEE" means a committee of the Board of Directors of the General Partner composed entirely of two or more directors who are neither officers nor employees of the General Partner or any of its Affiliates.

"AVAILABLE CASH" means with respect to any period and without duplication:

(a) the sum of:

(i) all cash receipts of the Partnership during such period from all sources (including, without limitation, distributions of cash received by the Partnership from an OLP Subsidiary) plus, in the case of the Quarter ending October 31, 1994, the cash balance of the Partnership as of the close of business on the Closing Date ; and

(ii) any reduction with respect to such period in a cash reserve previously established pursuant to clause (b)(ii) below (either by reversal or utilization) from the level of such reserve at the end of the prior period;

(b) less the sum of:

(i) all cash disbursements of the Partnership during such period, including, without limitation, disbursements for operating expenses, taxes, if any, debt service (including, without limitation, the payment of principal, premium and interest), redemption of Partnership Interests, capital expenditures, contributions, if any, to an OLP Subsidiary and cash distributions to Partners (but only to the extent that such cash distributions to Partners exceed Available Cash for the immediately preceding Quarter; and

(ii) any cash reserves established with respect to such period, and any increase with respect to such period in a cash reserve previously established pursuant to this clause (b)(ii) from the level of such reserve at the end of the prior period, in such amounts as the General Partner determines in its reasonable discretion to be necessary or appropriate (A) to provide for the proper conduct of the business of the Partnership (including, without limitation, reserves for future capital expenditures or capital contributions to an OLP Subsidiary) or (B) to provide funds for distributions to the Partners in respect of any one or more of the next four Quarters or (C) because the distribution of such amounts would be prohibited by applicable law or by any loan agreement, security agreement, mortgage, debt instrument or other agreement or obligation to which the Partnership is a party or by which it is bound or its assets are subject;

provided, however, that for purposes of determining Available Cash for the Quarter ending October 31, 1994, such Quarter shall be deemed to commence on the Closing Date. Notwithstanding the foregoing (x) disbursements (including, without limitation, contributions to an OLP Subsidiary or disbursements on behalf of an OLP Subsidiary) made or reserves established, increased or reduced after the end of any Quarter but on or before the date on which the Partnership makes its distribution of Available Cash in respect of such Quarter pursuant to Section 5.3(a) shall be deemed to have been made, established, increased or reduced, for purposes of determining Available Cash, with respect to such Quarter if the General Partner so determines and (y) "Available Cash" with respect to any period shall not include any cash receipts or reductions in reserves or take into account any disbursements made or reserves established after the Liquidation Date.

"BOOK-TAX DISPARITY" means with respect to any item of Contributed Property or Adjusted Property, as of the date of any determination, the difference between the Carrying Value of such Contributed Property or Adjusted Property and the adjusted basis thereof for federal income tax purposes as of such date. A Partner's share of the Partnership's Book-Tax Disparities in all of its Contributed Property and Adjusted Property will be reflected by the difference between such Partner's Capital Account balance as maintained pursuant to Section 4.5 and the hypothetical balance of such Partner's Capital Account computed as if it had been maintained strictly in accordance with federal income tax accounting principles.

"BUSINESS DAY" means Monday through Friday of each week, except that a legal holiday recognized as such by the government of the United States or the states of New York or Missouri shall not be regarded as a Business Day.

"CAPITAL ACCOUNT" means the capital account maintained for a Partner pursuant to Section 4.5.

"CAPITAL CONTRIBUTION" means any cash, cash equivalents or the Net Agreed Value of Contributed Property that a Partner contributes to the Partnership pursuant to Section 4.1, 4.2, 4.3, 4.5(c) or 13.8.

"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 any 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.

"CARRYING VALUE" means (a) with respect to a Contributed Property, the Agreed Value of such property reduced (but not below zero) by all depreciation, amortization and cost recovery deductions charged to the Partners' Capital Accounts in respect of such Contributed Property, and (b) with respect to any other Partnership property, the adjusted basis of such property for federal income tax purposes, all as of the time of determination. The Carrying Value of any property shall be adjusted from time to time in accordance with Sections 4.5(d)(i) and 4.5(d)(ii) and to reflect changes, additions or other adjustments to the Carrying Value for dispositions and acquisitions of Partnership properties, as deemed appropriate by the General Partner.

"CERTIFICATE OF LIMITED PARTNERSHIP" means the Certificate of Limited Partnership filed with the Secretary of State of the State of Delaware as referenced in Section 6.2, as such Certificate of Limited Partnership may be amended, supplemented or restated from time to time.

"CLOSING DATE" means the first date on which Common Units are sold by the MLP to the Underwriters pursuant to the provisions of the MLP Underwriting Agreement.

"CODE" means the Internal Revenue Code of 1986, as amended and in effect from time to time, as interpreted by the applicable regulations thereunder. Any reference herein to a specific section or sections of the Code shall be deemed to include a reference to any corresponding provision of future law.

"COMMON UNIT" has the meaning assigned to such term in the MLP Agreement.

"CONTRIBUTED PROPERTY" means each property or other asset, in such form as may be permitted by the Delaware Act, but excluding cash, contributed to the Partnership (or deemed contributed to the Partnership on termination and reconstitution thereof pursuant to Section 708 of the Code). Once the Carrying Value of a Contributed Property is adjusted pursuant to Section 4.5(d), such property shall no longer constitute a Contributed Property, but shall be deemed an Adjusted Property.

"CONTRIBUTION AGREEMENT" has the meaning assigned to such term in the MLP Agreement.

"CURATIVE ALLOCATION" means any allocation of an item of income, gain, deduction, loss or credit pursuant to the provisions of Section 5.1(d)(ix).

"DELAWARE ACT" means the Delaware Revised Uniform Limited Partnership Act, 6 Del C. (S) 17-101, et seq., as amended, supplemented or restated from time to time, and any successor to such statute.

"DEPARTING PARTNER" means a former General Partner, from and after the effective date of any withdrawal or removal of such former General Partner pursuant to Section 12.1 or Section 12.2.

"ECONOMIC RISK OF LOSS" has the meaning set forth in Treasury Regulation Section 1.752-2(a).

"EVENT OF WITHDRAWAL" has the meaning assigned to such term in Section 12.1(a).

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended, supplemented or restated from time to time, and any successor to such statute.

"FERRELL" means Ferrell Companies, Inc., a Kansas corporation.

"FERRELLGAS" means Ferrellgas, Inc., a Delaware corporation and a wholly owned subsidiary of Ferrell.

"GENERAL PARTNER" means Ferrellgas, and its successors as general partner of the Partnership.

"IDR" has the meaning assigned to such term in the MLP Agreement.

"INDEMNITEE" means the General Partner, any Departing Partner, any Person who is or was an Affiliate of the General Partner or any Departing Partner, any Person who is or was an officer, director, employee, partner, agent or trustee of the General Partner or any Departing Partner or any such Affiliate, or any Person who is or was serving at the request of the General Partner or any Departing Partner or any such Affiliate as a director, officer, employee, partner, agent or trustee of another Person.

"INITIAL LIMITED PARTNER" means the MLP.

"LIMITED PARTNER" means the Initial Limited Partner, Ferrellgas pursuant to Section 4.2, each Substituted Limited Partner, if any, each Additional Limited Partner and any Departing Partner upon the change of its status from General Partner to Limited Partner pursuant to Section 12.3, but excluding any such Person from and after the time it withdraws from the Partnership.

"LIQUIDATION DATE" means (a) in the case of an event giving rise to the dissolution of the Partnership of the type described in clauses (a) and (b) of the first sentence of Section 13.2, the date on which the applicable time period during which the Partners have the right to elect to reconstitute the Partnership and continue its business has expired without such an election being made, and (b) in the case of any other event giving rise to the dissolution of the Partnership, the date on which such event occurs.

"LIQUIDATOR" means the General Partner or other Person approved pursuant to Section 13.3 who performs the functions described therein.

"MERGER AGREEMENT" has the meaning assigned to such term in Section 15.1.

"MLP" means Ferrellgas Partners, L.P., a Delaware limited partnership.

"MLP AGREEMENT" means the Agreement of Limited Partnership of Ferrellgas Partners, L.P., as it may be amended, supplemented or restated from time to time.

"MLP OFFERING" means the initial offering of Common Units to the public, as described in the MLP Registration Statement.

"MLP REGISTRATION STATEMENT" means the Registration Statement on Form S 1 (Registration No. 33-53383), as it has been or as it may be amended or supplemented from time to time, filed by the MLP with the Securities and Exchange Commission under the Securities Act to register the offering and sale of the Common Units in the MLP Offering.

"MLP SUBSIDIARY" means a Subsidiary of the MLP.

"MLP UNDERWRITING AGREEMENT" means the underwriting agreement dated \_\_\_\_\_, 1994, among the MLP, the General Partner, Ferrell and the Underwriters named in Schedule I thereto providing for the purchase of Common Units by such Underwriters.

"NATIONAL SECURITIES EXCHANGE" means an exchange registered with the Securities and Exchange Commission under Section 6(a) of the Exchange Act.

"NET AGREED VALUE: means, (a) in the case of any Contributed Property, the Agreed Value of such property reduced by any liabilities either assumed by the Partnership upon such contribution or to which such property is subject when contributed, and (b) in the case of any property distributed to a Partner by the Partnership, the Partnership's Carrying Value of such property (as adjusted pursuant to Section 4.5(d)(ii)) at the time such property is distributed, reduced by any indebtedness either assumed by such Partner upon such distribution or to which such property is subject at the time of distribution, in either case, as determined under Section 752 of the Code.

"NET INCOME" means, for any taxable period, the excess, if any, of the Partnership's items of income and gain (other than those items attributable to dispositions constituting Termination Capital Transactions) for such taxable period over the Partnership's items of loss and deduction (other than those items attributable to dispositions constituting Termination Capital Transactions) for such taxable period. The items included in the calculation of Net Income shall be determined in accordance with Section 4.5(b) and shall not include any items specially allocated under Section 5.1(d). Once an item of income, gain, loss or deduction that has been included in the initial computation of Net Income is subjected to a Required Allocation or a Curative Allocation, Net Income or Net Loss, whichever the case may be, shall be recomputed without regard to such item.

"NET LOSS" means, for any taxable period, the excess, if any, of the Partnership's items of loss and deduction (other than those items attributable to dispositions constituting Termination Capital Transactions) for such taxable period over the Partnership's items of income and gain (other than those items attributable to dispositions constituting Termination Capital Transactions) for such taxable period. The items included in the calculation of Net Loss shall be determined in accordance with Section 4.5(b) and shall not include any items specially allocated under Section 5.1(d). Once an item of income, gain, loss or deduction that has been included in the initial computation of Net Loss is subjected to a Required Allocation or a Curative Allocation, Net Income, or Net Loss, whichever the case may be, shall be recomputed without regard to such item.

"NET TERMINATION GAIN" means, for any taxable period, the sum, if positive, of all items of income, gain, loss or deduction recognized by the Partnership (including, without limitation, such

amounts recognized through an OLP Subsidiary, if applicable) from Termination Capital Transactions occurring in such taxable period. The items included in the determination of Net Termination Gain shall be determined in accordance with Section 4.5(b) and shall not include any items of income, gain or loss specially allocated under Section 5.1(d). Once an item of income, gain or loss that has been included in the initial computation of Net Termination Gain is subjected to a Required Allocation or a Curative Allocation, Net Termination Gain or Net Termination Loss, whichever the case may be, shall be recomputed without regard to such item.

"NET TERMINATION LOSS" means, for any taxable period, the sum, if negative, of all items of income, gain, loss or deduction recognized by the Partnership (including, without limitation, such amounts recognized through an OLP Subsidiary, if applicable) from Termination Capital Transactions occurring in such taxable period. The items included in the determination of Net Termination Loss shall be determined in accordance with Section 4.5(b) and shall not include any items of income, gain or loss specially allocated under Section 5.1(d). Once an item of gain or loss that has been included in the initial computation of Net Termination Loss is subjected to a Required Allocation or a Curative Allocation, Net Termination Gain or Net Termination Loss, whichever the case may be, shall be recomputed without regard to such item.

"NONRECOURSE BUILT-IN GAIN" means with respect to any Contributed Properties or Adjusted Properties that are subject to a mortgage or pledge securing a Nonrecourse Liability, the amount of any taxable gain that would be allocated to the Partners pursuant to Sections 5.2(b)(i)(A), 5.2(b)(ii)(A) or 5.2(b)(iii) if such properties were disposed of in a taxable transaction in full satisfaction of such liabilities and for no other consideration.

"NONRECOURSE DEDUCTIONS" means any and all items of loss, deduction or expenditures (described in Section 705(a)(2)(B) of the Code) that, in accordance with the principles of Treasury Regulation Section 1.704-2(b), are attributable to a Nonrecourse Liability.

"NONRECOURSE LIABILITY" has the meaning set forth in Treasury Regulation Section 1.752-1(a)(2).

"OLP OFFERING" means the initial offering of Senior Notes to the public, as described in the OLP Registration Statement.

"OLP REGISTRATION STATEMENT" means the Registration Statement on Form S 1 (Registration No. 33-53379), as it has been or as it may be amended or supplemented from time to time, filed by the Partnership and Ferrellgas Finance Corp. with the Securities and Exchange Commission under the Securities Act to register the offering and sale of the Senior Notes in the OLP Offering.

"OLP SUBSIDIARY" means a Subsidiary of the Partnership.

"OLP UNDERWRITING AGREEMENT" means the underwriting agreement dated \_\_\_\_\_, 1994, among the Partnership, Ferrellgas Finance Corp., the General Partner and the Underwriters named in Schedule A thereto providing for the purchase of Senior Notes by such Underwriters.

"OPINION OF COUNSEL" means a written opinion of counsel (who may be regular counsel to the General Partner, any Affiliate of the General Partner, or the Partnership) acceptable to the General Partner.

"PARTNERS" means the General Partner and the Limited Partner.

"PARTNER NONRECOURSE DEBT" has the meaning set forth in Treasury Regulation Section 1.704-2(b)(4).

"PARTNER NONRECOURSE DEBT MINIMUM GAIN" has the meaning set forth in Treasury Regulation Section 1.704-2(i)(2).

"PARTNER NONRECOURSE DEDUCTIONS" means any and all items of loss, deduction or expenditure (including, without limitation, any expenditure described in Section 705(a)(2)(B) of the Code) that, in accordance with the principles of Treasury Regulation Section 1.704-2(i), are attributable to a Partner Nonrecourse Debt.

"PARTNERSHIP" means Ferrellgas, L.P., a Delaware limited partnership, established by the Certificate of Limited Partnership, and any successor thereto.

"PARTNERSHIP INTEREST" means the interest of a Partner in the Partnership.

"PARTNERSHIP MINIMUM GAIN" means that amount determined in accordance with the principles of Treasury Regulation Section 1.704-2(d).

"PERCENTAGE INTEREST" means (a) as to the General Partner, in its capacity as such, 1.0101% and (b) as to the Limited Partner, 98.9899%.

"PERSON" means an individual or a corporation, partnership, trust, unincorporated organization, association or other entity.

"QUARTER" means, unless the context requires otherwise, a three-month period of time ending on October 31, January 31, April 30, or July 31; provided, however, that the General Partner in its sole discretion may amend such period as it deems necessary or appropriate in connection with a change in the fiscal year of the Partnership.

"RECAPTURE INCOME" means any gain recognized by the Partnership (computed without regard to any adjustment required by Sections 734 or 743 of the Code) upon the disposition of any property or asset of the Partnership, which gain is characterized as ordinary income because it represents the recapture of deductions previously taken with respect to such property or asset.

"REGISTRATION STATEMENTS" means the MLP Registration Statement and the OLP Registration Statement.

"REQUIRED ALLOCATIONS" means any allocation (or limitation imposed on any allocation) of an item of income, gain, deduction or loss pursuant to (a) Section 5.1(b)(i) or (b) Sections 5.1(d)(i)-(vi) and (viii), such allocations (or limitations thereon) being directly or indirectly required by the Treasury regulations promulgated under Section 704(b) of the Code.

"RESIDUAL GAIN" or "RESIDUAL LOSS" means any item of gain or loss, as the case may be, of the Partnership recognized for federal income tax purposes resulting from a sale, exchange or other disposition of a Contributed Property or Adjusted Property, to the extent such item of gain or loss is not allocated pursuant to Sections 5.2(b)(i)(A) or 5.2(b)(ii)(A), respectively, to eliminate Book-Tax Disparities.

"RESTRICTED ACTIVITIES" means the retail sale of propane to end users within the continental United States in the manner engaged in by Ferrellgas immediately prior to the Closing Date.

"SECURITIES ACT" means the Securities Act of 1933, as amended, supplemented or restated from time to time and any successor to such statute.

"SENIOR NOTES" means the \_\_\_\_% Senior Notes due 2001 in the aggregate principal amount of \$250 million to be issued by the Partnership and Ferrellgas Finance Corp. and offered and sold in the OLP Offering.

"SPECIAL APPROVAL" means approval by the Audit Committee.

"SUBSIDIARY" means, with respect to any Person, (i) a corporation of which more than 50% of the voting power of shares of Capital Interests entitled (without regard to the occurrence of any contingency) to vote in the election of directors or other governing body of such corporation is owned, directly or indirectly, by such Person, by one or more Subsidiaries of such Person, or a combination thereof, (ii) a partnership (whether general or limited) in which such Person or a Subsidiary of such Person is, at the date of determination, a general or limited partner of such partnership, but only if more than 50% of the Capital Interests of such partnership (considering all of the Capital Interests of the partnership as a single class) is owned or controlled, directly or indirectly, by such Person, by one or more Subsidiaries of such Person, or a combination thereof, or (iii) any other Person (other than a corporation or a partnership) in which such Person, directly or indirectly, at the date of determination, has (x) at least a majority ownership interest or (y) the power to elect or direct the election of a majority of the directors or other governing body of such Person.

"SUBSTITUTED LIMITED PARTNER" means a Person who is admitted as a Limited Partner to the Partnership pursuant to Section 11.3 in place of and with all the rights of a Limited Partner and who is shown as a Limited Partner on the books and records of the Partnership.

"SURVIVING BUSINESS ENTITY" has the meaning assigned to such term in Section 15.2(b).

"TERMINATION CAPITAL TRANSACTIONS" means any sale, transfer or other disposition of property of the Partnership occurring upon or incident to the liquidation and winding up of the Partnership pursuant to Article XIII.

"UNDERWRITING AGREEMENTS" means the MLP Underwriting Agreement and the OLP Underwriting Agreement.

"UNIT" has the meaning assigned to such term in the MLP Agreement.

"UNREALIZED GAIN" attributable to any item of Partnership property means, as of any date of determination, the excess, if any, of (a) the fair market value of such property as of such date (as determined under Section 4.5(d)) over (b) the Carrying Value of such property as of such date (prior to any adjustment to be made pursuant to Section 4.5(d) as of such date).

"UNREALIZED LOSS" attributable to any item of Partnership property means, as of any date of determination, the excess, if any, of (a) the Carrying Value of such property as of such date (prior to any adjustment to be made pursuant to Section 4.5(d) as of such date) over (b) the fair market value of such property as of such date (as determined under Section 4.5(d)).

"WITHDRAWAL OPINION OF COUNSEL" has the meaning assigned to such term in Section 12.1(b).

### ARTICLE III PURPOSE

3.1 Purpose and Business . The purpose and nature of the business to be conducted by the Partnership shall be (a) to acquire, manage, and operate the assets described in the Contribution Agreement as being transferred to the Partnership and any similar assets or properties and to engage directly in, or to enter into or form any corporation, limited liability company, partnership, joint venture or other arrangement to engage



indirectly in, any type of business or activity engaged in by Ferrellgas immediately prior to the Closing Date and, in connection therewith, to exercise all of the rights and powers conferred upon the Partnership pursuant to the agreements relating to such assets, (b) to engage directly in, or enter into or form any corporation, limited liability company, partnership, joint venture or other arrangement to engage indirectly in, any business activity that is approved by the General Partner and which may lawfully be conducted by a limited partnership organized pursuant to the Delaware Act and, in connection therewith, to exercise all of the rights and powers conferred upon the Partnership pursuant to the agreements relating to such business activity, and (c) to do anything necessary or appropriate to the foregoing, including, without limitation, the making of capital contributions to any OLP Subsidiary or loans to the MLP, an MLP Subsidiary or an OLP Subsidiary (including, without limitation, those contributions or loans that may be required in connection with its involvement in the activities referred to in clause (b) of this sentence). The General Partner has no obligation or duty to the Partnership or the Limited Partner to propose or approve, and in its sole discretion may decline to propose or approve, the conduct by the Partnership of any business.

3.2 Powers. The Partnership shall be empowered to do any and all acts and things necessary, appropriate, proper, advisable, incidental to or convenient for the furtherance and accomplishment of the purposes and business described in Section 3.1 and for the protection and benefit of the Partnership.

#### ARTICLE IV CAPITAL CONTRIBUTIONS

4.1 Initial Contributions. In connection with the formation of the Partnership under the Delaware Act, the General Partner has made an initial Capital Contribution to the Partnership in the amount of \$10.10 for an interest in the Partnership and has been admitted as the general partner of the Partnership, and the Initial Limited Partner has made an initial Capital Contribution to the Partnership in the amount of \$989.90 for an interest in the Partnership and has been admitted as a limited partner of the Partnership.

4.2 Contributions by Ferrellgas and the MLP. (a) On the Closing Date, Ferrellgas shall, as a Capital Contribution, contribute, transfer, convey, assign and deliver to the Partnership the property and other rights described in the Contribution Agreement as being so contributed, transferred, conveyed, assigned and delivered in exchange for (i) the continuation of its general partner interest in the Partnership consisting of a Partnership Interest representing a 1.0101% Percentage Interest, (ii) a limited partner interest in the Partnership, which shall be contributed, transferred, conveyed, assigned and delivered by the General Partner to the MLP as set forth in the Contribution Agreement, and which, together with the Partnership Interest previously held by the MLP, will represent a 98.9899% Percentage Interest in the Partnership, and (iii) the Partnership's assumption of, or taking of assets subject to, certain indebtedness and other liabilities, including, without limitation, the Partnership's assumption of the payment obligations of certain indebtedness of Ferrellgas, all as provided for in the Contribution Agreement.

(b) On the Closing Date, the MLP shall contribute in respect of its Partnership Interest [approximately \$\_\_\_\_\_ million out of] the net proceeds to the MLP from the issuance of the Common Units pursuant to the MLP Offering.

4.3 Additional Capital Contributions. With the consent of the General Partner, the Limited Partner may, but shall not be obligated to, make additional Capital Contributions to the Partnership. Contemporaneously with the making of any such additional Capital Contributions by the Limited Partner, the General Partner shall be obligated to make an additional Capital Contribution to the Partnership in an amount equal to 1.0102% of the additional Capital Contribution then made by the Limited Partner. Except as set forth in the immediately preceding sentence and Section 13.8, the General Partner shall not be obligated to make any additional Capital Contributions to the Partnership.

4.4 No Preemptive Rights. Except as provided in Section 4.3, no Person shall have any preemptive, preferential or other similar right with respect to (a) additional Capital Contributions; (b) issuance

or sale of any class or series of Partnership Interests, whether unissued, held in the treasury or hereafter created; (c) issuance of any obligations, evidences of indebtedness or other securities of the Partnership convertible into or exchangeable for, or carrying or accompanied by any rights to receive, purchase or subscribe to, any such Partnership Interests; (d) issuance of any right of subscription to or right to receive, or any warrant or option for the purchase of, any such Partnership Interests; or (e) issuance or sale of any other securities that may be issued or sold by the Partnership.

4.5 Capital Accounts. (A) The Partnership shall maintain for each Partner owning a Partnership Interest a separate Capital Account with respect to such Partnership Interest in accordance with the rules of Treasury Regulation Section 1.704-1(b)(2)(iv). Such Capital Account shall be increased by (i) the amount of all Capital Contributions made to the Partnership with respect to such Partnership Interest pursuant to this Agreement and (ii) all items of Partnership income and gain (including, without limitation, income and gain exempt from tax) computed in accordance with Section 4.5(b) and allocated with respect to such Partnership Interest pursuant to Section 5.1, and decreased by (x) the amount of cash or the Net Agreed Value of all actual and deemed distributions of cash or property made with respect to such Partnership Interest pursuant to this Agreement and (y) all items of Partnership deduction and loss computed in accordance with Section 4.5(b) and allocated with respect to such Partnership Interest pursuant to Section 5.1.

(b) For purposes of computing the amount of any item of income, gain, loss or deduction to be reflected in the Partners' Capital Accounts, the determination, recognition and classification of any such item shall be the same as its determination, recognition and classification for federal income tax purposes (including, without limitation, any method of depreciation, cost recovery or amortization used for that purpose), provided, that:

(i) Solely for purposes of this Section 4.5, the Partnership shall be treated as owning directly its proportionate share (as determined by the General Partner) of all property owned by any OLP Subsidiary that is classified as a partnership for federal income tax purposes.

(ii) All fees and other expenses incurred by the Partnership to promote the sale of (or to sell) a Partnership Interest that can neither be deducted nor amortized under Section 709 of the Code, if any, shall, for purposes of Capital Account maintenance, be treated as an item of deduction at the time such fees and other expenses are incurred and shall be allocated among the Partners pursuant to Section 5.1.

(iii) Except as otherwise provided in Treasury Regulation Section 1.704-1(b)(2)(iv)(m), the computation of all items of income, gain, loss and deduction shall be made without regard to any election under Section 754 of the Code which may be made by the Partnership and, as to those items described in Section 705(a)(1)(B) or 705(a)(2)(B) of the Code, without regard to the fact that such items are not includable in gross income or are neither currently deductible nor capitalized for federal income tax purposes.

(iv) Any income, gain or loss attributable to the taxable disposition of any Partnership property shall be determined as if the adjusted basis of such property as of such date of disposition were equal in amount to the Partnership's Carrying Value with respect to such property as of such date.

(v) In accordance with the requirements of Section 704(b) of the Code, any deductions for depreciation, cost recovery or amortization attributable to any Contributed Property shall be determined as if the adjusted basis of such property on the date it was acquired by the Partnership were equal to the Agreed Value of such property. Upon an adjustment pursuant to Section 4.5(d) to the Carrying Value of any Partnership property subject to depreciation, cost recovery or amortization, any further deductions for such depreciation, cost recovery or amortization attributable to such property shall be determined (A) as if the adjusted basis of such property were equal to the Carrying Value of such property immediately following such adjustment and (B) using a rate of depreciation, cost recovery or amortization derived from the same method and useful life (or, if applicable, the remaining

useful life) as is applied for federal income tax purposes; provided, however, that, if the asset has a zero adjusted basis for federal income tax purposes, depreciation, cost recovery or amortization deductions shall be determined using any reasonable method that the General Partner may adopt.

(vi) If the Partnership's adjusted basis in a depreciable or cost recovery property is reduced for federal income tax purposes pursuant to Section 48(q)(1) or 48(q)(3) of the Code, the amount of such reduction shall, solely for purposes hereof, be deemed to be an additional depreciation or cost recovery deduction in the year such property is placed in service and shall be allocated among the Partners pursuant to Section 5.1. Any restoration of such basis pursuant to Section 48(q)(2) of the Code shall, to the extent possible, be allocated in the same manner to the Partners to whom such deemed deduction was allocated.

(c) A transferee of a Partnership Interest shall succeed to a pro rata portion of the Capital Account of the transferor relating to the Partnership Interest so transferred; provided, however, that, if the transfer causes a termination of the Partnership under Section 708(b)(1)(B) of the Code, the Partnership's properties shall be deemed to have been distributed in liquidation of the Partnership to the Partners (including any transferee of a Partnership Interest that is a party to the transfer causing such termination) pursuant to Sections 13.3 and 13.4 and recontributed by such Partners in reconstitution of the Partnership. Any such deemed distribution shall be treated as an actual distribution for purposes of this Section 4.5. In such event, the Carrying Values of the Partnership properties shall be adjusted immediately prior to such deemed distribution pursuant to Section 4.5(d)(ii) and such Carrying Values shall then constitute the Agreed Values of such properties upon such deemed contribution to the reconstituted Partnership. The Capital Accounts of such reconstituted Partnership shall be maintained in accordance with the principles of this Section 4.5.

(d) (i) Consistent with the provisions of Treasury Regulation Section 1.704-1(b)(2)(iv)(f), on an issuance of additional Partnership Interests for cash or Contributed Property, the Capital Account of all Partners and the Carrying Value of each Partnership property immediately prior to such issuance shall be adjusted upward or downward to reflect any Unrealized Gain or Unrealized Loss attributable to such Partnership property, as if such Unrealized Gain or Unrealized Loss had been recognized on an actual sale of each such property immediately prior to such issuance and had been allocated to the Partners at such time pursuant to Sections 5.1(a) and 5.1(b). In determining such Unrealized Gain or Unrealized Loss, the aggregate cash amount and fair market value of all Partnership assets (including, without limitation, cash or cash equivalents) immediately prior to the issuance of additional Partnership Interests shall be determined by the General Partner using such reasonable method of valuation as it may adopt; provided, however, that the General Partner, in arriving at such valuation, must take fully into account the fair market value of the Partnership Interests of all Partners at such time. The General Partner shall allocate such aggregate value among the assets of the Partnership (in such manner as it determines in its sole discretion to be reasonable) to arrive at a fair market value for individual properties.

(ii) In accordance with Treasury Regulation Section 1.704-1(b)(2)(iv)(f), immediately prior to any actual or deemed distribution to a Partner of any Partnership property (other than a distribution of cash that is not in redemption or retirement of a Partnership Interest), the Capital Accounts of all Partners and the Carrying Value of such Partnership property shall be adjusted upward or downward to reflect any Unrealized Gain or Unrealized Loss attributable to such Partnership property, as if such Unrealized Gain or Unrealized Loss had been recognized in a sale of such property immediately prior to such distribution for an amount equal to its fair market value, and had been allocated to the Partners, at such time, pursuant to Section 5.1. Any Unrealized Gain or Unrealized Loss attributable to such property shall be allocated in the same manner as Net Termination Gain or Net Termination Loss pursuant to Section 5.1(c); provided, however, that, in making any such allocation, Net Termination Gain or Net Termination Loss actually realized shall be allocated first. In determining such Unrealized Gain or Unrealized Loss the aggregate cash amount and fair market value of all Partnership assets (including, without limitation, cash or cash equivalents) immediately prior to a distribution shall (A) in the case of a deemed distribution occurring as a result of a termination of the

Partnership pursuant to Section 708 of the Code, be determined and allocated in the same manner as that provided in Section 4.5(d)(i) or (B) in the case of a liquidating distribution pursuant to Section 14.3 or 14.4, be determined and allocated by the Liquidator using such reasonable method of valuation as it may adopt.

4.6 Interest. No interest shall be paid by the Partnership on Capital Contributions or on balances in Partners' Capital Accounts.

4.7 No Withdrawal. No Partner shall be entitled to withdraw any part of its Capital Contributions or its Capital Account or to receive any distribution from the Partnership, except as provided in Articles V, VII, XII and XIII.

4.8 Loans from Partners. Loans by a Partner to the Partnership shall not constitute Capital Contributions. If any Partner shall advance funds to the Partnership in excess of the amounts required hereunder to be contributed by it to the capital of the Partnership, the making of such excess advances shall not result in any increase in the amount of the Capital Account of such Partner. The amount of any such excess advances shall be a debt obligation of the Partnership to such Partner and shall be payable or collectible only out of the Partnership assets in accordance with the terms and conditions upon which such advances are made.

#### ARTICLE V ALLOCATIONS AND DISTRIBUTIONS

5.1 Allocations for Capital Account Purposes. For purposes of maintaining the Capital Accounts and in determining the rights of the Partners among themselves, the Partnership's items of income, gain, loss and deduction (computed in accordance with Section 4.5(b)) shall be allocated among the Partners in each taxable year (or portion thereof) as provided hereinbelow.

(a) Net Income. After giving effect to the special allocations set forth in Section 5.1(d), Net Income for each taxable period and all items of income, gain, loss and deduction taken into account in computing Net Income for such taxable period shall be allocated as follows:

(i) First, 100% to the General Partner until the aggregate Net Income allocated to the General Partner pursuant to this Section 5.1(a)(i) for the current taxable year and all previous taxable years is equal to the aggregate Net Losses allocated to the General Partner pursuant to Section 5.1(b)(ii) for all previous taxable years; and

(ii) Second, the balance, if any, 100% to the General Partner and the Limited Partner in accordance with their respective Percentage Interests.

(b) Net Losses. After giving effect to the special allocations set forth in Section 5.1(d), Net Losses for each taxable period and all items of income, gain, loss and deduction taken into account in computing Net Losses for such taxable period shall be allocated as follows:

(i) First, 100% to the General Partner and the Limited Partner in accordance with their respective Percentage Interests; provided, that Net Losses shall not be allocated pursuant to this Section 5.1(b)(i) to the extent that such allocation would cause any Limited Partner to have a deficit balance in its Adjusted Capital Account at the end of such taxable year (or increase any existing deficit balance in its Adjusted Capital Account); and

(ii) Second, the balance, if any, 100% to the General Partner.

(c) Net Termination Gains and Losses. After giving effect to the special allocations set forth in Section 5.1(d), all items of income, gain, loss and deduction taken into account in computing Net Termination Gain or Net Termination Loss for such taxable period shall be allocated in the same manner as such Net Termination Gain or Net Termination Loss is allocated hereunder. All allocations under this Section 5.1(c) shall be made after Capital Account balances have been adjusted by all other allocations provided under this Section 5.1 and after all distributions of Available Cash provided under Section 5.3 have been made with respect to the taxable period ending on the date of the Partnership's liquidation pursuant to Section 13.3.

(i) If a Net Termination Gain is recognized (or deemed recognized pursuant to Section 4.5(d)) from Termination Capital Transactions, such Net Termination Gain shall be allocated between the General Partner and the Limited Partner in the following manner (and the Adjusted Capital Accounts of the Partners shall be increased by the amount so allocated in each of the following subclauses, in the order listed, before an allocation is made pursuant to the next succeeding subclause):

(A) First, to each Partner having a deficit balance in its Adjusted Capital Account, in the proportion that such deficit balance bears to the total deficit balances in the Adjusted Capital Accounts of all Partners, until each such Partner has been allocated Net Termination Gain equal to any such deficit balance in its Adjusted Capital Account; and

(B) Second, 100% to the General Partner and the Limited Partner in accordance with their respective Percentage Interests.

(ii) If a Net Termination Loss is recognized (or deemed recognized pursuant to Section 4.5(d)) from Termination Capital Transactions, such Net Termination Loss shall be allocated to the Partners in the following manner:

(A) First, 100% to the General Partner and the Limited Partner in proportion to, and to the extent of, the positive balances in their respective Adjusted Capital Accounts; and

(B) Second, the balance, if any, 100% to the General Partner.

(d) Specials Allocations. Notwithstanding any other provision of this Section 5.1, the following special allocations shall be made for such taxable period:

(i) Partnership Minimum Gain Chargeback. Notwithstanding any other provision of this Section 5.1, if there is a net decrease in Partnership Minimum Gain during any Partnership taxable period, each Partner shall be allocated items of Partnership income and gain for such period (and, if necessary, subsequent periods) in the manner and amounts provided in Treasury Regulation Sections 1.704-2(f)(6), 1.704-2(g)(2) and 1.704-2(j)(2)(i), or any successor provision. For purposes of this Section 5.1(d), each Partner's Adjusted Capital Account balance shall be determined, and the allocation of income or gain required hereunder shall be effected, prior to the application of any other allocations pursuant to this Section 5.1(d) with respect to such taxable period (other than an allocation pursuant to Sections 5.1(d)(v) and (vi)). This Section 5.1(d)(i) is intended to comply with the Partnership Minimum Gain chargeback requirement in Treasury Regulation Section 1.704-2(f) and shall be interpreted consistently therewith.

(ii) Chargeback of Partner Nonrecourse Debt Minimum Gain. Notwithstanding the other provisions of this Section 5.1 (other than Section 5.1(d)(i)), except as provided in Treasury Regulation Section 1.704-2(i)(4), if there is a net decrease in Partner Nonrecourse

Debt Minimum Gain during any Partnership taxable period, any Partner with a share of Partner Nonrecourse Debt Minimum Gain at the beginning of such taxable period shall be allocated items of Partnership income and gain for such period (and, if necessary, subsequent periods) in the manner and amounts provided in Treasury Regulation Sections 1.704-2(i)(4) and 1.704-2(j)(2)(ii), or any successor provisions. For purposes of this Section 5.1(d), each Partner's Adjusted Capital Account balance shall be determined, and the allocation of income or gain required hereunder shall be effected, prior to the application of any other allocations pursuant to this Section 5.1(d), other than Section 5.1(d)(i) and other than an allocation pursuant to Sections 5.1(d)(v) and (vi), with respect to such taxable period. This Section 5.1(d)(ii) is intended to comply with the chargeback of items of income and gain requirement in Treasury Regulation Section 1.704-2(i)(4) and shall be interpreted consistently therewith.

(iii) Qualified Income Offset. In the event any Partner unexpectedly receives any adjustments, allocations or distributions described in Treasury Regulation Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), or 1.704-1(b)(2)(ii)(d)(6), items of Partnership income and gain shall be specifically allocated to such Partner in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulations promulgated under Section 704(b) of the Code, the deficit balance, if any, in its Adjusted Capital Account created by such adjustments, allocations or distributions as quickly as possible, unless such deficit balance is otherwise eliminated pursuant to Section 5.1(d)(i) or (ii).

(iv) Gross Income Allocations. In the event any Partner has a deficit balance in its Adjusted Capital Account at the end of any Partnership taxable period such Partner shall be specially allocated items of Partnership gross income and gain in the amount of such excess as quickly as possible; provided, that an allocation pursuant to this Section 5.1(d)(iv) shall be made only if and to the extent that such Partner would have a deficit balance in its Adjusted Capital Account after all other allocations provided in this Section 5.1 have been tentatively made as if this Section 5.1(d)(iv) were not in this Agreement.

(v) Nonrecourse Deductions. Nonrecourse Deductions for any taxable period shall be allocated to the Partners in accordance with their respective Percentage Interests. If the General Partner determines in its good faith discretion that the Partnership's Nonrecourse Deductions must be allocated in a different ratio to satisfy the safe harbor requirements of the Treasury Regulations promulgated under Section 704(b) of the Code, the General Partner is authorized, upon notice to the Limited Partner, to revise the prescribed ratio to the numerically closest ratio that does satisfy such requirements.

(vi) Partner Nonrecourse Deductions. Partner Nonrecourse Deductions for any taxable period shall be allocated 100% to the Partner that bears the Economic Risk of Loss with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable in accordance with Treasury Regulation Section 1.704-2(i). If more than one Partner bears the Economic Risk of Loss with respect to a Partner Nonrecourse Debt, such Partner Nonrecourse Deductions attributable thereto shall be allocated between or among such Partners in accordance with the ratios in which they share such Economic Risk of Loss.

(vii) Nonrecourse Liabilities. For purposes of Treasury Regulation Section 1.752-3(a)(3), the Partners agree that Nonrecourse Liabilities of the Partnership in excess of the sum of (A) the amount of Partnership Minimum Gain and (B) the total amount of Nonrecourse Built-in Gain shall be allocated among the Partners in accordance with their respective Percentage Interests.

(viii) Code Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any Partnership asset pursuant to Section 734(b) or 743(b) of the Code is required, pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(m), to be taken into

account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such item of gain or loss shall be specially allocated to the Partners in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such Section of the Treasury Regulations.

(ix) Curative Allocation.

(A) Notwithstanding any other provision of this Section 5.1, other than the Required Allocations, the Required Allocations shall be taken into account in making the Agreed Allocations so that, to the extent possible, the net amount of items of income, gain, loss and deduction allocated to each Partner pursuant to the Required Allocations and the Agreed Allocations, together, shall be equal to the net amount of such items that would have been allocated to each such Partner under the Agreed Allocations had the Required Allocations and the related Curative Allocation not otherwise been provided in this Section 5.1. Notwithstanding the preceding sentence, Required Allocations relating to (1) Nonrecourse Deductions shall not be taken into account except to the extent that there has been a decrease in Partnership Minimum Gain and (2) Partner Nonrecourse Deductions shall not be taken into account except to the extent that there has been a decrease in Partner Nonrecourse Debt Minimum Gain. Allocations pursuant to this Section 5.1(d)(ix)(A) shall only be made with respect to Required Allocations to the extent the General Partner reasonably determines that such allocations will otherwise be inconsistent with the economic agreement among the Partners. Further, allocations pursuant to this Section 5.1(d)(ix)(A) shall be deferred with respect to allocations pursuant to clauses (1) and (2) hereof to the extent the General Partner reasonably determines that such allocations are likely to be offset by subsequent Required Allocations.

(B) The General Partner shall have reasonable discretion, with respect to each taxable period, to (1) apply the provisions of Section 5.1(d)(ix)(A) in whatever order is most likely to minimize the economic distortions that might otherwise result from the Required Allocations, and (2) divide all allocations pursuant to Section 5.1(d)(ix)(A) among the Partners in a manner that is likely to minimize such economic distortions.

5.2 Allocations for Tax Purposes . (a) Except as otherwise provided herein, for federal income tax purposes, each item of income, gain, loss and deduction shall be allocated among the Partners in the same manner as its correlative item of "book" income, gain, loss or deduction is allocated pursuant to Section 5.1.

(b) In an attempt to eliminate Book-Tax Disparities attributable to a Contributed Property or Adjusted Property, items of income, gain, loss, depreciation, amortization and cost recovery deductions shall be allocated for federal income tax purposes among the Partners as follows:

(i) (A) In the case of a Contributed Property, such items attributable thereto shall be allocated among the Partners in the manner provided under Section 704(c) of the Code that takes into account the variation between the Agreed Value of such property and its adjusted basis at the time of contribution; and (B) except as otherwise provided in Section 5.2(b)(iii), any item of Residual Gain or Residual Loss attributable to a Contributed Property shall be allocated among the Partners in the same manner as its correlative item of "book" gain or loss is allocated pursuant to Section 5.1.

(ii) (A) In the case of an Adjusted Property, such items shall (1) first, be allocated among the Partners in a manner consistent with the principles of Section 704(c) of the Code to take into account the Unrealized Gain or Unrealized Loss attributable to such property and the allocations

thereof pursuant to Section 4.5(d)(i) or (ii), and (2) second, in the event such property was originally a Contributed Property, be allocated among the Partners in a manner consistent with Section 5.2(b)(i)(A); and (B) except as otherwise provided in Section 5.2(b)(iii), any item of Residual Gain or Residual Loss attributable to an Adjusted Property shall be allocated among the Partners in the same manner as its correlative item of "book" gain or loss is allocated pursuant to Section 5.1.

(iii) The General Partner shall apply the principles of Temporary Regulation Section 1.704-3T to eliminate Book-Tax Disparities.

(c) For the proper administration of the Partnership and for the preservation of uniformity of Units of the MLP (or any class or classes thereof), the General Partner shall have sole discretion to (i) adopt such conventions as it deems appropriate in determining the amount of depreciation, amortization and cost recovery deductions; (ii) make special allocations for federal income tax purposes of income (including, without limitation, gross income) or deductions; and (iii) amend the provisions of this Agreement as appropriate (x) to reflect the proposal or promulgation of Treasury Regulations under Section 704(b) or Section 704(c) of the Code or (y) otherwise to preserve or achieve uniformity of Units of the MLP (or any class or classes thereof). The General Partner may adopt such conventions, make such allocations and make such amendments to this Agreement as provided in this Section 5.2(c) only if such conventions, allocations or amendments would not have a material adverse effect on the Partners, the holders of any class or classes of Units of the MLP issued and outstanding or the Partnership, and if such allocations are consistent with the principles of Section 704 of the Code.

(d) The General Partner in its sole discretion may determine to depreciate or amortize the portion of an adjustment under Section 743(b) of the Code attributable to unrealized appreciation in any Adjusted Property (to the extent of the unamortized Book-Tax Disparity) using a predetermined rate derived from the depreciation or amortization method and useful life applied to the Partnership's common basis of such property, despite the inconsistency of such approach with Proposed Treasury Regulation Section 1.168-2(n), Treasury Regulation Section 1.167(c)-1(a)(6) or the legislative history of Section 197 of the Code. If the General Partner determines that such reporting position cannot reasonably be taken, the General Partner may adopt depreciation and amortization conventions under which all purchasers acquiring Units of the MLP in the same month would receive depreciation and amortization deductions, based upon the same applicable rate as if they had purchased a direct interest in the Partnership's property. If the General Partner chooses not to utilize such aggregate method, the General Partner may use any other reasonable depreciation and amortization conventions to preserve the uniformity of the intrinsic tax characteristics of any class or classes of Units of the MLP that would not have a material adverse effect on the Limited Partner or the holders of any class or classes of Units of the MLP.

(e) Any gain allocated to the Partners upon the sale or other taxable disposition of any Partnership asset shall, to the extent possible, after taking into account other required allocations of gain pursuant to this Section 5.2, be characterized as Recapture Income in the same proportions and to the same extent as such Partners (or their predecessors in interest) have been allocated any deductions directly or indirectly giving rise to the treatment of such gains as Recapture Income.

(f) All items of income, gain, loss, deduction and credit recognized by the Partnership for federal income tax purposes and allocated to the Partners in accordance with the provisions hereof shall be determined without regard to any election under Section 754 of the Code which may be made by the Partnership; provided, however, that such allocations, once made, shall be adjusted as necessary or appropriate to take into account those adjustments permitted or required by Sections 734 and 743 of the Code.

(g) The General Partner may adopt such methods of allocation of income, gain, loss or deduction between a transferor and a transferee of a Partnership Interest as it determines necessary, to the extent permitted or required by Section 706 of the Code and the regulations or rulings promulgated thereunder.



5.3 Requirement of Distributions . (a) Within 45 days following the end of (i) the period beginning on the Closing Date and ending on October 31, 1994 and (ii) each Quarter commencing with the Quarter beginning on November 1, 1994, an amount equal to 100% of Available Cash with respect to such period or Quarter shall be distributed in accordance with this Article V by the Partnership to the Partners in accordance with their respective Percentage Interests. The immediately preceding sentence shall not require any distribution of cash if and to the extent such distribution would be prohibited by applicable law or by any loan agreement, security agreement, mortgage, debt instrument or other agreement or obligation to which the Partnership is a party or by which it is bound or its assets are subject.

(b) Notwithstanding the foregoing, in the event of the dissolution and liquidation of the Partnership, all proceeds of such liquidation shall be applied and distributed in accordance with, and subject to the terms and conditions of, Sections 13.3 and 13.4

## ARTICLE VI MANAGEMENT AND OPERATION OF BUSINESS

6.1 Management. (a) The General Partner shall conduct, direct and manage all activities of the Partnership. Except as otherwise expressly provided in this Agreement, all management powers over the business and affairs of the Partnership shall be exclusively vested in the General Partner, and the Limited Partner shall have no right of control or management power over the business and affairs of the Partnership. In addition to the powers now or hereafter granted a general partner of a limited partnership under applicable law or which are granted to the General Partner under any other provision of this Agreement, the General Partner, subject to Section 6.3, shall have full power and authority to do all things and on such terms as it, in its sole discretion, may deem necessary or appropriate to conduct the business of the Partnership, to exercise all powers set forth in Section 3.2 and to effectuate the purposes set forth in Section 3.1, including, without limitation, (i) the making of any expenditures, the lending or borrowing of money, the assumption or guarantee of, or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness and the incurring of any other obligations; (ii) the making of tax, regulatory and other filings, or rendering of periodic or other reports to governmental or other agencies having jurisdiction over the business or assets of the Partnership; (iii) the acquisition, disposition, mortgage, pledge, encumbrance, hypothecation or exchange of any or all of the assets of the Partnership or the merger or other combination of the Partnership with or into another Person (the matters described in this clause (iii) being subject, however, to any prior approval that may be required by Section 6.3); (iv) the use of the assets of the Partnership (including, without limitation, cash on hand) for any purpose consistent with the terms of this Agreement, including, without limitation, the financing of the conduct of the operations of the Partnership, the lending of funds to other Persons (including, without limitation, an OLP Subsidiary), the repayment of obligations of the Partnership and the making of capital contributions to an OLP Subsidiary; (v) the negotiation, execution and performance of any contracts, conveyances or other instruments (including, without limitation, instruments that limit the liability of the Partnership under contractual arrangements to all or particular assets of the Partnership, with the other party to the contract to have no recourse against the General Partner or its assets other than its interest in the Partnership, even if same results in the terms of the transaction being less favorable to the Partnership than would otherwise be the case); (vi) the distribution of Partnership cash; (vii) the selection and dismissal of employees and agents (including, without limitation, employees having titles such as "president," "vice president," "secretary" and "treasurer") and agents, outside attorneys, accountants, consultants and contractors and the determination of their compensation and other terms of employment or hiring; (viii) the maintenance of such insurance for the benefit of the Partnership and the Partners (including, without limitation, the assets of the Partnership) as it deems necessary or appropriate; (ix) the formation of, or acquisition of an interest in, and the contribution of property and the making of loans to, any further limited or general partnerships, joint ventures, corporations, limited liability companies or other relationships; (x) the control of any matters affecting the rights and obligations of the Partnership, including, without limitation, the bringing and defending of actions at law or in equity and otherwise engaging in the conduct of litigation and the incurring of legal expense and the settlement of claims and litigation; and (xi) the indemnification of any Person against liabilities and contingencies to the extent permitted by law.

(b) Notwithstanding any other provision of this Agreement, the MLP Agreement, the Delaware Act or any applicable law, rule or regulation, each of the Partners hereby (i) approves, ratifies and confirms the execution, delivery and performance by the parties thereto of the MLP Agreement, the Underwriting Agreements, the Contribution Agreement, the agreements and other documents filed as exhibits to the Registration Statements, and the other agreements described in or filed as a part of the Registration Statements, and the engaging by any Affiliate of the General Partner in business and activities (other than Restricted Activities) that are in direct competition with the business and activities of the MLP, the Partnership, any OLP Subsidiary and any MLP Subsidiary; (ii) agrees that the General Partner (on its own or through any officer of the Partnership) is authorized to execute, deliver and perform the agreements referred to in clause (i) of this sentence and the other agreements, acts, transactions and matters described in the Registration Statements on behalf of the Partnership without any further act, approval or vote of the Partners; and (iii) agrees that the execution, delivery or performance by the General Partner, the MLP, the Partnership or any Affiliate of any of them of this Agreement or any agreement authorized or permitted under this Agreement, or the engaging by any Affiliate of the General Partner in any business and activities (other than Restricted Activities) that are in direct competition with the business and activities of the MLP, the Partnership, any OLP Subsidiary and any MLP Subsidiary, shall not constitute a breach by the General Partner of any duty that the General Partner may owe the Partnership or the Limited Partners or any other Persons under this Agreement (or any other agreements) or of any duty stated or implied by law or equity. The term "Affiliate" when used in this Section 6.1(b) with respect to the General Partner shall not include the Partnership, the MLP, any OLP Subsidiary or any MLP Subsidiary.

6.2 Certificate of Limited Partnership. The General Partner has caused the Certificate of Limited Partnership of Ferrellgas, L.P. to be filed with the Secretary of State of the State of Delaware as required by the Delaware Act and shall use all reasonable efforts to cause to be filed such other certificates or documents as may be determined by the General Partner in its sole discretion to be reasonable and necessary or appropriate for the formation, continuation, qualification and operation of a limited partnership (or a partnership in which the Limited Partner has limited liability) in the State of Delaware or any other state in which the Partnership may elect to do business or own property. To the extent that such action is determined by the General Partner in its sole discretion to be reasonable and necessary or appropriate, the General Partner shall file amendments to and restatements of the Certificate of Limited Partnership and do all things to maintain the Partnership as a limited partnership (or a partnership in which the Limited Partner has limited liability) under the laws of the State of Delaware or of any other state in which the Partnership may elect to do business or own property. Subject to the terms of Section 7.4(a), the General Partner shall not be required, before or after filing, to deliver or mail a copy of the Certificate of Limited Partnership, any qualification document or any amendment thereto to the Limited Partner.

6.3 Restrictions on General Partner's Authority. (a) The General Partner may not, without written approval of the specific act by the Limited Partner or by other written instrument executed and delivered by the Limited Partner subsequent to the date of this Agreement, take any action in contravention of this Agreement, including, without limitation, (i) any act that would make it impossible to carry on the ordinary business of the Partnership, except as otherwise provided in this Agreement; (ii) possess Partnership property, or assign any rights in specific Partnership property, for other than a Partnership purpose; (iii) admit a Person as a Partner, except as otherwise provided in this Agreement; (iv) amend this Agreement in any manner, except as otherwise provided in this Agreement; or (v) transfer its interest as general partner of the Partnership, except as otherwise provided in this Agreement.

(b) Except as provided in Articles XIII and XV, the General Partner may not sell, exchange or otherwise dispose of all or substantially all of the Partnership's assets in a single transaction or a series of related transactions without the approval of the Limited Partner; provided, however, that this provision shall not preclude or limit the General Partner's ability to mortgage, pledge, hypothecate or grant a security interest in all or substantially all of the Partnership's assets and shall not apply to any forced sale of any or all of the Partnership's assets pursuant to the foreclosure of, or other realization upon, any such encumbrance.

(c) Unless approved by the Limited Partner, 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 Partnership to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes; provided that this Section 6.3(c) shall not be construed to apply to amendments to this Agreement (which are governed by Article XIV) or mergers or consolidations of the Partnership with any Person (which are governed by Article XV).

(d) At all times while serving as the general partner of the Partnership, the General Partner shall not (except as provided below) make any dividend or distribution on, or repurchase any shares of, its stock or take any other action within its control unless it shall first receive an Opinion of Counsel that the effect of such dividend, distribution, repurchase or other action would not reduce its net worth below an amount such that the Partnership will be treated as an association taxable as a corporation for federal income tax purposes; provided, however, to the extent the General Partner receives distributions of cash from the Partnership or any other partnership of which the Partnership is, directly or indirectly, a partner, the General Partner shall not use such cash to make any dividend or distribution on, or repurchase any shares of, its stock or take any other action within its control if the effect of such dividend, distribution, repurchase or other action would be to reduce its net worth below an amount necessary to receive an Opinion of Counsel that the Partnership will be treated as a partnership for federal income tax purposes.

6.4 Reimbursement of the General Partner. (a) Except as provided in this Section 6.4 and elsewhere in this Agreement, the General Partner shall not be compensated for its services as general partner of the Partnership.

(b) The General Partner shall be reimbursed on a monthly basis, or such other basis as the General Partner may determine in its sole discretion, for (i) all direct and indirect expenses it incurs or payments it makes on behalf of the Partnership (including, without limitation, salary, bonus, incentive compensation and other amounts paid to any Person to perform services for the Partnership or for the General Partner in the discharge of its duties to the Partnership) and (ii) 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 (including, without limitation, expenses allocated to the General Partner by its Affiliates). The General Partner shall determine the fees and expenses that are allocable to the Partnership in any reasonable manner determined by the General Partner in its sole discretion. Reimbursements pursuant to this Section 6.4 shall be in addition to any reimbursement to the General Partner as a result of indemnification pursuant to Section 6.7.

6.5 Outside Activities. (a) After the Closing Date, the General Partner, for so long as it is the general partner of the Partnership, (i) agrees that its sole business will be to act as the general partner of the Partnership, the MLP, any OLP Subsidiary and any MLP Subsidiary and to undertake activities that are ancillary or related thereto (including being a limited partner in the MLP), (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 this Agreement or the MLP Agreement or described in or contemplated by the Registration Statements and (B) the acquisition, ownership or disposition of partnership interests in the Partnership, the MLP, any OLP Subsidiary and any MLP Subsidiary, except that, notwithstanding the foregoing, employees of the General Partner may perform services for Ferrell and its Affiliates and (iii) shall not and shall cause its Affiliates not to engage in any Restricted Activities.

(b) Except as described or provided for in the MLP Agreement, the Registration Statements or Section 6.5(a), no Indemnitee shall be expressly or implicitly restricted or proscribed pursuant to the MLP Agreement or this Agreement or the partnership relationship established hereby or thereby from engaging in other activities for profit, whether in the businesses engaged in by the Partnership, an OLP Subsidiary, the MLP or an MLP Subsidiary or anticipated to be engaged in by the Partnership, an OLP Subsidiary, the MLP, an MLP Subsidiary or otherwise, including, without limitation, in the case of any Affiliates of the General Partner those businesses and activities (other than Restricted Activities) in direct competition with the business and activities of the Partnership, the MLP, an OLP Subsidiary or an MLP Subsidiary or otherwise described in or

contemplated by the Registration Statements. Without limitation of and subject to the foregoing each Indemnitee (other than the General Partner) shall have the right to engage in businesses of every type and description and to engage in and possess an interest in other business ventures of any and every type or description, independently or with others, including, without limitation, in the case of any Affiliates of the General Partner, business interests and activities (other than Restricted Activities) in direct competition with the business and activities of the Partnership, the MLP, an OLP Subsidiary or an MLP Subsidiary, and none of the same shall constitute a breach of this Agreement or any duty to the Partnership, the MLP or any Partners. Neither the Partnership, the MLP, any Limited Partner nor any other Person shall have any rights by virtue of this Agreement or the MLP Agreement or the partnership relationship established hereby or thereby in any business ventures of any Indemnitee (subject, in the case of the General Partner, to compliance with Section 6.5(c)) and such Indemnitees shall have no obligation to offer any interest in any such business ventures to the Partnership, the MLP, any Limited Partner or any other Person.

(c) Subject to the terms of Sections 6.5(a) and (b) but otherwise notwithstanding anything to the contrary in this Agreement, (i) the competitive activities of any Indemnitees (other than the General Partner) are hereby approved by the Partnership and all Partners and (ii) it shall be deemed not to be a breach of the General Partner's fiduciary duty or any other obligation of any type whatsoever of the General Partner for the General Partner to permit an Affiliate of the General Partner to engage, or for any such Affiliate to engage, in business interests or activities (other than Restricted Activities) in preference to or to the exclusion of the Partnership.

(d) The term "Affiliates" when used in this Section 6.5 with respect to the General Partner shall not include the Partnership, the MLP, an OLP Subsidiary or an MLP Subsidiary.

6.6 Loans to and from the General Partner; Contracts with Affiliates. (a) (i) The General Partner, the Limited Partner, an OLP Subsidiary or any of their Affiliates may lend to the Partnership, and the Partnership may borrow, funds needed or desired by the Partnership for such periods of time as the General Partner may determine and (ii) the General Partner, the Limited Partner, an OLP Subsidiary or any Affiliate thereof may borrow from the Partnership, and the Partnership may lend to such Persons, excess funds of the Partnership for such periods of time and in such amounts as the General Partner may determine; provided, however, that in either such case the lending party may not charge the borrowing party interest at a rate greater than the rate that would be charged the borrowing party (without reference to the lending party's financial abilities or guarantees) by unrelated lenders on comparable loans. The borrowing party shall reimburse the lending party for any costs (other than any additional interest costs) incurred by the lending party in connection with the borrowing of such funds. For purposes of this Section 6.6(a) and Section 6.6(b), the term "Partnership" shall include any Affiliate of the Partnership that is controlled by the Partnership.

(b) The General Partner may itself, or may enter into an agreement with any of its Affiliates to, render services to the Partnership or to the General Partner in the discharge of its duties as general partner of the Partnership. Any service rendered to the Partnership by the General Partner or any of its Affiliates shall be on terms that are fair and reasonable to the Partnership; provided, however, that the requirements of this Section 6.6(b) shall be deemed satisfied as to (i) any transaction approved by Special Approval, (ii) any transaction the terms of which are no less favorable to the Partnership than those generally being provided to or available from unrelated third parties or (iii) any transaction that, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership), is equitable to the Partnership. The provisions of Section 6.4 shall apply to the rendering of services described in this Section 6.6(b).

(c) The Partnership may transfer assets to joint ventures, other partnerships, corporations, limited liability companies or other business entities in which it is or thereby becomes a participant upon such terms and subject to such conditions as are consistent with this Agreement and applicable law.

(d) Neither the General Partner nor any of its Affiliates shall sell, transfer or convey any property to, or purchase any property from, the Partnership, directly or indirectly, except pursuant to transactions that

are fair and reasonable to the Partnership; provided, however, that the requirements of this Section 6.6(d) shall be deemed to be satisfied as to (i) the transactions effected pursuant to Sections 4.2, the Contribution Agreement and any other transactions described in or contemplated by the Registration Statements, (ii) any transaction approved by Special Approval, (iii) any transaction the terms of which are no less favorable to the Partnership than those generally being provided to or available from unrelated third parties or (iv) any transaction that, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership), is equitable to the Partnership.

(e) The General Partner and its Affiliates will have no obligation to permit the Partnership, an OLP Subsidiary or the MLP to use any facilities or assets of the General Partner and its Affiliates, except as may be provided in contracts entered into from time to time specifically dealing with such use, nor shall there be any obligation on the part of the General Partner or its Affiliates to enter into such contracts.

(f) Without limitation of Sections 6.6(a) through 6.6(e), and notwithstanding anything to the contrary in this Agreement, the existence of the conflicts of interest described in the Registration Statements are hereby approved by all Partners.

6.7 Indemnification. (a) To the fullest extent permitted by law but subject to the limitations expressly provided in this Agreement, the General Partner, any Departing Partner, any Person who is or was an officer or director of the Partnership, the General Partner or any Departing Partner and all other Indemnitees shall be indemnified and held harmless by the Partnership from and against any and all losses, claims, damages, liabilities, joint or several, expenses (including, without limitation, legal fees and expenses), judgments, fines, penalties, interest, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative, in which any Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, by reason of its status as (i) the General Partner, a Departing Partner or any of their Affiliates, (ii) an officer, director, employee, partner, agent or trustee of the Partnership, the General Partner, any Departing Partner or any of their Affiliates or (iii) a Person serving at the request of the Partnership in another entity in a similar capacity, provided, that in each case the Indemnitee acted in good faith and in a manner which such Indemnitee reasonably believed to be in, or not opposed to, the best interests of the Partnership and, with respect to any criminal proceeding, had no reasonable cause to believe its conduct was unlawful; provided, further, no indemnification pursuant to this Section 6.7 shall be available to the General Partner with respect to its obligations incurred pursuant to the Contribution Agreement (other than obligations incurred by the General Partner on behalf of the Partnership or the MLP). The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that the Indemnitee acted in a manner contrary to that specified above. Any indemnification pursuant to this Section 6.7 shall be made only out of the assets of the Partnership, it being agreed that the General Partner shall not be personally liable for such indemnification and shall have no obligation to contribute or loan any monies or property to the Partnership to enable it to effectuate such indemnification.

(b) To the fullest extent permitted by law, expenses (including, without limitation, legal fees and expenses) incurred by an Indemnitee who is indemnified pursuant to Section 6.7(a) in defending any claim, demand, action, suit or proceeding shall, from time to time, be advanced by the Partnership prior to the final disposition of such claim, demand, action, suit or proceeding upon receipt by the Partnership of an undertaking by or on behalf of the Indemnitee to repay such amount if it shall be determined that the Indemnitee is not entitled to be indemnified as authorized in this Section 6.7.

(c) The indemnification provided by this Section 6.7 shall be in addition to any other rights to which an Indemnitee may be entitled under any agreement, pursuant to any vote of the Partners, as a matter of law or otherwise, both as to actions in the Indemnitee's capacity as (i) the General Partner, a Departing Partner or an Affiliate thereof, (ii) an officer, director, employee, partner, agent or trustee of the Partnership, the General Partner, any Departing Partner or an Affiliate thereof or (iii) a Person serving at the request of the Partnership in another entity in a similar capacity, and as to actions in any other capacity (including, without limitation, any

capacity under the Underwriting Agreements), and shall continue as to an Indemnitee who has ceased to serve in such capacity and shall inure to the benefit of the heirs, successors, assigns and administrators of the Indemnitee.

(d) The Partnership may purchase and maintain (or reimburse the General Partner or its Affiliates for the cost of) insurance, on behalf of the General Partner and such other Persons as the General Partner shall determine, against any liability that may be asserted against or expense that may be incurred by such Person in connection with the Partnership's activities, regardless of whether the Partnership would have the power to indemnify such Person against such liability under the provisions of this Agreement.

(e) For purposes of this Section 6.7, the Partnership shall be deemed to have requested an Indemnitee to serve as fiduciary of an employee benefit plan whenever the performance by it of its duties to the Partnership also imposes duties on, or otherwise involves services by, it to the plan or participants or beneficiaries of the plan; excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law shall constitute "fines" within the meaning of Section 6.7(a); and action taken or omitted by it with respect to an employee benefit plan in the performance of its duties for a purpose reasonably believed by it to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is in, or not opposed to, the best interests of the Partnership.

(f) In no event may an Indemnitee subject the Limited Partner to personal liability by reason of the indemnification provisions set forth in this Agreement.

(g) An Indemnitee shall not be denied indemnification in whole or in part under this Section 6.7 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.

(h) The provisions of this Section 6.7 are for the benefit of the Indemnitees, their heirs, successors, assigns and administrators and shall not be deemed to create any rights for the benefit of any other Persons.

(i) No amendment, modification or repeal of this Section 6.7 or any provision hereof shall in any manner terminate, reduce or impair the right of any past, present or future Indemnitee to be indemnified by the Partnership, nor the obligation of the Partnership to indemnify any such Indemnitee under and in accordance with the provisions of this Section 6.7 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

6.8 Liability of Indemnitees. (a) Notwithstanding anything to the contrary set forth in this Agreement, no Indemnitee shall be liable for monetary damages to the Partnership, the Limited Partner, or any other Persons who have acquired interests in the Partnership, for losses sustained or liabilities incurred as a result of any act or omission if such Indemnitee acted in good faith.

(b) Subject to its obligations and duties as General Partner set forth in Section 6.1(a), the General Partner may exercise any of the powers granted to it by this Agreement and perform any of the duties imposed upon it hereunder either directly or by or through its agents, and the General Partner shall not be responsible for any misconduct or negligence on the part of any such agent appointed by the General Partner in good faith.

(c) Any amendment, modification or repeal of this Section 6.8 or any provision hereof shall be prospective only and shall not in any way affect the limitations on the liability to the Partnership and the Limited Partner of the General Partner, its directors, officers and employees and any other Indemnitees under this Section 6.8 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

6.9 Resolution of Conflicts of Interest. (a) Unless otherwise expressly provided in this Agreement or the MLP Agreement, whenever a potential conflict of interest exists or arises between the General Partner or any of its Affiliates, on the one hand, and the Partnership, the MLP or the Limited Partner, on the other hand, any resolution or course of action in respect of such conflict of interest shall be permitted and deemed approved by the Limited Partner, and shall not constitute a breach of this Agreement, of the MLP Agreement or of any agreement contemplated herein or therein, or of any duty stated or implied by law or equity, if the resolution or course of action is, or by operation of this Agreement is deemed to be, fair and reasonable to the Partnership. The General Partner shall be authorized but not required in connection with its resolution of such conflict of interest to seek Special Approval of a resolution of such conflict or course of action. Any conflict of interest and any resolution of such conflict of interest shall be conclusively deemed fair and reasonable to the Partnership if such conflict of interest or resolution is (i) approved by Special Approval, (ii) on terms no less favorable to the Partnership than those generally being provided to or available from unrelated third parties or (iii) fair to the Partnership, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership). The General Partner may also adopt a resolution or course of action that has not received Special Approval. The General Partner (including the Audit Committee in connection with Special Approval) shall be authorized in connection with its determination of what is "fair and reasonable" to the Partnership and in connection with its resolution of any conflict of interest to consider (A) the relative interests of any party to such conflict, agreement, transaction or situation and the benefits and burdens relating to such interest; (B) any customary or accepted industry practices and any customary or historical dealings with a particular Person; (C) any applicable generally accepted accounting or engineering practices or principles; and (D) such additional factors as the General Partner (including such Audit Committee) determines in its sole discretion to be relevant, reasonable or appropriate under the circumstances. Nothing contained in this Agreement, however, is intended to nor shall it be construed to require the General Partner (including such Audit Committee) to consider the interests of any Person other than the Partnership. In the absence of bad faith by the General Partner, the resolution, action or terms so made, taken or provided by the General Partner with respect to such matter shall not constitute a breach of this Agreement, the MLP Agreement or any other agreement contemplated herein or a breach of any standard of care or duty imposed herein or therein or under the Delaware Act or any other law, rule or regulation.

(b) Whenever this Agreement or any other agreement contemplated hereby provides that the General Partner or any of its Affiliates is permitted or required to make a decision (i) in its "sole discretion" or "discretion," that it deems "necessary or appropriate" or under a grant of similar authority or latitude, the General Partner or such Affiliate shall be entitled to consider only such interests and factors as it desires and shall have no duty or obligation to give any consideration to any interest of, or factors affecting, the Partnership, the MLP, an OLP Subsidiary, the Limited Partner or any limited partner in the MLP, (ii) it may make such decision in its sole discretion (regardless of whether there is a reference to "sole discretion" or "discretion") unless another express standard is provided for, or (iii) in "good faith" or under another express standard, the General Partner or such Affiliate shall act under such express standard and shall not be subject to any other or different standards imposed by this Agreement, the MLP Agreement, any other agreement contemplated hereby or under the Delaware Act or any other law, rule or regulation. In addition, any actions taken by the General Partner or such Affiliate consistent with the standards of "reasonable discretion" set forth in the definition of Available Cash shall not constitute a breach of any duty of the General Partner to the Partnership or the Limited Partner. The General Partner shall have no duty, express or implied, to sell or otherwise dispose of any asset of the Partnership or of an OLP Subsidiary, other than in the ordinary course of business. No borrowing by the Partnership or the approval thereof by the General Partner shall be deemed to constitute a breach of any duty of the General Partner to the Partnership or the Limited Partner by reason of the fact that the purpose or effect of such borrowing is directly or indirectly to (A) enable the holders of IDRs to receive distributions under the MLP Agreement or increase the amount of any such distributions, (B) hasten the termination of the "Subordination Period" under the MLP Agreement or (C) reduce the "Cumulative Common Unit Arrearage" under the MLP Agreement in order to hasten the conversion of the "Subordinated Units" in the MLP into Common Units.

(c) Whenever a particular transaction, arrangement or resolution of a conflict of interest is required under this Agreement to be "fair and reasonable" to any Person, the fair and reasonable nature of such transaction, arrangement or resolution shall be considered in the context of all similar or related transactions.

6.10 Other Matters Concerning the General Partner. (a) The General Partner may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) The General Partner may consult with legal counsel, accountants, appraisers, management consultants, investment bankers and other consultants and advisers selected by it, and any act taken or omitted to be taken in reliance upon the opinion (including, without limitation, an Opinion of Counsel) of such Persons as to matters that such General Partner reasonably believes to be within such Person's professional or expert competence shall be conclusively presumed to have been done or omitted in good faith and in accordance with such opinion.

(c) The General Partner shall have the right, in respect of any of its powers or obligations hereunder, to act through any of its duly authorized officers and a duly appointed attorney or attorneys-in-fact. Each such attorney shall, to the extent provided by the General Partner in the power of attorney, have full power and authority to do and perform each and every act and duty that is permitted or required to be done by the General Partner hereunder.

(d) Any standard of care and duty imposed by this Agreement or under the Delaware Act or any applicable law, rule or regulation shall be modified, waived or limited as required to permit the General Partner to act under this Agreement or any other agreement contemplated by this Agreement and to make any decision pursuant to the authority prescribed in this Agreement so long as such action is not reasonably believed by the General Partner to be in, or not inconsistent with, the best interests of the Partnership.

6.11 Title to Partnership Assets. Title to Partnership assets, whether real, personal or mixed and whether tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and no Partner, individually or collectively, shall have any ownership interest in such Partnership assets or any portion thereof. Title to any or all of the Partnership assets may be held in the name of the Partnership, the General Partner, one or more of its Affiliates or one or more nominees, as the General Partner may determine. The General Partner hereby declares and warrants that any Partnership assets for which record title is held in the name of the General Partner or one or more of its Affiliates or one or more nominees shall be held by the General Partner or such Affiliate or nominee for the use and benefit of the Partnership in accordance with the provisions of this Agreement; provided, however, that the General Partner shall use its reasonable efforts to cause record title to such assets (other than those assets in respect of which the General Partner determines that the expense and difficulty of conveyancing makes transfer of record title to the Partnership impracticable) to be vested in the Partnership as soon as reasonably practicable; provided that, prior to the withdrawal or removal of the General Partner or as soon thereafter as practicable, the General Partner shall use reasonable efforts to effect the transfer of record title to the Partnership and, prior to any such transfer, will provide for the use of such assets in a manner satisfactory to the Partnership. All Partnership assets shall be recorded as the property of the Partnership in its books and records, irrespective of the name in which record title to such Partnership assets is held.

6.12 Reliance by Third Parties. Notwithstanding anything to the contrary in this Agreement, any Person dealing with the Partnership shall be entitled to assume that the General Partner has full power and authority to encumber, sell or otherwise use in any manner any and all assets of the Partnership and to enter into any contracts on behalf of the Partnership, and such Person shall be entitled to deal with the General Partner as if it were the Partnership's sole party in interest, both legally and beneficially. The Limited Partner hereby waives any and all defenses or other remedies that may be available against such Person to contest, negate or disaffirm any action of the General Partner in connection with any such dealing. In no event shall any Person dealing with the General Partner or its representatives be obligated to ascertain that the terms of this



Agreement have been complied with or to inquire into the necessity or expedience of any act or action of the General Partner or its representatives. Each and every certificate, document or other instrument executed on behalf of the Partnership by the General Partner or its representatives shall be conclusive evidence in favor of any and every Person relying thereon or claiming thereunder that (a) at the time of the execution and delivery of such certificate, document or instrument, this Agreement was in full force and effect, (b) the Person executing and delivering such certificate, document or instrument was duly authorized and empowered to do so for and on behalf of the Partnership and (c) such certificate, document or instrument was duly executed and delivered in accordance with the terms and provisions of this Agreement and is binding upon the Partnership.

## ARTICLE VII RIGHTS AND OBLIGATIONS OF THE LIMITED PARTNER

7.1 Limitation of Liability. The Limited Partner shall have no liability under this Agreement except as expressly provided in this Agreement or the Delaware Act.

7.2 Management of Business. The Limited Partner, in its capacity as such, shall not participate in the operation, management or control (within the meaning of the Delaware Act) of the Partnership's business, transact any business in the Partnership's name or have the power to sign documents for or otherwise bind the Partnership. The transaction of any such business by the Partnership, the General Partner, any of its Affiliates or any officer, director, employee, partner, agent or trustee of the General Partner or any of its Affiliates, in its capacity as such, shall not affect, impair or eliminate the limitations on the liability of the Limited Partner under this Agreement.

7.3 Return of Capital. The Limited Partner shall not be entitled to the withdrawal or return of its Capital Contribution, except to the extent, if any, that distributions made pursuant to this Agreement or upon termination of the Partnership may be considered as such by law and then only to the extent provided for in this Agreement.

7.4 Rights of the Limited Partner Relating to the Partnership. (a) In addition to other rights provided by this Agreement or by applicable law, and except as limited by Section 7.4(b), the Limited Partner shall have the right, for a purpose reasonably related to the Limited Partner's interest as a limited partner in the Partnership, upon reasonable demand and at the Limited Partner's own expense:

(i) to obtain true and full information regarding the status of the business and financial condition of the Partnership;

(ii) promptly after becoming available, to obtain a copy of the Partnership's federal, state and local tax returns for each year;

(iii) to have furnished to it, upon notification to the General Partner, a current list of the name and last known business, residence or mailing address of each Partner;

(iv) to have furnished to it, upon notification to the General Partner, a copy of this Agreement and the Certificate of Limited Partnership and all amendments thereto, together with a copy of the executed copies of all powers of attorney pursuant to which this Agreement, the Certificate of Limited Partnership and all amendments thereto have been executed;

(v) to obtain true and full information regarding the amount of cash and a description and statement of the Agreed Value of any other Capital Contribution by each Partner and which each Partner has agreed to contribute in the future, and the date on which each became a Partner; and

(vi) to obtain such other information regarding the affairs of the Partnership as is just and reasonable.

(b) Notwithstanding any other provision of this Agreement, the General Partner may keep confidential from the Limited Partner for such period of time as the General Partner deems reasonable, any information that the General Partner reasonably believes to be in the nature of trade secrets or other information the disclosure of which the General Partner in good faith believes is not in the best interests of the Partnership or could damage the Partnership or that the Partnership is required by law or by agreements with third parties to keep confidential (other than agreements with Affiliates of the General Partner the primary purpose of which is to circumvent the obligations set forth in this Section 7.4).

#### ARTICLE VIII BOOKS, RECORDS, ACCOUNTING AND REPORTS

8.1 Records and Accounting. The General Partner shall keep or cause to be kept at the principal office of the Partnership appropriate books and records with respect to the Partnership's business, including, without limitation, all books and records necessary to provide to the Limited Partner any information, lists and copies of documents required to be provided pursuant to Section 7.4(a). Any books and records maintained by or on behalf of the Partnership in the regular course of its business, including, without limitation, books of account and records of Partnership proceedings, may be kept on, or be in the form of, computer disks, hard drives, punch cards, magnetic tape, photographs, micrographics or any other information storage device, provided, that the books and records so maintained are convertible into clearly legible written form within a reasonable period of time. The books of the Partnership shall be maintained, for financial reporting purposes, on an accrual basis in accordance with generally accepted accounting principles.

8.2 Fiscal Year. The fiscal year of the Partnership shall be August 1 to July 31.

#### ARTICLE IX TAX MATTERS

9.1 Preparation of Tax Returns. The General Partner shall arrange for the preparation and timely filing of all returns of Partnership income, gains, deductions, losses and other items required of the Partnership for federal and state income tax purposes and shall use all reasonable efforts to furnish, within 90 days of the close of each calendar year, the tax information reasonably required by the Partners for federal and state income tax reporting purposes. The classification, realization and recognition of income, gain, losses and deductions and other items shall be on the accrual method of accounting for federal income tax purposes. The taxable year of the Partnership shall be August 1 to July 31.

9.2 Tax Elections. Except as otherwise provided herein, the General Partner shall, in its sole discretion, determine whether to make any available election pursuant to the Code; provided, however, that the General Partner shall make the election under Section 754 of the Code in accordance with applicable regulations thereunder. The General Partner shall have the right to seek to revoke any such election (including, without limitation, the election under Section 754 of the Code) upon the General Partner's determination in its sole discretion that such revocation is in the best interests of the Limited Partner.

9.3 Tax Controversies. Subject to the provisions hereof, the General Partner is designated the Tax Matters Partner (as defined in Section 6231 of the Code), and is authorized and required to represent the Partnership (at the Partnership's expense) in connection with all examinations of the Partnership's affairs by tax authorities, including, without limitation, resulting administrative and judicial proceedings, and to expend Partnership funds for professional services and costs associated therewith. The Limited Partner agrees to cooperate with the General Partner and to do or refrain from doing any or all things reasonably required by the General Partner to conduct such proceedings.

9.4 Organizational Expenses. The Partnership shall elect to deduct expenses, if any, incurred by it in organizing the Partnership ratably over a 60-month period as provided in Section 709 of the Code.

9.5 Withholding. Notwithstanding any other provision of this Agreement, the General Partner is authorized to take any action that it determines in its sole discretion to be necessary or appropriate to cause the Partnership to comply with any withholding requirements established under the Code or any other federal, state or local law including, without limitation, pursuant to Sections 1441, 1442, 1445 and 1446 of the Code. To the extent that the Partnership is required to withhold and pay over to any taxing authority any amount resulting from the allocation or distribution of income to any Partner (including, without limitation, by reason of Section 1446 of the Code), the amount withheld shall be treated as a distribution of cash pursuant to Section 5.3 in the amount of such withholding from such Partner.

9.6 Opinions of Counsel. Notwithstanding any other provision of this Agreement, if the Partnership is treated as an association taxable as a corporation at any time or is otherwise taxable for federal income tax purposes as an entity at any time and, pursuant to the provisions of this Agreement, an Opinion of Counsel would otherwise be required to the effect that an action will not cause the Partnership to become so treated as an association taxable as a corporation or otherwise taxable as an entity for federal income tax purposes, such requirement for an Opinion of Counsel shall be deemed automatically waived.

#### ARTICLE X TRANSFER OF INTERESTS

10.1 Transfer. (a) The term "transfer," when used in this Article X with respect to a Partnership Interest, shall be deemed to refer to a transaction by which a Partner disposes of its Partnership Interest to another Person and includes a sale, assignment, gift, pledge, encumbrance, hypothecation, mortgage, exchange or any other disposition by law or otherwise.

(b) No Partnership Interest shall be transferred, in whole or in part, except in accordance with the terms and conditions set forth in this Article X. Any transfer or purported transfer of a Partnership Interest not made in accordance with this Article X shall be null and void.

(c) Nothing contained in this Article X shall be construed to prevent a disposition by the parent entity of the General Partner of any or all of the issued and outstanding capital stock of the General Partner.

10.2 Transfer of the General Partner's Partnership Interest. If the general partner of the MLP transfers its partnership interest as the general partner therein to any Person in accordance with the provisions of the MLP Agreement, the General Partner shall contemporaneously therewith transfer its Partnership Interest as the general partner of the Partnership to such Person, and the Limited Partner hereby expressly consents to such transfer. Except as set forth in the immediately preceding sentence, the General Partner may not transfer all or any part of its Partnership Interest as the general partner in the Partnership.

10.3 Transfer of the Limited Partner's Partnership Interest. If the Limited Partner merges, consolidates or otherwise combines into any other Person or transfers all or substantially all of its assets to another Person, such Person may become a Substituted Limited Partner pursuant to Article XI. Except as set forth in the immediately preceding sentence and except for the transfer by Ferrellgas of its Partnership Interest as a limited partner in the Partnership to the MLP as provided in the Contribution Agreement and contemplated by Sections 4.2 and 11.2, a Limited Partner may not transfer all or any part of its Partnership Interest or withdraw from the Partnership.

#### ARTICLE XI ADMISSION OF PARTNERS

11.1 Admission of Initial Partners. Upon the formation of the Partnership pursuant to the filing of the Certificate of Limited Partnership, Ferrellgas was admitted to the Partnership as the sole general partner and the MLP was admitted to the Partnership as the sole limited partner.

11.2 Admission of Ferrellgas as a Limited Partner. Upon the making by Ferrellgas of the Capital Contributions described in Section 4.2, Ferrellgas shall be admitted to the Partnership as a limited partner. Upon the transfer by Ferrellgas of its Partnership Interest as a limited partner to the MLP as provided in the Contribution Agreement, Ferrellgas shall cease to be a limited partner of the Partnership.

11.3 Admission of Substituted Limited Partners. Any person that is the successor in interest to a Limited Partner as described in Section 10.3 shall be admitted to the Partnership as a limited partner upon (a) furnishing to the General Partner (i) acceptance in form satisfactory to the General Partner of all of the terms and conditions of this Agreement and (ii) such other documents or instruments as may be required to effect its admission as a limited partner in the Partnership and (b) obtaining the consent of the General Partner, which consent may be withheld or granted in the sole discretion of the General Partner. Such Person shall be admitted to the Partnership as a limited partner immediately prior to the transfer of the Partnership Interest, and the business of the Partnership shall continue without dissolution.

11.4 Admission of Successor General Partner. A successor General Partner approved pursuant to Section 12.1 or 12.2 or the transferee of or successor to all of the General Partner's Partnership Interest as the general partner in the Partnership pursuant to Section 10.2 who is proposed to be admitted as a successor General Partner shall, subject to compliance with the terms of Section 12.3, if applicable, be admitted to the Partnership as the successor General Partner, effective immediately prior to the withdrawal or removal of the General Partner pursuant to Section 12.1 or 12.2 or the transfer of the General Partner's Partnership Interest as the general partner of the Partnership pursuant to Section 10.2. Any such successor shall, subject to the terms hereof, carry on the business of the Partnership without dissolution. In each case, the admission of such successor General Partner to the Partnership shall, subject to the terms hereof, be subject to the successor General Partner executing and delivering to the Partnership an acceptance of all of the terms and conditions of this Agreement and such other documents or instruments as may be required to effect such admission.

11.5 Amendment of Agreement and Certificate of Limited Partnership. To effect the admission to the Partnership of any Partner, the General Partner shall take all steps necessary and appropriate under the Delaware Act to amend the records of the Partnership to reflect such admission and, if necessary, to prepare as soon as practical an amendment of this Agreement and, if required by law, to prepare and file an amendment to the Certificate of Limited Partnership and may for this purpose, among others, exercise the power of attorney granted pursuant to Section 1.4.

11.6 Admission of Additional Limited Partners. (a) A Person (other than the General Partner, the Initial Limited Partner or a Substituted Limited Partner) who makes a Capital Contribution to the Partnership in accordance with this Agreement shall be admitted to the Partnership as an Additional Limited Partner only upon furnishing to the General Partner (i) evidence of acceptance in form satisfactory to the General Partner of all of the terms and conditions of this Agreement, including, without limitation, the granting of the power of attorney granted in Section 1.4, and (ii) such other documents or instruments as may be required in the discretion of the General Partner to effect such Person's admission as an Additional Limited Partner.

(b) Notwithstanding anything to the contrary in this Section 11.6, no Person shall be admitted as an Additional Limited Partner without the consent of the General Partner, which consent may be given or withheld in the General Partner's sole discretion. The admission of any Person as an Additional Limited Partner shall become effective on the date upon which the name of such Person is recorded as such in the books and records of the Partnership, following the consent of the General Partner to such admission.

## ARTICLE XII WITHDRAWAL OR REMOVAL OF PARTNERS

12.1 Withdrawal of the General Partner. (a) The General Partner shall be deemed to have withdrawn from the Partnership upon the occurrence of any one of the following events (each such event herein referred to as an "Event of Withdrawal");

(i) the General Partner voluntarily withdraws from the Partnership by giving written notice to the Limited Partner;

(ii) the General Partner transfers all of its rights as General Partner pursuant to Section 10.2;

(iii) the General Partner is removed pursuant to Section 12.2;

(iv) the general partner of the MLP withdraws from the MLP;

(v) the General Partner (A) makes a general assignment for the benefit of creditors; (B) files a voluntary bankruptcy petition; (C) files a petition or answer seeking for itself a reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any law; (D) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against the General Partner in a proceeding of the type described in clauses (A)-(C) of this Section 12.1(a)(v); or (E) seeks, consents to or acquiesces in the appointment of a trustee, receiver or liquidator of the General Partner or of all or any substantial part of its properties;

(vi) a final and non-appealable judgment is entered by a court with appropriate jurisdiction ruling that the General Partner is bankrupt or insolvent, or a final and non-appealable order for relief is entered by a court with appropriate jurisdiction against the General Partner, in each case under any federal or state bankruptcy or insolvency laws as now or hereafter in effect; or

(vii) a certificate of dissolution or its equivalent is filed for the General Partner, or 90 days expire after the date of notice to the General Partner of revocation of its charter without a reinstatement of its charter, under the laws of its state of incorporation.

If an Event of Withdrawal specified in Section 12.1(a)(v), (vi) or (vii) occurs, the withdrawing General Partner shall give notice to the Limited Partner within 30 days after such occurrence. The Partners hereby agree that only the Events of Withdrawal described in this Section 12.1 shall result in the withdrawal of the General Partner from the Partnership.

(b) Withdrawal of the General Partner from the Partnership upon the occurrence of an Event of Withdrawal shall not constitute a breach of this Agreement under the following circumstances:

(i) at any time during the period beginning on the Closing Date and ending at 12:00 Midnight, Central Standard Time, on July 31, 2004 the General Partner voluntarily withdraws by giving at least 90 days' advance notice of its intention to withdraw to the Limited Partner, provided, that prior to the effective date of such withdrawal the Limited Partner approves such withdrawal and the General Partner delivers to the Partnership an Opinion of Counsel ("WITHDRAWAL OPINION OF COUNSEL") that such withdrawal (following the selection of the successor General Partner) would not result in the loss of the limited liability of the Limited Partner or cause the Partnership to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes;

(ii) at any time on or after 12:00 Midnight, Central Standard Time, on July 31, 2004, the General Partner voluntarily withdraws by giving at least 90 days' advance notice to the Limited Partner, such withdrawal to take effect on the date specified in such notice; or

(iii) at any time that the General Partner ceases to be the General Partner pursuant to Section 12.1(a)(ii), (iii) or (iv). If the General Partner gives a notice of withdrawal pursuant to Section 12.1(a)(i) or Section 13.1(a)(i) of the MLP Agreement, the Limited Partner may, prior to the effective date of such withdrawal, elect a successor General Partner, provided, that such successor shall be the same Person, if any, that is elected by the limited partners of the MLP pursuant to Section

13.1 of the MLP Agreement as the successor to the General Partner in its capacity as general partner of the MLP. If, prior to the effective date of the General Partner's withdrawal, a successor is not selected by the Limited Partner as provided herein or the Partnership does not receive a Withdrawal Opinion of Counsel, the Partnership shall be dissolved in accordance with Section 13.1. Any successor General Partner elected in accordance with the terms of this Section 12.1 shall be subject to the provisions of Section 11.4.

12.2 Removal of the General Partner. The General Partner shall be removed if such General Partner is removed as a general partner of the MLP pursuant to Section 13.2 of the MLP Agreement. Such removal shall be effective concurrently with the effectiveness of the removal of such General Partner as the general partner of the MLP pursuant to the terms of the MLP Agreement. If a successor to the General Partner in its capacity as general partner of the MLP is elected in connection with the removal of such General Partner as general partner of the MLP, as provided in the MLP Agreement, then the Limited Partner shall elect such successor as the successor General Partner of the Partnership and such successor shall, upon admission pursuant to Article XI, automatically become a successor General Partner of the Partnership. The admission of any such successor General Partner to the Partnership shall be subject to the provisions of Section 11.4.

12.3 Interest of Departing Partner and Successor General Partner. The Partnership Interest of a Departing Partner departing as a result of withdrawal or removal pursuant to Section 12.1 or 12.2 shall (unless it is otherwise required to be converted into Common Units pursuant to Section 13.3(b) of the MLP Agreement) be purchased by the successor to the Departing Partner for cash in the manner specified in the MLP Agreement. Such purchase (or conversion into Common Units, as applicable) shall be a condition to the admission to the Partnership of the successor as the General Partner. Any successor General Partner shall indemnify the Departing General Partner as to all debts and liabilities of the Partnership arising on or after the effective date of the removal of the Departing Partner.

12.4 Reimbursement of Departing Partner. The Departing Partner shall be entitled to receive all reimbursements due such Departing Partner pursuant to Section 6.4, including, without limitation, any employee-related liabilities (including, without limitation, severance liabilities), incurred in connection with the termination of any employees employed by such departing Partner for the benefit of the Partnership.

12.5 Withdrawal of the Limited Partner. Without the prior consent of the General Partner, which may be granted or withheld in its sole discretion, the Limited Partner shall not have the right to withdraw from the Partnership.

#### ARTICLE XIII DISSOLUTION AND LIQUIDATION

13.1 Dissolution. The Partnership shall not be dissolved by the admission of Substituted Limited Partners or Additional Limited Partners or by the admission of a successor General Partner in accordance with the terms of this Agreement. Upon the removal or withdrawal of the General Partner any successor General Partner shall continue the business of the Partnership. The Partnership shall dissolve and, subject to Section 13.2, its affairs should be wound up, upon:

(a) the expiration of its term as provided in Section 1.5;

(b) an Event of Withdrawal of the General Partner as provided in Section 12.1(a) (other than Section 12.1(a)(ii)), unless a successor is elected and an Opinion of Counsel is received as provided in Section 12.1(b) or 12.2 and such successor is admitted to the Partnership pursuant to Section 11.4;

(c) an election to dissolve the Partnership by the General Partner that is approved by the Limited Partner;

(d) entry of a decree of judicial dissolution of the Partnership pursuant to the provisions of the Delaware Act;

(e) the sale of all or substantially all of the assets and properties of the Partnership; or

(f) the dissolution of the MLP.

13.2 Continuation of the Business of the Partnership after Dissolution. Upon (a) dissolution of the Partnership following an Event of Withdrawal caused by the withdrawal or removal of the General Partner as provided in Section 12.1(a)(i) or (iii) and following a failure of the Limited Partner to appoint a successor General Partner as provided in Section 12.1 or 12.2, then within 90 days thereafter or (b) dissolution of the Partnership upon an event constituting an Event of Withdrawal as defined in Section 12.1(a)(v), (vi) or (vii), then within 180 days thereafter, the Limited Partner may elect to reconstitute the Partnership and continue its business on the same terms and conditions set forth in this Agreement by forming a new limited partnership on terms identical to those set forth in this Agreement and having as a general partner a Person approved by the Limited Partner. In addition, upon dissolution of the Partnership pursuant to Section 13.1(f), if the MLP is reconstituted pursuant to Section 14.2 of the MLP Agreement, the reconstituted MLP may, within 180 days after such event of dissolution, as the Limited Partner, elect to reconstitute the Partnership in accordance with the immediately preceding sentence. Upon any such election by the Limited Partner, all Partners shall be bound thereby and shall be deemed to have approved same. Unless such an election is made within the applicable time period as set forth above, the Partnership shall conduct only activities necessary to wind up its affairs. If such an election is so made, then:

(i) the reconstituted Partnership shall continue until the end of the term set forth in Section 1.5 unless earlier dissolved in accordance with this Article XIII;

(ii) if the successor General Partner is not the former General Partner, then the interest of the former General Partner shall be purchased by the successor General Partner or converted into Common Units of the MLP as provided in the MLP Agreement; and

(iii) all necessary steps shall be taken to cancel this Agreement and the Certificate of Limited Partnership and to enter into and, as necessary, to file a new partnership agreement and certificate of limited partnership, and the successor General Partner may for this purpose exercise the powers of attorney granted the General Partner pursuant to Section 1.4; provided, that the right to approve a successor General Partner and to reconstitute and to continue the business of the Partnership shall not exist and may not be exercised unless the Partnership has received an Opinion of Counsel that (x) the exercise of the right would not result in the loss of limited liability of the Limited Partner and (y) neither the Partnership nor the reconstituted limited partnership would be treated as an association taxable as a corporation or otherwise be taxable as an entity for federal income tax purposes upon the exercise of such right to continue.

13.3 Liquidation. Upon dissolution of the Partnership, unless the Partnership is continued under an election to reconstitute and continue the Partnership pursuant to Section 13.2, the General Partner, or in the event the General Partner has been dissolved or removed, become bankrupt as set forth in Section 12.1 or withdrawn from the Partnership, a liquidator or liquidating committee approved by the Limited Partner, shall be the Liquidator. The Liquidator (if other than the General Partner) shall be entitled to receive such compensation for its services as may be approved by the Limited Partner. The Liquidator shall agree not to resign at any time without 15 days' prior notice and (if other than the General Partner) may be removed at any time, with or without cause, by notice of removal approved by the Limited Partner. Upon dissolution, removal or resignation of the Liquidator, a successor and substitute Liquidator (who shall have and succeed to all rights, powers and duties of the original Liquidator) shall within 30 days thereafter be approved by the Limited Partner. The right to

approve a successor or substitute Liquidator in the manner provided herein shall be deemed to refer also to any such successor or substitute Liquidator approved in the manner herein provided. Except as expressly provided in this Article XIII, the Liquidator approved in the manner provided herein shall have and may exercise, without further authorization or consent of any of the parties hereto, all of the powers conferred upon the General Partner under the terms of this Agreement (but subject to all of the applicable limitations, contractual and otherwise, upon the exercise of such powers, other than the limitation on sale set forth in Section 6.3(b)) to the extent necessary or desirable in the good faith judgment of the Liquidator to carry out the duties and functions of the Liquidator hereunder for and during such period of time as shall be reasonably required in the good faith judgment of the Liquidator to complete the winding-up and liquidation of the Partnership as provided for herein. The Liquidator shall liquidate the assets of the Partnership, and apply and distribute the proceeds of such liquidation in the following order of priority, unless otherwise required by mandatory provisions of applicable law:

(a) the payment to creditors of the Partnership, including, without limitation, Partners who are creditors, in the order of priority provided by law; and the creation of a reserve of cash or other assets of the Partnership for contingent liabilities in an amount, if any, determined by the Liquidator to be appropriate for such purposes; and

(b) to all Partners in accordance with the positive balances in their respective Capital Accounts, as determined after taking into account all Capital Account adjustments (other than those made by reason of this clause) for the taxable year of the Partnership during which the liquidation of the Partnership occurs (with the date of such occurrence being determined pursuant to Treasury Regulation Section 1.704-1(b)(2)(ii)(g)); and such distribution shall be made by the end of such taxable year (or, if later, within 90 days after said date of such occurrence).

13.4 Distributions in Kind. (a) Notwithstanding the provisions of Section 13.3, which require the liquidation of the assets of the Partnership, but subject to the order of priorities set forth therein, if prior to or upon dissolution of the Partnership the Liquidator determines that an immediate sale of part or all of the Partnership's assets would be impractical or would cause undue loss to the Partners, the Liquidator may, in its absolute discretion, defer for a reasonable time the liquidation of any assets except those necessary to satisfy liabilities of the Partnership (including, without limitation, those to Partners as creditors) and/or distribute to the Partners or to specific classes of Partners, in lieu of cash, as tenants in common and in accordance with the provisions of Section 13.3, undivided interests in such Partnership assets as the Liquidator deems not suitable for liquidation. Any such distributions in kind shall be made only if, in the good faith judgment of the Liquidator, such distributions in kind are in the best interest of the Limited Partner, and shall be subject to such conditions relating to the disposition and management of such properties as the Liquidator deems reasonable and equitable and to any agreements governing the operation of such properties at such time. The Liquidator shall determine the fair market value of any property distributed in kind using such reasonable method of valuation as it may adopt.

(b) In accordance with Section 704(c)(1)(B) of the Code, in the case of any deemed distribution occurring as a result of a termination of the Partnership pursuant to Section 708(b)(1)(B) of the Code, to the maximum extent possible consistent with the priorities of Section 13.3, the General Partner shall have sole discretion to treat the deemed distribution of Partnership assets to Partners as occurring in a manner that will not cause a shift of the Book-Tax Disparity attributable to a Partnership asset existing immediately prior to the deemed distribution to another asset upon the deemed contribution of assets to the reconstituted Partnership, including, without limitation, deeming the distribution of any Partnership assets to be made either to the Partner who contributed such assets or to the transferee of such Partner.

13.5 Cancellation of Certificate of Limited Partnership. Upon the completion of the distribution of Partnership cash and property as provided in Sections 13.3 and 13.4 in connection with the liquidation of the Partnership, the Partnership shall be terminated and the Certificate of Limited Partnership and all qualifications of the Partnership as a foreign limited partnership in jurisdictions other than the State of Delaware shall be cancelled and such other actions as may be necessary to terminate the Partnership shall be taken.



13.6 Reasonable Time for Winding Up. A reasonable time shall be allowed for the orderly winding up of business and affairs of the Partnership and the liquidation of its assets pursuant to Section 13.3 in order to minimize any losses otherwise attendant upon such winding up, and the provisions of this Agreement shall remain in effect between the Partners during the period of liquidation.

13.7 Return of Capital. The General Partner shall not be personally liable for, and shall have no obligation to contribute or loan any monies or property to the Partnership to enable it to effectuate, the return of the Capital Contributions of the Limited Partner, or any portion thereof, it being expressly understood that any such return shall be made solely from Partnership assets.

13.8 Capital Account Restoration. No Limited Partner shall have any obligation to restore any negative balance in its Capital Account upon liquidation of the Partnership. The General Partner shall be obligated to restore any negative balance in its Capital Account upon liquidation of its interest in the Partnership by the end of the taxable year of the Partnership during which such liquidation occurs, or, if later, within 90 days after the date of such liquidation.

13.9 Waiver of Partition. Each Partner hereby waives any right to partition of the Partnership property.

#### ARTICLE XIV AMENDMENT OF PARTNERSHIP AGREEMENT

14.1 Amendment to be Adopted Solely by General Partner. The Limited Partner agrees that the General Partner (pursuant to its powers of attorney from the Limited Partner), without the approval of the Limited Partner, may amend any provision of this Agreement, and execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith, to reflect:

(a) a change in the name of the Partnership, the location of the principal place of business of the Partnership, the registered agent of the Partnership or the registered office of the Partnership;

(b) admission, substitution, withdrawal or removal of Partners in accordance with this Agreement;

(c) a change that, in the sole discretion of the General Partner, is necessary or appropriate to qualify or continue the qualification of the Partnership as a limited partnership or a partnership in which the limited partners have limited liability under the laws of any state or that is necessary or advisable in the opinion of the General Partner to ensure that the Partnership will not be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes;

(d) a change (i) that, in the sole discretion of the General Partner, does not adversely affect the Limited Partner in any material respect, (ii) that is necessary or desirable to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute (including, without limitation, the Delaware Act), compliance with any of which the General Partner determines in its sole discretion to be in the best interests of the Partnership and the Limited Partner, (iii) that is required to effect the intent of the provisions of this Agreement or is otherwise contemplated by this Agreement or (iv) that is required to conform the provisions of this Agreement with the provisions of the MLP Agreement as the provisions of the MLP Agreement may be amended, supplemented or restated from time to time;

(e) a change in the fiscal year and taxable year of the Partnership and any changes that, in the sole discretion of the General Partner, are necessary or appropriate as a result of a change in

the fiscal year and taxable year of the Partnership including, without limitation, if the General Partner shall so determine, a change in the definition of "Quarter" and the dates on which distributions are to be made by the Partnership;

(f) an amendment that is necessary, in the Opinion of Counsel, to prevent the Partnership or the General Partner or its directors or officers from in any manner being subjected to the provisions of the Investment Company Act of 1940, as amended, the Investment Advisers Act of 1940, as amended, or "plan asset" regulations adopted under the Employee Retirement Income Security Act of 1974, as amended, whether or not substantially similar to plan asset regulations currently applied or proposed by the United States Department of Labor;

(g) any amendment expressly permitted in this Agreement to be made by the General Partner acting alone;

(h) an amendment effected, necessitated or contemplated by a Merger Agreement approved in accordance with Section 15.3;

(i) an amendment that, in the sole discretion of the General Partner, is necessary or desirable to reflect, account for and deal with appropriately the formation by the Partnership of, or investment by the Partnership in, any corporation, partnership, joint venture, limited liability company or other entity, in connection with the conduct by the Partnership of activities permitted by the terms of Section 3.1; or

(j) any other amendments substantially similar to the foregoing.

14.2 Amendment Procedures. Except with respect to amendments of the type described in Section 14.1, all amendments to this Agreement shall be made in accordance with the following requirements. Amendments to this Agreement may be proposed only by or with the consent of the General Partner. Each such proposal shall contain the text of the proposed amendment. A proposed amendment shall be effective upon its approval by the Limited Partner.

## ARTICLE XV MERGER

15.1 Authority. The Partnership may merge or consolidate with one or more corporations, business trusts or associations, real estate investment trusts, common law trusts or unincorporated businesses, including, without limitation, a general partnership or limited partnership, formed under the laws of the State of Delaware or any other state of the United States of America, pursuant to a written agreement of merger or consolidation ("Merger Agreement") in accordance with this Article.

15.2 Procedure for Merger or Consolidation. Merger or consolidation of the Partnership pursuant to this Article requires the prior approval of the General Partner. If the General Partner shall determine, in the exercise of its sole discretion, to consent to the merger or consolidation, the General Partner shall approve the Merger Agreement, which shall set forth:

(a) The names and jurisdictions of formation or organization of each of the business entities proposing to merge or consolidate;

(b) The name and jurisdictions of formation or organization of the business entity that is to survive the proposed merger or consolidation (the "Surviving Business Entity");

(c) The terms and conditions of the proposed merger or consolidation;

(d) The manner and basis of exchanging or converting the equity securities of each constituent business entity for, or into, cash, property or general or limited partnership interests, rights, securities or obligations of the Surviving Business Entity; and (i) if any general or limited partnership interests, securities or rights of any constituent business entity are not to be exchanged or converted solely for, or into, cash, property or general or limited partnership interests, rights, securities or obligations of the Surviving Business Entity, the cash, property or general or limited partnership interests, rights, securities or obligations of any limited partnership, corporation, trust or other entity (other than the Surviving Business Entity) which the holders of such general or limited partnership interests, securities or rights are to receive in exchange for, or upon conversion of, their general or limited partnership interests, securities or rights, and (ii) in the case of securities represented by certificates, upon the surrender of such certificates, which cash, property or general or limited partnership interests, rights, securities or obligations of the Surviving Business Entity or any general or limited partnership, corporation, trust or other entity (other than the Surviving Business Entity), or evidences thereof, are to be delivered;

(e) A statement of any changes in the constituent documents or the adoption of new constituent documents (the articles or certificate of incorporation, articles of trust, declaration of trust, certificate or agreement of limited partnership or other similar charter or governing document) of the Surviving Business Entity to be effected by such merger or consolidation;

(f) The effective time of the merger, which may be the date of the filing of the certificate of merger pursuant to Section 15.4 or a later date specified in or determinable in accordance with the Merger Agreement (provided, that if the effective time of the merger is to be later than the date of the filing of the certificate of merger, the effective time shall be fixed no later than the time of the filing of the certificate of merger and stated therein); and

(g) Such other provisions with respect to the proposed merger or consolidation as are deemed necessary or appropriate by the General Partner.

15.3 Approval by Limited Partner of Merger or Consolidation. (a) The General Partner of the Partnership, upon its approval of the Merger Agreement, shall direct that a copy or a summary of the Merger Agreement be submitted to the Limited Partner for its approval.

(b) The Merger Agreement shall be approved upon receiving the consent of the Limited Partner. After such approval by the Limited Partner, and at any time prior to the filing of the certificate of merger pursuant to Section 15.4, the merger or consolidation may be abandoned pursuant to provisions therefor, if any, set forth in the Merger Agreement.

15.4 Certificate of Merger. Upon the required approval by the General Partner and the Limited Partner of a Merger Agreement, a certificate of merger shall be executed and filed with the Secretary of State of the State of Delaware in conformity with the requirements of the Delaware Act.

15.5 Effect of Merger. (a) At the effective time of the certificate of merger:

(i) all of the rights, privileges and powers of each of the business entities that has merged or consolidated, and all property, real, personal and mixed, and all debts due to any of those business entities and all other things and causes of action belonging to each of those business entities shall be vested in the Surviving Business Entity and after the merger or consolidation shall be the property of the Surviving Business Entity to the extent they were of each constituent business entity;

(ii) the title to any real property vested by deed or otherwise in any of those constituent business entities shall not revert and is not in any way impaired because of the merger or consolidation;

(iii) all rights of creditors and all liens on or security interest in property of any of those constituent business entities shall be preserved unimpaired; and

(iv) all debts, liabilities and duties of those constituent business entities shall attach to the Surviving Business Entity, and may be enforced against it to the same extent as if the debts, liabilities and duties had been incurred or contracted by it.

(b) A merger or consolidation effected pursuant to this Article shall not be deemed to result in a transfer or assignment of assets or liabilities from one entity to another having occurred.

## ARTICLE XVI GENERAL PROVISIONS

16.1 Addresses and Notices. Any notice, demand, request or report required or permitted to be given or made to a Partner under this Agreement shall be in writing and shall be deemed given or made when received by it at the principal office of the Partnership referred to in Section 1.3.

16.2 References. Except as specifically provided otherwise, references to "Articles" and "Sections" are to Articles and Sections of this Agreement.

16.3 Pronouns and Plurals. Whenever the context may require, any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa.

16.4 Further Action. The parties shall execute and deliver all documents, provide all information and take or refrain from taking action as may be necessary or appropriate to achieve the purposes of this Agreement.

16.5 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their heirs, executors, administrators, successors, legal representatives and permitted assigns.

16.6 Integration. This Agreement constitutes the entire agreement among the parties hereto pertaining to the subject matter hereof and supersedes all prior agreements and understandings pertaining thereto.

16.7 Creditors. None of the provisions of this Agreement shall be for the benefit of, or shall be enforceable by, any creditor of the Partnership.

16.8 Waiver. No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute waiver of any such breach or any other covenant, duty, agreement or condition.

16.9 Counterparts. This Agreement may be executed in counterparts, all of which together shall constitute an agreement binding on all the parties hereto, notwithstanding that all such parties are not signatories to the original or the same counterpart. Each party shall become bound by this Agreement immediately upon affixing its signature hereto, independently of the signature of any other party.

16.10 Applicable Law. This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to the principles of conflicts of law.

16.11 Invalidity of Provisions. If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

GENERAL PARTNER:

FERRELLGAS, INC.

By: \_\_\_\_\_

INITIAL LIMITED PARTNER:

FERRELLGAS PARTNERS, L.P.

BY: Ferrellgas, Inc., as general partner

By: \_\_\_\_\_

LIMITED PARTNER:

FERRELLGAS, INC.

By: \_\_\_\_\_

CREDIT AGREEMENT

DATED AS OF \_\_\_\_\_, 1994

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

ARRANGED BY

BA SECURITIES, INC.

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## CREDIT AGREEMENT

This CREDIT AGREEMENT is entered into as of \_\_\_\_\_, 1994, 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").

WHEREAS, the Banks have agreed to make available to the Borrower and Stratton certain revolving and term loan credit facilities with a letter of credit subfacility on the terms and subject to the conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained herein, the parties agree as follows:

### ARTICLE I

#### DEFINITIONS

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

"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 the signature page 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 Leverage Ratio applicable to such fiscal quarter as set forth herein.

Leverage Ratio	Base Rate Loans	Eurodollar Loans
Level 1	0 b.p.	62.5 b.p.
Level 2	0 b.p.	87.5 b.p.
Level 3	12.5 b.p.	112.5 b.p.
Level 4	25 b.p.	125 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 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 (11 U.S.C. (S)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 Costs" means, with respect to any Acquisition, the total costs thereof to the acquiring Person in such Acquisition, excluding the aggregate amount of Acquired Debt and all financing provided by the selling Person or Persons in connection therewith.

"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, Facility B Revolving Loan or Facility B Takeout Loan.

"Closing Date" means the 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).

"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.

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

Leverage Ratio	Commitment Fee Rate
-----	-----
Level 1	27.5 b.p.
Level 2	32.5 b.p.
Level 3	37.5 b.p.
Level 4	37.5 b.p.

"Commitments" means, as to each Bank, collectively, its Facility A Commitment and its Facility B Commitment.

"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 Closing 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, 2000.

"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, 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, if necessary, upward to the nearest 1/16th of 1%) determined pursuant to the following formula:

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

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, if necessary, upward to the nearest 1/100th of 1%) 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 Fixed Rate Notes" means the Series B and D Fixed Rate Senior Notes due 1996 of the General Partner.

"Existing Floating Rate Notes" means the Series A and C Floating Rate Senior Notes due 1996 of the General Partner.

"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 Closing 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 Closing 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.

"Existing Senior Notes" means the Existing Fixed Rate Notes and the Existing Floating Rate Notes.

"Existing Subordinated Debentures" means the General Partner's 11 5/8% Senior Subordinated Debentures due December 15, 2003.

"Facility A Commitment", as to each Bank, means 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 \$100,000,000 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 Commitment", as to each Bank, means the amount set forth opposite such Bank's name on Schedule 2.01 hereof under the caption "Facility B Commitment - Total", as such amount 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 B Commitment of all Banks shall not exceed \$85,000,000 at any time.

"Facility B Loans" means, collectively, the Facility B Revolving Loans and the Facility B Term Loans and, after the Revolving Termination Date if made in accordance with the terms hereof, the Facility B Takeout Loans.

"Facility B Maximum Amount" as of any date means the excess, if any, on such date of (x) the sum of (i) the aggregate Cash Costs of all Permitted Acquisitions by the



Borrower and its Subsidiaries during the period from the Closing Date through the date of calculation plus (ii) the aggregate Growth-Related Capital Expenditures by the Borrower and its Subsidiaries during such period, over (y) the sum of (i) the aggregate Net Proceeds of Asset Sales during the period from the Closing Date to the date that is 270 days prior to the date of calculation plus (ii) the aggregate Net Proceeds of MLP New Unit Sales from the Closing Date through the calculation date.

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

"Facility B Revolving Loan Commitment", as to each Bank, means the sum of (i) the amount set forth opposite such Bank's name on Schedule 2.01 hereof under the caption "Facility B Commitment - Revolving Loans" plus (ii) from and after the date 45 days after the Closing Date, the excess, if any, of such Bank's Facility B Term Loan Commitment over the amount of its Facility B Term Loan outstanding as of the date 45 days after the Closing Date, as such sum may be reduced under Section 2.05 or 2.07 or as a result of one or more assignments under Section 11.08.

"Facility B Takeout Loan" has the meaning specified in subsection 2.01(b).

"Facility B Term Loan" has the meaning specified in subsection 2.01(b).

"Facility B Term Loan Commitment", as to each Bank, means the amount set forth opposite such Bank's name on Schedule 2.01 hereof under the caption "Facility B Commitment - Term Loan", 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.

"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).

"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 B 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. If the applicable reference period for any calculation of the Fixed Charge Coverage Ratio with respect to the Borrower shall include a portion prior to the Closing Date, then such Fixed Charge Coverage Ratio shall be calculated based upon the Consolidated Cash Flow and the Fixed Charges of the General Partner for such portion of the reference period prior to the Closing Date and the Consolidated Cash Flow and the Fixed Charges of the Borrower for the remaining portion of the reference period on and after the Closing Date, giving pro forma effect, as described in the two foregoing sentences, to all applicable transactions occurring on the date of this Agreement or otherwise.

"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.

"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, excluding all Contingent Obligations of Borrower 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.

"Indenture" means the Indenture dated as of \_\_\_\_\_, 1994, among the Borrower, Finance Corp. and Norwest Bank Minnesota, National Association, pursuant to which the Senior Notes are to be issued, as it may be amended from time to time.

"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. (S) 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, 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 Facility A Revolving Loan, Facility B Term Loan or Facility B Revolving Loan shall extend beyond June 30, 1997; and

(iv) no Interest Period applicable to a Facility B Takeout Loan or portion thereof shall extend beyond any date upon which is due any scheduled principal payment in respect thereof unless the aggregate principal amount of Facility B Takeout Loans represented by Base Rate Loans, or by Eurodollar Rate Loans having Interest Periods that will expire on or before such date, equals or exceeds the amount of such principal payment.

"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 any other Bank designated by the Agent to Issue Letters of Credit, in their respective capacities as issuers of one or more Letters of Credit hereunder, together with any replacement Letter of Credit issuer arising under subsection 10.01(b) or Section 10.09.

"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 A 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 A 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 or Level 4, based on the amount of the Leverage Ratio at such time. For purposes of this Agreement, the following "Levels" of Leverage Ratio (LR) shall apply:

Level	Leverage Ratio
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Level 1	LR ( 2.0
Level 2	2.0 ( LR ( 2.5
Level 3	2.5 ( LR ( 3.25
Level 4	LR ( 3.25

The level of the Leverage Ratio for the period from the Closing Date to the end of the fiscal quarter of the Borrower during which the Closing Date occurs shall be equal to Level 3. Any change in the Level of the Leverage 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 Leverage Ratio shall be deemed



to be Level 4 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 of such Person to Consolidated Cash Flow of such Person. 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 reference 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. If the applicable reference period for any calculation of the Leverage Ratio with respect to the Borrower and its Subsidiaries shall include a portion prior to the Closing Date, then such Leverage Ratio shall be calculated based upon the Consolidated Cash Flow and Funded Debt of the

Borrower and its Subsidiaries for such portion of the reference period prior to the Closing Date and the Consolidated Cash Flow and the Funded Debt of the Borrower for the remaining portion of the reference period on and after the Closing Date, giving pro forma effect, as described in the two foregoing sentences, to all applicable transactions occurring on the Closing Date or otherwise.

"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, L/C Advance, Facility B Term Loan, Facility B Revolving Loan, Facility B Takeout Loan 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 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 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.

"Maximum Amount Certificate" means a certificate delivered to the Agent pursuant to subsection 7.02(c).

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

"MLP New Units" means any units of limited partner interests of the MLP sold by the MLP other than those registered pursuant to the MLP Registration Statement (including the overallotment provisions thereof).

"MLP Registration Statement" means the Ferrellgas Partners, L.P., Form S-1 Registration Statement No. 33-53383, as amended from time to time.

"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 Existing Senior Notes and the Existing Subordinated Debentures, 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 from MLP New Unit Sales" means the aggregate amount of all cash proceeds of the sale of any MLP New Units sold after the Closing Date net of the direct costs relating to such sale (including, without limitation, legal, accounting and investment banking fees and sales

commissions) and taxes paid or payable as a result thereof to the extent such net amount is contributed or invested in the Borrower, other than the issuance of up to 500,000 MLP New Units (as adjusted to reflect distributions of equity and similar transactions) upon the exercise of options to purchase such units granted to employees of the General Partner from time to time pursuant to an option plan.

"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 8.21 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, F-3 or F-4.

"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 \_\_\_\_\_, 1994, as amended from time to time.

"PBGCC" 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 (other than Indebtedness under the Senior Notes) or the Indebtedness represented by the then outstanding Existing Subordinated Debentures; 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) such Indebtedness is subordinated in right of payment to the Obligations on terms at least as favorable to the Banks as those, if any, contained in the documentation governing the Prior Indebtedness; and (d) such Indebtedness (other than Indebtedness incurred to extend, refinance, renew, replace, defease or refund the Existing Subordinated Debentures) 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.

"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.

"Registration Statements" means, collectively, the MLP Registration Statement and the Senior Note Registration Statement.

"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.

"Reorganization" has the meaning specified in subsection 5.01(1).

"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.

"Revolving Commitment" means, as to each Bank, collectively, its Facility A Commitment and its Facility B Revolving Loan Commitment.

"Revolving Termination Date" means the earlier to occur of:

- (a) June 30, 1997; and
- (b) the date on which the Facility A Commitment and the Facility B Revolving Loan Commitment terminate in accordance with the provisions of this Agreement.

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

Leverage Ratio	Risk Participation Percentage
-----	-----
Level 1	50 b.p.
Level 2	75 b.p.
Level 3	100 b.p.
Level 4	112.5 b.p.

"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.

"Senior Note Registration Statement" means the Ferrellgas, L.P., and Ferrellgas Finance Corp. Form S-1 Registration Statement No. 33-53379, as amended from time to time.

"Senior Notes" means the \_\_\_\_% Senior Notes due 2001, as amended or supplemented from time to time, offered and sold by the Borrower and Finance Corp., as issuers, pursuant to the Senior Note Registration Statement and the Indenture.

"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.

"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 Guarantee" means each guarantee of the Senior Notes made pursuant to the 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.

"Tax Audit" means the adjustments and disallowances proposed by the IRS relating to its audit of the General Partner's 1986 and 1987 consolidated income tax returns.

"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.

"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.

#### 1.02 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.

#### 1.03 Accounting 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) References herein to "fiscal year" and "fiscal quarter" refer to such fiscal periods of the Borrower.

### ARTICLE II

#### THE CREDITS

##### 2.01 Amounts and Terms of Commitments.

(a) Facility A Revolving Loans, Swingline Loans and Letters of Credit.

(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 Closing Date to the Revolving 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 sum of the Effective Amount of all outstanding Facility A 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 A Commitments, and the Effective Amount of the Facility A 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 A Commitment.

(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 and Swingline Loans not to exceed \$25,000,000 for at least one period of 30 consecutive days during each fiscal year of Borrower, commencing with its fiscal year beginning August 1, 1994.

(iii) As a subfacility of the Banks' Facility A 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.

(b) Facility B Term Loans, Revolving Loans and Takeout Loans.

(i) Tranche I - 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 Closing Date in a principal amount not to exceed such Bank's Facility B Term Loan Commitment. Amounts borrowed as Facility B Term Loans which are repaid or prepaid by the Borrower may not be reborrowed.

(ii) Tranche II - Facility B Revolving Loans. 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 B Revolving Loan") from time to time on any Business Day during the period from the Closing Date to the Revolving Termination Date, in an aggregate principal amount not to exceed at any time outstanding the lesser of (x) such Bank's Facility B Revolving Loan Commitment as in effect at such time, and (y) such Bank's Pro Rata Share of the Facility B Maximum Amount as in effect at such time; provided, however, that, after giving effect to any Borrowing of Facility B Revolving Loans, the

Effective Amount of all outstanding Facility B Revolving Loans shall not at any time exceed the lesser of (a) the aggregate Facility B Revolving Loan Commitments, and (b) the Facility B Maximum Amount, and the Effective Amount of all outstanding Facility B Revolving Loans of any Bank shall not at any time exceed the lesser of (A) such Bank's Facility B Revolving Loan Commitment, and (B) such Bank's Pro Rata Share of the Facility B Maximum Amount then in effect. Within the limits of each Bank's Facility B Revolving Loan Commitment, and on the other terms and subject to the other terms and conditions hereof, the Borrower may borrow under this subsection 2.01(b)(ii), prepay under Section 2.06 and reborrow under this subsection 2.01(b)(ii).

(iii) Facility B Takeout Loan. 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 Takeout Loan") on the Revolving Termination Date in an aggregate amount not to exceed the lesser of (x) the aggregate outstanding Effective Amount of such Bank's Facility B Loans on the Revolving Termination Date and (y) such Bank's Facility B Commitment. Amounts borrowed as Facility B Takeout Loans which are repaid or prepaid by the Borrower may not be reborrowed.

2.02 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.

2.03 Procedure for Borrowing. (a) Each Borrowing of 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 ten different Interest Periods in effect with respect to Eurodollar Rate Loans.

2.04 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.

## 2.05 Voluntary Termination or Reduction of 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, (i) the Effective Amount of all Facility A Revolving Loans, Swingline Loans and L/C Obligations together would exceed the amount of the combined Facility A Commitments then in effect, or (ii) the Effective Amount of all L/C Obligations then outstanding would exceed the L/C Commitment.

(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 B 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 B Term Loans and all Facility B Revolving Loans together would exceed the amount of the combined Facility B Commitments then in effect.

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

2.06 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 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. Optional prepayments occurring after the Revolving Termination Date shall be applied to the Facility B Takeout Loan in inverse order of maturity.

2.07 Mandatory Prepayments of Loans; Mandatory Commitment Reductions. (a) 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 Swingline Loans and Facility A Revolving Loans then outstanding plus the Effective Amount of all L/C Obligations exceeds the combined Facility A Commitments, the Borrower shall immediately, and without notice or demand, prepay the outstanding principal amount of the Swingline Loans, Facility A Revolving Loans and any L/C Advances by an aggregate amount equal to the applicable excess.

(b) Subject to Section 4.04, if on any date on or prior to the Revolving Termination Date the Effective Amount of the Facility B Revolving Loans exceeds the lesser of (i) the aggregate Facility B Revolving Loan Commitment, and (ii) the

Facility B Maximum Amount then in effect, then the Borrower shall immediately, and without notice or demand, prepay the outstanding principal amount of the Facility B Revolving Loans in an aggregate amount equal to such excess. If on any date after the Revolving Termination Date, the Effective Amount of Facility B Takeout Loans exceeds the Facility B Maximum Amount, then the Borrower shall immediately, and without notice or demand, prepay the outstanding principal amount of the Facility B Takeout Loans in an aggregate amount equal to such excess, in the inverse order of maturity.

(c) If on any date, (x) the sum of (i) aggregate Net Proceeds from MLP New Unit Sales from the Closing Date through such date plus (ii) aggregate Net Proceeds of Asset Sales during the period from the Closing Date through the date that is 270 days prior to such date, exceeds (y) the aggregate Cash Costs of Permitted Acquisitions during the period from the Closing Date through such date plus aggregate Growth-Related Capital Expenditures of the Borrower and its Subsidiaries during such period (any such excess being referred to herein as a "Downsize Amount"), then (A) if such date is on or prior to the Revolving Termination Date and after giving effect to any mandatory Cash Collateralization or prepayment of outstanding Facility B Revolving Loans under subsection 2.07(b) above, the Borrower shall immediately, and without notice or demand, prepay the Obligations in an aggregate amount equal to the Downsize Amount as follows: first, Facility B Term Loans, second, Swingline Loans, third, Facility A Revolving Loans, and fourth, L/C Obligations; and (B) if such date is after the Revolving Termination Date, the Borrower shall immediately, and without notice or demand, prepay payments due under the Facility B Takeout Loan in an aggregate amount equal to the Downsize Amount, in the inverse order of maturity.

(d) In the event that prior to the Revolving Termination Date any portion of the Downsize Amount remains after the Facility B Maximum Amount has been reduced to zero, the Facility A Commitment shall be automatically reduced by an aggregate amount equal to such remaining portion of the Downsize Amount.

(e) 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 Commitments shall be automatically reduced to zero, in each case on the 30th day after any Change in Control shall have occurred and be continuing.

(f) If and to the extent that the Facility A Commitment and the Facility B Revolving Commitment are not equal to zero on the Revolving Termination Date, each such amount shall

be automatically reduced to zero on the Revolving Termination Date.

## 2.08 Repayment.

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

(b) Facility B Term Loans and Facility B Revolving Loans. Subject to the provisions of subsection 2.08(c), the Borrower shall repay in full on the Revolving Termination Date the aggregate principal amount of Facility B Term Loans and Facility B Revolving Loans outstanding on such date together with all accrued and unpaid interest thereon.

(c) Facility B Takeout Loans. At the Borrower's option, to be exercised by the giving of an appropriate Notice of Borrowing to the Agent in the manner set forth herein and subject to the conditions set forth in subsection 2.01(b)(iii), the Borrower may request the Banks to make Facility B Takeout Loans to the Borrower on the Revolving Termination Date in repayment of up to all of the aggregate principal amount of Facility B Term Loans and Facility B Revolving Loans outstanding on such date. If and to the extent that the Borrower shall have borrowed the Facility B Takeout Loan on the terms and subject to the conditions set forth herein, the Borrower shall repay the aggregate principal amount of the Facility B Takeout Loan in twelve (12) equal quarterly installments commencing on September 30, 1997, and continuing on the last day of every third calendar month thereafter through June 30, 2000; provided, that all outstanding principal and accrued and unpaid interest on the Facility B Takeout Loans shall be repaid in full on or prior to June 30, 2000.

2.09 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(e) 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.

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

(a) 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 May 11, 1994.

(b) 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 plus its Pro Rata Share of the Effective Amount of L/C Obligations (other than with respect to Commercial Letters of Credit). The Borrower shall pay to the Agent for the account of each Bank a commitment

fee with respect to such Bank's Facility B Commitment, equal to the Commitment Fee rate per annum times the daily average amount by which such Bank's Facility B Revolving Commitment exceeded the aggregate Effective Amount of its Facility B Revolving Loans. Such commitment fees shall accrue from the date of this Agreement to the Revolving 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 August 1, 1994 through the Revolving Termination Date, with the final payment to be made on the Revolving Termination Date; provided that, in connection with the full termination of 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.

2.11 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.

2.12 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.

2.13 Payments by the Banks to the Agent. (a) Unless the Agent receives notice from a Bank on or prior to the Closing Date or, with respect to any Borrowing after the Closing Date, at least one (1) 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.

2.14 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.

#### 2.15 Discretionary 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 \$10,000,000, 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 aggregate Effective Amount of all Swingline Loans, together with the aggregate Effective Amount of all Facility A Revolving Loans and the Effective Amount of all L/C Obligations, without duplication, shall not exceed the aggregate Facility A 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 A 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 A 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 A 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 A 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

3.01 The Letter of Credit Subfacility. (a) On the terms and subject to the conditions set forth herein and as a subfacility of the Facility A Commitment, (i) the Issuing Banks agree, from time to time on any Business Day during the period from the Closing Date to the date that is 30 days prior to the Revolving 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 A Revolving Loans plus the Effective Amount of all Swingline Loans exceeds the combined Facility A 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 Closing Date, or shall impose upon such Issuing Bank any unreimbursed loss, cost or expense which was not applicable on the Closing 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 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 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 working capital or any permitted use of the proceeds of Facility B Revolving Loans as set forth in Section 7.11.

3.02 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 10:00 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 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 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 so to 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 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.

3.03 Existing Letters of Credit; Risk Participations, Drawings and Reimbursements. (a) On and after the Closing 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 Closing 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 A 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 A 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 A 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 A 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 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.

3.04 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.

3.05 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.

3.06 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 A 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.

3.07 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 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(a) 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.

3.08 Letter of Credit Fees. (a) 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 with respect to the Standby Letters of Credit equal to the Risk Participation Percentage of the average daily maximum amount available to be drawn of the outstanding Standby Letters of Credit, computed on a quarterly basis in arrears on the last Business Day of each fiscal quarter based upon Standby 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 are outstanding, commencing on the first such quarterly date to occur after the Closing Date, through the Revolving Termination Date, with the final payment to be made on the Revolving Termination Date.

(b) 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 for each Standby Letter of Credit Issued by such Issuing Bank, equal to 0.15% per annum of the face amount (or increased face amount, as the case may be) of such Standby 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 Closing Date.

(c) 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.

3.09 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.

3.10 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 the Letter of Credit subfacility provided for herein has been established on a joint and several basis as an accommodation to the Borrower and Stratton and at their request, and that each 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) Each of the Borrower and Stratton 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. Each of the Borrower and Stratton 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. Each of the Borrower and Stratton 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 each 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. Each of the Borrower and Stratton 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) Each of the Borrower and Stratton 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.

#### ARTICLE IV

##### TAXES, YIELD PROTECTION AND ILLEGALITY

4.01 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.

4.02 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.

4.03 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 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.

4.04 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.

4.05 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.

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



## ARTICLE V

### CONDITIONS PRECEDENT

5.01 Conditions of Initial Credit Extensions. The obligation of each Bank to make its initial Credit Extension hereunder is subject to the condition that the Agent have received on or before the Closing Date all of the following, in form and substance satisfactory to the Agent and each Bank, and in sufficient copies for each Bank:

(a) 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.;

(c) 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 Guaranties, certified as of the Closing 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;

(d) 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 Closing Date, certified by the Secretary or Assistant Secretary of the General Partner, Stratton or Finance Corp., as applicable, as of the Closing 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 state where the General Partner, Stratton, Finance Corp. or the Borrower conducts significant business as of a recent date, together with bring-down certificates by facsimile, dated the Closing Date;

(e) Legal Opinions.

(i) opinions of Smith, Gill, Fisher & Butts, P.C. and of Andrews & Kurth L.L.P., counsel to the Borrower, the General Partner, Stratton and the Guarantor, addressed to the Agent and the Banks, substantially in the form of Exhibit D;

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

(iii) opinions delivered in connection with the Reorganization, upon which the Agent and the Banks may rely;

(f) 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 Closing Date, together with Attorney Costs of the Agent to the extent invoiced prior to or on the Closing 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;

(g) Certificate. A certificate signed by a Responsible Officer and an officer of Stratton, dated as of the Closing 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;

(iii) there has occurred since April 30, 1994, no event or circumstance that has resulted or could reasonably be expected to result in a Material Adverse Effect; and

(iv) the Reorganization has been consummated.

(h) Cancellation of Existing Revolving Credit. Evidence that all outstanding obligations and other liabilities of the General Partner under the Amended and Restated Loan Agreement dated as of May 10, 1993 among the General Partner, certain of its subsidiaries, Ferrell Companies, Inc. and One Liberty Oil Company, as guarantors, the banks listed therein and Wells Fargo Bank, National Association, as agent, have been paid in full and the obligations of all parties under each of the documents executed and delivered in connection therewith have been terminated, except for such provisions as shall by their terms survive such termination;

(i) Due Diligence Review. The Agent, BA Securities and each of the Banks shall have completed their normal and customary due diligence for transactions in the nature contemplated by the Loan Documents, including, without limitation, review of the terms and conditions of each of the Organizational Documents of the Borrower and each of its Affiliates, the Registration Statements, the Indenture and the Senior Notes, and the proposed capital structure of the Borrower and its Affiliates, and such due diligence review shall be satisfactory to each of them in their sole and absolute discretion;

(j) No Material Change. There shall have been no Material Adverse Effect between April 30, 1994 and the Closing Date, and there shall have been no material adverse change in the financial markets since May 12, 1994;

(k) Insurance Certificate. A certificate from the Borrower's insurance broker, dated the Closing Date, setting forth in such detail as the Agent or any Bank shall reasonably request the types, amounts, deductibles, principal exclusions and other material terms of the insurance then in effect for the Borrower and its Subsidiaries;

(l) Reorganization. Each of the transactions contemplated by the Registration Statements to be consummated on the Closing Date has been consummated and remains in effect according to the terms and conditions described in the Registration Statements and all applicable laws, including, without limitation, the contribution by the General Partner to the Borrower of substantially all of its assets and liabilities in connection with the business of the General Partner as operated on the Closing Date, and the issuance and sale of the

Senior Notes and the MLP Units in amounts and on such terms and conditions as are acceptable to the Agent and the Banks in their sole and absolute discretion (collectively, the "Reorganization").

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

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

5.02 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:

(a) 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;

(b) Continuation of Representations and Warranties. The representations and warranties in Article VI shall be true and correct 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 as of such earlier date);

(c) No Existing Default. No Default or Event of Default shall exist or shall result from such Borrowing, continuation or conversion or Issuance; and

(d) Facility B Revolving Loans. With respect only to Borrowings of Facility B Revolving Loans and in addition to all other terms and conditions set forth herein, the amount of such Borrowing shall not exceed the excess, if any, of (i) the sum of the aggregate Cash Costs of Permitted Acquisitions by the Borrower and its Subsidiaries from the Closing Date through and including the Borrowing Date plus the aggregate Growth-Related Capital Expenditures by the Borrower and its Subsidiaries during such period, over (ii) the sum of (x) the aggregate Net Proceeds

of Asset Sales received by the Borrower and its Subsidiaries during the period from the Closing Date through the Borrowing Date plus (y) the aggregate Net Proceeds from MLP New Unit Sales from the Closing Date through the Borrowing Date plus (z) the Effective Amount of Facility B Revolving Loans outstanding on the Borrowing Date (without regard to such Borrowing), and the Borrower shall have delivered to the Agent a Maximum Amount Certificate dated the Borrowing Date which shall demonstrate compliance with the foregoing test.

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:

6.01 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 in the manner contemplated by the Registration Statements and to execute, deliver, and perform its obligations under the Loan Documents and such additional obligations as are contemplated by the Registration Statements;

(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 not have a Material Adverse Effect; and

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

6.02 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.

6.03 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 consummation of the Reorganization according to the terms and conditions described in the Registration Statements and in accordance with applicable law, (b) 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 (c) the continued operation of Borrower's business as contemplated to be conducted after the date hereof by the Loan Documents and the Registration Statements 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), (b) or (c) 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), (b) or (c), or (iv) that, if not obtained, could reasonably be expected to have a Material Adverse Effect.

6.04 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.

6.05 Litigation. Except as specifically disclosed in Schedule 6.05, 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, the Registration Statements 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 any of the transactions contemplated by the Registration Statements, or directing that the transactions provided for herein or therein not be consummated as herein or therein provided.

6.06 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 Closing 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 Closing Date, create an Event of Default under subsection 9.01(e) other than a default under Section 4.09 of the Indenture relating to the Existing Senior Notes.

6.07 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.

6.08 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.

6.09 Title to Properties. Except as provided for in Section 7.05, the Borrower and each Subsidiary have (or will have within the time period specified in Section 7.05) 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 Closing Date and subject to the preceding sentence, the property of the Borrower and its Subsidiaries is subject to no Liens other than Permitted Liens.

6.10 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 except with respect to the Tax Audit as described in Schedule 6.10 hereof.



6.11 Financial Condition. (a) The audited consolidated financial statements of the General Partner and its Subsidiaries dated April 30, 1994, and the pro forma consolidated financial statements of the Borrower dated April 30, 1994, 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) except as specifically disclosed in Schedule 6.11, 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, 1994, 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 the Reorganization and each of the other transactions contemplated by the Loan Documents, and any Acquisitions; and each of such Persons delivered fair consideration for all assets acquired by it in connection with the Reorganization and such transactions and Acquisitions, in each case in arm's length transactions.

6.12 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, except as specifically disclosed in Schedule 6.12, such Environmental Laws and Environmental Claims could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

6.13 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.

6.14 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.

6.15 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. Except as specifically disclosed in Schedule 6.15, no claim or litigation regarding any of the foregoing is pending or 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.

6.16 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.

6.17 Insurance. Except as specifically disclosed in Schedule 6.17, 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.

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

6.19 Full Disclosure. None of the representations or warranties made by the Borrower or any Affiliate of the Borrower in the Loan Documents or any of the Registration Statements 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 or the Registration Statements (including the other offering and disclosure materials delivered by or on behalf of the Borrower to the Banks prior to the Closing Date), 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.

6.20 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.

6.21 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.

## ARTICLE VII

### AFFIRMATIVE COVENANTS

So long as any Bank shall have any 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:

7.01 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 Closing 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, 1994), 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, 1994), 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, 1994), 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, 1994, 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 fiscal quarter, a trading position report as of the last day of each fiscal quarter, certified by a Responsible Officer.

7.02 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) concurrently with the delivery of the financial statements referred to in subsections 7.01(a) and (b), and at such other times as the Agent shall request in its sole discretion from time to time or as the Borrower shall provide in its discretion, a certificate in the form of Exhibit K hereto (a "Maximum Amount Certificate") executed by a Responsible Officer pursuant to which the Borrower shall certify to the Agent, for the benefit of the Banks and in such form and detail as the Agent shall request and in each case, compared to the applicable amounts set forth in the previously delivered Maximum Amount Certificate, (i) the aggregate Cash Costs of all Permitted Acquisitions by the Borrower and its Subsidiaries (together with the aggregate amount of any Acquired Debt and seller financing associated therewith and the amount of such Cash Costs which were or could have been financed with Facility B Revolving Loans) during the periods from the Closing Date to the date that is 270 days prior to the date of such Maximum Amount Certificate (the "Hold Period Date"), and from the Hold Period Date through the date of the such Maximum Amount Certificate, and the total amount; (ii) the aggregate Growth-Related Capital Expenditures by the Borrower and its Subsidiaries during the period from the Closing Date through the date of such Maximum Amount Certificate; (iii) the aggregate Net Proceeds of Asset Sales during the periods from the Closing Date through the Hold Period Date and from the Hold Period Date through the date of such Maximum Amount Certificate, and the total; (iv) the aggregate Net Proceeds of

MLP New Unit Sales during the period from the Closing Date through the date of such Maximum Amount Certificate; and (v) a calculation of the Facility B Maximum Amount as of the date of such Maximum Amount Certificate, based on the information contained therein;

(d) 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

(e) 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.

7.03 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.

7.04 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;

(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.

7.05 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. By December 31, 1994, the Borrower shall have good and marketable title to all material properties and other assets which by the terms of the Reorganization are to be transferred to the Borrower.

7.06 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.

7.07 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 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 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.

7.08 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.

7.09 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.

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

7.11 Use of Proceeds. The Borrower (and Stratton, with respect to Letters of Credit) shall use the proceeds of the Facility A Revolving Loans and Facility B Revolving Loans for working capital and other general partnership purposes, in each case not in contravention of any Requirement of Law or of any Loan Document; the Borrower shall use the proceeds of the Facility B Term Loan for the purpose of repaying up to \$25,000,000 in outstanding amount of Existing Debt on the Closing Date; and the Borrower shall use the proceeds of all Facility B Takeout Loans to repay up to all of the aggregate outstanding principal amount of the Facility B Loans on the Revolving Termination Date.

7.12 Financial 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 three immediately preceding fiscal quarters, equal to or less than 4.00 to 1.00; 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 \$50,000,000.

7.13 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 the Closing Date, copies of which have been provided to the Agent on or prior to the Closing Date, provided, however, that the Borrower and its Affiliates may, during any period of four successive fiscal quarters, (a) increase the stop loss limit specified in either policy by up to 100% 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%; and provided further, however, that the Borrower and its Affiliates shall not, during any fiscal year, (i) increase the stop loss limit specified in either policy by more than 100% or (ii) 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 more than 100%. 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.

7.14 Other General Partner 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 Reorganization and each of the other 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, and will retain sufficient assets upon the consummation of the transactions contemplated by the Registration Statements and from time to time thereafter to pay, in full, the maximum potential liability of the General Partner under or in connection with the Tax Audits. The General Partner shall advise the Agent in writing from time to time of all material developments in connection with the Tax Audit, including, without limitation, any material change in the maximum potential liability of the General Partner in connection therewith or any material change in the amount of assets retained by the General Partner regarding such liability pursuant to this Section 7.14.

(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 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.

7.15 Other Stratton Obligations. Stratton shall not engage in any business other than insuring potential worker's compensation liabilities of the Borrower and/or the General Partner.

7.16 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.

7.17 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 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:

8.01 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 Closing Date set forth in Schedule 8.01;

(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, provided that such financing statements are filed or recorded solely in connection with such leases and not the borrowing of money or the obtaining of advances or credit or Capital Lease Obligations;

(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.

8.02 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 8.14 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.

#### 8.03 Consolidations 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 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.

8.04 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.

8.05 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 July 31, 1996 and 3.00 to 1 if such date is after July 31, 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 shall be subordinated in right of payment to the Obligations and no principal payment thereon shall be required prior to July 1, 2000, whether upon stated maturity, mandatory prepayment, acceleration or otherwise, 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 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 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 on 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; and (xi) in addition to the Indebtedness permitted under the foregoing clauses (i) through (x), 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 (xi) shall be subordinated in right of payment to the Obligations and no principal payment thereon shall be required prior to July 1, 2000, whether upon stated maturity, mandatory prepayment, acceleration or otherwise.

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 Commitments 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.

8.06 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.

8.07 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.

8.08 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.

8.09 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) Contingent Obligations of the Borrower and its Subsidiaries existing as of the Closing Date and listed in Schedule 8.09; and

(d) Subsidiary Note Guarantees, under the terms and conditions set forth in the Indenture and the Guaranties hereunder.

8.10 Joint Ventures. The Borrower shall not, and shall not suffer or permit any Subsidiary to enter into any Joint Venture.

8.11 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 for any fiscal year shall not exceed the greater of \$15 million or 15% of Consolidated Cash Flow for such fiscal year.

8.12 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 8.20, any such Equity Interests owned by a Wholly-Owned Subsidiary of the Borrower that is a Guarantor); (iii) purchase, redeem, call or otherwise acquire or retire for value any Indebtedness that is subordinated to the Obligations; (iv) make any Investment other than a Permitted Investment; or (v) prepay, purchase, redeem, retire, defease or refinance the Senior Notes (all such payments and other actions set forth in clauses (i) through (v) above being collectively referred to as "Restricted

Payments"), unless, at the time of and after giving effect to 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 clauses (ii), (iii) or (iv) 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) at the time of such Restricted Payment and after giving effect thereto, the Borrower or any of its Subsidiaries or Non-Recourse Subsidiaries shall have (i) acquired, improved or repaired property, plant or equipment that is accounted for as a capital expenditure in accordance with GAAP or (ii) acquired, through merger or otherwise, all or substantially all of the outstanding Capital Interests, or all or substantially all of the assets, of any entity engaged in the business in which the Borrower is engaged on the date of this Agreement (each of

the transactions referred to in clauses (i) and (ii) above, a "Capital Investment") for Aggregate Consideration since the date of this Agreement that, when added to all cash reserves then funded and maintained by the Borrower (the proceeds of which shall be used solely for Capital Investments) is no less than the amounts set forth in the table below, if such Restricted Payment is made in the 12-month period beginning August 1 of the years indicated:

Year ----	Amount -----
1994 . . . . .	\$0
1995 . . . . .	\$15 million
1996 . . . . .	\$30 million
1997 . . . . .	\$45 million
1998 . . . . .	\$70 million
1999 . . . . .	\$95 million
2000 . . . . .	\$120 million

For purposes of the foregoing, "Aggregate Consideration" at any date shall mean all cash paid in connection with all Capital Investments consummated on or prior to such date, the fair market value of all Capital Interests of the MLP or the Borrower (determined by the General Partner in good faith with reference to, among other things, the trading price of such Capital Interests, if then traded on any national securities exchange or automated quotation system) constituting all or a portion of the purchase price of all Capital Investments consummated on or prior to such date and the aggregate principal amount of all Indebtedness incurred or assumed by the Borrower in connection with all Capital Investments consummated on or prior to such date.

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; (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); (iii) the defeasance, redemption or repurchase of subordinated Indebtedness with the proceeds of Permitted Refinancing Indebtedness; and (iv) the defeasance, redemption or repurchase of any Existing Subordinated Debentures of the General Partner outstanding on the date of this Agreement and the payment of all costs and expenses in connection therewith.

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.

8.13 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 Indenture, the Subsidiary Note Guarantees and the 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, or (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.

8.14 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.

8.15 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.

8.16 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.

8.17 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.

8.18 Amendments of Organization Documents or 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 Indenture, any Senior Note, any Existing Subordinated Debenture or any document executed and delivered in connection with any of the foregoing, in each 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.

8.19 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.



8.20 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 100% of the consolidated value of the assets of the Borrower and its Subsidiaries for such fiscal year, as determined in accordance with GAAP.

8.21 Operations of MLP. 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 8.21, 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).

## ARTICLE IX

### EVENTS OF DEFAULT

9.01 Event of Default. Any of the following shall constitute an "Event of Default":

(a) Non-Payment. The Borrower 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

(b) 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

(c) 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

(d) Other Defaults. The Borrower 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

(e) Cross-Default. The Borrower 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, excluding any acceleration of maturity of Indebtedness represented by the Existing Senior Notes to the extent that such Indebtedness shall be redeemed on or prior to the 40th day after the Closing Date; or

(f) 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

(g) 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 therefor), or other similar Person for itself or a substantial portion of its property or business; or

(h) 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.

(i) Monetary Judgments. 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) as to any single or related series of transactions, incidents or conditions, of more than \$40,000,000; or

(j) Non-Monetary Judgments. Any non-monetary judgment, order or decree is entered against the Borrower 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

(k) 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

(l) Adverse Change. There occurs a Material Adverse Effect; or

(m) Indenture Cross-Defaults. 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 Indenture; or

(n) 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.

9.02 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.

9.03 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.

9.04 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

10.01 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.

(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.

10.02 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.

10.03 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.

10.04 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.

10.05 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.

10.06 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 expressly herein required to be furnished to the Banks by the Agent or any Issuing Bank, 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.

10.07 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, 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.

10.08 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.

10.09 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.

10.10 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

11.01 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 Commitment of any Bank (or reinstate any 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 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.

11.02 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.

11.03 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.

11.04 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) 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) in connection with the development, preparation, delivery, administration and execution of, and any amendment, supplement, waiver or modification to (in each case, whether or not consummated), this Agreement, any Loan Document 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) 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).

11.05 Indemnity. Whether or not the transactions contemplated hereby are consummated, the Borrower shall indemnify and hold the Agent-Related Persons, the Issuing Banks, 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.

11.06 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.

11.07 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.

11.08 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 Commitments, the L/C Obligations and the other rights and obligations of such Bank hereunder with respect to Facility A and Facility B, in an aggregate minimum amount of \$10,000,000, pro-rated between Facility A and Facility B; 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 Assigners 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 Commitment and, if the assignor Bank has retained a portion of its Loans and its Commitment 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 Commitments arising therefrom. The Commitment allocated to each Assignee shall reduce such Commitments 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 Commitment 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 (S)203.14, and such Federal Reserve Bank may enforce such pledge or security interest in any manner permitted under applicable law.

11.09 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.

11.10 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.

11.11 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.

11.12 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.

11.13 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, 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.

11.14 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.

11.15 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.

11.16 Entire Agreement. From and after the Closing 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 all prior or contemporaneous agreements and 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.,  
as Borrower

By: Ferrellgas, Inc.,  
General Partner

By: \_\_\_\_\_  
Danley K. Sheldon  
Vice President and Chief  
Financial Officer/Treasurer

FERRELLGAS, INC.,  
as General Partner

By: \_\_\_\_\_  
Danley K. Sheldon  
Vice President and Chief  
Financial Officer/Treasurer

STRATTON INSURANCE COMPANY, INC.

By: \_\_\_\_\_  
Danley K. Sheldon  
Vice President and Chief  
Financial Officer/Treasurer

BANK OF AMERICA NATIONAL TRUST  
AND SAVINGS ASSOCIATION,  
as Agent

By: \_\_\_\_\_  
James D. Hinson  
Vice President

BANK OF AMERICA NATIONAL TRUST  
AND SAVINGS ASSOCIATION, as a Bank

By: \_\_\_\_\_  
Mark L. Milner  
Vice President

SCHEDULE 2.01

Bank	Facility A Commitment	Facility B Commitment		Total	Pro Rata Share
		Tranche I Term Loan	Tranche II Revolving Loans*		
Bank of America					
Total:	\$100,000,000.00	\$25,000,000.00	\$60,000,000*		

\* On the 45th day after the Closing Date, each Bank's Facility B Term Loan Commitment set forth on this Schedule 2.01 shall be increased by the excess, if any, of each Bank's Facility B Term Loan Commitment over the amount of its Facility B Term Loan outstanding as of such date.

SCHEDULE 6.10

[Description of 1986 and 1987 IRS audits of the General Partner, and scope of potential liability.]

SCHEDULE 11.02

EURODOLLAR AND DOMESTIC LENDING OFFICES,  
ADDRESSES FOR NOTICES

Attention:

Telephone:

Facsimile:

BANK OF AMERICA NATIONAL TRUST  
AND SAVINGS ASSOCIATION,  
as Agent

Bank of America National Trust  
and Savings Association  
Global Agency #5596  
1455 Market Street, 12th Floor  
San Francisco, California 94103  
Attention:

Vice President  
Telephone: (415) 622-  
Facsimile: (415) 622-4894

BANK OF AMERICA NATIONAL TRUST  
AND SAVINGS ASSOCIATION,  
as a Bank

Domestic and Eurodollar Lending Office:  
1850 Gateway Boulevard, Fourth Floor  
Concord, California 94520

Notices (other than Borrowing notices and Notices of  
Conversion/Continuation):

Bank of America National Trust  
and Savings Association  
[Address]



NOTICE OF BORROWING

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TO: Bank of America National Trust  
and Savings Association, Agent  
1455 Market Street, 12th Floor  
San Francisco, CA 94103  
Attn: Global Agency #5596

Re: Ferrellgas, L.P.

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Pursuant to Section 2.03(a) of that certain Credit Agreement dated as of \_\_\_\_\_, 1994 (as from time to time amended, extended, restated, modified or supplemented, the "Credit Agreement", among Ferrellgas, L.P., a Delaware limited partnership (the "Borrower"), Stratton Insurance Company, a Vermont corporation and a Wholly-Owned Subsidiary of Borrower, Ferrellgas, Inc., a Delaware corporation and the sole general partner of Borrower, the financial institutions from time to time party thereto (the "Banks") and Bank of America National Trust and Savings Association, as agent for the Banks (in such capacity, the "Agent") and as Issuing Bank, this represents the Borrower's request for a Borrowing from the Banks as follows:

1. The amount of the Borrowing shall be \$\_\_\_\_\_.
2. The Borrowing Date shall be \_\_\_\_\_.
3. The Loan shall be a [Base Rate] [Eurodollar Rate] Loan. [The initial Interest Period for such Eurodollar Rate Loan shall be [one] [two] [three] [six] months.]
4. The Loan shall be a [Facility A Revolving Loan] [Swingline Loan] [Facility B Term Loan] [Facility B Revolving Loan] [Facility B Takeout Loan].

The proceeds of such Loan are to be deposited in the Borrower's account at the Agent.

The undersigned Responsible Officer hereby certifies that:

- a. The representations and warranties in Article VI of the Credit Agreement are true and correct on and as of the date hereof (except to the extent such representations and warranties expressly refer to an earlier date, in which case they were true and correct as of such earlier date); and

- (b) No Default or Event of Default has occurred and is continuing under the Credit Agreement or will result from the proposed Borrowing.

Capitalized terms used but not defined herein shall have the meanings assigned to them in the Credit Agreement.

DATED: \_\_\_\_\_

FERRELLGAS, L.P.

By: FERRELLGAS, INC., General  
Partner

By:\_\_\_\_\_

Title:\_\_\_\_\_

NOTICE OF CONVERSION/CONTINUATION

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TO: Bank of America National Trust  
and Savings Association  
Global Agency #5596  
1455 Market Street, 12th Floor  
San Francisco, California 94103

Re: Ferrellgas, L.P.

-----

Pursuant to Section 2.04(b) of that certain Credit Agreement dated as of \_\_\_\_\_, 1994 (as from time to time amended, extended, restated, modified or supplemented, the "Credit Agreement"), among Ferrellgas, L.P., a Delaware limited partnership (the "Borrower"), Stratton Insurance Company, a Vermont corporation and a Wholly-Owned Subsidiary of Borrower, Ferrellgas, Inc., a Delaware corporation and the sole general partner of Borrower, the financial institutions from time to time party thereto (the "Banks") and Bank of America National Trust and Savings Association, as agent for the Banks (in such capacity, the "Agent"), this represents Borrower's request to [Convert] [Continue] certain [Base Rate Loans] [Eurodollar Rate Loans] as follows:

(A) The date of [Conversion] [Continuation] shall be \_\_\_\_\_, 199\_, (which day is, in the case of Conversion of Base Rate Loans, a Business Day, or, in the case of Conversion or Continuation of Eurodollar Rate Loans, the last day of the applicable Interest Period).

(B) An aggregate amount of \$\_\_\_\_\_ of [Facility A Revolving Loans] [Facility B Revolving Loans] [Facility B Term Loans] are to be [Converted] [Continued] as of the date set forth in paragraph (A) above (which amount is \$3,000,000, or is an integral multiple of \$1,000,000 in excess thereof).

(C) The Type of Loans resulting from the [Conversion] [Continuation] shall be [Base Rate Loans] [Eurodollar Rate Loans].

[(D) If the resulting Loan is a Eurodollar Rate Loan, the Interest Period of such Loan shall be [one][two][three][six] month(s).]

[Borrower represents and warrants, in the case of Conversion or Continuation of Eurodollar Rate Loans, that no Default or Event of Default exists on the date hereof and on the

date set forth in paragraph (A) above.] [Notwithstanding that a Default or Event of Default exists, Borrower requests the consent of the Majority Banks to Convert/Continue the Eurodollar Rate Loan as set forth above.] Borrower represents that, taking into consideration the [Conversion] [Continuation] of Loans requested hereby, there are not more than ten (10) Interest Periods in effect.

Capitalized terms used herein shall have the meanings assigned to them in the Credit Agreement.

DATED: \_\_\_\_\_ FERRELLGAS, L.P.

By: FERRELLGAS, INC., General  
Partner

By: \_\_\_\_\_  
Title: \_\_\_\_\_

## COMPLIANCE CERTIFICATE

This compliance certificate is provided pursuant to Section 7.02(b) of the Credit Agreement dated as of \_\_\_\_\_, 1994 (as the same may be amended from time to time, the "Credit Agreement"), by and among Ferrellgas, L.P., a Delaware limited partnership ("Borrower"), Stratton Insurance Company, a Vermont corporation and a wholly-owned subsidiary of Borrower, Ferrellgas, Inc., a Delaware corporation and the sole general partner of Borrower, Bank of America National Trust and Savings Association, as agent (in such capacity, "Agent"), and the financial institutions ("Banks") from time to time party to the Credit Agreement. Unless otherwise defined herein, capitalized terms used herein are used with the defined meanings given in the Credit Agreement.

I, \_\_\_\_\_, the \_\_\_\_\_ of Ferrellgas, Inc., a Delaware corporation and the sole general partner of Borrower, do hereby certify that I am familiar with the Credit Agreement and with the assets, business, financial condition and operations of Borrower and its Subsidiaries and that during the fiscal quarter ending \_\_\_\_\_, 19\_\_:

Borrower has performed all of its obligations under and is in compliance with all covenants and agreements contained in the Credit Agreement and under (i) any instrument or agreement required thereunder, (ii) any other instrument or agreement to which Borrower is a party or under which Borrower is obligated, and (iii) any judgment, decree or order of any court or governmental authority binding on Borrower. Without limiting the generality of the foregoing:

1. As required by Section 7.12 of the Credit Agreement:

(i) Borrower has maintained a Leverage Ratio for the applicable fiscal period of not greater than 4.0:1. The current Leverage Ratio is: \_\_\_\_\_.

Funded Debt		
(\$_____)		
-----	=	Leverage Ratio
Consolidated Cash Flow		
(\$_____)		

Attached as Exhibit A is a calculation of Consolidated Cash Flow, including such calculation on a pro forma basis for any Acquisitions consummated during the fiscal period.

(ii) Borrower has a minimum Partners' Equity of not less than \$50,000,000. The current Partners' Equity is \$\_\_\_\_\_.

2. As required by Section 7.13 of the Credit Agreement, Borrower and its Affiliates are in compliance, and have at all times during the relevant fiscal period been in compliance, with Borrower's trading position policy and supply inventory position policy guidelines as in effect on the Closing Date[, provided that the stop loss limit in the trading position policy has been increased from \_\_\_\_\_ at the beginning of the three quarters preceding the fiscal quarter that is the subject of this certificate (the "Initial Date") to \_\_\_\_\_ at the end of the fiscal quarter that is the subject of this certificate (the "Final Date"), an aggregate increase of \_\_\_\_%] [the stop loss limit in the supply inventory position has increased from \_\_\_\_\_ on the Initial Date to \_\_\_\_\_ on the Final Date, an aggregate increase of \_\_\_\_%] [the volume limit for [describe product] in the trading position policy has been increased from \_\_\_\_\_ on the Initial Date to \_\_\_\_\_ on the Final Date, an aggregate increase of \_\_\_\_%] [the volume limit for [describe product] in the supply inventory position policy has been increased from \_\_\_\_\_ on the Initial Date to \_\_\_\_\_ on the Final Date, an aggregate increase of \_\_\_\_%].

3. As required by Section 7.16, Borrower hereby notifies Agent that [no judgments, orders, decrees or arbitration awards have been entered against 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 \$10,000,000] [the following judgments, orders, decrees and/or arbitration awards have been entered against Borrower or its Subsidiaries: \_\_\_\_\_]. The foregoing involve an aggregate 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) of \$\_\_\_\_\_. Borrower has reserved for such amount in excess of \$10,000,000, on a quarterly basis, with each quarterly reserve being at least equal to one-twelfth of such amount in excess of \$10,000,000. The amount of each quarterly reserve is \$\_\_\_\_\_].

4. As required by Section 8.12 of the Credit Agreement, during the applicable fiscal period, Borrower and its Subsidiaries made [no Restricted Payments] [Restricted Payments in an amount equal to \$\_\_\_\_\_ and, at the time of and after giving effect to such Restricted Payments, each of the following statements was true:

(a) no Default or Event of Default had occurred or was continuing at the time of such Restricted Payment or occurred as a consequence thereof and each of the representations and warranties of the Borrower set forth in the Credit Agreement was 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 were available immediately preceding the date on which such Restricted Payment was made, calculated on a pro forma basis as if such Restricted Payment had been made at the beginning of such four-quarter period, was \_\_\_\_\_, which ratio is greater than 2.25 to 1.

Consolidated Cash Flow

(\$\_\_\_\_\_)

----- = Fixed Charge Coverage Ratio

Fixed Charges

(\$\_\_\_\_\_)

and

(c) (i) the amount of such Restricted Payment, if made other than in cash, was determined by the Board of Directors and evidenced by a resolution in an officer's certificate signed by a Responsible Officer and delivered to the Agent, and (ii) except as otherwise provided in the Credit Agreement, such Restricted Payment, together with the aggregate of all other Restricted Payments made by the Borrower and its Subsidiaries in the fiscal quarter during which such Restricted Payment was made, did not exceed the amount of 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 the Credit Agreement and ending on the last day of the immediately preceding fiscal quarter).

Attached as Exhibit B is a calculation of Consolidated Cash Flow, including such calculation on a pro forma basis for any Acquisitions consummated during the fiscal period.

5. As required by subsection 2.01(a)(ii) of the Credit Agreement, the aggregate outstanding principal amount of Facility A Revolving Loans and Swingline Loans did not exceed \$25,000,000 for the consecutive thirty (30) day period from \_\_\_\_\_ to \_\_\_\_\_.

IN WITNESS WHEREOF, this Certificate has been executed on behalf of Borrower as of the \_\_\_\_ day of \_\_\_\_\_, 19\_\_.

FERRELLGAS, L.P., a Delaware limited partnership

By: FERRELLGAS, INC., General Partner

By: \_\_\_\_\_

Title: \_\_\_\_\_



## ASSIGNMENT AND ACCEPTANCE AGREEMENT

THIS ASSIGNMENT AND ACCEPTANCE AGREEMENT ("Agreement") dated as of \_\_\_\_\_, 19\_\_ is made with reference to that certain Credit Agreement dated as of \_\_\_\_\_, 1994 (as amended from time to time, the "Credit Agreement") among Ferrellgas, L.P., a Delaware limited partnership (the "Borrower"), Stratton Insurance Company, a Vermont corporation and a Wholly-Owned Subsidiary of Borrower, Ferrellgas, Inc., a Delaware corporation and the sole general partner of Borrower, the financial institutions from time to time party thereto, and Bank of America National Trust and Savings Association, as an Issuing Bank and agent (in such capacity, the "Agent"), and is entered into between the "Assignor" described below, in its capacity as a Bank under the Credit Agreement, and the "Assignee" described below.

The Assignor and the Assignee hereby represent, warrant and agree as follows;

1. Definitions. Except as otherwise provided herein, capitalized terms

defined in the Credit Agreement are used herein with the meanings set forth therein. As used in this Agreement, the following capitalized terms shall have the meanings set forth below:

"Assignee" means

\_\_\_\_\_  
 "Assigned Pro-Rata Share" means the following percentage of the Commitment  
 \_\_\_\_\_  
 of the Assignor under the Credit Agreement:

Percentage: \_\_\_\_\_

Dollar Amount: \_\_\_\_\_

"Assignor" means

\_\_\_\_\_  
 "Effective Date" means \_\_\_\_\_, 199\_\_.

2. Representations and Warranties of the Assignor. The Assignor  
 \_\_\_\_\_  
 represents and warrants to the Assignee as follows:

(a) As of the date hereof, the Commitment of the Assignor under the Credit Agreement is equal to \$\_\_\_\_\_ (without giving effect to assignment thereof which has not yet become effective). The Assignor is the legal and beneficial

owner of the Assigned Pro-Rata Share and the Assigned Pro-Rata Share is free and clear of any adverse claim;

(b) As of the date hereof, [there is no] [the] outstanding principal balance of Advances made under the Credit Agreement [is \_\_\_\_\_];

(c) If required under subsection 11.08(a) of the Credit Agreement, the Assignor has obtained the consent of the Borrower to the assignment of the Assigned Pro-Rata Share to the Assignee;

(d) The Assignor has full power and authority, and has taken all action necessary, to execute and deliver this Agreement and any and all other documents required or permitted to be executed or delivered by it in connection with this Agreement and to fulfill its obligations under, and to consummate the transactions contemplated by, this Agreement, and no governmental authorizations or other authorizations are required in connection therewith; and

(e) This Agreement constitutes the legal, valid and binding obligation of the Assignor.

The Assignor makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or the performance by the Borrower of its obligations under the Credit Agreement, and assumes no responsibility with respect to any statements, warranties or representations made under or in connection with the Credit Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement or any other documents under the Credit Agreement, other than as expressly set forth above.

3. Representations and Warranties of the Assignee. The Assignee hereby  
-----  
represents and warrants to the Assignor as follows:

(a) The Assignee has full power and authority, and has taken all action necessary, to execute and deliver this Agreement, and any and all other documents required or permitted to be executed or delivered by it in connection with this Agreement and to fulfill its obligations under, and to consummate the transactions contemplated by, this Agreement, and no governmental authorizations or other authorizations are required in connection therewith;

(b) This Agreement constitutes the legal, valid and binding obligation of the Assignee;

(c) The Assignee has independently and without reliance upon the Assignor and based on such information as the Assignee has deemed appropriate, made its own credit analysis and

decision to enter into this Agreement. The Assignee will, independently and without reliance upon the Agent, any Issuing Bank or any Bank, and based upon such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement;

(d) If the Assignee is organized under the laws of a jurisdiction outside the United States of America, attached hereto is Internal Revenue Service Form 4224 or Internal Revenue Service Form 1001, as applicable (and any successor forms or additional forms necessary for claiming complete exemption from United States withholding taxes) certifying the Assignee's exemption from United States withholding taxes with respect to all payments to be made to the Assignee under the Credit Agreement; and

(e) Assignee is an Eligible Assignee, as that term is defined in the Credit Agreement.

4. Assignment. On the terms set forth herein, the Assignor, as of the

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Effective Date, hereby irrevocably sells, assigns and transfers to the Assignee all of the rights and obligations of the Assignor under the Credit Agreement and the Assignor's Notes, if any, under the Credit Agreement, in each case to the extent of the Assigned Pro-Rata Share, and the Assignee irrevocably accepts such assignment of rights and assumes such obligations from the Assignor on such terms and effective as of the Effective Date. As of the Effective Date, the Assignee shall have the rights and obligations of a "Bank" under the Credit Agreement and the Notes, if any. Assignee hereby appoints and authorizes the Agent to exercise such powers under the Credit Agreement and the Notes, if any. Assignee hereby appoints and authorizes the Agent to exercise such powers under the Credit Agreement as are delegated to the Agent by Article X of the Credit Agreement.

5. Payment. On the Effective Date, the Assignee shall pay to the

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Assignor, in immediately available funds, an amount equal to the purchase price of the Assigned Pro-Rata Share, as agreed between the Assignor and the Assignee pursuant to a letter agreement of even date herewith.

The Assignor and the Assignee hereby agree that if either receives any payment of interest, principal, fees or any other amount under the Credit Agreement, their respective Notes or any other documents under the Credit Agreement which is for the account of the other, it shall hold the same in trust for such party to the extent of such party's interest therein and shall promptly pay the same to such party.

6. Principal, Interest, Fees, Etc. Any principal that would be payable

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and any interest, fees and other amounts that would accrue from and after the Effective Date to or for the

account of the Assignor pursuant to the Credit Agreement and the Note(s) shall be payable to or for the account of the Assignor and the Assignee, in accordance with their respective interests as adjusted pursuant to this Agreement. Payments to be made to the Assignee shall be made to its address set forth on the signature pages hereof, or to such other address as the Assignee may designate.

7. Notes. At Assignee's request, and within five Business Days after its receipt of notice by the Agent that the Agent has received an executed copy of this Agreement and payment of the processing fee (and provided that the Agent, and Borrower, if required, consents to such assignment pursuant to subsection 11.08(a) of the Credit Agreement), Borrower shall execute and deliver to the Agent new Notes evidencing the Assignee's Assigned Pro-Rata Share and, if the Assignor has retained a portion of its Commitment and at Assignor's request, a replacement Note in the principal amount of the Loans retained by the assignor Bank (such Note to be in exchange for, but not in payment of, the Note held by such Bank).

8. Processing Fee. On the Effective Date, the [Assignee] [Assignor] shall pay to the Agent the processing fee provided for in subsection 11.08(a) of the Credit Agreement.

9. Further Assurances. The Assignor and the Assignee agree to execute and deliver such other instruments, and take such other action, as either party may reasonably request in connection with the transactions contemplated by this Agreement, and the Assignor specifically agrees to cause the delivery of two original counterparts of this Agreement to the Agent.

10. Governing Law. THIS AGREEMENT SHALL BE DEEMED TO BE A CONTRACTUAL OBLIGATION UNDER, AND SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK. FOR ANY DISPUTE ARISING IN CONNECTION WITH THIS AGREEMENT, THE ASSIGNEE HEREBY IRREVOCABLE SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK.

11. Notices. All communications among the parties or notices in connection herewith must be in writing and must be mailed, telegraphed, telecopied, delivered or sent by telex or cable, addressed to the appropriate party at its address set forth on the signature pages hereof. All communications and notices shall, if sent by telegraph, telex or telecopy, be deemed to have been given when received by the Person to whom addressed; if sent by overnight courier service, be deemed to have been given one day after the date when sent; and if sent by mail, be deemed to have been given three days after the date when sent by registered or certified mail, postage prepaid.

12. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns.

13. Interpretation. The headings of the various sections hereof are for  
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convenience of reference only and shall not affect the meaning or construction  
of any provision hereof.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed  
and delivered by their respective officials, officers or agents thereunder duly  
authorized as of the date first above written.

"Assignor"

By: \_\_\_\_\_  
Its: \_\_\_\_\_  
Address: \_\_\_\_\_  
-----  
-----  
Attn: \_\_\_\_\_  
Telephone: \_\_\_\_\_  
Telecopy: \_\_\_\_\_  
Telex: \_\_\_\_\_

"Assignee"

By: \_\_\_\_\_  
Its: \_\_\_\_\_  
Address: \_\_\_\_\_  
-----  
-----  
Attn: \_\_\_\_\_  
Telephone: \_\_\_\_\_  
Telecopy: \_\_\_\_\_  
Telex: \_\_\_\_\_

ACKNOWLEDGED AND ACCEPTED:

"Agent"  
Bank of America National Trust  
and Savings Association

By: \_\_\_\_\_

[If Required]  
"Borrower"  
FERRELLGAS, L.P.

By: FERRELLGAS, INC., General Partner

By: \_\_\_\_\_

## FACILITY A REVOLVING NOTE

-----

\$ \_\_\_\_\_, 199\_

FOR VALUE RECEIVED, the undersigned FERRELLGAS, L.P., a Delaware limited partnership, and STRATTON INSURANCE COMPANY, INC., a Vermont corporation (together, "Borrower"), HEREBY PROMISE TO PAY to the order of \_\_\_\_\_ ("Bank") the principal sum of

\_\_\_\_\_ (\$ \_\_\_\_\_) or, if less, the aggregate principal amount of Facility A Revolving Loans outstanding on the Revolving Termination Date, made to Borrower by Bank pursuant to Section 2.01(a) of that certain Credit Agreement dated as of \_\_\_\_\_, 1994 (as the same may be amended from time to time, the "Credit Agreement"), among Borrower, Stratton Insurance Company, a Vermont corporation and a Wholly-Owned Subsidiary of Borrower, Ferrellgas, Inc., a Delaware corporation and the sole general partner of Borrower, the financial institutions from time to time party thereto, and Bank of America National Trust and Savings Association, as agent for said financial institutions (in such capacity, "Agent") payable in full on the Revolving Termination Date together with interest on the unpaid principal balance hereof from time to time outstanding from the date hereof until paid in full at the rate or rates and in the manner and at the times specified in the Credit Agreement.

Both the principal hereof and the interest hereon are payable in lawful money of the United States of America at Bancontrol Account Number \_\_\_\_\_ located at \_\_\_\_\_ (or at such other Lending Office as may be designated from time to time by Agent), for the account of Bank, in immediately available funds.

The holder of this Facility A Revolving Note is authorized to record the date and amount of Facility A Revolving Loans made by the Bank, the amount of interest accruing from time to time and the date and amount of each payment or prepayment of principal thereof on the schedule annexed to and constituting a part hereof, or on a continuation thereof which shall be attached hereto and a part hereof and any such recordation shall constitute prima facie evidence of the accuracy of the information so recorded.

Borrower agrees to pay all costs of collection and enforcement of this Facility A Revolving Note, whether or not suit is filed, including, without limitation, reasonable attorneys' fees, as more particularly provided in Section 11.04 of the Credit Agreement.

This Facility A Revolving Note is one of the "Notes" referred to in, and is entitled to the benefits of, the Credit Agreement which, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and for prepayment of amounts from time to time outstanding under this Facility A Revolving Note upon certain terms and conditions. Unless otherwise defined herein, capitalized terms used herein are used with the defined meanings given in the Credit Agreement.

THIS FACILITY A REVOLVING NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK.

FERRELLGAS, L.P., a Delaware limited partnership

By: FERRELLGAS, INC., General Partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

STRATTON INSURANCE COMPANY, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

SCHEDULE TO FACILITY A REVOLVING NOTE  
 -----

Date	Amount of Facility A Revolving Loans	Amount of Principal Paid or Prepaid	Unpaid Principal Balance of Facility A Revolving Loans	Notation Made By
-----	-----	-----	-----	-----



## FACILITY B TERM NOTE

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\$ \_\_\_\_\_, 199\_

FOR VALUE RECEIVED, the undersigned FERRELLGAS, L.P., a Delaware limited partnership ("Borrower"), HEREBY PROMISES TO PAY to the order of \_\_\_\_\_ ("Bank") the principal sum of \_\_\_\_\_ (\$ \_\_\_\_\_), payable in full on the Revolving Termination Date together with interest on the unpaid principal balance hereof from time to time outstanding from the date hereof until paid in full at the rate or rates and in the manner and at the times specified in that certain Credit Agreement dated as of \_\_\_\_\_, 1994 (as the same may be amended from time to time, the "Credit Agreement"), among Borrower, Stratton Insurance Company, a Vermont corporation and a Wholly-Owned Subsidiary of Borrower, Ferrellgas, Inc., a Delaware corporation and the sole general partner of Borrower, the financial institutions from time to time party thereto, and Bank of America National Trust and Savings Association, as agent for said financial institutions (in such capacity, "Agent").

Both the principal hereof and the interest hereon are payable in lawful money of the United States of America at Bancontrol Account Number \_\_\_\_\_ located at \_\_\_\_\_ (or at such other Lending Office as may be designated from time to time by Agent), for the account of Bank, in immediately available funds.

The holder of this Facility B Term Note is authorized to record the date and amount of each payment or prepayment of principal thereof on the schedule annexed to and constituting a part hereof, or on a continuation thereof which shall be attached hereto and a part hereof and any such recordation shall constitute prima facie evidence of the accuracy of the information so recorded.

Borrower agrees to pay all costs of collection and enforcement of this Facility B Term Note, whether or not suit is filed, including, without limitation, reasonable attorneys' fees, as more particularly provided in Section 11.04 of the Credit Agreement.

This Facility B Term Note is one of the "Notes" referred to in, and is entitled to the benefits of, the Credit Agreement which, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and for prepayment of amounts from time to time outstanding under this Facility B Term Note upon certain terms and conditions. Unless otherwise defined herein, capitalized

terms used herein are used with the defined meanings given in the Credit Agreement.

THIS FACILITY B TERM NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK.

FERRELLGAS, L.P., a Delaware limited partnership

By: FERRELLGAS, INC., General Partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

F-2-2

SCHEDULE TO FACILITY B TERM NOTE  
-----

Date	Amount of Facility B Term Loans	Amount of Principal Paid or Prepaid	Unpaid Principal Balance of Facility B Term Loans	Notation Made By
-----	-----	-----	-----	-----

## FACILITY B REVOLVING NOTE

-----

\$ \_\_\_\_\_, 199\_

FOR VALUE RECEIVED, the undersigned FERRELLGAS, L.P., a Delaware limited partnership ("Borrower"), HEREBY PROMISES TO PAY to the order of \_\_\_\_\_ ("Bank") the principal sum of \_\_\_\_\_ (\$ \_\_\_\_\_) or, if less, the aggregate principal amount of Facility B Revolving Loans outstanding on the Revolving Termination Date, made to Borrower by Bank pursuant to Section 2.01(b) of that certain Credit Agreement dated as of \_\_\_\_\_, 1994 (as the same may be amended from time to time, the "Credit Agreement"), among Borrower, Stratton Insurance Company, a Vermont corporation and a Wholly-Owned Subsidiary of Borrower, Ferrellgas, Inc., a Delaware corporation and the sole general partner of Borrower, the financial institutions from time to time party thereto, and Bank of America National Trust and Savings Association, as agent for said financial institutions (in such capacity, "Agent") payable in full on the Revolving Termination Date together with interest on the unpaid principal balance hereof from time to time outstanding from the date hereof until paid in full at the rate or rates and in the manner and at the times specified in the Credit Agreement.

Both the principal hereof and the interest hereon are payable in lawful money of the United States of America at Bancontrol Account Number \_\_\_\_\_ located at \_\_\_\_\_ (or at such other Lending Office as may be designated from time to time by Agent), for the account of Bank, in immediately available funds.

The holder of this Facility B Revolving Note is authorized to record the date and amount of Facility B Revolving Loans made by the Bank, the amount of interest accruing from time to time and the date and amount of each payment or prepayment of principal thereof on the schedule annexed to and constituting a part hereof, or on a continuation thereof which shall be attached hereto and a part hereof and any such recordation shall constitute prima facie evidence of

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the accuracy of the information so recorded.

Borrower agrees to pay all costs of collection and enforcement of this Facility B Revolving Note, whether or not suit is filed, including, without limitation, reasonable attorneys' fees, as more particularly provided in Section 11.04 of the Credit Agreement.

This Facility B Revolving Note is one of the "Notes" referred to in, and is entitled to the benefits of, the Credit Agreement which, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and for prepayment of amounts from time to time outstanding under this Facility B Revolving Note upon certain terms and conditions. Unless otherwise defined herein, capitalized terms used herein are used with the defined meanings given in the Credit Agreement.

THIS FACILITY B REVOLVING NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK.

FERRELLGAS, L.P., a Delaware limited partnership

By: FERRELLGAS, INC., General Partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

F-3-2

SCHEDULE TO FACILITY B REVOLVING NOTE  
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Date	Amount of Facility B Revolving Loans	Amount of Principal Paid or Prepaid	Unpaid Principal Balance of Facility B Revolving Loans	Notation Made By
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## FACILITY B TAKEOUT NOTE

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\$ \_\_\_\_\_, 199\_

FOR VALUE RECEIVED, the undersigned FERRELLGAS, L.P., a Delaware limited partnership ("Borrower"), HEREBY PROMISES TO PAY to the order of \_\_\_\_\_ ("Bank") the principal sum of \_\_\_\_\_ (\$ \_\_\_\_\_), in twelve (12) equal quarterly installments of \$ \_\_\_\_\_ each, commencing on September 30, 1997, and continuing on the last day of every third calendar month thereafter through June 30, 2000; provided, that all outstanding principal and accrued and unpaid interest hereon shall be repaid in full on or prior to June 30, 2000. Borrower further agrees to pay interest on the unpaid principal balance hereof from time to time outstanding from the date hereof until paid in full at the rate or rates and in the manner and at the times specified in that certain Credit Agreement dated as of \_\_\_\_\_, 1994 (as the same may be amended from time to time, the "Credit Agreement"), among Borrower, Stratton Insurance Company, a Vermont corporation and a Wholly-Owned Subsidiary of Borrower, Ferrellgas, Inc., a Delaware corporation and the sole general partner of Borrower, the financial institutions from time to time party thereto, and Bank of America National Trust and Savings Association, as agent for said financial institutions (in such capacity, "Agent").

Both the principal hereof and the interest hereon are payable in lawful money of the United States of America at Bancontrol Account Number \_\_\_\_\_ located at \_\_\_\_\_ (or at such other Lending Office as may be designated from time to time by Agent), for the account of Bank, in immediately available funds.

The holder of this Facility B Takeout Note is authorized to record the date and amount of each payment or prepayment of principal thereof on the schedule annexed to and constituting a part hereof, or on a continuation thereof which shall be attached hereto and a part hereof and any such recordation shall constitute prima facie evidence of the accuracy of the information so recorded.

Borrower agrees to pay all costs of collection and enforcement of this Facility B Takeout Note, whether or not suit is filed, including, without limitation, reasonable attorneys' fees, as more particularly provided in Section 11.04 of the Credit Agreement.

This Facility B Takeout Note is one of the "Notes" referred to in, and is entitled to the benefits of, the Credit

Agreement which, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and for prepayment of amounts from time to time outstanding under this Facility B Takeout Note upon certain terms and conditions. Unless otherwise defined herein, capitalized terms used herein are used with the defined meanings given in the Credit Agreement.

THIS FACILITY B TAKEOUT NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK.

FERRELLGAS, L.P., a Delaware limited partnership

By: FERRELLGAS, INC., General Partner

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

F-4-2



SCHEDULE TO FACILITY B TAKEOUT NOTE  
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Date	Amount of Facility B Takeout Loans	Amount of Principal Paid or Prepaid	Unpaid Principal Balance of Facility B Takeout Loans	Notation Made By
-----	-----	-----	-----	-----

EXHIBIT G

BORROWER: FERRELLGAS, L.P. and  
STRATTON INSURANCE  
COMPANY

GUARANTOR:

CONTINUING GUARANTY

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To: The Financial Institutions (the "Banks") from time to time party to the  
Credit Agreement referred to below (the "Credit Agreement"), and

Bank of America National Trust and Savings Association, as Agent (in such  
capacity, the "Agent")

(1) For valuable consideration, the undersigned ("Guarantor") absolutely  
and unconditionally guarantees to the Agent and the Banks the payment when due,  
upon maturity, acceleration or otherwise, of any and all indebtedness of  
FERRELLGAS, L.P., a Delaware Limited Partnership, and STRATTON INSURANCE  
COMPANY, a Vermont corporation (collectively and severally, "Borrower"). If any  
or all of the indebtedness of Borrower to the Agent or the Banks becomes due and  
payable hereunder, Guarantor absolutely and unconditionally promises to pay such  
indebtedness to the Agent (for its account or the account of the Banks, as the  
case may be), or order, on demand, in lawful money of the United States of  
America. The word "indebtedness" is used herein in its most comprehensive sense  
and includes any and all advances, debts, obligations and liabilities of  
Borrower or either of them to the Agent and/or the Banks under or pursuant to  
that certain Credit Agreement dated as of

\_\_\_\_\_, among Borrower, Ferrellgas, Inc., a Delaware corporation, the Banks and the Agent, as the same may be amended, modified, supplemented or renewed from time to time (the "Credit Agreement"), whether the same is heretofore, now, or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether direct or acquired by Agent or Banks by assignment or succession, absolute or contingent, liquidated or unliquidated, determined or undetermined, and whether Borrower may be liable individually or jointly with others, or whether recovery upon such indebtedness may be or hereafter become barred by any statute of limitations, or whether such indebtedness may be or hereafter become otherwise unenforceable.

(2) The liability of Guarantor under this Guaranty (exclusive of liability under any other guaranties executed by Guarantor) shall not exceed at any one time the total of (a) One Hundred Eighty-Five Million and 00/100 Dollars (\$185,000,000.00), for the principal amount of the indebtedness, (b) all interest, fees, and other costs and expenses relating to or arising out of the indebtedness or such part of the indebtedness as shall not exceed the foregoing limitation, and (c) attorneys' fees, costs and expenses as provided in paragraph 13 hereof. Agent and Banks may permit the indebtedness of Borrower to exceed Guarantor's liability, and may apply any amounts received from any source, other than from Guarantor, to the unguaranteed portion of Borrower's indebtedness. This is a continuing guaranty relating to any indebtedness, including that arising under successive

transactions which shall either continue the indebtedness or from time to time renew it after it has been satisfied. Any payment by Guarantor shall not reduce Guarantor's maximum obligation hereunder, unless written notice to that effect be actually received by Agent at or prior to the time of such payment.

(3) The obligations hereunder are independent of the obligations of Borrower, and a separate action or actions may be brought and prosecuted against Guarantor whether action is brought against Borrower or whether Borrower be joined in any such action or actions; and Guarantor waives the benefit of any statute of limitations affecting Guarantor's liability hereunder.

(4) Guarantor authorizes Agent and Banks, without notice or demand and without affecting Guarantor's liability hereunder, from time to time, either before or after revocation hereof, to (a) renew, compromise, extend, accelerate or otherwise change the time for payment of, or otherwise change the terms of the indebtedness or any part thereof, including increase or decrease of the rate of interest thereon; (b) receive and hold security for the payment of this Guaranty or the indebtedness guaranteed, and exchange, enforce, waive, release, fail to perfect, sell, or otherwise dispose of any such security; (c) apply such security and direct the order or manner of sale thereof as Agent in its discretion may determine; and (d) release or substitute any one or more of the endorsers or guarantors.

(5) Guarantor waives any right to require Agent or Banks to (a) proceed against Borrower; (b) proceed against or exhaust any security held from Borrower; or (c) pursue any other remedy in Agent's or Banks's power whatsoever. Guarantor waives any defense arising by reason of any disability or other defense of Borrower, or the cessation from any cause whatsoever of the liability of Borrower, or any claim that Guarantor's obligations exceed or are more burdensome than those of Borrower. Guarantor waives all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor, and notices of acceptance of this Guaranty and of the existence, creation, or incurring of new or additional indebtedness.

(6) Guarantor understands and acknowledges that if Agent forecloses (for itself or on behalf of Banks), either by judicial foreclosure or by exercise of power of sale, any deed of trust securing the indebtedness, that foreclosure could impair or destroy any ability that Guarantor may have to seek reimbursement, contribution or indemnification from Borrower or others based on any right Guarantor may have of subrogation, reimbursement, contribution or indemnification for any amounts paid by Guarantor under this Guaranty. Guarantor further understands and acknowledges that in the absence of this paragraph, such potential impairment or destruction of Guarantor's rights, if any, may entitle Guarantor to assert a defense to this Guaranty. By executing this Guaranty, Guarantor

freely, irrevocably and unconditionally: (i) waives and relinquishes that defense and agrees that Guarantor will be fully liable under this Guaranty even though Agent may foreclose (for itself or on behalf of Banks), either by judicial foreclosure or by exercise of power of sale, any deed of trust securing the indebtedness; (ii) agrees that Guarantor will not assert that defense in any action or proceeding which Agent or Banks may commence to enforce this Guaranty; (iii) acknowledges and agrees that the rights and defenses waived by Guarantor in this Guaranty include any right or defense that Guarantor may have or be entitled to assert; and (iv) acknowledges and agrees that Agent and Banks are relying on this waiver in creating the indebtedness, and that this waiver is a material part of the consideration which Agent and Banks are receiving for creating the indebtedness.

(7) Guarantor acknowledges and agrees that Guarantor shall have the sole responsibility for obtaining from Borrower such information concerning Borrower's financial condition or business operations as Guarantor may require, and that neither Agent nor Banks has any duty at any time to disclose to Guarantor any information relating to the business operations or financial conditions of Borrower.

(8) To secure all of Guarantor's obligations hereunder, Guarantor assigns and grants to Agent (for the benefit of itself and the Banks) a security interest in all moneys,

securities and other property of Guarantor now or hereafter in the possession of Agent, and all deposit accounts of Guarantor maintained with Agent, and all proceeds thereof. Upon default or breach of any of Guarantor's obligations to Agent or Banks, Agent or Banks may apply any deposit account to reduce the indebtedness, and may foreclose any collateral as provided in the Uniform Commercial Code and in any security agreements between Agent or Banks and Guarantor.

(9) Any obligations of Borrower to Guarantor, now or hereafter existing, including but not limited to, any obligations to Guarantor as subrogees of Agent or Banks or resulting from Guarantor's performance under this Guaranty, are hereby subordinated to the indebtedness. Such obligations of Borrower to Guarantor if Agent so requests shall be enforced and performance received by Guarantor as trustee for Agent and Banks and the proceeds thereof shall be paid over to Agent on account of the indebtedness of Borrower to Agent and Banks, but without reducing or affecting in any manner the liability of Guarantor under the other provisions of this Guaranty.

(10) This Guaranty may be revoked at any time by Guarantor in respect to future transactions, unless there is a continuing consideration as to such transactions which Guarantor does not renounce. Such revocation shall be effective upon actual receipt by Agent at the address shown below of written notice of revocation. Revocation shall not affect any of

Guarantor's obligations or Agent's or Banks's rights with respect to transactions which precede Agent's receipt of such notice, regardless of whether or not the indebtedness related to such transactions, before or after revocation, has been renewed, compromised, extended, accelerated, or otherwise changed as to any of its terms, including time for payment or increase or decrease of the rate of interest thereon. Revocation by any other guarantor of Borrower's indebtedness shall not affect any obligations of Guarantor. If this Guaranty is revoked, returned, or canceled, and subsequently any payment or transfer of any interest in property by Borrower to Agent or Banks is rescinded or must be returned by Agent or Banks to Borrower, this Guaranty shall be reinstated with respect to any such payment or transfer, regardless of any such prior revocation, return, or cancellation.

(11) It is not necessary for Agent or Banks to inquire into the powers of Borrower or of the officers, directors, partners or agents acting or purporting to act on Borrower's behalf, and any indebtedness made or created in reliance upon the professed exercise of such powers shall be guaranteed hereunder.

(12) Agent and Banks may, without notice to Guarantor and without affecting Guarantor's obligations hereunder, assign the indebtedness and this Guaranty, in whole or in part. Guarantor agrees that Agent and Banks may disclose to any prospective purchaser and any purchaser of all or part of the indebtedness any and all information in Agent's or Banks'



possession concerning Guarantor, this Guaranty and any security for this Guaranty.

(13) Guarantor agrees to pay to Agent, on demand, all out-of-pocket expenses and attorneys' fees (including allocated costs for in-house legal services) incurred by Agent or Banks prior to the commencement of any legal action or arbitration proceeding in connection with the enforcement of this Guaranty and any instrument or agreement required under this Guaranty. In the event of a legal action or arbitration proceeding, the prevailing party shall be entitled to reasonable attorneys' fees (including allocated costs for in-house legal services), costs and necessary disbursements incurred in connection with such action or proceeding, as determined by the court or arbitrator.

(14) (a) THIS GUARANTY 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 GUARANTY 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 GUARANTY, GUARANTOR CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. GUARANTOR 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 GUARANTY OR ANY DOCUMENT RELATED HERETO. GUARANTOR WAIVES  
PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE  
BY ANY OTHER MEANS PERMITTED BY NEW YORK LAW.

(15) GUARANTOR WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY OF ANY CLAIM  
OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS GUARANTY, IN  
ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE, WHETHER WITH RESPECT TO  
CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. GUARANTOR AGREES THAT ANY SUCH  
CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY.  
WITHOUT LIMITING THE FOREGOING, GUARANTOR AGREES THAT ITS 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 GUARANTY OR ANY PROVISION HEREOF. THIS WAIVER SHALL  
APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO  
THIS GUARANTY.

Executed this \_\_\_\_\_ day of \_\_\_\_\_, 1994.

"Guarantor"

By: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_  
Address

\_\_\_\_\_  
Federal Tax I.D. No.

Address for Notices to Agent:	Address for Notices to Guarantor:
1455 Market Street	_____
12th Floor	_____
San Francisco, CA 94103	_____

EXHIBIT H

[FORM OF COMMERCIAL LETTER OF CREDIT]

[ISSUING BANK]

\_\_\_\_\_ (1) \_\_\_\_\_

Irrevocable Letter of Credit Number (2)

(3)

Ladies and Gentlemen:

We hereby open our irrevocable documentary letter of credit number (2) in your favor and authorize you to draw at sight on [Issuing Bank] [location], (4)(5)(6) for the account of (7).

Drafts are to be accompanied by:

1. This Letter of Credit.
2. Original of (8).

Partial drawings and/or shipments are permitted.

This Letter of Credit expires (9) at our counters.

Drafts under this Letter of Credit must bear on their face the clause "Drawn under the [Issuing Bank] Letter of Credit Number (2) dated (1)".

We hereby agree with bona fide holders that all drafts under and in compliance with the terms of this credit will be duly honored upon compliance if presented on or before the expiry date.

This credit is subject to the Uniform Customs and Practice for Documentary Credit (1993 Revision in force as of January 1, 1994) International Chamber of Commerce Publication No. 500.

Best Regards,

[ISSUING BANK]

By: \_\_\_\_\_

Title: \_\_\_\_\_

- 
- (1) Date of Letter of Credit.
  - (2) Letter of Credit Number.
  - (3) Name and address of Beneficiary.
  - (4) Insert one of the phrases identified in clauses (a) through (d):
    - a. an amount
    - b. up to an amount of US\$ (5)(6)
    - c. approximately US\$ (5)(6)
    - d. US\$ (5)(6), plus or minus [insert number]%
  - (5) Aggregate initial stated amount of Letter of Credit.
  - (6) Aggregate initial stated amount of Letter of Credit stated in words.
  - (7) Ferrellgas, L.P.
  - (8) Description of applicable invoice and/or product movement documentation.
  - (9) Insert a date not later than 90 days from the date of issuance.

EXHIBIT I

[FORM OF STANDBY LETTER OF CREDIT]

[ISSUING BANK]

\_\_\_\_\_ (1) \_\_\_\_\_

Irrevocable Letter of Credit Number (2)

(3)

Ladies and Gentlemen:

We hereby open our irrevocable standby letter of credit number (2) in your favor and authorize you to draw at sight on [Issuing Bank] [location], (4)(5)(6) for the account of (7).

Drafts are to be accompanied by:

1. This Letter of Credit.

OPTIONAL: 2. Copy of (8).

3. A signed statement by an authorized officer of (3) certifying that the product has been delivered and that although the invoice(s) presented under this Letter of Credit was (were) due according to contract terms, (7) failed to make payment and payment remains outstanding at time of drawing.

Partial drawings and/or shipments are permitted.

This Letter of Credit expires (9) at our counters.

Drafts drawn under this Letter of Credit must bear on their face the clause "Drawn under the [Issuing Bank] Letter of Credit Number (2) dated (1)".

OPTIONAL: The amount available for drawing under this letter of credit will be reduced by the amount of any payments made outside the letter of credit to \_\_\_\_\_ for this product if such payments are made by [Issuing Bank], [location] and make reference to this letter of credit number.

We hereby agree with bona fide holders that all drafts drawn under and in compliance with the terms of this credit will be duly honored upon compliance if presented on or before the expiry date. Documents presented more than 21 days after transport date but on or before the expiry date are acceptable.

This credit is subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision in force as of January 1, 1994) International Chamber of Commerce Publication NO. 500.

Best Regards,

[ISSUING BANK]

By: \_\_\_\_\_

Title: \_\_\_\_\_

- 
- (1) Date of Letter of Credit.
  - (2) Letter of Credit Number.
  - (3) Name and address of Beneficiary.
  - (4) Insert one of the phrases identified in clauses (a) through (d):
    - a. an amount of US\$ (5)(6)
    - b. up to an amount of US\$ (5)(6)
    - c. approximately US\$ (5)(6)
    - d. US\$ (5)(6), plus or minus [insert number]%
  - (5) Aggregate initial stated amount of Letter of Credit.
  - (6) Aggregate initial stated amount of Letter of Credit stated in words.
  - (7) Ferrellgas, L.P. or Stratton Insurance Company, Inc. (as the case may be).
  - (8) Description of applicable invoice and/or product movement documentation.
  - (9) Insert a date not later than 180 days from the date of issuance.

EXHIBIT J

[ALTERNATIVE FORM OF STANDBY LETTER OF CREDIT]

\_\_\_\_\_(1)\_\_\_\_\_

Irrevocable Letter of Credit Number (2)

(3)

Ladies and Gentlemen:

We hereby establish our irrevocable standby Letter of Credit Number (2) in your favor by order and for the account of Ferrellgas, L.P. for (4)(5)(6) available at [Issuing Bank] [Location] by payment against your drafts at sight to be accompanied by:

1. Signed statement by a representative of (3) that the amount drawn under this letter of credit (2) represents an amount due and owing to (3) and unpaid or defaulted by Ferrellgas, L.P.

Drafts must be presented no later than (7).

Special Conditions:

A. Partial drawings are permitted.

B. Notwithstanding the above, this letter of credit shall also be available at [Issuing Bank] [Location] by payment against drafts of (3) at sight accompanied by:

Signed statement by a representative of (3) that:

(i) as a result of pending or possible bankruptcy, reorganization or insolvency proceedings involving Ferrellgas, L.P. (3) has tendered to an escrow agent designated by (3) payments or deliveries (3) reasonably believes are or may be subject to the aforementioned proceedings;

(ii) the amount drawn under this letter of credit represents or corresponds to such payments or deliveries; and

(iii) the escrow agent designated by (3) has been instructed to release such payments or deliveries to Ferrellgas, L.P. upon receipt by (3) of the amount drawn under this letter of credit.



We hereby engage with you that all drawings made under and in conformity with the terms of this letter of credit will be duly honored upon presentation to us as specified.

This letter of credit is subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision) International Chamber of Commerce Publication No. 500.

Very truly yours,

[ISSUING BANK]

By: \_\_\_\_\_

Title: \_\_\_\_\_

- 
- (1) Date of Letter of Credit,
  - (2) Letter of Credit Number.
  - (3) Insert either (a) Exxon Company USA [and its address the first time its name appears], or (b) Exxon Supply Company [and its address the first time its name appears], as the case may be.
  - (4) Insert one of the phrases identified in clauses (a) through (d):
    - a. an amount of US\$ (5)(6)
    - b. up to an amount of US\$ (5)(6)
    - c. approximately US\$ (5)(6)
    - d. US\$ (5)(6), plus or minus [insert number] %.
  - (5) Aggregate initial stated amount of Letter of Credit.
  - (6) Aggregate initial stated amount of Letter of Credit stated in words.
  - (7) Date by which drafts must be presented.

## MAXIMUM AMOUNT CERTIFICATE

This Maximum Amount Certificate is provided pursuant to Section 7.02(c) of the Credit Agreement dated as of \_\_\_\_\_, 1994 (as the same may be amended from time to time, the "Credit Agreement"), by and among Ferrellgas, L.P., a Delaware limited partnership (the "Borrower"), Stratton Insurance Company, a Vermont corporation and a wholly-owned subsidiary of the Borrower, Ferrellgas, Inc., a Delaware corporation and the sole general partner of Borrower, Bank of America National Trust and Savings Association, as agent (in such capacity, "Agent"), and the financial institutions ("Banks") from time to time party to the Credit Agreement. Unless otherwise defined herein, capitalized terms used herein are used with the defined meanings given in the Credit Agreement.

I, \_\_\_\_\_, the \_\_\_\_\_ of Ferrellgas, Inc., a Delaware corporation and the sole general partner of the Borrower, do hereby certify that I am familiar with the Credit Agreement and with the assets, business, financial condition and operations of the Borrower and its Subsidiaries and that, as of \_\_\_\_\_ (the "Determination Date"):

(i) The aggregate Cash Costs of all Permitted Acquisitions by the Borrower and its Subsidiaries (together with the aggregate amount of any Acquired Debt and seller financing associated therewith and the amount of such Cash Costs which were or could have been financed with Facility B Revolving Loans) during the period from the Closing Date to the date that is 270 days prior to the Determination Date (the "Hold Period Date") is \$\_\_\_\_\_, and from the Hold Period Date through the Determination Date is \$\_\_\_\_\_, and the total such amount is \$\_\_\_\_\_, as compared to \$\_\_\_\_\_, \$\_\_\_\_\_ and \$\_\_\_\_\_, respectively, reported in the previously delivered Maximum Amount Certificate delivered pursuant to the Credit Agreement (the "Previous Certificate").

The components of Cash Costs of all Permitted Acquisitions are as follows:

Date of Acquisition	Assets/Stock Acquired	Cash Cost
- - - - -	- - - - -	- - - - -

(ii) The aggregate Growth-Related Capital Expenditures by the Borrower and its Subsidiaries during the period from the Closing Date through the Determination Date is \$\_\_\_\_\_, as compared to \$\_\_\_\_\_ reported in the Previous Certificate.

The components of Growth-Related Capital Expenditures are as follows:

Date of Expenditure	Description of Expenditure	Amount
- - - - -	- - - - -	- - - - -

(iii) The aggregate Net Proceeds of Asset Sales during the period from the Closing Date through the Hold Period Date is \$\_\_\_\_\_, from the Hold Period Date through the Determination Date is \$\_\_\_\_\_, and the total such amount is \$\_\_\_\_\_, as compared to \$\_\_\_\_\_, \$\_\_\_\_\_ and \$\_\_\_\_\_, respectively, reported in the Previous Certificate.

The components of Net Proceeds of Asset Sales are as follows:

Date of Sale	Number and Description of Assets Sold	Aggregate Price
- - - - -	- - - - -	- - - - -

(iv) The aggregate Net Proceeds of MLP New Unit Sales during the period from the Closing Date through the Determination Date is \$\_\_\_\_\_, as compared to \$\_\_\_\_\_ reported in the Previous Certificate.

The components of Net Proceeds of MLP New Unit Sales are as follows:

Date of Sale	Number and Description of Units Sold	Aggregate Price
- - - - -	- - - - -	- - - - -

(v) The Facility B Maximum Amount as of the Determination Date, based on the information contained herein, is as follows:

THE SUM OF:

- (a) the aggregate Cash Costs of all Permitted Acquisitions by the Borrower and its Subsidiaries during the period from the Closing Date through the Determination Date:

\$\_\_\_\_\_

plus

- (b) the aggregate Growth-Related Capital Expenditures by the Borrower and its Subsidiaries during the period from the Closing Date through the Determination Date:

\$\_\_\_\_\_

SUBTOTAL: \$\_\_\_\_\_

MINUS THE SUM OF:

-----

- (x) the aggregate Net Proceeds of Asset Sales during the period from the Closing Date to the Hold Period Date:

\$\_\_\_\_\_

plus

- (y) the aggregate Net Proceeds of MLP New Unit Sales from the Closing Date through the Determination Date:

\$\_\_\_\_\_

SUBTOTAL: \$\_\_\_\_\_

EQUALS:

\$\_\_\_\_\_

\_\_\_\_\_

(vi) The Facility B Maximum Amount reported in the Previous Certificate was \$\_\_\_\_\_.

IN WITNESS WHEREOF, this Certificate has been executed on behalf of  
the Borrower as of the \_\_\_\_ day of \_\_\_\_\_, 19\_\_.

FERRELLGAS, L.P., a Delaware limited partnership

By: FERRELLGAS, INC., General Partner

By: \_\_\_\_\_

Title: \_\_\_\_\_

K-4

=====

FERRELLGAS, L.P.  
FERRELLGAS FINANCE CORP.

\_\_\_% SENIOR NOTES DUE 2001

\_\_\_\_\_  
INDENTURE

Dated as of July \_\_, 1994

\_\_\_\_\_

NORWEST BANK MINNESOTA, NATIONAL ASSOCIATION

Trustee

=====

# CROSS-REFERENCE TABLE\*

Trust Indenture Act Section	Indenture Section
310(a)(1).....	7.10
(a)(2).....	7.10
(a)(3).....	N.A.
(a)(4).....	N.A.
(a)(5).....	7.10
(b).....	7.10
(c).....	N.A.
311(a).....	7.11
(b).....	7.11
(c).....	N.A.
312(a).....	2.05
(b).....	11.03
(c).....	11.03
313(a).....	7.06
(b).....	7.06
(c).....	7.06;11.02
(d).....	7.06
314(a).....	4.03;11.05
(b).....	10.02
(c)(1).....	11.04
(c)(2).....	11.04
(c)(3).....	N.A.
(d).....	N.A.
(e).....	11.05
(f).....	N.A.
315(a).....	7.01
(b).....	7.05;11.02
(c).....	7.01
(d).....	7.01
(e).....	6.11
316(a)(last sentence).....	2.09
(a)(1)(A).....	6.05
(a)(1)(B).....	6.04
(a)(2).....	N.A.
(b).....	6.07
(c).....	2.12
317(a)(1).....	6.08
(a)(2).....	6.09
(b).....	2.04
318(a).....	11.01
(b).....	N.A.
(c).....	11.01

N.A. means not applicable.

\*This Cross-Reference Table is not part of this Indenture.

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## EXHIBITS

Exhibit A	FORM OF NOTE
Exhibit B	FORM OF SUPPLEMENTAL INDENTURE
Exhibit C	FORM OF NOTATION ON SENIOR NOTE RELATING TO NOTE GUARANTEE

INDENTURE dated as of July \_\_, 1994 between Ferrellgas, L.P., a Delaware limited partnership (the "Partnership"), Ferrellgas Finance Corp., a Delaware corporation ("Finance Corp." and, together with the Partnership, the "Issuers"), and Norwest Bank Minnesota, National Association, as trustee (the "Trustee").

The Partnership, Finance Corp. and the Trustee agree as follows for the benefit of each other and for the equal and ratable benefit of the Holders of the \_\_% Senior Notes due 2001:

ARTICLE 1  
DEFINITIONS AND INCORPORATION  
BY REFERENCE

Section 1.01. Definitions.

"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.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; provided, however, that beneficial ownership of 10% or more of the voting securities of a Person shall be deemed to be control.

"Agent" means any Registrar, Paying Agent or co-registrar.

"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 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 the Indenture.

"Bankruptcy Law" means Title 11, U.S. Code or any similar federal or state law for the relief of debtors.

"Board of Directors" means the Board of Directors of the General Partner, or any authorized committee of the Board of Directors.

"Business Day" means any day other than a Legal Holiday.

"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 required to be capitalized on the balance sheet in accordance with GAAP.

"Capital Interests" means any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock, including, without limitation, with respect to partnerships, partnership interests (whether general or limited) and any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, such partnership.

"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 lender party to the Credit Facility or with any 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 and (v) commercial paper having the highest rating obtainable from Moody's Investors Service, Inc. or Standard & Poor's Corporation and in each case maturing within nine months 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 Partnership'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 Partnership 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 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 Partnership.

"Common Units" means the common units, representing limited partner interests, being offered by the Master Partnership contemporaneously with the sale of the Notes.

"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 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 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 date of this Indenture 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.

"Corporate Trust Office of the Trustee" shall be at the address of the Trustee specified in Section 12.02 hereof or such other address as to which the Trustee may give notice to the Partnership.

"Credit Facility" means the credit facility under that certain Credit Agreement, dated as of \_\_\_\_\_, 1994, by and among the Partnership, the Insurance Company Subsidiary, the General Partner and Bank of America National Trust and Savings Association, as agent for the financial institutions listed therein, providing for up to \$185 million of credit borrowings and letters of credit, including any related notes, instruments and agreements executed in connection therewith, and in each case as amended, modified, renewed, refunded, replaced or refinanced from time to time.

"Custodian" means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

"Default" means any event that is or with the passage of time or the giving of notice or both would be 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 \_\_\_\_\_, 2001.

"Distribution" means, for purposes of Article 10, a distribution consisting of cash, securities or other property, by set off or otherwise.

"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).

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Existing Fixed Rate Notes" means the Series B and D Fixed Rate Senior Notes due 1996 of the General Partner.

"Existing Floating Rate Notes" means the Series A and C Floating Rate Senior Notes due 1996 of the General Partner.

"Existing Indebtedness" means up to \$\_\_\_\_ million in aggregate principal amount of Indebtedness of the Partnership and its Subsidiaries (other than under the Credit Facility) in existence on the date of this Indenture, until such amounts are repaid.

"Existing Senior Notes" means the Existing Fixed Rate Notes and the Existing Floating Rate Notes.

"Existing Subordinated Debentures" means the General Partner's 11 5/8% Senior Subordinated Debentures due December 15, 2003.

"Finance Corp." means the party named as such in this Indenture until a successor replaces it pursuant to this Indenture and thereafter means the successor.

"Fixed Charge Coverage Ratio" means with respect to any Person for any period, the ratio of the Consolidated Cash Flow of such Person for such period to the Fixed Charges of such Person for such period. In the event that the reference 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 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 discontinuance of businesses or assets that have been made by the reference 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 discontinuance of businesses or assets had occurred on the first day of the reference period; provided, however, that (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 Partnership's Fixed Charges 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 cost 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 Partnership 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 Partnership in the operation of the acquired business or asset and (ii) non-personnel costs and expenses incurred by the Partnership on a per gallon basis in the operation of the Partnership's business at similarly situated Partnership facilities. If the applicable reference period for any calculation of the Fixed Charge Coverage Ratio with respect to the Partnership shall include a portion prior to the date of this Indenture, then such Fixed Charge Coverage Ratio shall be calculated based upon the Consolidated Cash Flow and the Fixed Charges of the General Partner for such portion of the reference period prior to the date of this Indenture and the Consolidated Cash Flow and the Fixed Charges of the Partnership for the remaining portion of the reference period on and after the date of the Indenture, giving pro forma effect, as described in the two foregoing sentences, to all applicable transactions occurring on the date of the Indenture or otherwise.

"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 discount, non-cash interest payments, the interest component of all payments associated with Capital Lease Obligations and net payments (if any) pursuant to Hedging Obligations), (b) commissions, discounts and other fees and charges incurred with respect to letters of credit and bankers' acceptances financing, (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.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect in the United States on the date of this Indenture.

"General Partner" means Ferrellgas, Inc., a Delaware corporation and the sole general partner of the Partnership.

"Government Securities" means direct obligations of, or obligations guaranteed by, the United States of America for the payment of which guarantee or obligations the full faith and credit of the United States of America is pledged.

"Guarantee" means a guarantee (other than by endorsement of negotiable instruments for collection in the ordinary course of business), direct or indirect, in any manner (including, without limitation, letters of credit and reimbursement agreements in respect thereof), of all or any part of any Indebtedness.

"Guarantors" means any Subsidiary of the Partnership that executes a Note Guarantee in accordance with the provisions of Section 4.13 hereof, and their respective successors and assigns.



"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.

"Holder" means a Person in whose name a Note is registered.

"Indebtedness" means, with respect to any Person, any indebtedness of such Person, whether or not contingent, in respect of borrowed money or evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof) or representing Capital Lease Obligations or the balance deferred and unpaid of the purchase price of any property or representing any Hedging Obligations, except any such balance that constitutes an accrued expense or trade payable, if and to the extent any of the foregoing indebtedness (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet of such Person prepared in accordance with GAAP, as well as all indebtedness of others secured by a Lien on any asset of such Person (whether or not such indebtedness is assumed by such Person) and, to the extent not otherwise included, the Guarantee by such Person of any Indebtedness of any other Person.

"Indenture" means this Indenture, as amended or supplemented from time to time.

"Insurance Company Subsidiary" means Stratton Insurance Company, a Vermont corporation, a wholly owned subsidiary of the Partnership.

"Investments" means, with respect to any Person, all investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities and all other items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP.

"Issuers" means the parties named as such in this Indenture until a successor replaces any such Issuer pursuant to this Indenture and thereafter means the remaining Issuer and the successor.

"Legal Holiday" means a Saturday, a Sunday or a day on which banking institutions in the City of New York or at a place of payment are authorized by law, regulation or executive order to remain closed. If a payment date is a Legal Holiday at a place of payment, payment may be made at that place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period.

"Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law (including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction).

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

"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 Existing Senior Notes and the Existing Subordinated Debentures, 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 General Partner, the Partnership or their Subsidiaries to the extent that the same were deducted from such Net Income in accordance with GAAP.

"Net Proceeds" means the aggregate cash proceeds received by the Partnership 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), 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 and any reserve for adjustment in respect of the sale price of such asset or assets.

"Non-Recourse Subsidiary" means (1) the Insurance Company Subsidiary and (2) any other Person that would otherwise be a Subsidiary of the Partnership but is designated as a Non-Recourse Subsidiary in a resolution of the Board of Directors of the General Partner, so long as (a) no portion of the Indebtedness or any other obligation (contingent or otherwise) of such Person (i) is guaranteed by the Partnership or any of its Subsidiaries, (ii) is recourse or obligates the Partnership or any of its Subsidiaries in any way or (iii) subjects any property or asset of the Partnership or any of its Subsidiaries, directly or indirectly, contingently or otherwise, to satisfaction thereof, (b) neither the Partnership 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 Partnership and its Subsidiaries than those that might be obtained at the time from persons who are not Affiliates of the Partnership, (c) neither the Partnership 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, and (d) such Person has no more than \$1,000 of assets at the time of such designation.

"Notes" means the \_\_\_% Senior Notes due 2001, as amended or supplemented from time to time pursuant to the terms hereof, that are issued under this Indenture.

"Note Guarantee" means each guarantee of the Notes by a Guarantor pursuant to Article 10 hereof.

"Obligations" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"Officer" means, with respect to any Person, the Chairman of the Board, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer, the Treasurer, any Assistant Treasurer, the Controller, the Secretary or any Vice-President of such Person; provided,

however, that any reference to an Officer with respect to the Partnership shall mean the respective Officer of the General Partner.

"Officers' Certificate" means a certificate signed on behalf of (i) the General Partner (acting on behalf of the Partnership) by two Officers of the General Partner, one of whom must be the principal executive officer, the principal financial officer, the treasurer or the principal accounting officer of the General Partner, or (ii) Finance Corp. by two Officers of Finance Corp., one of whom must be the principal executive officer, the principal financial officer, the treasurer or the principal accounting officer of Finance Corp., in either case that meets the requirements of Section 12.05 hereof.

"Opinion of Counsel" means an opinion from legal counsel who is reasonably acceptable to the Trustee, that meets the requirements of Section 12.05 hereof. The counsel may be an employee of or counsel to the Partnership, the General Partner, Finance Corp., any of their respective Subsidiaries or the Trustee.

"Partnership Agreement" means the Agreement of Limited Partnership of Ferrellgas, L.P., dated as of \_\_\_\_, 1994, between Ferrellgas, Inc. and Ferrellgas Partners, L.P.

"Partnership" means the party named as such in this Indenture until a successor replaces it pursuant to this Indenture and thereafter means the successor.

"Permitted Investments" means (a) any Investments in Cash Equivalents; (b) any Investments in the Partnership or in a Wholly Owned Subsidiary of the Partnership that is a Guarantor; (c) Investments by the Partnership or any Subsidiary of the Partnership in a Person, if as a result of such Investment (i) such Person becomes a Wholly Owned Subsidiary of the Partnership 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 Partnership or a Wholly Owned Subsidiary of the Partnership that is a Guarantor; and (d) other Investments in Non-Recourse Subsidiaries of the Partnership that do not exceed \$30 million at any time outstanding.

"Permitted Liens" means (a) Liens existing on the date of the Indenture; (b) Liens in favor of the Issuers or Liens to secure Indebtedness of a Subsidiary of the Partnership to the Partnership or a Wholly Owned Subsidiary of the Partnership; (c) Liens on property of a Person existing at the time such Person is merged into or consolidated with the Partnership or any Subsidiary of the Partnership, 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 Partnership; (d) Liens on property existing at the time of acquisition thereof by the Partnership or any Subsidiary of the Partnership, provided that such Liens were in existence prior to the contemplation of such acquisition; (e) Liens on any property or asset acquired by the Partnership or any of its Subsidiaries 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 Partnership or such Subsidiary to secure the purchase price or other obligation of the Partnership 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 Partnership 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 Partnership or impair the use of such property in the operation of the business of the Partnership 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 Partnership or any of its Subsidiaries in the ordinary course of business; (k) financing statements granted with respect to personal property leased by the Partnership and its Subsidiaries in the ordinary course of business to the owners of such personal property, provided that such financing statements are granted solely in connection with such leases and not the borrowing of money or the obtaining of advances or credit; (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 Partnership or any Subsidiary of the Partnership with respect to obligations that do not exceed \$5 million in the aggregate in 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 Partnership or such Subsidiary; (n) Liens securing Indebtedness incurred to refinance Indebtedness that has been secured by a Lien permitted under the Indenture, 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 4.09 hereof and shall not have a principal amount in excess of the Indebtedness so refinanced; and (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.

"Permitted Refinancing Indebtedness" means any Indebtedness of the Partnership or any Subsidiary of the Partnership issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund other Indebtedness of the Partnership or any of its Subsidiaries (other than Indebtedness under the Credit Facility) or the Indebtedness represented by the then outstanding Existing Subordinated Debentures of the General Partner; 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 (plus the amount of reasonable expenses incurred in connection therewith); (b) such Indebtedness has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; (c) such Indebtedness is subordinated in right of payment to the Notes on terms at least as favorable to the Holders of Notes as those, if any, contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and (d) such Indebtedness (other than indebtedness incurred to extend, refinance, renew, replace, defease or refund the Existing Subordinated Debentures) is incurred by the Partnership or the Subsidiary who is the obligor on the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

"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 capital expenditures made to improve or enhance the existing capital assets of such Person or to acquire or construct new capital assets (but excluding capital expenditures necessary to maintain the existing capital assets of such Person) and (iii) any Indebtedness incurred by such Person, the proceeds of which are used solely for working capital purposes.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof.

"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.

"Responsible Officer" when used with respect to the Trustee, means any officer within the Corporate Trust Administration of the Trustee (or any successor group of the Trustee) or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Restricted Investment" means an Investment other than a Permitted Investment.

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended.

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

"Significant Subsidiary" means any Subsidiary of the Partnership 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.

"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 partnership, more than 50% of the partners' Capital Interests (considering all partners' Capital Interests as a single class), is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof. Notwithstanding the foregoing, any Subsidiary of the Partnership that is designated a Non-Recourse Subsidiary pursuant to the definition thereof shall not thereafter be deemed a Subsidiary of the Partnership.

"TIA" means the Trust Indenture Act of 1939 (15 U.S.C. (S)(S) 77aaa-77bbbb) as in effect on the date on which this Indenture is qualified under the TIA.

"Trustee" means the party named as such above until a successor replaces it in accordance with the applicable provisions of this Indenture and thereafter means the successor serving hereunder.

"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" of any Person means a Subsidiary of such Person all of the outstanding Capital Interests or other ownership interests or, in the case of a limited partnership, all of the partners' Capital Interests (other than up to a 1% general partner interest), of which (other than directors' qualifying shares) shall at the time be owned by such Person or by one or more Wholly Owned Subsidiaries of such Person and one or more Wholly Owned Subsidiaries of such Person.

#### Section 1.02. Other Definitions.

Term	Defined in Section
"Affiliate Transaction".....	4.11
"Aggregate Consideration".....	4.07
"Asset Sale".....	4.10
"Asset Sale Offer".....	3.09
"Benefitted Party".....	10.01
"Capital Investment".....	4.07
"Change of Control Offer".....	4.14
"Change of Control Payment".....	4.14
"Change of Control Payment Date".....	4.14
"Covenant Defeasance".....	8.03
"Commencement Date".....	3.09
"Event of Default".....	6.01
"Excess Proceeds".....	4.10
"incur".....	4.09
"Incurrence Date".....	4.09
"Legal Defeasance".....	8.02
"Offer Amount".....	3.09
"Offer Period".....	3.09
"Paying Agent".....	2.03
"Payment Default".....	6.01
"Purchase Date".....	3.09
"Registrar".....	2.03
"Restricted Payments".....	4.07
"Senior Debt Ratio Test".....	4.09

### Section 1.03 Incorporation By Reference Of Trust Indenture Act.

Whenever this Indenture refers to a provision of the TIA, the provision is incorporated by reference in and made a part of this Indenture, other than those provisions of the TIA that may be excluded herein, which provision shall be excluded to the extent specifically excluded in this indenture.

The following TIA terms used in this Indenture have the following meanings:

"indenture securities" means the Notes and the Note Guarantees, if any;

"indenture security holder" means a Holder of a Note;

"indenture to be qualified" means this indenture;

"indenture trustee" or "institutional trustee" means the Trustee;

"obligor" on the Notes means the Issuers, the Guarantors, if any, and any successor obligor upon the Notes or any Note Guarantee, as the case may be.

All other terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by a rule or regulation promulgated by the SEC under the TIA have the meanings so assigned to them.

### Section 1.04. Rules of Construction.

Unless the context otherwise requires:

- (1) a term has the meaning assigned to it;
- (2) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;
- (3) "or" is not exclusive;
- (4) words in the singular include the plural, and in the plural include the singular;
- (5) provisions apply to successive events and transactions; and
- (6) references to sections of or rules under the Securities Act or the Exchange Act shall be deemed to include substitute, replacement or successor sections or rules adopted by the SEC from time to time.

ARTICLE 2  
THE NOTES

Section 2.01. Form and Dating.

The Notes and the Trustee's certificate of authentication shall be substantially in the form of Exhibit A hereto, the terms of which are incorporated in and made a part of this Indenture. The Notes may have notations, legends or endorsements approved as to form by the Issuers and required by law, stock exchange rule, agreements to which the Issuers or each Guarantor, if any, is subject, or usage. Each Note shall be dated the date of its authentication. The Notes shall be issuable only in denominations of \$1,000 and integral multiples thereof.

Section 2.02. Execution and Authentication.

Two Officers of each of the General Partner (in the case of the Partnership) and Finance Corp. shall sign the Notes for the Issuers by manual or facsimile signature. The seal of each Issuer shall be reproduced on the Notes and may be in facsimile form.

If an Officer of the General Partner or Finance Corp. whose signature is on a Note no longer holds that office at the time the Note is authenticated, the Note shall nevertheless be valid.

A Note shall not be valid until authenticated by the manual signature of the Trustee. The signature of the Trustee shall be conclusive evidence that the Note has been authenticated under this Indenture. The form of Trustee's certificate of authentication to be borne by the Notes shall be substantially as set forth in Exhibit A hereto.

The Trustee shall, upon a written order of the Issuers signed by two Officers of the General Partner and Finance Corp., authenticate Notes for original issue up to an aggregate principal amount stated in paragraph 4 of the Notes. The aggregate principal amount of Notes outstanding at any time shall not exceed the amount set forth herein except as provided in Section 2.07 hereof.

The Trustee may appoint an authenticating agent acceptable to the Issuers to authenticate Notes. Unless limited by the terms of such appointment, an authenticating agent may authenticate Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as an Agent to deal with the Partnership or Finance Corp. or an Affiliate of the Partnership or Finance Corp.

Section 2.03. Registrar and Paying Agent.

The Issuers shall maintain (i) an office or agency where Notes may be presented for registration of transfer or for exchange (including any co-registrar, the "Registrar") and (ii) an office or agency where Notes may be presented for payment ("Paying Agent"). The Registrar shall keep a register of the Notes and of their transfer and exchange. The Issuers may appoint one or more co-registrars and one or more additional paying agents. The term "Paying Agent" includes any additional paying agent. The Issuers may change any Paying Agent, Registrar or co-registrar without prior notice to any Holder of a Note. The Issuers shall notify the Trustee and the Trustee shall notify the Holders of the Notes of the name and address of any Agent not a party to this Indenture. The Partnership, Finance Corp. or any Guarantor may act as Paying Agent, Registrar or co-registrar. The Issuers shall enter into an appropriate agency agreement with any Agent not a party to this Indenture, which shall be subject to any obligations



imposed by the provisions of the TIA. The agreement shall implement the provisions of this Indenture that relate to such Agent. The Issuers shall notify the Trustee of the name and address of any such Agent. If the Issuers fail to maintain a Registrar or Paying Agent, or fails to give the foregoing notice, the Trustee shall act as such, and shall be entitled to appropriate compensation in accordance with Section 7.07 hereof.

The Issuers initially appoint the Trustee as Registrar, Paying Agent and agent for service of notices and demands in connection with the Notes.

#### Section 2.04. Paying Agent to Hold Money in Trust.

The Issuers shall require each Paying Agent other than the Trustee to agree in writing that the Paying Agent shall hold in trust for the benefit of the Holders of the Notes or the Trustee all money held by the Paying Agent for the payment of principal of, premium, if any, and interest on the Notes, and shall notify the Trustee of any Default by the Issuers or any Guarantors in making any such payment. While any such Default continues, the Trustee may require a Paying Agent to pay all money held by it to the Trustee. The Issuers at any time may require a Paying Agent to pay all money held by it to the Trustee. Upon payment over to the Trustee, the Paying Agent (if other than the Partnership, Finance Corp. or a Guarantor) shall have no further liability for the money delivered to the Trustee. If the Partnership, Finance Corp. or any Guarantor acts as Paying Agent, it shall segregate and hold in a separate trust fund for the benefit of the Holders of the Notes all money held by it as Paying Agent. Upon any bankruptcy or reorganization proceeding relating to the Partnership, Finance Corp. or any Guarantor, the Trustee shall serve as Paying Agent for the Notes.

#### Section 2.05. Lists of Holders of the Notes.

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Holders of the Notes and shall otherwise comply with TIA (S) 312(a). If the Trustee is not the Registrar, the Issuers and/or any Guarantors shall furnish to the Trustee at least seven Business Days before each interest payment date and at such other times as the Trustee may request in writing a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Holders of the Notes, including the aggregate principal amount of the Notes held by each thereof, and the Issuers and each Guarantor, if any, shall otherwise comply with TIA (S) 312(a).

#### Section 2.06. Transfer and Exchange.

When Notes are presented to the Registrar with a request to register the transfer or to exchange them for an equal principal amount of Notes of other denominations, the Registrar shall register the transfer or make the exchange if its requirements for such transactions are met; provided, however, that any Note presented or surrendered for registration of transfer or exchange shall be duly endorsed or accompanied by a written instruction of transfer in form satisfactory to the Registrar and the Trustee duly executed by the Holder thereof or by his attorney duly authorized in writing. To permit registrations of transfer and exchanges, the Issuers shall issue and the Trustee shall authenticate Notes at the Registrar's request, subject to such rules as the Trustee may reasonably require.

Neither the Issuers nor the Registrar shall be required to (i) issue, register the transfer of or exchange Notes during a period beginning at the opening of business on a Business Day 15 days before the day of any selection of Notes for redemption under Section 3.02 hereof or (ii) register the transfer

of or exchange any Note so selected for redemption in whole or in part, except the unredeemed portion of any Note being redeemed in part.

No service charge shall be made to any Holder of a Note for any registration of transfer or exchange (except as otherwise expressly permitted herein), but the Issuers may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith (other than such transfer tax or similar governmental charge payable upon exchanges pursuant to Sections 2.10, 3.06 or 9.05 hereof, which shall be paid by the Issuers).

Prior to due presentment to the Trustee for registration of the transfer of any Note, the Trustee, any Agent, the Issuers and each Guarantor, if any, may deem and treat the Person in whose name any Note is registered as the absolute owner of such Note for the purpose of receiving payment of principal of, premium, if any, and interest on such Note and for all other purposes whatsoever, whether or not such Note is overdue, and none of the Trustee, any Agent, the Issuers or any Guarantor shall be affected by notice to the contrary.

#### Section 2.07. Replacement Notes.

If any mutilated Note is surrendered to the Trustee, or the Issuers and the Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Note, the Issuers shall issue and the Trustee, upon the written order of the Issuers signed by (i) two Officers of the General Partner and (ii) two Officers of Finance Corp., shall authenticate a replacement Note if the Trustee's requirements for replacements of Notes are met. If required by the Trustee, the Issuers or the Guarantors, if any, an indemnity bond must be supplied by the Holder that is sufficient in the judgment of the Trustee, the Issuers and the Guarantors to protect the Issuers, the Guarantors, the Trustee, any Agent or any authenticating agent from any loss which any of them may suffer if a Note is replaced. Each of the Partnership, Finance Corp, each Guarantor and the Trustee may charge for its expenses in replacing a Note.

Every replacement Note is an additional obligation of the Issuers and the Guarantors, if any, and shall be entitled to all of the benefits of this Indenture equally and ratably with all other Notes duly issued hereunder.

#### Section 2.08. Outstanding Notes.

The Notes outstanding at any time are all the Notes authenticated by the Trustee except for those cancelled by it, those delivered to it for cancellation and those described in this Section 2.08 as not outstanding. If a Note is replaced pursuant to Section 2.07 hereof, it ceases to be outstanding unless the Trustee receives proof satisfactory to it that the replaced Note is held by a bona fide purchaser. If the principal amount of any Note is considered paid under Section 4.01 hereof, it ceases to be outstanding and interest on it ceases to accrue. Subject to Section 2.09 hereof, a Note does not cease to be outstanding because the Partnership, Finance Corp., any Guarantor, a Subsidiary of the Partnership, Finance Corp. or any Guarantor or an Affiliate of the Partnership, Finance Corp. or any Guarantor holds the Note.

#### Section 2.09. Treasury Notes.

In determining whether the Holders of the required principal amount of Notes have concurred in any direction, waiver or consent, Notes owned by the Partnership, Finance Corp., any Guarantor, any

of their respective Subsidiaries or any Affiliate of the Partnership, Finance Corp. or any Guarantor shall be considered as though not outstanding, except that for purposes of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Notes which a Responsible Officer knows to be so owned shall be so considered. Notwithstanding the foregoing, Notes that are to be acquired by the Partnership, Finance Corp., any Guarantor, any Subsidiary of the Partnership, Finance Corp. or any Guarantor or an Affiliate of the Partnership, Finance Corp. or any Guarantor pursuant to an exchange offer, tender offer or other agreement shall not be deemed to be owned by the Partnership, Finance Corp., such Guarantor, a Subsidiary of the Partnership, Finance Corp. or such Guarantor or an Affiliate of the Partnership, Finance Corp. or such Guarantor until legal title to such Notes passes to the Partnership, Finance Corp., such Guarantor, Subsidiary of the Partnership, Finance Corp. or such Guarantor or Affiliate of the Partnership, Finance Corp. or such Guarantor, as the case may be.

#### Section 2.10. Temporary Notes.

Until definitive Notes are ready for delivery, the Issuers may prepare and the Trustee shall authenticate temporary Notes. Temporary Notes shall be substantially in the form of definitive Notes but may have variations that the Issuers and the Trustee consider appropriate for temporary Notes. Without unreasonable delay, the Issuers shall prepare and the Trustee, upon receipt of the written order of the Issuers signed by (i) two Officers of the General Partner and (ii) two Officers of Finance Corp., shall authenticate definitive Notes in exchange for temporary Notes. Until such exchange, temporary Notes shall be entitled to the same rights, benefits and privileges as definitive Notes.

#### Section 2.11. Cancellation.

The Issuers at any time may deliver Notes to the Trustee for cancellation. The Registrar and Paying Agent shall forward to the Trustee any Notes surrendered to them for registration of transfer, exchange or payment. The Trustee shall cancel all Notes surrendered for registration of transfer, exchange, payment, replacement or cancellation and shall destroy cancelled Notes (subject to the record retention requirement of the Exchange Act), unless the Issuers direct cancelled Notes to be returned to them. The Issuers may not issue new Notes to replace Notes that they have redeemed or paid or that have been delivered to the Trustee for cancellation. All cancelled Notes held by the Trustee shall be destroyed and certification of their destruction delivered to the Issuers, unless by a written order, signed by (i) two Officers of the General Partner and (ii) two Officers of Finance Corp., the Issuers shall direct that cancelled Notes be returned to them.

#### Section 2.12. Defaulted Interest.

If the Issuers or any Guarantor defaults in a payment of interest on the Notes, the Issuers or such Guarantor (to the extent of its obligations under its Note Guarantees) shall pay the defaulted interest in any lawful manner plus, to the extent lawful, interest payable on the defaulted interest, to the Persons who are Holders of the Notes on a subsequent special record date, which date shall be at the earliest practicable date but in all events at least five Business Days prior to the payment date, in each case at the rate provided in the Notes and in Section 4.01 hereof. The Issuers shall fix or cause to be fixed each such special record date and payment date, and shall, promptly thereafter, notify the Trustee of any such date. At least 15 days before the special record date, the Issuers (or the Trustee, in the name of and at the expense of the Issuers) shall mail to Holders of the Notes a notice that states the special record date, the related payment date and the amount of such interest to be paid.

### Section 2.13. Record Date.

The record date for purposes of determining the identity of Holders of the Notes entitled to vote or consent to any action by vote or consent authorized or permitted under this Indenture shall be determined as provided for in TIA (S) 316(c).

### Section 2.14. CUSIP Number.

The Issuers in issuing the Notes may use a "CUSIP" number and, if they do so, the Trustee shall use the CUSIP number in notices of redemption or exchange as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness or accuracy of the CUSIP number printed in the notice or on the Notes and that reliance may be placed only on the other identification numbers printed on the Notes. The Issuers will promptly notify the Trustee of any change in the CUSIP number.

## ARTICLE 3 REDEMPTION AND OFFERS TO PURCHASE

### Section 3.01. Notices to Trustee.

If the Issuers elect to redeem Notes pursuant to the optional redemption provisions of Section 3.07 hereof, they shall furnish to the Trustee, at least 30 days but not more than 75 days before a redemption date, an Officers' Certificate setting forth (i) the clause of this Indenture pursuant to which the redemption shall occur, (ii) the redemption date, (iii) the principal amount of Notes to be redeemed and (iv) the redemption price.

If the Issuers are required to make an offer to purchase Notes pursuant to the provisions of Sections 4.10 or 4.14 hereof, they shall furnish to the Trustee, at least 30 days before the scheduled Purchase Date, an Officers' Certificate setting forth (i) the Section of this Indenture pursuant to which the offer to purchase shall occur, (ii) the terms of the offer, (iii) the purchase price, (iv) the principal amount of the Notes to be purchased, and (v) further setting forth a statement to the effect that (a) the Partnership or one of its Subsidiaries has made an Asset Sale and there are Excess Proceeds aggregating more than \$15 million and the amount of such Excess Proceeds or (b) a Change of Control has occurred, as applicable.

### Section 3.02. Selection of Notes to Be Purchased or Redeemed.

If less than all of the Notes are to be redeemed at any time, the Trustee shall select the Notes to be redeemed among the applicable Holders of the Notes in compliance with the requirements of the principal national securities exchange, if any, or the Nasdaq National Market on which the Notes are listed or quoted, as applicable or, if the Notes are not so listed or quoted, on a pro rata basis, by lot or in accordance with any other method the Trustee considers fair and appropriate, provided that no Notes of \$1,000 or less shall be redeemed in part. In the event of partial redemption by lot, the particular Notes to be redeemed shall be selected, unless otherwise provided herein, not less than 30 nor more than 60 days prior to the redemption date by the Trustee from the outstanding Notes not previously called for redemption. In the event that less than all of the Notes properly tendered in an Asset Sale Offer pursuant to Section 4.10 hereof are to be purchased, the Trustee shall select the particular Notes to be purchased

on a pro rata basis among the applicable Holders of Notes promptly upon the expiration of such Asset Sale Offer.

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The Trustee shall promptly notify the Issuers in writing of the Notes selected for redemption and, in the case of any Note selected for partial purchase or redemption, the principal amount thereof to be purchased or redeemed. Notes and portions of Notes selected shall be in amounts of \$1,000 or whole multiples of \$1,000; except that if all of the Notes of a Holder are to be purchased or redeemed, the entire outstanding amount of Notes held by such Holder, even if not a multiple of \$1,000, shall be purchased or redeemed. Except as provided in the preceding sentence, provisions of this Indenture that apply to Notes called for redemption also apply to portions of Notes called for redemption.

In the event the Issuers are required to make an Asset Sale Offer pursuant to Section 4.10 hereof and the amount of Excess Proceeds to be applied to such purchase would result in the purchase of a principal amount of Notes which is not evenly divisible by \$1,000, the Trustee shall promptly refund to the Issuers the portion of such Excess Proceeds that is not necessary to purchase the immediately lesser principal amount of Notes that is so divisible.

### Section 3.03. Notice of Redemption.

At least 30 days but not more than 60 days before a redemption date, the Issuers shall mail or cause to be mailed, by first class mail, a notice of redemption to each Holder whose Notes are to be redeemed at its registered address.

The notice shall identify the Notes to be redeemed and shall state:

- (a) the redemption date;
- (b) the redemption price;
- (c) if any Note is being redeemed in part, the portion of the principal amount of such Note to be redeemed and that, after the redemption date upon surrender of such Note, a new Note or Notes in principal amount equal to the unredeemed portion shall be issued upon cancellation of the original Note;
- (d) the name and address of the Paying Agent;
- (e) that Notes called for redemption must be surrendered to the Paying Agent to collect the redemption price;
- (f) that, unless the Issuers default in making such redemption payment, interest on Notes called for redemption ceases to accrue on and after the redemption date;
- (g) the paragraph of the Notes and/or Section of this Indenture pursuant to which the Notes called for redemption are being redeemed; and
- (h) that no representation is made as to the correctness or accuracy of the CUSIP number, if any, listed in such notice or printed on the Notes.

At the Issuers' request, the Trustee shall give the notice of redemption in the Issuers' name and at their expense; provided, however, that the Issuers shall have delivered to the Trustee, at least 45 days prior to the redemption date, an Officers' Certificate requesting that the Trustee give such notice and setting forth the information to be stated in such notice as provided in the preceding paragraph (which request may be revoked by so notifying the Trustee in writing on or before the Business Day immediately preceding the date requested for the mailing of such notice).

#### Section 3.04. Effect of Notice of Redemption.

Once notice of redemption is mailed in accordance with Section 3.03 hereof, Notes called for redemption become irrevocably due and payable on the redemption date at the redemption price. A notice of redemption may not be conditional.

#### Section 3.05. Deposit of Redemption Price.

One Business Day prior to the redemption date, the Issuers shall deposit with the Trustee or with the Paying Agent money sufficient to pay the redemption price of and accrued interest on all Notes to be redeemed on that date. The Trustee or the Paying Agent shall promptly return to the Issuers any money deposited with the Trustee or the Paying Agent by the Issuers in excess of the amounts necessary to pay the redemption price of, and accrued interest on, all Notes to be redeemed.

If the Issuers comply with the provisions of the preceding paragraph, on and after the redemption date, interest shall cease to accrue on the Notes or the portions of Notes called for redemption. If a Note is redeemed on or after an interest record date but on or prior to the related interest payment date, then any accrued and unpaid interest shall be paid to the Person in whose name such Note was registered at the close of business on such record date. If any Note called for redemption shall not be so paid upon surrender for redemption because of the failure of the Issuers to comply with the preceding paragraph, interest shall be paid on the unpaid principal, from the redemption date until such principal is paid, and to the extent lawful on any interest not paid on such unpaid principal, in each case at the rate provided in the Notes and in Section 4.01 hereof.

#### Section 3.06. Notes Redeemed in Part.

Upon surrender of a Note that is redeemed in part, the Issuers shall issue and, upon the Issuers' written request, the Trustee shall authenticate for the Holder at the expense of the Issuers a new Note equal in principal amount to the unredeemed portion of the Note surrendered.

#### Section 3.07. Optional Redemption.

The Notes shall not be redeemable at the Issuers' option prior to \_\_\_\_\_, 1998. Thereafter, the Notes shall be subject to redemption at the option of the Issuers, in whole or in part, upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon to the applicable redemption date, if redeemed during the twelve-month period beginning on \_\_\_\_\_ of the years indicated below:

Year	Percentage
1998	____.____%
1999	____.____%
2000	100.00%

### Section 3.08. Mandatory Redemption.

Except as set forth below under Section 4.10 and Section 4.14 hereof, the Issuers shall not be required to make mandatory redemption or sinking fund payments with respect to the Notes.

### Section 3.09. Asset Sale Offers.

(a) In the event that, pursuant to Section 4.10 hereof, the Issuers shall be required to commence an offer to all Holders to purchase Notes (an "Asset Sale Offer"), it shall follow the procedures specified in this Section 3.09.

(b) The Asset Sale Offer shall commence on the date (the "Commencement Date") specified in Section 4.10 hereof and shall remain open for a period specified by the Issuers, which shall be in accordance with Section 4.10 hereof, except to the extent that a longer period is required by applicable law (the "Offer Period"). No later than five Business Days after the termination of the Offer Period (the "Purchase Date"), the Issuers shall purchase the principal amount of Notes required to be purchased pursuant to Section 4.10 hereof (the "Offer Amount") or, if less than the Offer Amount has been tendered, all Notes tendered in response to such Asset Sale Offer. Payment for any Notes so purchased shall be made in the same manner as interest payments are made.

If the Purchase Date is on or after an interest record date and on or before the related interest payment date, any accrued and unpaid interest, if any, shall be paid to the Person in whose name a Note is registered at the close of business on such record date, and no additional interest shall be payable to Holders who tender Notes pursuant to such Asset Sale Offer.

Upon the commencement of an Asset Sale Offer, the Issuers shall send, by first class mail, a notice to the Trustee and each of the Holders. The notice shall contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to such Asset Sale Offer. The Asset Sale Offer shall be made to all Holders. The notice, which shall govern the terms of the Asset Sale

Offer, shall state:

(a) that the Asset Sale Offer is being made pursuant to Section 4.10 hereof, the Offer Period, and the expiration date of the Offer Period;

(b) the Offer Amount, the purchase price and the Purchase Date;

(c) that any Note not tendered and accepted for payment shall continue to accrue interest;

(d) that, unless the Issuers default in making such payment, any Note accepted for payment pursuant to the Asset Sale Offer shall cease to accrue interest after the Purchase Date;

(e) that Holders electing to have a Note purchased pursuant to any Asset Sale Offer shall be required to surrender the Note, with the form entitled "Option of Holder to Elect Purchase" on

the reverse of the Note completed, to the Issuers, a depositary, if appointed by the Issuers, or a Paying Agent at the address specified in the notice prior to the close of the Offer Period;

(g) that Holders shall be entitled to withdraw their election if the Issuers, the depositary or the Paying Agent, as the case may be, receives, not later than the close of the Offer Period, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Note the Holder delivered for purchase and a statement that such Holder is withdrawing his election to have such Note purchased;

(h) that, if the aggregate principal amount of Notes surrendered by Holders exceeds the Offer Amount, the Notes to be purchased shall be selected pursuant to the terms of Section 3.02 hereof, and that Holders whose Notes were purchased only in part shall be issued new Notes (accompanied by a notation of the Note Guarantees duly endorsed by each Guarantor) equal in principal amount to the unpurchased portion of the Notes surrendered; and

(i) the circumstances and material facts regarding the Asset Sale or Asset Sales giving rise to such Asset Sale Offer, including but not limited to, information with respect to pro forma and historical financial information if material operations of the Partnership or any Subsidiary were divested in such Asset Sale or Asset Sales.

On or before the Purchase Date, the Issuers shall, to the extent lawful, accept for payment, pursuant to the terms of Section 3.02 hereof, the Offer Amount of Notes or portions thereof tendered pursuant to the Asset Sale Offer, or if less than the Offer Amount has been tendered, all Notes tendered, and shall deliver to the Trustee an Officers' Certificate stating that such Notes or portions thereof were accepted for payment by the Issuers in accordance with the terms of this Section 3.09. The Issuers, the depositary or the Paying Agent, as the case may be, shall promptly (but in any case not later than five days after the Purchase Date) mail or deliver to each tendering Holder an amount equal to the purchase price of the Notes tendered by such Holder and accepted by the Issuers for purchase, and the Issuers shall promptly issue a new Note, and the Trustee, upon written request from the Issuers shall authenticate and mail or deliver such new Note to such Holder, in a principal amount equal to any unpurchased portion of the Note surrendered. Any Note not so accepted shall be promptly mailed or delivered by the Issuers to the Holder thereof. The Issuers shall publicly announce the results of such Asset Sale Offer on the Purchase Date.

Other than as specifically provided in this Section 3.09, any purchase pursuant to this Section 3.09 shall be made pursuant to the provisions of Sections 3.01 through 3.06 hereof to the extent applicable.

#### ARTICLE 4 COVENANTS

##### Section 4.01. Payment of Notes.

The Issuers shall pay or cause to be paid the principal of, premium, if any, and interest on the Notes on the dates and in the manner provided in the Notes. Principal, premium, if any, and interest shall be considered paid on the date due if the Paying Agent, if other than the Issuers or any Guarantor, holds as of 10:00 a.m. Eastern Time on the due date money deposited by the Issuers in immediately



available funds and designated for and sufficient to pay all principal, premium, if any, and interest then due.

The Issuers shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue principal at the rate equal to 1% per annum in excess of the then applicable interest rate on the Notes to the extent lawful; it shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue installments of interest (without regard to any applicable grace period) at the same rate to the extent lawful.

#### Section 4.02. Maintenance of Office or Agency.

The Issuers shall maintain in the Borough of Manhattan, the City of New York, an office or agency (which may be an office of the Trustee or an affiliate of the Trustee, Registrar or co-registrar) where Notes may be surrendered for registration of transfer or for exchange and where notices and demands to or upon the Issuers or any Guarantor in respect of the Notes and this Indenture may be served. The Issuers shall give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Issuers shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee.

The Issuers may also from time to time designate one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Issuers of their obligation to maintain an office or agency in the Borough of Manhattan, the City of New York for such purposes. The Issuers shall give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

The Issuers hereby designate the Corporate Trust Office of the Trustee as one such office or agency of the Issuers in accordance with Section 2.03 hereof.

#### Section 4.03. Reports.

Whether or not required by the rules and regulations of the SEC, so long as any Notes are outstanding, the Issuers will furnish to the Holders of Notes (i) all quarterly and annual financial information that would be required to be contained in a filing with the SEC on Forms 10-Q and 10-K if the Issuers were required to file such Forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" and, with respect to the annual information only, a report thereon by the Issuers' certified independent accountants and (ii) all reports that would be required to be filed with the SEC on Form 8-K if the Issuers were required to file such reports. In addition, whether or not required by the rules and regulations of the SEC, the Issuers will file a copy of all such information with the SEC for public availability (unless the SEC will not accept such a filing) and make such information available to investors who request it in writing. To the extent permissible under the rules and regulations of the SEC (assuming at all times that the Issuers were required to file reports with the SEC), such information and reports with respect to the Master Partnership may be filed and provided in lieu of such information and reports with respect to the Partnership.

#### Section 4.04. Compliance Certificate.

(a) Each Issuer shall deliver to the Trustee, within 90 days after the end of each fiscal year, an Officers' Certificate stating that a review of the activities of the Partnership and its Subsidiaries during the preceding fiscal year has been made under the supervision of the signing Officers with a view to determining whether each Issuer, each Guarantor, if any, and each obligor on the Notes and this Indenture has kept, observed, performed and fulfilled its obligations under this Indenture (including with respect to any Restricted Payments made during such year, the basis upon which the calculations required by Section 4.07 hereof were computed, which calculations may be based on the Partnership's latest available financial statements), and further stating, as to each such Officer signing such certificate, that to the best of his or her knowledge, each Issuer, each Guarantor, if any, and each such obligor has kept, observed, performed and fulfilled each and every covenant contained in this Indenture and is not in default in the performance or observance of any of the terms, provisions and conditions of this Indenture (or, if a Default or Event of Default shall have occurred, describing all such Defaults or Events of Default of which he or she may have knowledge and what action each Issuer, each Guarantor, if any, or each such obligor, as the case may be, is taking or proposes to take with respect thereto) and that to the best of his or her knowledge no event has occurred and remains in existence by reason of which payments on account of the principal of or interest, if any, on the Notes is prohibited or if such event has occurred, a description of the event and what action each Issuer, each Guarantor, if any, or each such obligor, as the case may be, is taking or proposes to take with respect thereto.

(b) So long as not contrary to the then current recommendations of the American Institute of Certified Public Accountants, the year-end financial statements delivered pursuant to Section 4.03 hereof shall be accompanied by a written statement of the Partnership's independent public accountants (who shall be a firm of established national reputation) that in making the examination necessary for certification of such financial statements, nothing has come to their attention that would lead them to believe that the Issuers have violated any provisions of Article Four or Article Five hereof or, if any such violation has occurred, specifying the nature and period of existence thereof, it being understood that such accountants shall not be liable directly or indirectly to any Person for any failure to obtain knowledge of any such violation.

(c) Each Issuer shall, so long as any of the Notes are outstanding, deliver to the Trustee, forthwith upon any Officer of such Issuer (or of the General Partner, in the case of the Partnership) becoming aware of any Default or Event of Default, an Officers' Certificate specifying such Default or Event of Default and what action such Issuer is taking or proposes to take with respect thereto.

#### Section 4.05. Taxes.

The Issuers shall pay, and shall cause each of their Subsidiaries to pay, prior to delinquency, all material taxes, assessments, and governmental levies except such as are contested in good faith and by appropriate proceedings or where the failure to effect such payment is not adverse in any material respect to the Holders of the Notes.

#### Section 4.06. Stay, Extension and Usury Laws.

Each of the Issuers and each of the Guarantors, if any, covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law wherever enacted, now or at any time

hereafter in force, that may affect the covenants or the performance of this Indenture; and each of the Issuers and each of the Guarantors, if any, (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it shall not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law had been enacted.

#### Section 4.07. Restricted Payments.

The Partnership 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 Partnership's or any Subsidiary's Equity Interests (other than (x) dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Partnership, (y) dividends or distributions payable to the Partnership or a Wholly Owned Subsidiary of the Partnership 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 or otherwise acquire or retire for value any Equity Interests of the Partnership or any Subsidiary or other Affiliate of the Partnership (other than any such Equity Interests owned by the Partnership or a Wholly Owned Subsidiary of the Partnership that is a Guarantor); (iii) purchase, redeem or otherwise acquire or retire for value any Indebtedness that is subordinated to the Notes; or (iv) make any Restricted Investment (all such 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;

(b) the Fixed Charge Coverage Ratio of the Partnership for the Partnership'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;

(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 Officers' Certificate delivered to the Trustee), together with the aggregate of all other Restricted Payments (other than any Restricted Payments permitted by the provisions of clauses (ii), (iii) or (iv) of the penultimate paragraph of this Section 4.07) made by the Partnership and its Subsidiaries in the fiscal quarter during which such Restricted Payment is made, shall not exceed an amount equal to the sum of (i) Available Cash of the Partnership 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 Partnership for the period commencing on the date of this Indenture and ending on the last day of the immediately preceding fiscal quarter) plus (ii) the lesser of (x) the amount of Available Cash of the Partnership for the first 45 days of the fiscal quarter during which such Restricted Payment is made and (y) the amount of working capital Indebtedness that the Partnership could have incurred on the last day of the immediately preceding fiscal quarter under the terms of the agreements and instruments governing its outstanding Indebtedness on such date; and

(d) the Partnership and its Subsidiaries and Non-Recourse Subsidiaries shall have, in the aggregate (i) acquired, improved or repaired property, plant or equipment which is accounted for as a capital expenditure in accordance with GAAP or (ii) acquired, through merger or otherwise,

all or substantially all of the outstanding Capital Interests, or all or substantially all of the assets, of any entity engaged in the business in which the Partnership is engaged on the date of this Indenture (each of the transactions referred to in clauses (i) and (ii) above, a "Capital Investment") for Aggregate Consideration since the date of the Indenture which, when added to all cash reserves then funded and maintained by the Partnership (the proceeds of which shall be used solely for Capital Investments) is no less than the amounts set forth in the table below, if such Restricted Payment is made in the 12-month period beginning August 1 of the years indicated:

Year ----	Amount -----
.....	
1994.....	\$0
1995.....	\$15 million
1996.....	\$30 million
1997.....	\$45 million
1998.....	\$70 million
1999.....	\$95 million
2000.....	\$120 million

For purposes of the foregoing, "Aggregate Consideration" at any date shall mean all cash paid in connection with all Capital Investments consummated on or prior to such date, the fair market value of all Capital Interests of the Master Partnership or the Partnership (determined by the General Partner in good faith with reference to, among other things, the trading price of such Capital Interests, if then traded on any national securities exchange or automated quotation system) constituting all or a portion of the purchase price of all Capital Investments consummated on or prior to such date and the aggregate principal amount of all Indebtedness incurred or assumed by the Partnership in connection with all Capital Investments consummated on or prior to such date.

The foregoing provisions will not prohibit (i) the payment of any distribution within 60 days after the date on which the Partnership becomes committed to make such distribution, if at said date of commitment such payment would have complied with the provisions of this Indenture; (ii) the redemption, repurchase, retirement or other acquisition of any Equity Interests of the Partnership in exchange for, or out of the proceeds of, the substantially concurrent sale (other than to a Subsidiary of the Partnership) of other Equity Interests of the Partnership (other than any Disqualified Interests); (iii) the defeasance, redemption or repurchase of subordinated Indebtedness with the proceeds of Permitted Refinancing Indebtedness; and (iv) the defeasance, redemption or repurchase of any Existing Subordinated Debentures of the General Partner and the payment of all costs and expenses in connection therewith.

Not later than the date of making any Restricted Payment, the General Partner shall deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this Section 4.07 were computed, which calculations may be based upon the Partnership's latest available financial statements.

#### Section 4.08. Dividend and Other Payment Restrictions Affecting Subsidiaries.

The Partnership 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 Partnership 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 Partnership or any of its

Subsidiaries, (c) make loans or advances to the Partnership or any of its Subsidiaries or (d) transfer any of its properties or assets to the Partnership or any of its Subsidiaries, except for such encumbrances or restrictions existing under or by reason of (i) Existing Indebtedness as in effect on the date of this Indenture, (ii) the Credit Facility, as in effect on the date of this Indenture, the Notes and the Note Guarantees, (iii) applicable law, (iv) any instrument governing Indebtedness or Capital Interests of a Person acquired by the Partnership 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 the Indenture, (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) agreements governing any Indebtedness that is permitted to be incurred hereunder and that is incurred to extend, refinance, renew, replace, defease or refund Indebtedness outstanding pursuant to the Credit Facility, provided that the restrictions contained in the agreements governing such refinancing Indebtedness are no more restrictive than those contained in the Credit Facility as in effect on the date of this Indenture.

#### Section 4.09. Incurrence of Indebtedness and Issuance of Disqualified Interests.

The Partnership 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 Partnership 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 Partnership may incur Indebtedness and any Subsidiary of the Partnership may incur Acquired Debt if:

(a) the Fixed Charge Coverage Ratio for the Partnership'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 \_\_\_\_\_, 1996 and 3.00 to 1 if such date is after \_\_\_\_\_, 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 shall be subordinated in right of payment to the Notes and shall have a Weighted Average Life to Maturity greater than the remaining Weighted Average Life to Maturity of the Notes 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 4.09 will not apply to: (i) the Indebtedness represented by the Notes and any Note Guarantees; (ii) the incurrence by the Partnership of Indebtedness pursuant to the Credit Facility in an aggregate principal amount at any time outstanding not to exceed \$185 million; (iii) revolving Indebtedness incurred solely for working capital purposes in an aggregate

outstanding principal amount not to exceed \$20 million at any time on or prior to \_\_\_\_\_, 1996 and \$40 million thereafter, provided, in each case, that the outstanding principal balance of such revolving Indebtedness (or, if such revolving Indebtedness is incurred as an addition or extension to the Credit Facility, the outstanding principal balance under the Credit Facility in excess of the limits set forth in clause (ii) above) shall be reduced to zero for a period of 30 consecutive days during each fiscal year; (iv) the incurrence by the Partnership of Indebtedness in respect of Capitalized Lease Obligations in an aggregate principal amount not to exceed \$15 million; (v) the Existing Indebtedness; (vi) the incurrence by the Partnership 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 Partnership or such Subsidiary not incurred in violation of the Indenture; (vii) Hedging Obligations that are incurred for the purpose of fixing or hedging interest rate risk with respect to any floating rate Indebtedness that is permitted by the terms of the Indenture to be outstanding; (viii) Indebtedness of any Subsidiary of the Partnership to the Partnership or any of its Wholly Owned Subsidiaries; (ix) the incurrence by the Partnership or the Insurance Company Subsidiary of Indebtedness owing directly to its insurance carriers (without duplication) in connection with the Partnership'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 above; (x) surety bonds and appeal bonds required in the ordinary course of business or in connection with the enforcement of rights or claims of the Partnership or any of its Subsidiaries or in connection with judgments that do not result in a Default or Event of Default; (xi) the incurrence by the Partnership (or any Subsidiary of the Partnership 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 million in any fiscal year or \$45 million 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 (xii) in addition to the Indebtedness permitted under the foregoing clauses (i) through (xi), the incurrence by the Partnership of Indebtedness in an aggregate principal amount outstanding not to exceed \$15 million at any time, provided that any Indebtedness incurred pursuant to this clause (xii) shall be subordinated in right of payment to the Notes and shall have a Weighted Average Life to Maturity greater than the remaining Weighted Average Life to Maturity of the Notes.

The "Senior Debt Ratio Test" will be met with respect to the incurrence of any Indebtedness by the Partnership or any Subsidiary of the Partnership 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) the Consolidated Cash Flow for the Partnership'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 the Credit Facility shall be deemed to equal the principal amount of such Indebtedness actually outstanding plus the maximum additional principal amount of such Indebtedness available thereunder, and letters of credit shall be deemed to have a principal amount equal to the maximum potential liability of the Partnership or any of its Subsidiaries thereunder. The foregoing calculation of Consolidated Cash Flow shall give pro forma effect to acquisitions (including all mergers and consolidations), dispositions and discontinuance of operations that have been made by the Partnership 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 assuming that all such acquisitions, dispositions and discontinuance of operations had occurred on the first day of

the four-quarter reference period in the same manner as described in the definition of "Fixed Charge Coverage Ratio".

For purposes of this Section 4.09, any revolving Indebtedness (under the Credit Facility

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, reduce the Weighted Average Life to Maturity, change any subordination provisions or create any additional obligor of such revolving Indebtedness) are executed, in an amount equal to the maximum amount of such revolving Indebtedness permitted to be borrowed thereunder, and the Partnership's ability to borrow or reborrow such revolving Indebtedness up to such maximum permitted amount shall not thereafter be limited by the provisions of this Section 4.09 (other than the proviso set forth in clause (iii) of the second paragraph of this Section 4.09.)

#### Section 4.10. Asset Sales.

The Partnership 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 Partnership shall be governed by the provisions of Sections 4.14 and/or 5.01 hereof and not by the provisions of this Section 4.10), 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 million, or (b) for net proceeds in excess of \$5 million (each of the foregoing, an "Asset Sale"), unless (x) the Partnership (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 set forth in an Officers' Certificate delivered to the Trustee) of the assets sold or otherwise disposed of and (y) at least 80% of the consideration therefor received by the Partnership or such Subsidiary is in the form of cash; provided, however, that the amount of (A) any liabilities (as shown on the Partnership's or such Subsidiary's most recent balance sheet or in the notes thereto), of the Partnership or any Subsidiary (other than liabilities that are by their terms subordinated in right of payment to the Notes) that are assumed by the transferee of any such assets and (B) any notes or other obligations received by the Partnership or any such Subsidiary from such transferee that are immediately converted by the Partnership 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 (1) any transfer of assets by the Partnership or any of its Subsidiaries to a Subsidiary of the Partnership that is a Guarantor, (2) any transfer of assets by the Partnership or any of its Subsidiaries to any Person in exchange for other assets used in a line of business permitted under Section 4.16 hereof and having a fair market value not less than that of the assets so transferred and (3) any transfer of assets pursuant to a Permitted Investment.

Within 270 days after any Asset Sale, the Partnership may apply the Net Proceeds from such Asset Sale to (a) permanently reduce Indebtedness outstanding under the Credit Facility (with a permanent reduction of availability in the case of revolving Indebtedness) or (b) an investment in capital expenditures or other long-term tangible assets, in each case, in the same line of business as the Partnership was engaged in on the date of this Indenture. Pending the final application of any such Net Proceeds, the

Partnership may temporarily reduce borrowings under the Credit Facility or otherwise invest such Net Proceeds in any manner that is not prohibited by this Indenture. Any Net Proceeds from the Asset Sale that are not applied or invested as provided in the first sentence of this paragraph will be deemed to constitute "Excess Proceeds." When the aggregate amount of Excess Proceeds exceeds \$15 million, the Issuers shall make an Asset Sale Offer to all Holders of Notes to purchase the maximum principal amount of Notes that may be purchased out of the Excess Proceeds, at an offer price in cash in an amount equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase, in accordance with the procedures set forth in Article 3 hereof. The Issuers shall commence an Asset Sale Offer with respect to Excess Proceeds within 10 Business Days after the date that Excess Proceeds exceeds \$15 million by mailing the notice required in Section 3.09 hereof to the Holders. The Offer Period shall be not less than 30 days and not more than 40 days, unless a longer period is required by law. The Issuers shall comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with such Asset Sale Offer. To the extent that the aggregate amount of Notes tendered pursuant to such Asset Sale Offer is less than the Excess Proceeds, the Partnership may use such deficiency for general business purposes. If the aggregate principal amount of Notes surrendered by Holders thereof exceeds the amount of Excess Proceeds, the Trustee shall select the Notes to be purchased on a pro rata basis. Upon completion of such Asset Sale Offer, the amount of Excess Proceeds shall be reset at zero.

#### Section 4.11. Transactions with Affiliates.

The Partnership 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 Partnership or the relevant Subsidiary than those that would have been obtained in a comparable transaction by the Partnership 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 million, the Partnership delivers to the Trustee an opinion as to the fairness to the Partnership 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 Partnership or any of its Subsidiaries in the ordinary course of business and consistent with the past practice of the Partnership (or the General Partner) or such Subsidiary, (ii) Restricted Payments permitted by the provisions of Section 4.07 hereof, and (iii) transactions entered into by the Partnership or the Insurance Company Subsidiary 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 Partnership, its Subsidiaries and its Affiliates, in each case, shall not be deemed Affiliate Transactions.

#### Section 4.12. Liens.

The Partnership shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Lien on any asset now owned or hereafter acquired, or any



income or profits therefrom or assign or convey any right to receive income therefrom, except Permitted Liens.

#### Section 4.13. Subsidiary Note Guarantees.

The Partnership may, at any time that it transfers or causes to be transferred to any of its Subsidiaries assets, businesses or properties having a fair market value (as determined in good faith by the Board of Directors, whose determination shall be conclusive and evidenced by a resolution of such Board) of \$5 million or more, cause such Subsidiary to unconditionally guarantee, jointly and severally, the Issuers' payment obligations under the Notes as provided in Article 10 hereof pursuant to a supplemental indenture in the form attached hereto as Exhibit B, together with an Opinion of Counsel to the effect that such supplemental indenture has been duly executed and delivered by such Subsidiary and is in compliance with the terms of this Indenture.

#### Section 4.14. Offer to Purchase Upon Change of Control.

Upon the occurrence of a Change of Control, the Issuers shall make an offer (a "Change of Control Offer") to each Holder to purchase all or any part of such Holder's Notes at an offer price in cash equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase (the "Change of Control Payment"). The Issuers shall comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with such Change of Control Offer.

The Issuers shall commence such Change of Control Offer within 10 days following any Change of Control by mailing a notice of such Change of Control to each Holder at its last registered address with a copy to the Trustee and the Paying Agent. The Change of Control Offer shall remain open from the time of mailing until the close of business on the Business Day preceding the date on which payment for the Notes tendered pursuant to such Change of Control Offer shall be made (the "Change of Control Payment Date"). The notice, which shall govern the terms of the Change of Control Offer, shall state:

- (1) that the Change of Control Offer is being made pursuant to this Section 4.14 and that all Notes tendered will be accepted for payment;
- (2) the amount of the Change of Control Payment and the Change of Control Payment Date, which date shall be no earlier than 30 days nor later than 40 days from the date such notice is mailed;
- (3) that any Notes not tendered will continue to accrue interest in accordance with the terms of the Indenture;
- (4) that, unless the Issuers default in the payment of the Change of Control Payment, all Notes accepted for payment pursuant to the Change of Control Offer shall cease to accrue interest after the Change of Control Payment Date;
- (5) that Holders electing to have Notes purchased pursuant to the Change of Control Offer will be required to surrender their Notes, with the form entitled "Option of Holder to Elect Purchase" on the reverse of the Note completed, to the Paying Agent at the address

specified in the notice prior to the close of business on the Business Day preceding the Change of Control Payment Date;

- (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the Business Day preceding the Change of Control Payment Date, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of Notes the Holder delivered for purchase, and a statement that such Holder is withdrawing its election to have such Notes purchased;
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered, which unpurchased portion must be equal to \$1,000 in principal amount or an integral multiple thereof; and
- (8) the circumstances and relevant facts regarding such Change of Control (including, but not limited to, information with respect to pro forma historical financial information after giving effect to such Change of Control, information regarding the Person or Persons acquiring control and such Person's or Persons' business plans going forward).

On the Change of Control Payment Date, the Issuers shall, to the extent lawful, (i) accept for payment Notes or portions thereof tendered pursuant to the Change of Control Offer, (ii) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes or portions thereof so tendered and (iii) deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers' Certificate stating the Notes or portions thereof tendered to the Issuers. The Paying Agent shall promptly, but in no event later than three Business Days following the Change of Control Payment Date, mail to each Holder of Notes so accepted payment in an amount equal to the Change of Control Payment for such Notes, and the Issuers shall promptly issue a new Note, and the Trustee shall authenticate and mail or deliver a new Note to such Holder equal in principal amount to any unpurchased portion of the Notes surrendered, if any; provided, that each such new Note shall be in a principal amount of \$1,000 or an integral multiple thereof. The Issuers shall publicly announce in The Wall Street Journal, or if no longer published, a national newspaper of general circulation the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

#### Section 4.15. Partnership or Corporate Existence.

Subject to Article 5 and Article 10 hereof, as the case may be, each Issuer and each of the Guarantors, if any, shall do or cause to be done all things necessary to preserve and keep in full force and effect (i) its corporate or partnership existence, and the corporate or partnership existence of each of their Subsidiaries, in accordance with the respective organizational documents (as the same may be amended from time to time) of each Issuer, any such Guarantor or any such Subsidiary, as the case may be, and (ii) the rights (charter and statutory), licenses and franchises of each Issuer, the Guarantors and their respective Subsidiaries; provided, however, that the Issuers and the Guarantors shall not be required to preserve any such right, license or franchise, or the corporate, partnership or other existence of any of their respective Subsidiaries, if an officer of the General Partner or Finance Corp., as the case may be, shall determine that the preservation thereof is no longer desirable in the conduct of the business of

the Issuers, the Guarantors and their Subsidiaries, taken as a whole and that the loss thereof is not adverse in any material respect to the Holders of the Notes.

#### Section 4.16. Line of Business.

For so long as any Notes are outstanding, the Partnership and its Subsidiaries will not materially or substantially engage in any business other than that in which the Partnership and its Subsidiaries were engaged on the date of this Indenture.

#### Section 4.17. Limitation on Sale and Leaseback Transactions.

The Partnership will not, and will not permit any of its Subsidiaries to, enter into any arrangement with any Person providing for the leasing by the Partnership or such Subsidiary of any property that has been or is to be sold or transferred by the Partnership or such Subsidiary to such Person in contemplation of such leasing; provided, however, that the Partnership or such Subsidiary may enter into such sale and leaseback transaction if (i) the Partnership 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 4.09 and (B) secured a Lien on such Indebtedness pursuant to Section 4.12, 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.

#### Section 4.18. Restrictions on Nature of Indebtedness and Activities of Finance Corp.

Notwithstanding the provisions of Section 4.09 hereof, Finance Corp. shall not incur any Indebtedness unless (a) the Partnership is a co-obligor or guarantor of such Indebtedness or (b) the net proceeds of such Indebtedness are lent to the Partnership, used to acquire outstanding debt securities issued by the Partnership or used directly or indirectly to refinance or discharge Indebtedness permitted under the limitations of this Section 4.18. Finance Corp. shall not engage in any business not related directly or indirectly to obtaining money or arranging financing for the Partnership.

### ARTICLE 5 SUCCESSORS

#### Section 5.01. Merger, Consolidation, or Sale of Assets.

(a) The Partnership shall not consolidate or merge with or into (whether or not the Partnership 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 Partnership is the surviving Person, or the Person formed by or surviving any such consolidation or merger (if other than the Partnership) 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; (ii) the Person formed by or surviving any such consolidation or merger (if other than the Partnership) or Person to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made assumes all the obligations of the Partnership pursuant to a supplemental indenture in a form reasonably satisfactory to the Trustee, under the Notes and this Indenture; (iii) immediately after such transaction no Default or Event of Default exists; and (iv) the Partnership 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 Partnership 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 set forth in Section 4.09 hereof.

(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 (i) Finance Corp. is the surviving Person, or the Person formed by or surviving any such consolidation or merger (if other than Finance Corp.) or to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made is a corporation organized or existing under the laws of the United States, any state thereof or the District of Columbia and a Wholly Owned Subsidiary of the Partnership; (ii) the Person formed by or surviving any such consolidation or merger (if other than Finance Corp.) or the Person to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made assumes all the obligations of Finance Corp., pursuant to a supplemental indenture in a form reasonably satisfactory to the Trustee, under the Notes and the Indenture; and (iii) immediately after such transaction no Default or Event of Default exists.

(c) The Partnership or Finance Corp., as the case may be, shall deliver to the Trustee prior to the consummation of the proposed transaction pursuant to the foregoing paragraphs (a) and (b) an Officers' Certificate to the foregoing effect and an Opinion of Counsel stating that the proposed transaction and such supplemental indenture comply with this Indenture. The Trustee shall be entitled to conclusively rely upon such Officers' Certificate and Opinion of Counsel.

#### Section 5.02. Successor Person Substituted.

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 Partnership or Finance Corp. in accordance with Section 5.01 hereof, the successor Person formed by such consolidation or into or with which the Partnership or Finance Corp. 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 Indenture referring to the "Partnership," "Finance Corp.," or the "Issuers," as the case may be shall refer to or include instead the successor Person and not the Partnership or Finance Corp., as the case may be), and may exercise every right and power of the Partnership or Finance Corp., as the case may be under this Indenture with the same effect as if such successor Person had been named as the Partnership or Finance Corp., as the case may be, herein; provided, however, that the predecessor Issuer shall not be relieved from the obligation to pay the principal of, premium, if any, and interest on the Notes except in the case of a sale of all of such Issuer's assets that meets the requirements of Section 5.01 hereof.

### ARTICLE 6 DEFAULTS AND REMEDIES

#### Section 6.01. Events of Default.

An "Event of Default" occurs if:

(a) the Issuers or the Guarantors default in the payment of interest on the Notes when the same becomes due and payable and such default continues for a period of 30 days;

(b) the Issuers or the Guarantors default in the payment of principal of or premium, if any, on the Notes when the same becomes due and payable at maturity, upon redemption (including in connection with an offer to purchase) or otherwise;

(c) the Issuers fail for a period of 20 days to observe or perform any covenant, condition or agreement on the part of the Issuers to be observed or performed pursuant to Sections 4.07, 4.09, 4.10, 4.14 and 5.01 hereof;

(d) the Issuers or any Guarantor fails to comply with any of their other respective agreements or covenants in, or provisions of, the Notes, the Note Guarantees or this Indenture and the Default continues for the period and after the notice specified below;

(e) a default occurs under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Partnership or any of its Subsidiaries (or the payment of which is Guaranteed by the Partnership or any of its Subsidiaries), whether such Indebtedness or Guarantee now exists or shall be created hereafter, which default (i) is caused by a failure to pay principal of or premium, if any, or interest on such Indebtedness prior to the expiration of the grace period provided in such Indebtedness (a "Payment Default") or (ii) results in the acceleration of such Indebtedness prior to its express maturity and, in each case, the principal amount of such Indebtedness, together with the principal amount of any other Indebtedness as to which there has been a Payment Default or the maturity of which has been so accelerated, aggregates \$10 million or more, excluding any acceleration of maturity of the Indebtedness represented by the General Partner's Existing Floating Rate Notes and Existing Fixed Rate Notes to the extent that such Indebtedness shall be redeemed on or prior to the 40th day after the date of this Indenture;

(f) a final judgment or final judgments for the payment of money are entered by a court or courts of competent jurisdiction against the Partnership or any of its Subsidiaries and such judgments are not paid, discharged or stayed for a period of 60 days, provided that the aggregate of all such undischarged judgments exceeds \$10 million;

(g) except as otherwise permitted hereunder, any Note Guarantee shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or any Guarantor (or its successors or assigns), or any Person acting on behalf of any Guarantor (or its successors or assigns), shall deny or disaffirm its obligations under its Note Guarantee;

(h) the Partnership or any of its Subsidiaries pursuant to or within the meaning of any Bankruptcy Law:

(i) commences a voluntary case,

(ii) consents to the entry of an order for relief against it in an involuntary case,

(iii) consents to the appointment of a Custodian of it or for all or substantially all of its property,

(iv) makes a general assignment for the benefit of its creditors, or

(v) generally is not paying its debts as they become due; or

(i) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(i) is for relief against the Partnership or any Subsidiary of the Partnership in an involuntary case,

(ii) appoints a Custodian of the Partnership or any Subsidiary of the Partnership or for all or substantially all of the property of the Partnership or any Subsidiary of the Partnership, or

(iii) orders the liquidation of the Partnership or any Subsidiary of the Partnership,

and the order or decree remains unstayed and in effect for 60 consecutive days.

A Default under clause (d) is not an Event of Default until the Trustee notifies the Issuers, or the Holders of at least 25% in principal amount of the then outstanding Notes notify the Issuers and the Trustee, of the Default and the Issuers do not cure the Default within 60 days after receipt of the notice. The notice must specify the Default, demand that it be remedied and state that the notice is a "Notice of Default."

In the case of any Event of Default pursuant to the provisions of this Section 6.01 occurring by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Issuers with the intention of avoiding payment of the premium that the Issuers would have had to pay if the Issuers then had elected to redeem the Notes pursuant to Section 3.07 hereof, an equivalent premium shall also become and be immediately due and payable to the extent permitted by law, anything in this Indenture or in the Notes to the contrary notwithstanding. If an Event of Default occurs prior to \_\_\_\_\_, 1998 by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Issuers with the intention of avoiding the prohibition on redemption of the Notes prior to \_\_\_\_\_, 1998 pursuant to Section 3.07 hereof, then the premium payable for purposes of this paragraph for each of the years beginning on \_\_\_\_\_ of the years set forth below shall be as set forth in the following table expressed as a percentage of the amount that would otherwise be due but for the provisions of this sentence, plus accrued interest, if any, to the date of payment:

Year	Percentage
----	-----
1994 .....	____%
1995 .....	____%
1996 .....	____%
1997 .....	____%

#### Section 6.02. Acceleration.

If an Event of Default (other than an Event of Default specified in clauses (h) and (i) of Section 6.01 hereof relating to either Issuer, any Significant Subsidiary or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary) occurs and is continuing, the Trustee by notice to the Issuers, or the Holders of at least 25% in principal amount of the then outstanding Notes by written notice to the Issuers and the Trustee may declare the unpaid principal of and any accrued interest on all the Notes to be due and payable. Upon such declaration the principal and interest shall be due and payable immediately (together with the premium referred to in Section 6.01 hereof, if applicable). If an Event of Default specified in clause (h) or (i) of Section 6.01 hereof relating to either Issuer, any Significant Subsidiary or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary occurs, such an amount shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder. The Holders of a majority in principal amount of the then outstanding Notes by written notice to the Trustee may rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default (except nonpayment of principal or interest that has become due solely because of the acceleration) have been cured or waived.

#### Section 6.03. Other Remedies.

If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal of, premium, if any, and interest on the Notes or to enforce the performance of any provision of the Notes or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Holder of a Note in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. All remedies are cumulative to the extent permitted by law.

#### Section 6.04. Waiver of Past Defaults.

Holders of not less than a majority in aggregate principal amount of the Notes then outstanding by notice to the Trustee may on behalf of the Holders of all of the Notes waive an existing Default or Event of Default and its consequences hereunder, except a continuing Default or Event of Default in the payment of the principal of, premium, if any, or interest on, the Notes (including in connection with an offer to purchase) (provided, however, that the Holders of a majority in aggregate principal amount of the then outstanding Notes may rescind an acceleration and its consequences, including any related payment default that resulted from such acceleration). Upon any such waiver, such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured for every



purpose of this Indenture; but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

#### Section 6.05. Control by Majority.

Holders of a majority in principal amount of the then outstanding Notes may direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee or exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture or that the Trustee determines may be unduly prejudicial to the rights of other Holders of Notes or that may involve the Trustee in personal liability.

#### Section 6.06. Limitation on Suits.

A Holder of a Note may pursue a remedy with respect to this Indenture or the Notes only if:

(a) the Holder of a Note gives to the Trustee written notice of a continuing Event of Default or the Trustee receives such notice from either Issuer;

(b) the Holders of at least 25% in principal amount of the then outstanding Notes make a written request to the Trustee to pursue the remedy;

(c) such Holder of a Note or Holders of Notes offer and, if requested, provide to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense;

(d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer and, if requested, the provision of indemnity; and

(e) during such 60-day period the Holders of a majority in principal amount of the then outstanding Notes do not give the Trustee a direction inconsistent with the request; provided, however, that such provision does not affect the right of a Holder of a Note to sue for enforcement of any overdue payment thereon.

A Holder of a Note may not use this Indenture to prejudice the rights of another Holder of a Note or to obtain a preference or priority over another Holder of a Note.

#### Section 6.07. Rights of Holders of Notes to Receive Payment.

Notwithstanding any other provision of this Indenture, the right of any Holder of a Note to receive payment of principal of, premium, if any, and interest on the Note, on or after the respective due dates expressed in the Note (including in connection with an Asset Sale Offer or a Change of Control Offer), or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

#### Section 6.08. Collection Suit by Trustee.

If an Event of Default specified in Section 6.01(a) or (b) hereof occurs and is continuing, the Trustee is authorized to recover judgment in its own name and as trustee of an express trust against the Issuers for the whole amount of principal of, premium, if any, and interest remaining unpaid on the Notes and interest on overdue principal and, to the extent lawful, interest and such further amount as shall be

sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

#### Section 6.09. Trustee May File Proofs of Claim.

The Trustee is authorized to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and the Holders of the Notes allowed in any judicial proceedings relative to the Issuers (or any other obligor upon the Notes, including the Guarantors), its creditors or its property and shall be entitled and empowered to collect, receive and distribute any money or other property payable or deliverable on any such claims and any custodian in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 7.07 hereof. To the extent that the payment of any such compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 7.07 hereof out of the estate in any such proceeding shall be denied for any reason, payment of the same shall be secured by a Lien on, and shall be paid out of, any and all distributions, dividends, money, securities and other properties that the Holders may be entitled to receive in such proceeding whether in liquidation or under any plan of reorganization or arrangement or otherwise. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

#### Section 6.10. Priorities.

If the Trustee collects any money pursuant to this Article, it shall pay out the money in the following order:

First: to the Trustee, its agents and attorneys for amounts due under Section 7.07 hereof, including payment of all compensation, expenses and liabilities incurred, and all advances made, by the Trustee and the costs and expenses of collection;

Second: to Holders of Notes for amounts due and unpaid on the Notes for principal, premium, if any, and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for principal, premium, if any, and interest, respectively; and

Third: to the Partnership or to such party as a court of competent jurisdiction shall direct.

The Trustee may fix a record date and payment date for any payment to Holders of Notes pursuant to this Section 6.10.

#### Section 6.11. Undertaking for Costs.

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as a Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in

its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a Holder of a Note pursuant to Section 6.07 hereof, or a suit by Holders of more than 10% in principal amount of the then outstanding Notes.

## ARTICLE 7 TRUSTEE

### Section 7.01. Duties of Trustee.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in its exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) Except during the continuance of an Event of Default:

(i) the duties of the Trustee shall be determined solely by the express provisions of this Indenture and the Trustee need perform only those duties that are specifically set forth in this Indenture and no others, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture.

(c) The Trustee may not be relieved from liabilities for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) this paragraph does not limit the effect of paragraph (b) of this Section;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(iii) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.05 hereof.

(d) Whether or not therein expressly so provided, every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b), and (c) of this Section.

(e) No provision of this Indenture shall require the Trustee to expend or risk its own funds or incur any liability. The Trustee shall be under no obligation to exercise any of its rights and powers under this Indenture at the request of any Holders, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense.

(f) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Issuers. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

#### Section 7.02. Rights of Trustee.

(a) The Trustee may conclusively rely upon any document believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require from either Issuer an Officers' Certificate or an Opinion of Counsel or both. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officers' Certificate or Opinion of Counsel. The Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection from liability in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(c) The Trustee may act through its attorneys and agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within the rights or powers conferred upon it by this Indenture.

(e) Unless otherwise specifically provided in this Indenture, any demand, request, direction or notice from either Issuer shall be sufficient if signed by an Officer of the General Partner (in the case of the Partnership) or by an Officer of Finance Corp. (in the case of Finance Corp.)

(f) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities that might be incurred by it in compliance with such request or direction.

#### Section 7.03. Individual Rights of Trustee.

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with either Issuer, any Guarantor or any Affiliate of either Issuer or any Guarantor with the same rights it would have if it were not Trustee. However, in the event that the Trustee acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the SEC for permission to continue as trustee or resign. Any Agent may do the same with like rights and duties. The Trustee is also subject to Sections 7.10 and 7.11 hereof.

#### Section 7.04. Trustee's Disclaimer.

The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture or the Notes, it shall not be accountable for the Issuers' use of the proceeds from the Notes or any money paid to the Issuers or upon the Issuers' direction under any provision of this Indenture, it shall not be responsible for the use or application of any money received by any Paying Agent other than the Trustee, and it shall not be responsible for any statement or recital herein or any

statement in the Notes or any other document in connection with the sale of the Notes or pursuant to this Indenture other than its certificate of authentication.

#### Section 7.05. Notice of Defaults.

If a Default or Event of Default occurs and is continuing and if it is known to the Trustee, the Trustee shall mail to Holders of Notes a notice of the Default or Event of Default within 90 days after it occurs. Except in the case of a Default or Event of Default in payment of principal of, premium, if any, or interest on any Note, the Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Holders of the Notes.

#### Section 7.06. Reports by Trustee to Holders of the Notes.

Within 60 days after each \_\_\_\_\_ beginning with the \_\_\_\_\_ following the date of this Indenture, and for so long as Notes remain outstanding, the Trustee shall mail to the Holders of the Notes a brief report dated as of such reporting date that complies with TIA (S) 313(a) (but if no event described in TIA (S) 313(a) has occurred within the twelve months preceding the reporting date, no report need be transmitted). The Trustee also shall comply with TIA (S) 313(b)(2). The Trustee shall also transmit by mail all reports as required by TIA (S) 313(c).

A copy of each report at the time of its mailing to the Holders of Notes shall be mailed to the Issuers and filed with the SEC and each stock exchange on which the Notes are listed in accordance with TIA (S) 313(d). The Issuers shall promptly notify the Trustee when the Notes are listed on any stock exchange.

#### Section 7.07. Compensation and Indemnity.

The Issuers and the Guarantors, if any, shall pay to the Trustee from time to time reasonable compensation for its acceptance of this Indenture and its services hereunder. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Issuers and the Guarantors, if any, shall reimburse the Trustee promptly upon request for all reasonable disbursements, advances and expenses incurred or made by it in addition to the compensation for its services. Such expenses shall include the reasonable compensation, disbursements and expenses of the Trustee's agents and counsel.

The Issuers and the Guarantors, if any, shall indemnify the Trustee against any and all losses, liabilities or expenses incurred by it arising out of or in connection with the acceptance or administration of its duties under this Indenture, including the costs and expenses of enforcing this Indenture against the Issuers and the Guarantors (including this Section 7.07), and defending itself against any claim (whether asserted by either Issuer, any Guarantor or any Holder or any other person) or liability in connection with the exercise or performance of any of its powers or duties hereunder, except to the extent any such loss, liability or expense may be attributable to its negligence or bad faith. The Trustee shall notify the Issuers promptly of any claim for which it may seek indemnity. Failure by the Trustee to so notify the Issuers shall not relieve the Issuers and the Guarantors, if any, of their obligations hereunder. The Issuers and the Guarantors, if any, shall defend the claim and the Trustee shall cooperate in the defense. The Trustee may have separate counsel and the Issuers and the Guarantors, if any, shall pay the reasonable fees and expenses of such counsel. The Issuers and the Guarantors, if any, need not pay for any settlement made without their consent, which consent shall not be unreasonably withheld.

The obligations of the Issuers and the Guarantors, if any, under this Section 7.07 shall survive the satisfaction and discharge of this Indenture.

To secure the Issuers' and the Guarantors' payment obligations in this Section, the Trustee shall have a Lien prior to the Notes on all money or property held or collected by the Trustee, except that held in trust to pay principal and interest on particular Notes. Such Lien shall survive the satisfaction and discharge of this Indenture.

When the Trustee incurs expenses or renders services after an Event of Default specified in Section 6.01(h) or (i) hereof occurs, the expenses and the compensation for the services (including the fees and expenses of its agents and counsel) are intended to constitute expenses of administration under any Bankruptcy Law.

The Trustee shall comply with the provisions of TIA (S) 313(b)(2) to the extent applicable.

#### Section 7.08. Replacement of Trustee.

A resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon the successor Trustee's acceptance of appointment as provided in this Section.

The Trustee may resign in writing at any time and be discharged from the trust hereby created by so notifying the Issuers. The Holders of Notes of a majority in principal amount of the then outstanding Notes may remove the Trustee by so notifying the Trustee and the Issuers in writing. The Issuers may remove the Trustee if:

- (a) the Trustee fails to comply with Section 7.10 hereof;
- (b) the Trustee is adjudged a bankrupt or an insolvent or an order for relief is entered with respect to the Trustee under any Bankruptcy Law;
- (c) a Custodian or public officer takes charge of the Trustee or its property; or
- (d) the Trustee becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Issuers shall promptly appoint a successor Trustee. Within one year after the successor Trustee takes office, the Holders of a majority in principal amount of the then outstanding Notes may appoint a successor Trustee to replace the successor Trustee appointed by the Issuers.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Issuers, any Guarantor, or the Holders of Notes of at least 10% in principal amount of the then outstanding Notes may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee, after written request by any Holder of a Note who has been a Holder of a Note for at least six months, fails to comply with Section 7.10 hereof, such Holder of a Note may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Issuers. Thereupon, the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Holders of the Notes. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, provided all sums owing to the Trustee hereunder have been paid and subject to the Lien provided for in Section 7.07 hereof. Notwithstanding replacement of the Trustee pursuant to this Section 7.08, the Issuers' and the Guarantors' obligations under Section 7.07 hereof shall continue for the benefit of the retiring Trustee.

Section 7.09. Successor Trustee by Merger, etc.

If the Trustee consolidates, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation, the successor corporation without any further act shall be the successor Trustee.

Section 7.10. Eligibility; Disqualification.

There shall at all times be a Trustee hereunder that is a corporation organized and doing business under the laws of the United States of America or of any state thereof that is authorized under such laws to exercise corporate trustee power, that is subject to supervision or examination by federal or state authorities and that has a combined capital and surplus of at least \$100 million as set forth in its most recent published annual report of condition.

This Indenture shall always have a Trustee who satisfies the requirements of TIA (S) 310(a)(1), (2) and (5). The Trustee is subject to TIA (S) 310(b).

Section 7.11. Preferential Collection of Claims Against Issuers.

The Trustee is subject to TIA (S) 311(a), excluding any creditor relationship listed in TIA (S) 311(b). A Trustee who has resigned or been removed shall be subject to TIA (S) 311(a) to the extent indicated therein.

## ARTICLE 8 LEGAL DEFEASANCE AND COVENANT DEFEASANCE

Section 8.01. Option to Effect Legal Defeasance or Covenant Defeasance.

The Issuers may, at the option of the Board of Directors and the Board of Directors of Finance Corp. evidenced in each case by a resolution set forth in an Officers' Certificate, at any time elect to have either Section 8.02 or 8.03 hereof be applied to all outstanding Notes upon compliance with the conditions set forth below in this Article 8.

Section 8.02. Legal Defeasance and Discharge.

Upon the Issuers' exercise under Section 8.01 hereof of the option applicable to this Section 8.02, each of the Issuers and each of the Guarantors, if any, shall, subject to the satisfaction of the conditions set forth in Section 8.04 hereof, be deemed to have been discharged from its obligations with respect to all outstanding Notes and Note Guarantees on the date the conditions set forth below are

satisfied (hereinafter, "Legal Defeasance"). For this purpose, Legal Defeasance means that the Issuers shall be deemed to have paid and discharged the entire Indebtedness represented by the outstanding Notes, which shall thereafter be deemed to be "outstanding" only for the purposes of Section 8.05 hereof and the other Sections of this Indenture referred to in (a) and (b) below, and to have satisfied all their other obligations under such Notes and this Indenture (and the Trustee, on demand of and at the expense of the Issuers, shall execute proper instruments acknowledging the same), except for the following provisions which shall survive until otherwise terminated or discharged hereunder: (a) the rights of Holders of outstanding Notes to receive solely from the trust fund described in Section 8.04 hereof, and as more fully set forth in such Section, payments in respect of the principal of, premium, if any, and interest on such Notes when such payments are due, (b) the Issuers' and Guarantors' obligations with respect to such Notes under Article 2 and Section 4.02 hereof, (c) the rights, powers, trusts, duties and immunities of the Trustee hereunder and the Issuers' and the Guarantors' obligations in connection therewith and (d) this Article 8. Subject to compliance with this Article 8, the Issuers may exercise their option under this Section 8.02 notwithstanding the prior exercise of its option under Section 8.03 hereof.

#### Section 8.03. Covenant Defeasance.

Upon the Issuers' exercise under Section 8.01 hereof of the option applicable to this Section 8.03, each of the Issuers and each of the Guarantors, if any, shall, subject to the satisfaction of the conditions set forth in Section 8.04 hereof, be released from its obligations under the covenants contained in Sections 4.07, 4.08, 4.09, 4.10, 4.11, 4.12, 4.13, 4.14, 4.16, 4.17, 4.18 and 5.01 hereof with respect to the outstanding Notes and Note Guarantees on and after the date the conditions set forth below are satisfied (hereinafter, "Covenant Defeasance"), and the Notes shall thereafter be deemed not "outstanding" for the purposes of any direction, waiver, consent or declaration or act of Holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed "outstanding" for all other purposes hereunder (it being understood that such Notes shall not be deemed outstanding for accounting purposes). For this purpose, Covenant Defeasance means that, with respect to the outstanding Notes, the Issuers may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of any reference in any such covenant to any other provision herein or in any other document and such omission to comply shall not constitute a Default or an Event of Default under Section 6.01 hereof, but, except as specified above, the remainder of this Indenture, such Notes and the Note Guarantees, if any, shall be unaffected thereby. In addition, upon the Issuers' exercise under Section 8.01 hereof of the option applicable to this Section 8.03 hereof, subject to the satisfaction of the conditions set forth in Section 8.04 hereof, Sections 6.01(e) and 6.01(f) hereof shall not constitute Events of Default.

#### Section 8.04. Conditions to Legal or Covenant Defeasance.

The following shall be the conditions to the application of either Section 8.02 or 8.03 hereof to the outstanding Notes:

In order to exercise either Legal Defeasance or Covenant Defeasance:

(a) the Issuers shall irrevocably have deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of such Notes, (i) cash in U.S. Dollars in an amount, or (ii) non-callable Government Securities which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not



later than one day before the due date of any payment, cash in U.S. Dollars in an amount, or (iii) a combination thereof, in such amounts, as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge and which shall be applied by the Trustee (or other qualifying trustee) to pay and discharge (A) the principal of, premium, if any, and interest on the outstanding Notes on the stated maturity or on the applicable redemption date, as the case may be, of such principal or installment of principal, premium, if any, or interest and (B) any mandatory sinking fund payments or analogous payments applicable to the outstanding Notes on the day on which such payments are due and payable in accordance with the terms of the Indenture and of such Notes; provided that the Trustee shall have been irrevocably instructed to apply such money or the proceeds of such non-callable Government Securities to said payments with respect to the Notes;

(b) in the case of an election under Section 8.02 hereof, the Issuers shall have delivered to the Trustee an Opinion of Counsel (which counsel may be an employee of either Issuer or any Subsidiary of either Issuer) reasonably acceptable to the Trustee confirming that (i) the Issuers have received from, or there has been published by, the Internal Revenue Service a ruling or (ii) since the date of this Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Holders of the outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(c) in the case of an election under Section 8.03 hereof, the Issuers shall have delivered to the Trustee an Opinion of Counsel (which counsel may be an employee of either Issuer or any Subsidiary of either Issuer) reasonably acceptable to the Trustee confirming that the Holders of the outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(d) no Event of Default shall have occurred and be continuing on the date of such deposit or, insofar as Sections 6.01(h) or 6.01(i) hereof is concerned, at any time in the period ending on the 91st day after the date of deposit (or greater period of time in which any such deposit of trust funds may remain subject to Bankruptcy Law insofar as those apply to the deposit by the Issuers);

(e) such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than this Indenture) to which either Issuer or any of their Subsidiaries is a party or by which either Issuer or any of their Subsidiaries is bound;

(f) the Issuers shall have delivered to the Trustee an opinion of counsel to the effect that after the 91st day following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally;

(g) the Issuers shall have delivered to the Trustee an Officers' Certificate stating that the deposit was not made by the Issuers with the intent of preferring the Holders over any other

creditors of the Issuers or the Guarantors, if any, or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Issuers or others; and

(h) the Issuers shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with as contemplated hereby.

Section 8.05. Deposited Money and Government Securities to be Held in Trust;  
Other Miscellaneous Provisions.

Subject to Section 8.06 hereof, all money and non-callable Government Securities (including the proceeds thereof) deposited with the Trustee (or other qualifying trustee, collectively for purposes of this Section 8.05, the "Trustee") pursuant to Section 8.04 hereof in respect of the outstanding Notes shall be held in trust and applied by the Trustee, in accordance with the provisions of such Notes and this Indenture, to the payment, either directly or through any Paying Agent (including either Issuer acting as Paying Agent) as the Trustee may determine, to the Holders of such Notes of all sums due and to become due thereon in respect of principal, premium, if any, and interest, but such money need not be segregated from other funds except to the extent required by law.

The Issuers and the Guarantors, if any, shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the cash or non-callable Government Securities deposited pursuant to Section 8.04 hereof or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of the outstanding Notes.

Anything in this Article Eight to the contrary notwithstanding, the Trustee shall deliver or pay to the Issuers from time to time upon the request of the Issuers any money or non-callable Government Securities held by it as provided in Section 8.04 hereof which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee (which may be the opinion delivered under Section 8.04(a) hereof), are in excess of the amount thereof that would then be required to be deposited to effect an equivalent Legal Defeasance or Covenant Defeasance.

Section 8.06. Repayment to Issuers.

Any money deposited with the Trustee or any Paying Agent, or then held by the Issuers, in trust for the payment of the principal of, premium, if any, or interest, if any, on any Note and remaining unclaimed for two years after such principal, and premium, if any, or interest, if any, have become due and payable shall be paid to the Issuers on its request or (if then held by the Issuers) shall be discharged from such trust; and the Holder of such Note shall thereafter, as an unsecured general creditor, look only to the Issuers for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Issuers as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Issuers cause to be published once, in the New York Times and The Wall Street Journal (national edition), notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such notification or publication, any unclaimed balance of such money then remaining will be repaid to the Issuers.

## Section 8.07. Reinstatement.

If the Trustee or Paying Agent is unable to apply any United States dollars or non-callable Government Securities in accordance with Section 8.02 or 8.03 hereof, as the case may be, by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Issuers' and the Guarantors' obligations under this Indenture, the Notes and the Note Guarantees shall be revived and reinstated as though no deposit had occurred pursuant to Section 8.02 or 8.03 hereof until such time as the Trustee or Paying Agent is permitted to apply all such money in accordance with Section 8.02 or 8.03 hereof, as the case may be; provided, however, that, if the Issuers and the Guarantors make any payment of principal of, premium, if any, or interest, if any, on any Note following the reinstatement of its obligations, the Issuers and the Guarantors shall be subrogated to the rights of the Holders of such Notes to receive such payment from the money held by the Trustee or Paying Agent.

## ARTICLE 9 AMENDMENT, SUPPLEMENT AND WAIVER

### Section 9.01. Without Consent of Holders of Notes.

Notwithstanding Section 9.02 of this Indenture, the Issuers, the Guarantors, if any, and the Trustee may amend or supplement this Indenture or the Notes without the consent of any Holder of a Note:

- (a) to cure any ambiguity, defect or inconsistency;
- (b) to provide for uncertificated Notes in addition to or in place of certificated Notes;
- (c) to provide for the assumption of the Partnership's, Finance Corp.'s or any Guarantor's obligations to the Holders of the Notes in the case of a merger or consolidation pursuant to Article 5 or Article 10 hereof, as the case may be;
- (d) to make any change that would provide any additional rights or benefits to the Holders of the Notes (including providing for Note Guarantees pursuant to Section 4.13 hereof) or that does not adversely affect the legal rights hereunder of any Holder of the Note; or
- (e) to comply with requirements of the SEC in order to effect or maintain the qualification of this Indenture under the TIA.

Upon the request of the Issuers accompanied by a resolution of the Board of Directors of each of the General Partner and Finance Corp. authorizing the execution of any such amended or supplemental Indenture, and upon receipt by the Trustee of the documents described in Section 7.02 hereof, the Trustee shall join with the Issuers and the Guarantors in the execution of any amended or supplemental Indenture authorized or permitted by the terms of this Indenture and make any further appropriate agreements and stipulations that may be therein contained, but the Trustee shall not be obligated to enter into such amended or supplemental Indenture that affects its own rights, duties or immunities under this Indenture or otherwise.

Section 9.02. With Consent of Holders of Notes.

Except as provided below in this Section 9.02, the Issuers, the Guarantors, if any, and the Trustee may amend or supplement this Indenture or the Notes with the written consent of the Holders of at least a majority in principal amount of the Notes then outstanding (including consents obtained in connection with a tender offer or exchange offer for the Notes), and, subject to Sections 6.04 and 6.07 hereof, any existing Default or Event of Default (other than a Default or Event of Default in the payment of the principal of, premium, if any, or interest on the Notes, except a payment default resulting from an acceleration that has been rescinded) or compliance with any provision of this Indenture or the Notes may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Notes (including consents obtained in connection with a tender offer or exchange offer for the Notes).

Upon the request of the Issuers accompanied by a resolution of the Board of Directors of each of the General Partner and Finance Corp. authorizing the execution of any such amended or supplemental Indenture, and upon the filing with the Trustee of evidence satisfactory to the Trustee of the consent of the Holders of Notes as aforesaid, and upon receipt by the Trustee of the documents described in Section 7.02 hereof, the Trustee shall join with the Issuers and the Guarantors, if any, in the execution of such amended or supplemental Indenture unless such amended or supplemental Indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such amended or supplemental Indenture.

It shall not be necessary for the consent of the Holders of Notes under this Section 9.02 to approve the particular form of any proposed amendment or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment, supplement or waiver under this Section becomes effective, the Issuers shall mail to the Holders of Notes affected thereby a notice briefly describing the amendment, supplement or waiver. Any failure of the Issuers to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such amended or supplemental Indenture or waiver. Subject to Sections 6.04 and 6.07 hereof, the Holders of a majority in aggregate principal amount of the Notes then outstanding may waive compliance in a particular instance by the Issuers or any Guarantor with any provision of this Indenture, the Note or the Note Guarantees. However, without the consent of each Holder affected, an amendment or waiver may not (with respect to any Notes held by a non-consenting Holder):

- (a) reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver;

- (b) reduce the principal of or change the fixed maturity of any Note or alter any of the provisions with respect to the redemption of the Notes (other than provisions of Section 4.10 and Section 4.15 hereof);

- (c) reduce the rate of or change the time for payment of interest, including default interest, on any Note;

- (d) waive a Default or Event of Default in the payment of principal of or premium, if any, or interest on the Notes (except a rescission of acceleration of the Notes by the Holders of at least

a majority in aggregate principal amount of the then outstanding Notes and a waiver of the payment default that resulted from such acceleration);

(e) make any Note payable in money other than that stated in the Notes;

(f) make any change in Section 6.04 or 6.07 hereof or in the provisions of this Indenture relating to the rights of Holders of Notes to receive payments of principal of or premium, if any, or interest on the Notes;

(g) waive a redemption payment with respect to any Note (other than a payment required by Section 4.10 or Section 4.14 hereof);

(h) make any change to the subordination provisions of Article 10 hereof that adversely affects Holders;

(i) except pursuant to Article 8 and Article 10 hereof, release any Guarantor from its obligations under its Note Guarantee, or change any Note Guarantee in any manner that would adversely affect the Holders; or

(j) make any change in this sentence of this Section 9.02.

#### Section 9.03. Compliance with Trust Indenture Act.

Every amendment or supplement to this Indenture or the Notes shall be set forth in an amended or supplemental Indenture that complies with the TIA as then in effect.

#### Section 9.04. Revocation and Effect of Consents.

Until an amendment, supplement or waiver becomes effective, a consent to it by a Holder of a Note is a continuing consent by the Holder of a Note and every subsequent Holder of a Note or portion of a Note that evidences the same debt as the consenting Holder's Note, even if notation of the consent is not made on any Note. However, any such Holder of a Note or subsequent Holder of a Note may revoke the consent as to its Note if the Trustee receives written notice of revocation before the date the waiver, supplement or amendment becomes effective. An amendment, supplement or waiver becomes effective in accordance with its terms and thereafter binds every Holder.

#### Section 9.05. Notation on or Exchange of Notes.

The Trustee may place an appropriate notation about an amendment, supplement or waiver on any Note thereafter authenticated. The Issuers in exchange for all Notes may issue and the Trustee shall authenticate new Notes (accompanied by a notation of the Note Guarantees duly endorsed by the Guarantors) that reflect the amendment, supplement or waiver.

Failure to make the appropriate notation or issue a new Note shall not affect the validity and effect of such amendment, supplement or waiver.

#### Section 9.06. Trustee to Sign Amendments, etc.

The Trustee shall sign any amended or supplemental Indenture authorized pursuant to this Article 9 if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. The Issuers and the Guarantors may not sign an amendment or supplemental Indenture until the Board of Directors of each of the General Partner and Finance Corp. approves it. In executing any amended or supplemental indenture, the Trustee shall be entitled to receive and (subject to Section 7.01 hereof) shall be fully protected in relying upon, an Officer's Certificate and an Opinion of Counsel stating that the execution of such amended or supplemental indenture is authorized or permitted by this Indenture.

### ARTICLE 10 NOTE GUARANTEES

#### Section 10.01. Note Guarantee.

Each Subsidiary of the Partnership which in accordance with Section 4.13 hereof has guaranteed the obligations of the Issuers under the Notes, upon execution of a counterpart of this Indenture, hereby jointly and severally unconditionally guarantees to each Holder of a Note authenticated and delivered by the Trustee irrespective of the validity or enforceability of this Indenture, the Notes or the obligations of the Issuers under this Indenture or the Notes, that: (i) the principal of and interest on the Notes will be paid in full when due, whether at the maturity or interest payment or mandatory redemption date, by acceleration, call for redemption or otherwise, and interest on the overdue principal of and interest, if any, on the Notes and all other obligations of the Issuers to the Holders or the Trustee under this Indenture or the Notes will be promptly paid in full or performed, all in accordance with the terms of this Indenture and the Notes; and (ii) in case of any extension of time of payment or renewal of any Notes or any of such other obligations, they will be paid in full when due or performed in accordance with the terms of the extension or renewal, whether at maturity, by acceleration or otherwise. Failing payment when due of any amount so guaranteed for whatever reason, each Guarantor will be obligated to pay the same whether or not such failure to pay has become an Event of Default which could cause acceleration pursuant to Section 6.02 hereof. Each Guarantor agrees that this is a guarantee of payment not a guarantee of collection.

Each Guarantor hereby agrees that its obligations with regard to this Note Guarantee shall be joint and several, unconditional, irrespective of the validity or enforceability of the Notes or the obligations of the Issuers under this Indenture, the absence of any action to enforce the same, the recovery of any judgment against either Issuer or any other obligor with respect to this Indenture, the Notes or the obligations of the Issuers under this Indenture or the Notes, any action to enforce the same or any other circumstances (other than complete performance) which might otherwise constitute a legal or equitable discharge or defense of a Guarantor. Each Guarantor further, to the extent permitted by law, waives and relinquishes all claims, rights and remedies accorded by applicable law to guarantors and agrees not to assert or take advantage of any such claims, rights or remedies, including but not limited to: (a) any right to require the Trustee, the Holders or the Issuers (each, a "Benefitted Party") to proceed against the Issuers or any other Person or to proceed against or exhaust any security held by a Benefitted Party at any time or to pursue any other remedy in any Benefitted Party's power before proceeding against such Guarantor; (b) the defense of the statute of limitations in any action hereunder or in any action for the collection of any Indebtedness or the performance of any obligation hereby guaranteed; (c) any defense that may arise by reason of the incapacity, lack of authority, death or disability of any

other Person or the failure of a Benefitted Party to file or enforce a claim against the estate (in administration, bankruptcy or any other proceeding) of any other Person; (d) demand, protest and notice of any kind including but not limited to notice of the existence, creation or incurring of any new or additional Indebtedness or obligation or of any action or non-action on the part of such Guarantor, either Issuer, any Benefitted Party, any creditor of such Guarantor, either Issuer or on the part of any other Person whomsoever in connection with any Indebtedness or obligations hereby guaranteed; (e) any defense based upon an election of remedies by a Benefitted Party, including but not limited to an election to proceed against such Guarantor for reimbursement; (f) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that of the principal; (g) any defense arising because of a Benefitted Party's election, in any proceeding instituted under the Federal Bankruptcy Code, of the application of Section 1111(b)(2) of the Federal Bankruptcy Code; or (h) any defense based on any borrowing or grant of a security interest under Section 364 of the Federal Bankruptcy Code. Each Guarantor hereby covenants that its Note Guarantees will not be discharged except by complete performance of the obligations contained in its Note Guarantees and this Indenture.

If any Holder or the Trustee is required by any court or otherwise to return to either the Partnership, Finance Corp. or any Guarantor, or any Custodian acting in relation to any of the Partnership, Finance Corp. or such Guarantor, any amount paid by the Partnership, Finance Corp. or such Guarantor to the Trustee or such Holder, the applicable Note Guarantees, to the extent theretofore discharged, shall be reinstated in full force and effect. Each Guarantor agrees that it will not be entitled to any right of subrogation in relation to the Holders in respect of any obligations guaranteed hereby until payment in full of all obligations guaranteed hereby.

Each Guarantor further agrees that, as between such Guarantor, on the one hand, and the Holders and the Trustee, on the other hand, (i) the maturity of the obligations guaranteed hereby may be accelerated as provided in Section 6.02 hereof for the purposes of this Note Guarantee, notwithstanding any stay, injunction or other prohibition preventing such acceleration as to the Issuers or any other obligor on the Notes of the obligations guaranteed hereby, and (ii) in the event of any declaration of acceleration of those obligations as provided in Section 6.02 hereof, those obligations (whether or not due and payable) will forthwith become due and payable by such Guarantor for the purpose of this Note Guarantee.

#### Section 10.02. Limitation of Guarantor's Liability.

Each Guarantor and by its acceptance hereof, each beneficiary hereof, hereby confirm that it is its intention that the Note Guarantees by such Guarantor not constitute a fraudulent transfer or conveyance for purposes of the Bankruptcy Law, the Uniform Fraudulent Conveyance Act, the Uniform Fraudulent Transfer Act or any similar federal or state law to the extent applicable to any Note Guarantees. To effectuate the foregoing intention, each such person hereby irrevocably agrees that the obligation of such Guarantor under its Note Guarantees under this Article 10 shall be limited to the maximum amount as will, after giving effect to such maximum amount and all other (contingent or otherwise) liabilities of such Guarantor that are relevant under such laws, and after giving effect to any collections from, rights to receive contribution from or payments made by or on behalf of any other Guarantor in respect of the obligations of such other Guarantor under this Article 10, result in the obligations of such Guarantor in respect of such maximum amount not constituting a fraudulent conveyance. Each beneficiary under the Note Guarantees, by accepting the benefits hereof, confirms its intention that, in the event of a bankruptcy, reorganization or other similar proceeding of either Issuer or any Guarantor in which concurrent claims are made upon such Guarantor hereunder, to the extent such

claims will not be fully satisfied, each such claimant with a valid claim against such Issuer shall be entitled to a ratable share of all payments by such Guarantor in respect of such concurrent claims.

#### Section 10.03. Guarantors May Consolidate, etc., on Certain Terms.

No Guarantor shall consolidate with or merge with or into (whether or not such Guarantor is the surviving Person), another corporation, Person or entity whether or not it is affiliated with such Guarantor unless (i) subject to the provisions of the following paragraph and Section 10.4 hereof, the Person formed by or surviving any such consolidation or merger (if other than such Guarantor) assumes all the obligations of such Guarantor pursuant to a supplemental indenture in a form reasonably satisfactory to the Trustee, under its Note Guarantee, the Notes and this Indenture, (ii) immediately after giving effect to such transaction, no Default or Event of Default exists, and (iii) such Guarantor, or any Person formed by or surviving any such consolidation or merger, (A) shall have Consolidated Net Worth (immediately after giving effect to such transaction), equal to or greater than the Consolidated Net Worth of such Guarantor immediately preceding the transaction and (B) will be permitted by virtue of the Partnership pro forma Fixed Charge Coverage Ratio to incur, immediately after giving effect to such transaction, at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the Section 4.09 hereof. In case of any such consolidation, merger, sale or conveyance and upon the assumption by the successor corporation, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the Note Guarantee in this Indenture and the due and punctual performance and observance of all of the covenants and conditions of this Indenture to be performed by the Guarantor, such successor corporation shall succeed to and be substituted for the Guarantor with the same effect as if it had been named herein as a Guarantor.

Notwithstanding the foregoing, (A) a Guarantor may consolidate with or merge with or into the Partnership or Finance Corp. (subject to the provisions of Section 5.01 hereof) and (B) a Guarantor may consolidate with or merge with or into any other Guarantor.

#### Section 10.04. Releases Following Sale of Assets.

Upon a sale or other disposition of all or substantially all of the assets of any Guarantor, by way of merger, consolidation or otherwise, or a sale or other disposition of all of the capital stock of any Guarantor, then such Guarantor (in the event of a sale or other disposition, by way of such a merger, consolidation or otherwise, of all of the Capital Interests of such Guarantor) or the corporation acquiring the property (in the event of a sale or other disposition of all or substantially all of the assets of such Guarantor) shall be released and relieved of its obligations under its Note Guarantees; provided that the Net Proceeds of such sale or other disposition are applied in accordance with Section 4.10 hereof. The Trustee will deliver to such Guarantor a signed acknowledgment of such release.

### ARTICLE 11 MISCELLANEOUS

#### Section 11.01. Trust Indenture Act Controls.

If any provision of this Indenture limits, qualifies or conflicts with the duties imposed by TIA (S)318(c), the imposed duties shall control.



Section 11.02. Notices.

Any notice or communication by the Issuers, the Guarantors or the Trustee to the others is duly given if in writing and delivered in Person or mailed by first class mail (registered or certified, return receipt requested), telex, telecopier or overnight air courier guaranteeing next day delivery, to the others' address:

If to the Issuers or any Guarantor:

Ferrellgas, L.P.  
One Liberty Plaza  
Liberty, Missouri 64068  
Telecopier No.: (816) 792-6979  
Attention: Danley K. Sheldon

With a copy to:

Smith, Gill, Fisher, & Butts, P.C.  
One Kansas City Place  
1200 Main Street  
Kansas City, Missouri 64105  
Telecopier No.: (816) 391-7600  
Attention: Kendrick T. Wallace

If to the Trustee:

Norwest Bank Minnesota,  
National Association  
6th Street & Marquette Ave.  
Minneapolis, MN 55479  
Telecopier No.: (612) 677-9875  
Attention: Ray Haverstock

The Issuers, the Guarantors or the Trustee, by notice to the others may designate additional or different addresses for subsequent notices or communications.

All notices and communications (other than those sent to Holders) shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; five Business Days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; when receipt acknowledged, if telecopied; and the next Business Day after timely delivery to the courier, if sent by overnight air courier guaranteeing next day delivery.

Any notice or communication to a Holder shall be mailed by first class mail, certified or registered, return receipt requested, or by overnight air courier guaranteeing next day delivery to its address shown on the register kept by the Registrar. Any notice or communication shall also be so mailed to any Person described in TIA (S) 313(c), to the extent required by the TIA. Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders.

If a notice or communication is mailed in the manner provided above within the time prescribed, it is duly given, whether or not the addressee receives it.

If the either Issuer or any Guarantor mails a notice or communication to Holders, it shall mail a copy to the Trustee and each Agent at the same time.

#### Section 11.03. Communication by Holders of Notes with Other Holders of Notes.

Holders may communicate pursuant to TIA (S) 312(b) with other Holders with respect to their rights under this Indenture or the Notes. The Issuers, the Guarantors, if any, the Trustee, the Registrar and anyone else shall have the protection of TIA (S) 312(c).

#### Section 11.04. Certificate and Opinion as to Conditions Precedent.

Upon any request or application by the Issuers or the Guarantors, if any, to the Trustee to take any action under this Indenture, each of the Issuers or the Guarantors, if any, shall furnish to the Trustee:

(a) an Officers' Certificate in form and substance reasonably satisfactory to the Trustee (which shall include the statements set forth in Section 11.05 hereof) stating that, in the opinion of the signers, all conditions precedent and covenants, if any, provided for in this Indenture relating to the proposed action have been satisfied; and

(b) an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee (which shall include the statements set forth in Section 11.05 hereof) stating that, in the opinion of such counsel, all such conditions precedent and covenants have been satisfied.

#### Section 11.05. Statements Required in Certificate or Opinion.

Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture (other than a certificate provided pursuant to TIA (S) 314(a)(4)) shall comply with the provisions of TIA (S) 314(e) and shall include:

(a) a statement that the Person making such certificate or opinion has read such covenant or condition;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(c) a statement that, in the opinion of such Person, he or she has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether such covenant or condition has been satisfied; and

(d) a statement as to whether, in the opinion of such Person, such condition or covenant has been satisfied.

#### Section 11.06. Rules by Trustee and Agents.

The Trustee may make reasonable rules for action by or at a meeting of Holders. The Registrar or Paying Agent may make reasonable rules and set reasonable requirements for its functions.

Section 11.07. No Personal Liability of Directors, Officers, Employees and Stockholders.

No past, present or future director, officer, employee, incorporator or stockholder of either Issuer or any Guarantor, as such, shall have any liability for any obligations of the Issuers or any Guarantor under the Notes, the Note Guarantees, this Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of Notes by accepting a Note and the related Note Guarantees waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes.

Section 11.08. Governing Law.

THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS INDENTURE, THE NOTES AND THE NOTE GUARANTEES.

Section 11.09. No Adverse Interpretation of Other Agreements.

This Indenture may not be used to interpret any other indenture, loan or debt agreement of the Issuers or their Subsidiaries or of any other Person. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

Section 11.10. Successors.

All agreements of the Issuers and the Guarantors, if any, in this Indenture and the Notes and the Note Guarantees, as the case may be, shall bind their respective successors. All agreements of the Trustee in this Indenture shall bind its successors.

Section 11.11. Severability.

In case any provision in this Indenture, in the Notes or in the Note Guarantees, if any, shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 11.12. Counterpart Originals.

The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

Section 11.13. Table of Contents, Headings, etc.

The Table of Contents, Cross-Reference Table and Headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part of this Indenture and shall in no way modify or restrict any of the terms or provisions hereof.

[Signatures on following page]

SIGNATURES

Dated as of July , 1994

FERRELLGAS, L.P.

By: Ferrellgas, Inc.  
General Partner

By:

-----  
Name:

Title:

(SEAL)

Dated as of July , 1994

FERRELLGAS FINANCE CORP.

By:

-----  
Name:

Title:

(SEAL)

Dated as of July , 1994

NORWEST BANK MINNESOTA,

By:

-----  
Name:

Title:

(SEAL)

Exhibit A  
(Face of Note)

\_\_\_\_% Senior Notes due 2001

No.

\$\_\_\_\_\_

FERRELLGAS, L.P.  
FERRELLGAS FINANCE CORP.

promise to pay to

or registered assigns,

the principal sum of

Dollars on \_\_\_\_\_, 2001.

Interest Payment Dates: \_\_\_\_\_, and \_\_\_\_\_

Record Dates: \_\_\_\_\_, and \_\_\_\_\_

Dated: \_\_\_\_\_, 1994

FERRELLGAS, L.P.

By: Ferrellgas, Inc.  
General Partner

By:

-----  
Name:  
Title:

By:

-----  
Name:  
Title:

FERRELLGAS FINANCE CORP.

By:

-----  
Name:  
Title:

By:

-----  
Name:  
Title:

This is one of the Notes  
referred to in the  
within-mentioned Indenture:

- - - - -

as Trustee

By: - - - - -

(Back of Security)

\_\_\_\_\_% SENIOR NOTE  
DUE \_\_\_\_\_, 2001

Capitalized terms used herein have the meanings assigned to them in the Indenture (as defined below) unless otherwise indicated.

1. Interest. Ferrellgas L.P., a Delaware limited partnership (the "Partnership"), and Ferrellgas Finance Corp., a Delaware corporation ("Finance Corp." and, together with the Partnership, the "Issuers") promise to pay interest on the principal amount of this Note at the rate and in the manner specified below. The Issuers shall pay interest in cash on the principal amount of this Note at the rate per annum of \_\_\_\_%. The Issuers will pay interest semi-annually in arrears on \_\_\_\_\_ and \_\_\_\_\_ of each year, commencing on \_\_\_\_\_, 1994, to Holders of record on the immediately preceding \_\_\_\_\_ and \_\_\_\_\_, or if any such day is not a Business Day (as defined in the Indenture), on the next succeeding Business Day (each an "Interest Payment Date"). Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest shall accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the date of the original issuance of the Notes. To the extent lawful, the Issuers shall pay interest on overdue principal at the rate of 1% per annum in excess of the then applicable interest rate on the Notes; it shall pay interest on overdue installments of interest (without regard to any applicable grace periods) at the same rate to the extent lawful.

2. Method of Payment. The Issuers will pay interest on the Notes (except defaulted interest) to the Persons who are registered Holders of Notes at the close of business on the record date next preceding the Interest Payment Date, even if such Notes are cancelled after such record date and on or before such Interest Payment Date. The Holder hereof must surrender this Note to a Paying Agent to collect principal payments. The Issuers will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. The Issuers, however, may pay principal, premium, if any, and interest by check payable in such money. The Notes will be payable both as to principal and interest at the office or agency of the Issuers maintained for such purpose within the City and State of New York or, at the option of the Issuers, payment of interest may be made by check mailed to the Holders of Notes at their respective addresses set forth in the register of Holders. Unless otherwise designated by the Issuers, the Issuers' office or agency in New York, New York will be the office of the Trustee maintained for such a purpose.

3. Paying Agent and Registrar. Initially, the Trustee will act as Paying Agent and Registrar. The Issuers may change any Paying Agent, Registrar or co-registrar without notice to any Holder. Either Issuer or any Guarantor may act in any such capacity.

4. Indenture. The Issuers issued the Notes under an Indenture dated as of \_\_\_\_\_, 1994 (the "Indenture") between Partnership, Finance Corp. and the Trustee. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S. Code (S)(S) 77aaa-77bbb) as in effect on the date of the Indenture. The Notes are subject to all such terms, and Holders of the Notes are referred to the Indenture and such act for a statement of such terms. The terms of the Indenture shall govern any inconsistencies between the Indenture and the Notes. The Notes are unsecured general obligations of the Issuers limited to \$250,000,000 in aggregate principal amount.

5. Optional Redemption. The Issuers shall not have the option to redeem the Notes pursuant to Section 3.07 of the Indenture prior to \_\_\_\_\_, 1998. Thereafter, the Issuers shall have the option to redeem the Notes, in whole or in part, upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued and unpaid interest thereon to the applicable redemption date, if redeemed during the 12 month period beginning on \_\_\_\_\_ of the years indicated below:

Year	Percentage
1998 .....	____.____%
1999 .....	____.____%
2000 .....	100.00%

6. Mandatory Redemption. Except as described in paragraph 7 below, the Issuers shall not be required to make mandatory redemption or sinking fund payments with respect to the Notes.

7. Redemption or Repurchase at Option of Holder. (a) If there is a Change of Control (as defined in the Indenture), the Issuers shall be required to offer to purchase all Notes at 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase. Holders of Notes that are subject to an offer to purchase will receive a notice therefor from the Issuers prior to any related purchase date, and may elect to have such Notes purchased by completing the form entitled "Option of Holder to Elect Purchase" appearing below.

(b) When the aggregate amount of Excess Proceeds from Asset Sales (as defined in the Indenture) exceeds \$15 million, the Issuers shall be required to purchase the maximum principal amount of Notes that may be purchased out of the Excess Proceeds at 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the date fixed for the closing of such offer. If the aggregate principal amount of Notes surrendered by Holders thereof exceeds the amount of Excess Proceeds, the Notes to be redeemed shall be selected pursuant to the terms of Section 3.02 of the Indenture (with such adjustments as may be deemed appropriate by the Issuers so that only Notes in denominations of \$1,000, or integral multiples thereof, shall be purchased). To the extent that the aggregate amount of Notes tendered by Holders thereof is less than the Excess Proceeds, the Issuers may use such deficiency for general business purposes. Holders of Notes which are the subject of an offer to purchase will receive a notice therefor from the Issuers prior to any related purchase date, and may elect to have such Notes purchased by completing the form entitled "Option of Holder to Elect Purchase" appearing below.

8. Notice of Redemption. Notice of redemption shall be mailed at least 30 days but not more than 60 days before the redemption date to each Holder of Notes to be redeemed at its registered address. Notes may be redeemed in part but only in whole multiples of \$1,000, unless all of the Notes held by a Holder are to be redeemed. On and after the redemption date, interest ceases to accrue on Notes or portions of them called for redemption.

9. Denominations, Transfer, Exchange. The Notes are in registered form without coupons in denominations of \$1,000 and integral multiples of \$1,000. The transfer of Notes may be registered and Notes may be exchanged as provided in the Indenture. The Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need not exchange or register the transfer of any Note or portion of a Note selected for redemption. Also, it need



not exchange or register the transfer of any Notes for a period of 15 days before a selection of Notes to be redeemed, during the period between a record date and the corresponding Interest Payment Date.

10. Persons Deemed Owners. Prior to due presentment to the Trustee for registration of the transfer of this Note, the Trustee, any Agent, the Issuers and the Guarantors may deem and treat the Person in whose name this Note is registered as its absolute owner for the purpose of receiving payment of principal of and interest on this Note and for all other purposes whatsoever, whether or not this Note is overdue, and neither the Trustee, any Agent, the Issuers nor any Guarantor shall be affected by notice to the contrary. The registered holder of a Note shall be treated as its owner for all purposes.

11. Amendments and Waivers. Subject to certain exceptions, the Indenture or the Notes may be amended with the consent of the Holders of at least a majority in principal amount of the then outstanding Notes (including consents obtained in connection with a tender offer or exchange offer for Notes), and any existing default or compliance with any provision of the Indenture or the Notes may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Notes (including consents obtained in connection with a tender offer or exchange offer for Notes). Without the consent of any Holder, the Indenture or the Notes may be amended to cure any ambiguity, defect or inconsistency, to provide for uncertificated Notes in addition to or in place of certificated Notes, to provide for assumption of the Issuers' or any Guarantor's obligations to Holders in the case of a merger or consolidation or to make any change that would provide any additional rights or benefits to the Holders or that does not adversely affect the rights of any Holder under the Indenture or to comply with the requirements of the Commission in order to effect or maintain the qualification of the Indenture under the Trust Indenture Act. Without the consent of each Holder affected, an amendment or waiver may not (with respect to any Notes held by a non-consenting Holder of Notes): (i) reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver, (ii) reduce the principal of or change the fixed maturity of any Note or alter the provisions with respect to the redemption of the Notes (other than provisions relating to the covenants described above under the caption "Redemption or Repurchase at the Option of Holders"), (iii) reduce the rate of or change the time for payment of interest on any Note, (iv) waive a Default or Event of Default in the payment of principal of or premium, if any, or interest on the Notes (except a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of the Notes and a waiver of the payment default that resulted from such acceleration), (v) make any Note payable in money other than that stated in the Notes, (vi) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of Holders of Notes to receive payments of principal of or premium, if any, or interest on the Notes, (vii) waive a redemption payment with respect to any Note (other than a payment required by one of the covenants described above under the caption "Redemption or Repurchase at the Option of Holders"), (viii) except as otherwise permitted in the Indenture, release any Guarantor from its obligations under its Note Guarantee or change any Note Guarantee in any manner that would adversely affect the rights of the Holders of Senior Notes or (ix) make any change in the foregoing amendment and waiver provisions.

12. Defaults and Remedies. Events of Default include: default for 30 days in the payment when due of interest on the Notes; default in payment when due of principal of or premium, if any, on the Notes at maturity, upon redemption or otherwise; failure for 20 days by the Partnership to comply with Sections 4.07, 4.09, 4.14 or 5.01 of the Indenture; failure by the Partnership or the Guarantors for 60 days after notice from the Trustee or the Holder of at least 25% in principal amount of the Notes then outstanding to comply with any of its other agreements in the Indenture or the Notes; default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Partnership or any of its Subsidiaries (or the payment of which is guaranteed by the Partnership or any of its Subsidiaries) whether such Indebtedness or Guarantee now exists, or is created after the date of the Indenture, which default

(a) is caused by a failure to pay principal of or premium, if any, or interest on such Indebtedness prior to the expiration of the grace period provided in such Indebtedness (a "Payment Default") or (b) results in the acceleration of such Indebtedness prior to its express maturity and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates \$10 million or more, excluding any acceleration of maturity of the Indebtedness represented by the General Partner's Existing Floating Rate Notes and Existing Fixed Rate Notes to the extent that such Indebtedness shall be redeemed on or prior to the 40th day after the date of this Indenture; failure by the Partnership or any of its Subsidiaries to pay final judgments aggregating in excess of \$10 million, which judgments are not paid, discharged or stayed for a period of 60 days; except as permitted by the Indenture, any Note Guarantee shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or any Guarantor, or any Person acting on behalf of any Guarantor, shall deny or disaffirm its obligations under its Note Guarantees; and certain events of bankruptcy or insolvency with respect to the Partnership or any of its Subsidiaries. If any Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the then outstanding Notes may declare all the Notes to be due and payable immediately; except that in the case of an Event of Default arising from certain events of bankruptcy or insolvency, relating to the Partnership, any Significant Subsidiary or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary, all outstanding Notes will become due and payable without further action or notice. Holders of the Notes may not enforce the Indenture or the Notes except as provided in the Indenture. Subject to certain limitations, Holders of a majority in principal amount of the then outstanding Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders of the Notes notice of any continuing Default or Event of Default (except a Default or Event of Default relating to the payment of principal or interest) if it determines that withholding notice is in their interest. The Holders of a majority in aggregate principal amount of the Notes then outstanding, by notice to the Trustee, may on behalf of the Holders of all of the Notes waive any existing Default or Event of Default and its consequences under the Indenture except a continuing Default or Event of Default in the payment of principal of, premium, if any, and interest on the Notes. The Issuers are required to deliver to the Trustee annually a statement regarding compliance with the Indenture, and the Issuers are required upon becoming aware of any Default or Event of Default, to deliver to the Trustee a statement specifying such Default or Event of Default.

13. Trustee Dealings with Issuers. The Trustee under the Indenture, in its individual or any other capacity, may make loans to, accept deposits from, and perform services for the Issuers, any Guarantor or their respective Affiliates, and may otherwise deal with the Issuers, any Guarantor or their respective Affiliates, as if it were not Trustee; however, if the Trustee acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the Commission for permission to continue as Trustee or resign.

14. No Recourse Against Others. No past, present or future director, officer, employee, incorporator or stockholder, as such, of either Issuer or any Guarantor, as such, shall have any liability for any obligations of the Issuers or any Guarantor under the Notes, the Note Guarantees or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. Each Holder by accepting a Note and the related Note Guarantees, if any, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes.

15. Authentication. This Note shall not be valid until authenticated by the manual signature of the Trustee or an authenticating agent.

16. Abbreviations. Customary abbreviations may be used in the name of a Holder or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian), and U/G/M/A (= Uniform Gifts to Minors Act).

17. CUSIP Numbers. Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Issuers have caused CUSIP numbers to be printed on the Notes and has directed the Trustee to use CUSIP numbers in notices of redemption as a convenience to Holders. No representation is made as to the accuracy of such numbers either as printed on the Notes or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

18. Governing Law. THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUCT THE INDENTURE, THE NOTES AND THE NOTE GUARANTEES, IF ANY.

The Issuers will furnish to any Holder upon written request and without charge a copy of the Indenture. Request may be made to:

Ferrellgas, L.P.  
One Liberty Plaza  
Liberty, Missouri 64068  
Telecopier No.: (816) 792-6979  
Attention: Danley K. Sheldon

Assignment Form

To assign this Note, fill in the form below: (I) or (we) assign and transfer this Note to

-----  
(Insert assignee's soc. sec. or tax I.D. no.)

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-----  
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-----  
(Print or type assignee's name, address and zip code)

and irrevocably appoint

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to transfer this Note on the books of the Issuers. The agent may substitute another to act for him.

Date: -----

Your Signature: -----

(Sign exactly as your name appears on the face of this Note)

Signature Guarantee.

Option of Holder to Elect Purchase

If you want to elect to have this Note purchased by the Issuers pursuant to Section 4.10 or 4.14 of the Indenture, check the box below:

☐ Section 4.10

☐ Section 4.14

If you want to elect to have only part of the Note purchased by the Issuers pursuant to Section 4.10 or Section 4.14 of the Indenture, state the amount you elect to have purchased: \$\_\_\_\_\_

Date:  
-----

Your Signature: -----  
(Sign exactly as your name appears on  
the Note)

Tax Identification No.:  
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Signature Guarantee.

EXHIBIT B

Form of Supplemental Indenture to Be Delivered by Future Guarantors

Supplemental Indenture (this "Supplemental Indenture"), dated as of \_\_\_\_\_, between \_\_\_\_\_ (the "Guarantor"), a subsidiary of Ferrellgas, L.P., (or its successor), a Delaware limited partnership (the "Partnership"), and Norwest Bank Minnesota, National Association, a national banking association, as trustee under the Indenture referred to below (the "Trustee").

W I T N E S S E T H

WHEREAS, the Partnership and Ferrellgas Finance Corp., a Delaware corporation ("Finance Corp." and, together with the Partnership, the "Issuers") have heretofore executed and delivered to the Trustee an indenture (the "Indenture"), dated as of \_\_\_\_\_, 1994, providing for the issuance of an aggregate principal amount of \$250,000,000 of \_\_\_\_\_% Senior Notes due 2001 (the "Notes");

WHEREAS, Section 4.13 of the Indenture provides that under certain circumstances the Partnership may cause the Guarantor to execute and deliver to the Trustee a supplemental indenture pursuant to which the Guarantor shall unconditionally guarantee all of the Issuers' obligations under the Notes pursuant to a Note Guarantee on the terms and conditions set forth herein; and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Guarantor and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. Agreement to Guarantee. The Guarantor hereby agrees that its obligations to the Holder and the Trustee pursuant to this Note Guarantee shall be as expressly set forth in Article 10 of the Indenture and in such other provisions of the Indenture as are applicable to Guarantors, and reference is made to the Indenture for the precise terms of this Supplemental Indenture. The terms of Article 10 of the Indenture and such other provisions of the Indenture as are applicable to Guarantors are incorporated herein by reference.

3. Execution and Delivery of Note Guarantees.

(a) To evidence its Note Guarantee set forth in this Supplemental Indenture, the Guarantor hereby agrees that a notation of such Note Guarantee substantially in the form of Exhibit C to the Indenture shall be endorsed by an Officer of such Guarantor on each Note authenticated and delivered by the Trustee after the date hereof.

(b) Notwithstanding the foregoing, the Guarantor hereby agrees that its Note Guarantee set forth herein shall remain in full force and effect notwithstanding any failure to endorse on each Note a notation of such Note Guarantee.

(c) If an Officer whose signature is on this Supplemental Indenture or on the Note Guarantee no longer holds that office at the time the Trustee authenticates the Note on which a Note Guarantee is endorsed, the Note Guarantee shall be valid nevertheless.

(d) The delivery of any Note by the Trustee, after the authentication thereof under the Indenture, shall constitute due delivery of the Note Guarantee set forth in this Supplemental Indenture on behalf of the Guarantor.

6. No Recourse Against Others. No past, present or future director, officer, employee, incorporator or stockholder of the Guarantor, as such, shall have any liability for any obligations of the Issuers or any Guarantor under the Notes, any Note Guarantees, the Indenture or this Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of the Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes.

7. New York Law to Govern. The internal law of the State of New York shall govern and be used to construe this Supplemental Indenture and the Note Guarantee.

8. Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

9. Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed and attested, all as of the date first above written.

Dated: \_\_\_\_\_, \_\_\_\_\_ [Guarantor]

By: \_\_\_\_\_  
Name:  
Title:

Dated: \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_  
as Trustee

By: \_\_\_\_\_  
Name:  
Title:

EXHIBIT C  
FORM OF NOTATION ON SENIOR NOTE  
RELATING TO NOTE GUARANTEE

Each Guarantor set forth below and each Subsidiary of the Partnership which in accordance with Section 4.13 of the Indenture has guaranteed the obligations of the Issuers under the Notes upon execution of a counterpart of the Indenture, has jointly and severally unconditionally guaranteed (i) the due and punctual payment of the principal of and interest on the Notes, whether at the maturity or interest payment or mandatory redemption date, by acceleration, call for redemption or otherwise, and of interest on the overdue principal of and interest, if any, on the Notes and all other obligations of the Issuers to the Holders or the Trustee under the Indenture or the Notes and (ii) in case of any extension of time of payment or renewal of any Notes or any of such other obligations, that the same will be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, whether at maturity, by acceleration or otherwise.

The obligations of each Guarantor to the Holder and to the Trustee pursuant to this Note Guarantee and the Indenture are as expressly set forth in Article 10 of the Indenture and in such other provisions of the Indenture as are applicable to Guarantors, and reference is hereby made to such Indenture for the precise terms of this Note Guarantee. The terms of Article 10 of the Indenture and such other provisions of the Indenture as are applicable to Guarantors are incorporated herein by reference.

This is a continuing guarantee and shall remain in full force and effect and shall be binding upon each Guarantor and its successors and assigns until full and final payment of all of the Issuers' obligations under the Notes and the Indenture and shall inure to the benefit of the successors and assigns of the Trustee and the Holders and, in the event of any transfer or assignment of rights by any Holder or the Trustee, the rights and privileges herein conferred upon that party shall automatically extend to and be vested in such transferee or assignee, all subject to the terms and conditions hereof. This is a guarantee of payment and not a guarantee of collection.

This Note Guarantee shall not be valid or obligatory for any purpose until the certificate of authentication on the Note upon which this Note Guarantee is noted shall have been executed by the Trustee under the Indenture by the manual signature of one of its authorized officers.

By: \_\_\_\_\_  
Name:  
Title:



## CONTRIBUTION, CONVEYANCE AND ASSUMPTION AGREEMENT

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This Contribution, Conveyance and Assumption Agreement, dated as of \_\_\_\_\_, 1994, is entered into by and among FERRELLGAS PARTNERS, L.P., a Delaware limited partnership (the "Master Partnership"), FERRELLGAS, L.P., a Delaware limited partnership (the "Operating Partnership"), and FERRELLGAS, INC., a Delaware corporation (the "Company").

## RECITALS

WHEREAS, the Company and the Master Partnership have heretofore formed the Operating Partnership pursuant to the Delaware Revised Uniform Limited Partnership Act (the "Delaware Act") for the purpose of acquiring, owning and operating the retail propane business and assets of the Company (the "Business"); and

WHEREAS, the Company contributed \$10.10 to the capital of the Operating Partnership and received a 1.0101% general partner interest therein; and the Master Partnership contributed \$989.90 to the capital of the Operating Partnership and received a 98.9899% limited partner interest therein; and

WHEREAS, the Company, as the general partner, and Danley K. Sheldon ("Sheldon"), as the organizational limited partner, have formed the Master Partnership pursuant to the Delaware Act for the purpose of serving as the sole limited partner of the Operating Partnership; and

WHEREAS, the Company contributed \$10.00 to the capital of the Master Partnership and received a 1% general partner interest therein; and Sheldon contributed \$990.00 to the capital of the Master Partnership and received a 99% limited partner interest therein; and

WHEREAS, as of the date hereof, the Company and the Master Partnership have entered into that certain Agreement of Limited Partnership of the Operating Partnership (the "Operating Partnership Agreement"); and

WHEREAS, as of the date hereof, Sheldon, as the organizational limited partner, and the Company, as the general partner and as attorney-in-fact for all limited partners, have entered into that certain Agreement of Limited Partnership of the Master Partnership (the "Master Partnership Agreement"); and

WHEREAS, pursuant to the Operating Partnership Agreement, the Company has agreed to contribute to the Operating Partnership,

as a capital contribution thereto, substantially all of its assets related to the System in exchange for (a) the continuation of its 1.0101% general partner interest in the Operating Partnership, (b) a limited partner interest in the Operating Partnership which shall be contributed by the Company to the Master Partnership pursuant to this Agreement and which, together with the limited partner interest previously held by the Master Partnership will represent a 98.9899% limited partner interest in the Operating Partnership, (c) the assumption of certain liabilities by the Operating Partnership, including, without limitation, the Operating Partnership's assumption of the payment obligations of certain indebtedness of the Company, and (d) other good and valuable consideration; and

WHEREAS, pursuant to the Master Partnership Agreement, the Company has agreed to contribute to the Master Partnership, as a capital contribution thereto, all of its limited partner interest in the Operating Partnership in exchange for (a) its continued 1% general partner interest in the Master Partnership, (b) 1,000,000 Common Units, (c) 16,118,559 Subordinated Units, (d) certain Incentive Distribution Rights, and (e) other good and valuable consideration; and

WHEREAS, in connection with the above described contributions the Company has agreed to indemnify the Master Partnership and the Operating Partnership from and against certain liabilities and the Master Partnership and the Operating Partnership have agreed to indemnify the Company from and against certain liabilities;

NOW, THEREFORE, in consideration of their mutual undertakings and agreements hereunder, the Master Partnership, the Operating Partnership and the Company undertake and agree as follows:

#### ARTICLE I

##### Definitions

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The following capitalized terms shall have the meanings given below.

"Agreement" means this Contribution, Conveyance and Assumption

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Agreement.

"Assets" means all of the assets owned, leased or held by the Company,

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as of the Effective Time, of every kind, character and description, whether tangible or intangible, whether real, personal or mixed, whether accrued or contingent, and wherever located, including, without limitation, all of the assets necessary to

operate the Business as presently being operated by the Company and all right, title and interest of the Company in and to the following assets:

- (a) propane inventory;
- (b) inventories and supplies of any kind;
- (c) storage tanks and containers, propane cylinders, office furniture, furnishings, computers and equipment of any kind;
- (d) all real property wherever located;
- (e) all rights in real property or personal property arising under leases, easements or other contracts or arrangements;
- (f) all motor vehicles, trailers, tanks, railcars, distribution centers and related equipment, whether owned or leased;
- (g) every contract, agreement, arrangement, grant, gift, trust or other arrangement or understanding of any kind;
- (h) any and all rights, claims and causes of action that the Company may have under insurance policies or otherwise against any person or property, whether known or unknown, accrued or contingent, and whether or not reflected on the books and records of the Company as of the Effective Time, insofar as any of the same relate to the operation of the Assets or the business conducted with the Assets prior to the Effective Time and such rights, claims or causes of action representing reimbursement or recovery of amounts actually paid by the Master Partnership or the Operating Partnership after the Effective Time;
- (i) every right to sell or distribute any product or service;
- (j) all trade names, trade marks, service marks, logos, marks and symbols of any kind, together with all goodwill associated therewith, except as specifically provided for in Article IX of this Agreement and subject to the right of the Company to repurchase same as provided in Article IX of this Agreement;

- (k) all know-how, every trade secret, every customer list and all other confidential information of every kind;
- (l) every customer relationship, employee relationship, supplier relationship and other relationship of any kind;
- (m) every business conducted prior to the Effective Time by the Company, including, without limitation, Stratton Insurance Company;
- (n) every other proprietary right of any kind; and
- (o) all governmental licenses, permits and authorizations of every kind;

excluding, however, any of such assets that constitute Excluded Assets.

"Assumed Liabilities" means all of the Company's liabilities arising

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from or relating to the Assets or the business conducted with the Assets, as of the Effective Time, of every kind, character and description, whether known or unknown, accrued or contingent, and whether or not reflected on the books and records of the Company as of the Effective Time, including, without limitation, the obligations, liabilities and outstanding indebtedness of the Company described on Schedule 3 hereto; excluding, however, any of such liabilities that

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constitute Excluded Liabilities.

"Business" has the meaning assigned to such term in the Recitals to

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this Agreement.

"Company" has the meaning assigned to such term in the opening

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paragraph of this Agreement.

"Conveyance, Assignment and Bill of Sale" means that certain

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Conveyance, Assignment and Bill of Sale, dated \_\_\_\_\_, 1994, in recordable form from the Company to the Operating Partnership, the form of which is attached hereto as Exhibit A.

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"Credit Facility" means the Credit Agreement dated as of

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\_\_\_\_\_, 1994 by and among the Company, the Operating Partnership, Stratton Insurance Company and Bank of America National Trust and Savings Association, as agent, and the financial institutions listed therein, providing for an aggregate amount of borrowings up to \$185,000,000.00.

"Delaware Act" has the meaning assigned to such term in the Recitals

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to this Agreement.

"Effective Time" means 9:00 a.m. Eastern Standard Time on \_\_\_\_\_,

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1994.

"Excluded Assets" means those assets of the Company described on

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Schedule 1 hereto.

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"Excluded Liabilities" means all of the liabilities described on

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Schedule 2 hereto.

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"Existing Fixed Rate Notes" means the \$177,600,000 of 12% series B and

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series D fixed rate senior notes due in August, 1996.

"Existing Floating Rate Notes" means the \$50,000,000 of series A and

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series C floating rate senior notes due in August, 1996.

"Existing Indebtedness" means and includes all of the indebtedness

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currently outstanding evidenced by the following: (a) the Existing Fixed Rate Notes, (b) the Existing Floating Rate Notes, and (c) the Existing Subordinated Debentures.

"Existing Subordinated Debentures" means the \$246,400,000 of 11-5/8%

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senior subordinated debentures due in December, 2003.

"FCI" means Ferrell Companies, Inc., a Kansas corporation and the

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owner all of the outstanding capital stock of the Company.

"FFC" means Ferrellgas Finance Corp., a Delaware corporation, a wholly

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owned subsidiary of the Operating Partnership.

"Incentive Distribution Right" has the meaning assigned to the term

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"IDR" in the Master Partnership Agreement.

"Laws" means any and all laws, statutes, ordinances, rules or

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regulations promulgated by a governmental authority, orders of a governmental authority, judicial decisions, decisions of arbitrators or determinations of any governmental authority or court.

"Limited Partner Interest" has the meaning assigned to such term in

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Section 2.2.

"Master Partnership" has the meaning assigned to such term in the

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opening paragraph of this Agreement.

"Master Partnership Agreement" has the meaning assigned

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to such term in the Recitals to this Agreement.

"Operating Partnership" has the meaning assigned to such term in the  
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opening paragraph of this Agreement.

"Operating Partnership Agreement" has the meaning assigned to such  
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term in the Recitals to this Agreement.

"Operating Partnership Debt Offering" means the \$250,000,000 in debt  
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to be evidenced by notes to be issued by the Operating Partnership and FFC and  
due in 2001.

"Restriction" has the meaning assigned to such term in Section 10.2.  
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"Restriction-Asset" has the meaning assigned to such term in Section  
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10.2.

"Underwriting Agreement" means the Underwriting Agreement dated as of  
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\_\_\_\_\_, by and among the Partnership, the Company, and Goldman  
Sachs & Co., Donaldson, Lufkin & Jenrette Securities Corporation, A.G. Edwards &  
Sons, Inc., PaineWebber Incorporated and Smith Barney Shearson, Inc., as  
representatives of the several underwriters named in Schedule I thereto,  
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relating to the public offering of up to 15,065,000 Common Units representing  
limited partner interests in the Master Partnership.

## ARTICLE II

### Contribution to the Operating Partnership -----

2.1 Contribution. The Company hereby grants, contributes, bargains,  
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sells, conveys, assigns, transfers, sets over and delivers to the Operating  
Partnership, its successors and assigns, for its and their own use forever, all  
right, title and interest of the Company in and to the Assets in exchange for  
(a) the consideration stated in Section 2.2, (b) the assumption of certain  
liabilities by the Operating Partnership as provided in Article IV, and (c)  
other good and valuable consideration the receipt and sufficiency of which are  
hereby acknowledged, and the Operating Partnership hereby accepts the Assets as  
a contribution to the capital of the Operating Partnership.

TO HAVE AND TO HOLD the Assets unto the Operating Partnership, its  
successors and assigns, together with all and singular the rights and  
appurtenances thereto in any way belonging, subject, however, to the terms and  
conditions stated in this Agreement, forever.

2.2 Consideration for Contribution. In consideration for the

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contribution of the Assets to the Operating Partnership, the Operating Partnership hereby (a) continues the Company's 1.0101% general partner interest in the Operating Partnership, and (b) issues, grants, contributes, bargains, sells, conveys, transfers, sets over and delivers to the Company a limited partner interest in the Operating Partnership (the "Limited Partner Interest") which shall be contributed, transferred, conveyed, assigned and delivered by the Company to the Master Partnership as provided in Section 3.1 of this Agreement, and which, together with the limited partnership interest previously held by the Master Partnership will represent a 98.9899% limited partner interest in the Operating Partnership.

2.3 Forms of Conveyance. To further evidence this conveyance with

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respect to the real property included in the Assets, the Company has executed and delivered to the Operating Partnership the Conveyance, Assignment and Bill of Sale substantially in the form attached hereto as Exhibit A.

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ARTICLE III

Contribution to the Master Partnership

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3.1 Contribution. The Company hereby grants, contributes,

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bargains, sells, conveys, assigns, transfers, sets over and delivers to the Master Partnership, its successors and assigns, for its and their own use forever, all right, title and interest of the Company in and to the Limited Partner Interest in exchange for (a) the consideration stated in Section 3.2, and (b) other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, and the Master Partnership hereby accepts the Limited Partner Interest, as a contribution to the capital of the Master Partnership.

TO HAVE AND TO HOLD the Limited Partner Interest unto the Master Partnership, its successors and assigns, together with all and singular the rights and appurtenances thereto in any way belonging, subject, however, to the terms and conditions stated in this Agreement, forever.

3.2 Consideration for Contribution. In consideration for the

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contribution of the Limited Partner Interest to the Master Partnership, the Master Partnership hereby (a) continues the Company's 1% general partner interest in the Master Partnership, and (b) issues, grants, contributes, bargains, sells, conveys, assigns, transfers, sets over and delivers to the Company (i) 1,000,000 Common Units, (ii) 16,118,559 Subordinated Units, and (iii) the Incentive Distribution Rights which, after giving effect to (1) the withdrawal of the organizational limited partner of the

Master Partnership as provided in the Master Partnership Agreement, and (2) the sale of 13,100,000 Common Units pursuant to the Underwriting Agreement (or 15,065,000 Common Units if the overallotment option provided for in the Underwriting Agreement is exercised in full), will represent an approximate \_\_\_\_% limited partner interest in the Master Partnership (or an approximate \_\_\_\_% limited partner interest in the Master Partnership if the overallotment option provided for in the Underwriting Agreement is exercised in full).

#### ARTICLE IV

##### Assumption of Certain Liabilities by the Operating Partnership

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In connection with the contribution and transfer of the Assets to the Operating Partnership, the Operating Partnership hereby assumes and agrees to duly and timely pay, perform and discharge the Assumed Liabilities, including the Existing Indebtedness and the indebtedness due under the Credit Facility, to the full extent that the Company has been heretofore or would have been in the future, were it not for the execution and delivery of this Agreement, obligated to pay, perform and discharge the Assumed Liabilities; provided, however, that said assumption and agreement to duly and timely pay, perform and discharge the Assumed Obligations shall not increase the obligation of the Operating Partnership with respect to the Assumed Liabilities beyond that of the Company, waive any valid defense that was available to the Company with respect to the Assumed Liabilities or enlarge any rights or remedies of any third party under any of the Assumed Liabilities.

#### ARTICLE V

##### Indemnification

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##### 5.1 Indemnification With Respect to Excluded Liabilities. The

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Company shall indemnify, defend and hold harmless the Operating Partnership, the Master Partnership and their respective successors and assigns from and against any and all claims, demands, costs, liabilities and expenses (including court costs and reasonable attorneys' fees) of every kind, character and description, whether known or unknown, accrued or contingent, and whether or not reflected on the books and records of the Company as of the Effective Time, arising from or relating to the Excluded Liabilities.

##### 5.2 Indemnification With Respect to Operations Prior to the Effective

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Time. The Operating Partnership shall indemnify,

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defend and hold harmless the Company, the Master Partnership and their respective successors and assigns from and against any and all claims, demands, costs (including, without limitation, costs of environmental investigation and remediation and penalties and other assessments), liabilities (including, without limitation, liabilities arising by way of active or passive negligence) and expenses (including court costs and reasonable attorneys' fees) of every kind, character and description, whether known or unknown, accrued or contingent, and whether or not reflected on the books and records of the Company as of the Effective Time, arising from or relating to the operation of the Assets or the business conducted with the Assets prior to the Effective Time, including all tax liabilities including franchise taxes associated with the Assets or the business other than any such claims, demands, costs, liabilities and expenses arising from or relating to (a) federal and state income tax liabilities incurred by the Company prior to the Effective Time; and (b) the Excluded Liabilities, provided, however, that notwithstanding the foregoing, the Operating Partnership shall not be required to indemnify, defend and hold harmless the Company and its successors and assigns to the extent that any of the foregoing claims, demands, costs, liabilities and expenses are recovered through insurance proceeds paid to the owner of the Business.

5.3 Indemnification With Respect to Assumed Liabilities. Except as

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set forth in Section 5.2, the Operating Partnership shall indemnify, defend and hold harmless the Company, its successors and assigns from and against any and all claims, demands, costs, liabilities (including, without limitation, liabilities arising by way of active or passive negligence) and expenses (including court costs and reasonable attorneys' fees) of every kind, character and description, whether known or unknown, accrued or contingent, and whether or not reflected on the books and records of the Company as of the Effective Time, arising from or relating to the Assumed Liabilities.

5.4 Indemnification With Respect to Existing Indebtedness and Credit

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Facility. The Operating Partnership shall indemnify, defend and hold harmless  
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the Company, its successors and assigns from and against any and all claims, demands, costs, liabilities (including, without limitation, liabilities arising by way of active or passive negligence) and expenses (including court costs and reasonable attorneys' fees) of every kind, character and description, whether known or unknown, accrued or contingent, and whether or not reflected on the books and records of the Company as of the Effective Time, arising from or relating to the liabilities and outstanding indebtedness of the Company under the Existing Indebtedness and the Credit Facility.

ARTICLE VI

Title Matters

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6.1 Encumbrances. The contribution of the Assets made under Section

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2.1 is made expressly subject to all recorded and unrecorded liens, encumbrances, agreements, defects, restrictions, adverse claims and all laws, rules, regulations, ordinances, judgments and orders of governmental authorities or tribunals having or asserting jurisdiction over the Assets or the business and operations conducted thereon or therewith, in each case to the extent the same are valid, enforceable and affect the Assets, including, without limitation, all matters that a current survey or visual inspection of the Assets would reflect, and to the Assumed Liabilities.

6.2 Disclaimer of Warranties; Subrogation; Waiver of Bulk Sales

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Laws.

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(a) THE COMPANY IS CONVEYING THE ASSETS "AS IS" WITHOUT REPRESENTATION OR WARRANTY, WHETHER EXPRESS, IMPLIED OR STATUTORY (ALL OF WHICH THE COMPANY HEREBY DISCLAIMS), AS TO (i) TITLE, (ii) FITNESS FOR ANY PARTICULAR PURPOSE OR MERCHANTABILITY OR DESIGN OR QUALITY, OR (iii) ANY OTHER MATTER WHATSOEVER. THE PROVISIONS OF THIS SECTION 6.2 HAVE BEEN NEGOTIATED BY THE OPERATING PARTNERSHIP AND THE COMPANY AFTER DUE CONSIDERATION AND ARE INTENDED TO BE A COMPLETE EXCLUSION AND NEGATION OF ANY REPRESENTATIONS OR WARRANTIES OF THE COMPANY, WHETHER EXPRESS, IMPLIED OR STATUTORY, WITH RESPECT TO THE ASSETS THAT MAY ARISE PURSUANT TO ANY LAW NOW OR HEREFTER IN EFFECT, OR OTHERWISE, EXCEPT AS EXPRESSLY SET FORTH HEREIN.

(b) The contribution of the Assets made under Section 2.1 is made with full rights of substitution and subrogation of the Operating Partnership, and all persons claiming by, through and under the Operating Partnership, to the extent assignable, in and to all covenants and warranties by the predecessors-in-title of the Company, and with full subrogation of all rights accruing under applicable statutes of limitation and all rights of action of warranty against all former owners of the Assets.

(c) The Company and the Operating Partnership agree that the disclaimers contained in this Section 6.2 are "conspicuous" disclaimers. Any covenants implied by statute or law by the use of the words "grant," "convey," "bargain," "sell," "assign," "transfer," "deliver," or "set over" or any of them or any other words used in this Agreement are hereby expressly disclaimed, waived and negated.

(d) Each of the parties hereto hereby waives compliance with any applicable bulk sales law or any similar law in any

applicable jurisdiction in respect of the transactions contemplated by this Agreement.

## ARTICLE VII

### Further Assurances

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#### 7.1 Company Assurances. From time to time after the date hereof,

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and without any further consideration, the Company shall execute, acknowledge and deliver all such additional deeds, assignments, conveyances, instruments, notices, releases, acquittances and other documents, and will do all such other acts and things, all in accordance with applicable law, as may be necessary or appropriate (i) more fully to assure the Operating Partnership, its successors and assigns, all of the properties, rights, titles, interests, estates, remedies, powers and privileges by this Agreement granted to the Operating Partnership or intended so to be, (ii) to more fully and effectively vest in the Master Partnership, its successors and assigns, beneficial and record title to the Limited Partner Interest hereby contributed and assigned to the Master Partnership or intended so to be and to put the Master Partnership in actual possession and control of the Limited Partner Interest and (iii) to more fully and effectively carry out the purposes and intent of this Agreement.

#### 7.2 Operating Partnership and Master Partnership Assurances. From

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time to time after the date hereof, and without any further consideration, the Operating Partnership and the Master Partnership shall execute, acknowledge and deliver all such additional instruments, notices and other documents, and will do all such other acts and things, all in accordance with applicable law, as may be necessary or appropriate to more fully and effectively carry out the purposes and intent of this Agreement.

## ARTICLE VIII

### Power of Attorney

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The Company hereby constitutes and appoints the Operating Partnership, its successors and assigns, the true and lawful attorney-in-fact of the Company with full power of substitution for it and in its name, place and stead or otherwise on behalf of the Company, its successors and assigns, and for the benefit of the Operating Partnership, its successors and assigns, to demand and receive from time to time the Assets and to execute in the name of the Company and its successors and assigns instruments of conveyance, instruments of further assurance and to give receipts and releases in respect of the same, and from time to time to institute and prosecute in the name of the Operating Partnership or

the Company for the benefit of the Operating Partnership, as may be appropriate, any and all proceedings at law, in equity or otherwise which the Operating Partnership, its successors and assigns may deem proper in order to collect, assert or enforce any claims, rights or titles of any kind in and to the Assets, and to defend and compromise any and all actions, suits or proceedings in respect of any of the Assets and to do any and all such acts and things in furtherance of this Agreement as the Operating Partnership, its successors or assigns shall deem advisable. The Company hereby declares that the appointment hereby made and the powers hereby granted are coupled with an interest and are and shall be irrevocable and perpetual and shall not be terminated by any act of the Company or its successors or assigns or by operation of law.

## ARTICLE IX

### Trademarks and Tradenames

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The Company markets the Business under the tradename "Ferrellgas" and uses the tradename "Ferrell North America" (collectively, the "Tradenames") for its other operations. The Company has a trademark on the name "Ferrellmeter" (the "Trademark"), its patented gas leak detection device. The Company hereby contributes all of its right, title and interest in the Tradenames and the Trademark in the continental United States, including the goodwill associated with the Business in the continental United States, to the Operating Partnership subject to the following express conditions:

(a) In the event that the Company is removed as general partner of the Operating Partnership other than for "Cause" (as such term is defined in the Master Partnership Agreement), the Company may repurchase the Tradenames and the Trademark, including the goodwill associated with the Business in the continental United States, contributed to the Operating Limited Partnership for the nominal consideration of One Dollar (\$1.00); and

(b) In the event that the Company ceases to be general partner of the Operating Partnership for any reason other than by removal for Cause, the Company may repurchase the Tradenames and the Trademark, including the goodwill associated with the Business in the continental United States, contributed to the Operating Limited Partnership for their fair market value.

## ARTICLE X

### Miscellaneous

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#### 10.1 Order of Completion of Transactions; Effective Time. (a) The

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transactions provided for in Articles II and III of this Agreement shall be completed on the date of this Agreement in the following order:

first: the transactions provided for in Article II shall be completed;

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and

second: following the completion of the transactions as provided in first

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above and the incurrence by the Operating Partnership of  
\$\_\_\_\_\_ in aggregate principal amount of borrowings under  
the Operating Partnership Debt Offering and Credit Facility, the  
transactions provided for in Article III shall be completed.

(a) The contribution of the Assets to the Operating Partnership shall be effective for all purposes as of the Effective Time.

#### 10.2 Consents; Restriction on Assignment. If there are prohibitions

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against or conditions to the conveyance of one or more portions of the Assets without the prior written consent of third parties, including, without limitation, governmental agencies (other than consents of a ministerial nature which are normally granted in the ordinary course of business), which if not satisfied would result in a breach of such prohibitions or conditions or would give an outside party the right to terminate the Operating Partnership's rights with respect to such portion of the Assets (herein called a Restriction), then any provision contained in this Agreement to the contrary notwithstanding, the transfer of title to or interest in each such portion of the Assets (herein called the "Restriction-Asset") pursuant to this Agreement shall not become effective unless and until such Restriction is satisfied, waived or no longer applies. When and if such a Restriction is so satisfied, waived or no longer applies, to the extent permitted by applicable law and any applicable contractual provisions, the assignment of the Restriction-Asset subject thereto shall become effective automatically as of the Effective Time, without further action on the part of the Operating Partnership or the Company. The Company and the Operating Partnership agree to use their best efforts to obtain satisfaction of any Restriction on a timely basis. The description of any portion of the Assets as a "Restriction-Asset" shall not be construed as an admission that any Restriction exists with respect to the transfer of such portion of the Assets. In the event that any Restriction-Asset exists, the Company agrees to hold such Restriction-Asset in trust for the exclusive benefit of the Operating Partnership and to otherwise use its best efforts to provide the Operating Partnership with the benefits thereof, and the Company will enter into other agreements, or take such other action as it deems necessary, in order to help ensure that the Operating Partnership has the assets and concomitant rights necessary to enable it to operate the Assets contributed to the Operating Partnership in all material respects as described in the Prospectus contained in and made a part of the Registration Statement on Form S-1 (Registration No. 33-53383)

filed by the Master Partnership with the United States Securities and Exchange Commission.

10.3 Costs. The Operating Partnership shall pay all sales, use and

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similar taxes arising out of the contributions, conveyances and deliveries to be made hereunder and shall pay all documentary, filing, recording, transfer, deed, and conveyance taxes and fees required in connection therewith. In addition, the Operating Partnership shall be responsible for all costs, liabilities and expenses (including court costs and attorneys' fees) incurred in connection with the satisfaction or waiver of any Restriction pursuant to Section 10.2.

10.4 Headings; References; Interpretation. All Article and Section

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headings in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any of the provisions hereof. The words "hereof", "herein" and "hereunder" and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole, including, without limitation, all Schedules and Exhibits attached hereto, and not to any particular provision of this Agreement. All references herein to Articles, Sections, Schedules and Exhibits shall, unless the context requires a different construction, be deemed to be references to the Articles and Sections of this Agreement and the Schedules and Exhibits attached hereto, and all such Schedules and Exhibits attached hereto are hereby incorporated herein and made a part hereof for all purposes. All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders, and the singular shall include the plural and vice versa. The use herein of the word "including" following any general statement, term or matter shall not be construed to limit such statement, term or matter to the specific items or matters set forth immediately following such word or to similar items or matters, whether or not nonlimiting language (such as "without limitation", "but not limited to", or words of similar import) is used with reference thereto, but rather shall be deemed to refer to all other items or matters that could reasonably fall within the broadest possible scope of such general statement, term or matter.

10.5 Successors and Assigns. The Agreement shall be binding upon and

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inure to the benefit of the parties signatory hereto and their respective successors and assigns.

10.6 No Third Party Rights. The provisions of this Agreement are

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intended to bind the parties signatory hereto as to each other and are not intended to and do not create rights in any other person or confer upon any other person any benefits, rights or remedies and no person is or is intended to be a third party beneficiary of any of the provisions of this Agreement.

10.7 Counterparts. This Agreement may be executed in any number of

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counterparts, all of which together shall constitute one agreement binding on the parties hereto.

10.8 Governing Law. This Agreement shall be governed by, and

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construed in accordance with, the laws of the State of Missouri applicable to contracts made and to be performed wholly within such state without giving effect to conflict of law principles thereof, except to the extent that it is mandatory that the law of some other jurisdiction, wherein the Assets are located, shall apply.

10.9 Severability. If any of the provisions of this Agreement are

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held by any court of competent jurisdiction to contravene, or to be invalid under, the laws of any political body having jurisdiction over the subject matter hereof, such contravention or invalidity shall not invalidate the entire Agreement. Instead, this Agreement shall be construed as if it did not contain the particular provision or provisions held to be invalid, and an equitable adjustment shall be made and necessary provision added so as to give effect to the intention of the parties as expressed in this Agreement at the time of execution of this Agreement.

10.10 Deed; Bill of Sale; Assignment. To the extent required by

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applicable law, this Agreement shall also constitute a "deed," "bill of sale" or "assignment" of the Assets.

10.11 Amendment or Modification. This Agreement may be amended or

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modified from time to time only by the written agreement of all the parties hereto. Each such instrument shall be reduced to writing and shall be designated on its face "Amendment" to this Agreement.

10.12 Integration. This Agreement supersedes all previous

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understandings or agreements between the parties, whether oral or written, with respect to its subject matter. This document is an integrated agreement which contains the entire understanding of the parties. No understanding, representation, promise or agreement, whether oral or written, is intended to be or shall be included in or form part of this Agreement unless it is contained in a written amendment hereto executed by the parties hereto after the date of this Agreement.

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereto as of the date first above written.

FERRELLGAS, INC.

By: \_\_\_\_\_

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

ATTEST:

By: \_\_\_\_\_

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FERRELLGAS, L.P.

By: Ferrellgas, Inc., its general partner

By: \_\_\_\_\_

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

ATTEST:

By: \_\_\_\_\_

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FERRELLGAS PARTNERS, L.P.

By: Ferrellgas, Inc., its general partner

By: \_\_\_\_\_

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

ATTEST:

By: \_\_\_\_\_

Name: \_\_\_\_\_  
Title: \_\_\_\_\_



Schedule 1  
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EXCLUDED ASSETS

[TO BE SUPPLIED]

Schedule 2

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EXCLUDED LIABILITIES

[TO BE SUPPLIED]

Income Tax Liabilities

Schedule 3

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LIABILITIES AND OUTSTANDING INDEBTEDNESS

1. All liabilities of the Company from or relating to the Assets or the business conducted with the Assets to the extent that such liabilities would be reflected as a liability on a balance sheet of the Company as at the time immediately prior to the Effective Time prepared in accordance with generally accepted accounting principles consistently applied; excluding, however, any of such liabilities that constitute Excluded Liabilities and but including the following liabilities and outstanding indebtedness of the Company:

[INSERT INFORMATION ON THE EXISTING  
INDEBTEDNESS DUE AND THE CREDIT FACILITY]

EXHIBIT A

STATE OF MISSOURI  
COUNTY OF JACKSON

CONVEYANCE, ASSIGNMENT AND BILL OF SALE

KNOW ALL MEN BY THESE PRESENTS:

This Conveyance, Assignment and Bill of Sale (this "Conveyance") is from Ferrellgas, Inc., a Delaware corporation, with its general office and mailing address at One Liberty Plaza, Liberty, Missouri 64068 (herein called "Grantor"), and in favor of Ferrellgas, L.P., a Delaware limited partnership, with its general office and mailing address at One Liberty Plaza, Liberty, Missouri 64068 (herein called "Grantee").

PART I

GRANTING AND HABENDUM CLAUSES

I.1 Granting and Habendum Clauses. For good and valuable

consideration, the receipt and sufficiency of which Grantor hereby acknowledges, Grantor hereby grants, conveys, bargains, sells, assigns, transfers, delivers, and sets over unto Grantee, its successors and assigns, all right, title, interest and estate of Grantor in and to the following described property, to wit:

(a) Fee Lands. The fee owned tracts or parcels of land, if any,

described in Exhibit A hereto, together with all tanks, containers,

buildings, structures, improvements, equipment, appurtenances and fixtures of every kind or nature located on said tracts or parcels of land (collectively, the "Fee Lands" and singularly, the "Fee Land");

(b) Easements. All easements, rights-of-way, servitudes, leases,

surface rights, interests in land, permits, licenses and grants, and all amendments to each thereof, including, without limitation, those described in Exhibit B hereto, together with all prescriptive rights and all

franchises, privileges, permits, grants, leases and consents in favor of Grantor, or Grantor's predecessors-in-title, in, on, over, under or adjacent to lands, roads, highways, railroads, rivers, canals, ditches, drains, bridges, state and national parks, forests, reservations and wilderness areas, public grounds or structures, or elsewhere, and all rights incident thereto, rights under condemnation judgments, judgments on declaration of taking, and permits and grants for the installation, maintenance, repair, removal and operation of above and below ground tanks, storage containers and

pipelines (as hereinafter defined) (collectively, the "Easements" and singularly, the "Easement");

(c) Storage Facilities. The presently existing tanks, containers and -----  
storage facilities (i) owned by Grantor, and located in, on, over, under or adjacent to the property described in (a) and (b) above or (ii) used by Grantor in the operation of its propane business, together with all buildings, structures, improvements, equipment, and appurtenances of every kind or nature that are a part of, affixed to or used in connection therewith (collectively, together with additions or replacements, the "Storage Facilities" and singularly, a "Storage Facility"); and

(d) Other Interests. With respect to the Fee Lands, the Easements -----  
and the Storage Facilities all and singular the tenements, hereditaments and appurtenances belonging or in any wise appertaining thereto, or any part thereof, including, without limitation, all reversionary interests, reversions and remainders thereof, and all the right, title, interest, estate and claim whatsoever, at law as well as in equity, of Grantor in and to the above-described property.

(The property described in Section 1.1 shall be referred to herein as the "Subject Property").

TO HAVE AND TO HOLD the Subject Property, subject to the terms, conditions and reservations hereof, unto Grantee, its successors and assigns, forever.

## PART II

### PERMITTED ENCUMBRANCES; OTHER TERMS AND CONDITIONS

#### II.1 Permitted Encumbrances.

-----  
This Conveyance is made and accepted expressly subject to (i) the terms and conditions set forth in the conveyances, assignments, bills of sale and other instruments described in Exhibit A and Exhibit B and to all recorded -----

and unrecorded liens, encumbrances, agreements, defects, restrictions, adverse claims and all laws, rules, regulations, ordinances, judgments and orders of governmental authorities or tribunals having or asserting jurisdiction over the Subject Property or the business and operations conducted thereon, in each case to the extent the same are valid, enforceable and affect the Subject Property; (ii) all matters that a current survey or visual inspection would reflect; and (iii) the Contribution Agreement (defined in Section 2.2) (collectively, the "Permitted Encumbrances").

II.2 Contribution Agreement.  
-----

This Conveyance is expressly made subject to the terms and conditions of that certain Contribution, Conveyance and Assumption Agreement dated \_\_\_\_\_, 1994, between Grantor, Grantee and Ferrellgas Partners, L.P., a Delaware limited partnership.

II.3 Disclaimer of Warranties; Subrogation.  
-----

(a) GRANTOR IS CONVEYING THE SUBJECT PROPERTY "AS IS" WITHOUT REPRESENTATION OR WARRANTY, WHETHER EXPRESS, IMPLIED OR STATUTORY (ALL OF WHICH GRANTOR HEREBY DISCLAIMS), AS TO (i) TITLE, (ii) FITNESS FOR ANY PARTICULAR PURPOSE OR MERCHANTABILITY OR DESIGN OR QUALITY, OR (iii) ANY OTHER MATTER WHATSOEVER. THE PROVISIONS OF THIS SECTION HAVE BEEN NEGOTIATED BY GRANTEE AND GRANTOR AFTER DUE CONSIDERATION AND ARE INTENDED TO BE A COMPLETE EXCLUSION AND NEGATION OF ANY REPRESENTATIONS OR WARRANTIES OF GRANTOR, WHETHER EXPRESS, IMPLIED OR STATUTORY, WITH RESPECT TO THE SUBJECT PROPERTY THAT MAY ARISE PURSUANT TO ANY LAW NOW OR HEREAFTER IN EFFECT, OR OTHERWISE, EXCEPT AS EXPRESSLY SET FORTH HEREIN.

(b) This Conveyance is made with full rights of substitution and subrogation of Grantee and all persons claiming by, through, and under Grantee, to the extent assignable, in and to all covenants and warranties by the predecessors-in-title of Grantor, and with full subrogation of all rights accruing under applicable statutes of limitation and all rights of action of warranty against all former owners of the Subject Property.

(c) Grantee agrees that the disclaimers contained in this section are "conspicuous" disclaimers. Any covenants implied by statute or law by the use of the words "grant", "convey", "bargain", "sell", "assign", "transfer", "deliver" or "set over" or any of them or any other words used in this Conveyance are hereby expressly disclaimed, waived and negated.

PART III

MISCELLANEOUS

III.1 Further Assurances.  
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Grantor agrees to take all such further actions and to execute, acknowledge and deliver all such further documents as are necessary or appropriate in carrying out the purposes of this Conveyance. Grantor agrees to execute, acknowledge and deliver to

Grantee all such other additional instruments, notices, and to do all such other and further acts, and things as may be to more fully and effectively grant, convey, bargain, sell, assign, transfer and deliver and set over to Grantee the Subject Property.

#### III.2 Consents; Restriction on Assignment.

-----

If there are prohibitions against or conditions to the Conveyance of one or more portions of the Subject Property without the prior written consent of third parties, including, without limitation, governmental agencies (other than consents of ministerial nature which are normally granted in the ordinary course of business), which if not satisfied would result in a breach of such prohibitions or conditions or would give an outside party the right to terminate Grantee's rights with respect to such portion of the Subject Property (herein called a "Restriction"), then any provision contained in this Conveyance to the contrary notwithstanding, the transfer of title to or interest in such portion of the Subject Property (herein called the "Restriction-Subject Property") pursuant to this Conveyance shall not become effective unless and until such Restriction is satisfied, waived or no longer applies. When and if such a Restriction is so satisfied, waived or no longer applies, to the extent permitted by applicable law and any applicable contractual provisions, the assignment of the Restriction-Subject Property subject thereto shall become effective automatically as of the date hereof, without further action on the part of Grantee or Grantor. Grantor and Grantee agree to use their best efforts to obtain satisfaction of any Restriction. The description of any portion of the Subject Property as "Restriction-Subject Property" shall not be construed as an admission that any Restrictions exist with respect to the transfer of such portion of the Subject Property. In the event any Restriction-Subject Property exists, Grantor agrees to hold such Restriction-Subject Property in trust for the exclusive benefit of Grantee and to otherwise use its best efforts to provide Grantee with the benefits thereof.

#### III.3 Successors and Assigns; No Third Party Beneficiary.

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This Conveyance shall be binding upon and inure to the benefit of Grantor and Grantee and their respective successors and assigns, but shall not inure to the benefit of or be enforceable by any other party.

#### III.4 Governing Law.

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This Conveyance and the legal relations between the parties shall be governed by, and construed in accordance with, the laws of the State of Missouri, excluding any conflict of law rule which would refer any issue to the laws of another jurisdiction, except when it is mandatory that the law of the jurisdiction

wherein the Subject Property is located shall apply.

III.5        The Exhibits.  
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Reference is made to Exhibit A and Exhibit B, which are attached  
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hereto and made a part hereof for all purposes. Reference in Exhibits to an instrument on file in the public records is made for all purposes, but shall not imply that such instrument is valid, binding or enforceable or affects any Subject Property nor creates any right, title, interest or claim in favor of any party other than Grantor and Grantee, respectively.

III.6        Headings.  
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Headings are included in this Conveyance for convenience and shall not define, limit, extend or describe the scope or intent of any provision.

III.7        Counterparts.  
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This Conveyance may be executed in multiple counterparts all of which taken together shall constitute a single agreement with the same force and effect as if all parties had signed the same copy of this conveyance.



WITNESS THE EXECUTION HEREOF on the \_\_\_\_ day of \_\_\_\_\_, 1994.

GRANTEE:

GRANTOR:

FERRELLGAS, L.P., a Delaware  
limited partnership

FERRELLGAS, INC., a Delaware  
corporation

By: Ferrellgas, Inc., as  
general partner

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Attachments: Exhibit A: Fee Lands  
Exhibit B: Easements

This instrument was prepared by:

Smith, Gill, Fisher & Butts  
Attn: Michael J. Van Dyke  
1200 Main Street, Suite 3500  
Kansas City, Missouri 64105

Recording Requested by and  
When Recorded Return To:

Smith, Gill, Fisher & Butts  
Attn: Michael J. Van Dyke  
1200 Main Street, Suite 3500  
Kansas City, Missouri 64105

Mail Tax Statements to:

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STATE OF MISSOURI

COUNTY OF JACKSON

Before me, a Notary Public in and for said County and State,  
personally appeared \_\_\_\_\_, the \_\_\_\_\_  
\_\_\_\_\_ of Ferrellgas, Inc., a Delaware  
corporation, who acknowledged the execution of the foregoing instrument for and  
on behalf of said corporation and who, having been duly sworn, stated that the  
representations contained therein are true.

WITNESS my hand and Notarial Seal this \_\_\_\_\_ day of \_\_\_\_\_,  
1994.

\_\_\_\_\_  
Notary Public Residing in  
\_\_\_\_\_ County, \_\_\_\_\_

\_\_\_\_\_  
(printed signature)

My Commission Expires:

- - - - -

STATE OF MISSOURI

COUNTY OF JACKSON

Before me, a Notary Public in and for said County and State,  
personally appeared \_\_\_\_\_, the \_\_\_\_\_  
of Ferrellgas, Inc., a Delaware corporation, as general partner of Ferrellgas,  
L.P., a Delaware limited partnership, who acknowledged the execution of the  
foregoing instrument for and on behalf of said corporation, as general partner,  
and who, having been duly sworn, stated that the representations contained  
therein are true.

WITNESS my hand and Notarial Seal this \_\_\_\_\_ day of \_\_\_\_\_, 1994.

-----  
Notary Public Residing in  
\_\_\_\_\_ County, \_\_\_\_\_

-----  
(printed signature)

My Commission Expires:

- - - - -

EXHIBIT A TO CONVEYANCE, ASSIGNMENT AND BILL OF SALE  
FROM FERRELLGAS, INC. TO FERRELLGAS, L.P.

STATE OF MISSOURI  
COUNTY OF JACKSON

[FEE LANDS]

EXHIBIT B TO CONVEYANCE, ASSIGNMENT AND BILL OF SALE  
FROM FERRELLGAS, INC. TO FERRELLGAS, L.P.

STATE OF MISSOURI  
COUNTY OF JACKSON

[EASEMENTS]

## INDEPENDENT ACCOUNTANTS' CONSENT

We consent to the use in this Amendment No. 2 to Registration Statement No. 33-53383 of 13,100,000 Common Units related to limited partner interests in Ferrellgas Partners, L.P., of our report dated June 3, 1994, on Ferrellgas Inc. (which expressed an unqualified opinion and included an explanatory paragraph concerning an uncertainty involving an income tax matter), appearing in the Prospectus, which is part of this Registration Statement, and of our report dated June 3, 1994 relating to the financial statement schedules appearing elsewhere in this Registration Statement.

We also consent to the use in this Amendment No. 2 to Registration Statement No. 33-53383 of 13,100,000 Common Units related to limited partner interests in Ferrellgas Partners, L.P., of our report dated April 27, 1994 on Ferrellgas Partners, L.P., appearing in the Prospectus, which is part of this Registration Statement.

We also consent to the use in this Amendment No. 2 to Registration Statement No. 33-53383 of 13,100,000 Common Units related to limited partner interests in Ferrellgas Partners, L.P., of our report dated June 3, 1994 accompanying the pro forma financial information of Ferrellgas Partners, L.P., appearing in the Prospectus, which is part of this Registration Statement.

We also consent to the reference to us under the headings "Selected Historical and Pro Forma Consolidated Financial and Operating Data" and "Experts" in such Prospectus.

DELOITTE & TOUCHE  
Kansas City, Missouri

June 23, 1994