

INERGY L P
Form 424B3
September 13, 2005
Table of Contents

We will amend and complete the information in this prospectus supplement. This preliminary prospectus supplement and the prospectus are part of an effective registration statement filed with the Securities and Exchange Commission. This preliminary prospectus supplement and the prospectus are not offers to sell nor solicitations of offers to buy these securities in any jurisdiction where such offer or sale is not permitted.

Filed pursuant to Rule 424(b)(3)

Registration No. 333-118941

Subject to Completion, dated September 12, 2005

PROSPECTUS SUPPLEMENT

(To Prospectus dated October 1, 2004)

5,500,000 Common Units

Representing Limited Partner Interests

We are selling 5,500,000 common units of Inergy, L.P. Our common units trade on the Nasdaq National Market under the symbol NRGY. The last reported sales price of our common units on the Nasdaq National Market on September 9, 2005 was \$29.98 per common unit.

Investing in our common units involves risks. Please read Risk Factors beginning on page S-10 of this prospectus supplement and on page 2 of the accompanying prospectus.

| | Per Common Unit | Total |
|----------------------------------|-----------------|-------|
| Public offering price | \$ | \$ |
| Underwriting discount | \$ | \$ |
| Proceeds to us (before expenses) | \$ | \$ |

We have granted the underwriters a 30-day option to purchase up to an additional 825,000 common units on the same terms and conditions as set forth above if the underwriters sell more than 5,500,000 common units in this offering.

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

Lehman Brothers, on behalf of the underwriters, expects to deliver the common units on or about , 2005.

LEHMAN BROTHERS

Sole Book-Running Manager

A.G. EDWARDS

Joint Lead Manager

CITIGROUP

RAYMOND JAMES

WACHOVIA SECURITIES

STIFEL, NICOLAUS & COMPANY

INCORPORATED

, 2005

Table of Contents

This document is in two parts. The first part is the prospectus supplement, which describes the terms of this offering of common units. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to the common units. If the information relating to the offering varies between the prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of those documents or that any information we have incorporated by reference is accurate as of any date other than the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since such dates.

TABLE OF CONTENTS

| Prospectus Supplement | Page |
|---|-------------|
| <u>Summary</u> | S-1 |
| <u>Risk Factors</u> | S-10 |
| <u>Use of Proceeds</u> | S-19 |
| <u>Capitalization</u> | S-20 |
| <u>Price Range of Common Units and Distributions</u> | S-21 |
| <u>Stagecoach Acquisition</u> | S-22 |
| <u>Tax Considerations</u> | S-23 |
| <u>Underwriting</u> | S-24 |
| <u>Legal Matters</u> | S-28 |
| <u>Experts</u> | S-28 |
| <u>Information Regarding Forward-Looking Statements</u> | S-29 |
| <u>Where You Can Find More Information</u> | S-30 |
| <u>Incorporation of Documents By Reference</u> | S-30 |

| Prospectus dated October 1, 2004 | Page |
|---|-------------|
| Guide To Reading This Prospectus | 1 |
| Risk Factors | 2 |
| Forward-Looking Statements | 12 |
| The Offering | 13 |
| Who We Are | 13 |
| Use Of Proceeds | 15 |
| Recent Developments | 15 |
| Ratios Of Earnings to Fixed Charges | 16 |
| Description of the Common Units | 17 |
| Description of the Partnership Securities | 20 |
| Description of the Debt Securities | 22 |
| Tax Considerations | 33 |
| Plan of Distribution | 47 |
| Legal Matters | 48 |
| Experts | 48 |
| Where You Can Find More Information | 49 |
| Incorporation of Documents by Reference | 50 |

Table of Contents

SUMMARY

*This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus. It does not contain all of the information you should consider before making an investment decision. You should read the entire prospectus supplement, the accompanying prospectus, the documents incorporated by reference and the other documents to which we refer for a more complete understanding of this offering. Please read **Risk Factors** beginning on page S-10 of this prospectus supplement and page 2 of the accompanying prospectus for more information about important factors that you should consider before buying our common units in this offering. Unless we indicate otherwise, the information we present in this prospectus supplement assumes that the underwriters do not exercise their option to purchase additional common units. Throughout this prospectus supplement, when we use the terms **we**, **us**, **our**, or **Inergy, L.P.**, we are referring to Inergy, L.P. or to Inergy, L.P. and its subsidiaries collectively as the context requires.*

Inergy, L.P.

Inergy, L.P. (NASDAQ:NRGY) is a publicly traded Delaware limited partnership that owns and operates a rapidly growing, geographically diverse retail and wholesale propane supply, marketing and distribution business. We believe we are currently the fifth largest propane retailer in the United States, based on retail propane gallons sold. Our retail business includes the retail marketing, sale and distribution of propane, including the sale and lease of propane supplies and equipment, to residential, commercial, industrial and agricultural customers. As of June 30, 2005, we served approximately 600,000 retail customers in 27 states from approximately 280 customer service centers which had an aggregate of approximately 22.4 million gallons of above-ground propane storage capacity. In addition to our retail business, we operate a wholesale supply, marketing and distribution business through which we provide propane procurement, transportation and supply and price risk management services to our customer service centers. We also provide these services to independent dealers, multi-state marketers, petrochemical companies, refinery and gas processors and a number of other natural gas liquids marketing and distribution companies in the United States and in Canada. In addition to our propane operations, we own and operate a natural gas storage facility located approximately 150 miles northwest of New York City.

We have grown primarily through acquisitions of retail propane operations. Since our predecessor's inception in November 1996 and through August 31, 2005, we have acquired the assets of 48 propane businesses in 18 states and Canada and one natural gas storage facility in New York for an aggregate purchase price of approximately \$1.3 billion, including working capital, assumed liabilities and acquisition costs. These acquisitions include six propane companies and one natural gas storage facility acquired during fiscal 2005 for an aggregate purchase price of over \$800 million, including our acquisition of Star Gas Propane, L.P., the propane operating partnership of Star Gas Partners, L.P. (NYSE: SGU, SGH), for approximately \$475 million, and our acquisition of the Stagecoach natural gas storage facility and related expansion for approximately \$232 million. See **Recent Developments**.

Our business is currently comprised of two segments, consisting of our Retail Operations and Wholesale Supply, Marketing, Distribution and Storage Operations.

Retail Operations. We market propane primarily in rural areas, but also have a significant number of customers in suburban areas where energy alternatives to propane such as natural gas are generally not available. From our customer service centers, we also sell, install and service equipment related to our propane distribution business, including heating and cooking appliances. We also make customer deliveries to residential, industrial and commercial, and agricultural customers. For the nine months ended June 30, 2005, this segment accounted for approximately 94% of our gross profit.

Table of Contents

Approximately 85% of our retail propane customers lease their tanks from us. We believe our tank lease programs are valuable to our business because they assist us in retaining customers and maintaining profitability. In most states, due to fire safety regulations, a leased tank may only be refilled by the propane distributor that owns that tank. The inconvenience and costs associated with switching tanks and suppliers greatly reduce a customer's likelihood of changing distributors.

Wholesale Supply, Marketing, Distribution and Storage Operations. We currently provide wholesale supply, marketing, distribution and storage services to independent dealers, multi-state marketers, petrochemical companies, refinery and gas processors, local natural gas distribution companies and a number of NGL marketing and distribution companies, primarily located in the Midwest, Northeast and Southeast. During the nine months ended June 30, 2005, our wholesale supply, marketing and distribution operations accounted for approximately 6% of our gross profit.

This segment also includes our natural gas midstream operations which store and distribute natural gas and other petroleum products throughout the northeastern United States and California. Our midstream storage and terminalling facilities consist of: (i) the Stagecoach Facility located approximately 150 miles northwest of New York City and (ii) our West Coast NGL business located in Bakersfield, California, which includes a gas processing and NGL fractionation facility, storage facility and distribution and transportation capabilities.

Recent Developments

Stagecoach Acquisition and Concurrent Financings

On August 9, 2005, we acquired all of the equity interests in the entities that own the Stagecoach Facility from Stagecoach Holding, LLC, Stagecoach Energy, LLC and Stagecoach Holding II, LLC for approximately \$207 million plus working capital adjustments. The Stagecoach Facility is a high performance, multi-cycle natural gas storage facility with approximately 13.6 Bcf of working gas capacity, maximum withdrawal capability of 500 MMcf/day, and maximum injection capability of 250 MMcf/day. The Stagecoach Facility is currently 95% committed primarily with investment-grade rated companies with term contracts that have a weighted average maturity extending to March 2008. The Stagecoach Facility was placed in commercial service during the second quarter of 2002. Located approximately 150 miles northwest of New York City, the Stagecoach Facility is currently connected to Tennessee Gas Pipeline Company's 300 Line and is a significant participant in the northeast United States natural gas distribution system. In addition, we acquired the rights to the Phase II expansion project of the Stagecoach Facility for \$25 million (the Phase II Expansion, together with the acquisition of the Stagecoach Facility, the Stagecoach Acquisition). We expect the Phase II Expansion to add approximately 13 Bcf of additional working gas capacity to the facility and cost an estimated \$120 million in additional capital expenditures to complete. While the Phase II Expansion is subject to additional governmental and regulatory approvals, we currently anticipate it will be in service in mid-to-late calendar year 2007.

We believe the Stagecoach Acquisition will provide us with several key strategic benefits, including:

a strengthened business profile through (i) stable fee-based cash flows from long-term storage agreements, primarily with investment-grade rated companies, (ii) diversifying our revenues and (iii) reducing the seasonality of our cash flow stream;

long-term organic growth opportunities through the Phase II Expansion; and

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a larger business platform from which we can grow our midstream operations.

You should carefully review the audited financial statements for the Stagecoach Facility and the pro forma condensed combined financial information included in our Current Report on Form 8-K/A which we filed on August 17, 2005 and which is incorporated by reference into this prospectus.

S-2

Table of Contents

We financed the Stagecoach Facility Acquisition and related costs through borrowings of approximately \$194.5 million under our existing 5-year credit facility (the "5-Year Credit Facility") and assumed approximately \$12.6 million of liabilities. We financed the Phase II Expansion through a private placement of 769,941 of our special units (the "Special Units") to Inergy Holdings, L.P., one of our affiliates, for \$25 million. The Special Units are a new class of non-voting equity securities of the Partnership that do not currently receive distributions, but will convert into our common units upon the commercial operation of the Phase II Expansion at a specified conversion rate. The initial conversion rate is 1.0 Special Unit for 1.0 of our common units with the conversion rate increasing 3% per three month period thereafter on a compounded basis with a maximum conversion rate of 1.0 Special Unit for 1.43 of our common units. Throughout this prospectus, we refer to this private placement of Special Units as the "Special Unit Purchase."

Inergy Holdings, L.P. Initial Public Offering

On June 24, 2005, Inergy Holdings, L.P. (Nasdaq:NRGP), a Delaware limited partnership and the owner of our general partners, completed its initial public offering of 3.9 million common units, including the full exercise of the underwriters' option to purchase additional common units, at a price of \$22.50 per common unit. The 3.9 million common units represent a 19.6% limited partner interest in Holdings. Holdings' cash-generating assets primarily consist of its partnership interests, including incentive distribution rights, in us. Following the completion of this offering, Holdings' aggregate partnership interests in us consist of the following:

an approximate 1.2% general partner interest;

3,787,340 limited partnership units, representing an aggregate limited partner interest in us of approximately 9.7%;

769,941 Special Units, which do not receive distributions, but which will convert into our common units upon the commercial operation of the Phase II Expansion at a specified conversion rate.

all of the incentive distribution rights in us, which entitle Holdings to receive increasing percentages, up to a maximum of 48.0%, of any cash distributed by us as certain target distribution levels are reached in excess of \$0.33 per Inergy, L.P. unit in any quarter.

Potential Acquisitions

As part of our ongoing acquisition program, we are continuing to evaluate a number of potential acquisitions, which are at various stages of the due diligence and negotiation process and which we believe are consistent with our strategy of making acquisitions that will increase our distributable cash flow per unit while achieving a strong credit profile. Our acquisition efforts are focused on assets in the propane and midstream sectors and may involve assets which, if acquired, could have a material impact on our financial condition and results of operations.

We have executed non-binding letters of intent to acquire additional retail propane assets for aggregate consideration of approximately \$160 million, including estimated working capital adjustments. It is expected that the consideration for these acquisitions would be financed initially through borrowings under our credit facility. Any borrowings necessary to fund these acquisitions are not reflected in the information described under "Capitalization." These acquisitions are subject to the successful negotiation of definitive purchase agreements, the completion of our due diligence and the satisfaction of customary closing conditions. There can be no assurance that these acquisitions will be consummated.

Conversion of Senior Subordinated Units

On August 12, 2005, after meeting the financial tests provided for in our partnership agreement, we completed the conversion, on a one-for-one basis, of 1,656,684 senior subordinated units into common units.

S-3

Table of Contents

Business Strategies and Competitive Strengths

Our primary objective is to increase distributable cash flow for our unitholders, while (1) providing the highest level of commitment and service to our customers, (2) achieving a strong credit profile and (3) maintaining financial flexibility. We intend to pursue this objective by capitalizing on our competitive strengths as follows:

High Percentage of Retail Sales to Residential Customers. Our retail propane operations concentrate on sales to residential customers who generate higher margins and are generally more stable purchasers than other customers. For the nine months ended June 30, 2005, sales to residential customers represented approximately 67% of our retail propane gallons sold.

Operations in Attractive Propane Markets. A majority of our propane operations are concentrated in attractive propane market areas where natural gas distribution is not cost effective, margins are relatively stable, and tank control is relatively high. We intend to pursue acquisitions in similar markets.

Regional Branding. We believe that our success in maintaining customer stability at our customer service centers results from our operations under established, locally recognized trade names. We attempt to capitalize on the reputation of the companies we acquire by retaining their local brand names and employees, thereby preserving the goodwill of the acquired business and fostering employee loyalty and customer retention.

Internal Growth. We promote internal growth in our retail operations through a combination of marketing programs and employee incentives. We also provide various financial and other services, including level payment, supply, repair and maintenance contracts, and 24-hour customer service, in order to attract new customers and retain existing customers.

Strong Wholesale Supply, Marketing and Distribution Business. One of our distinguishing strengths is our propane procurement and distribution expertise and capabilities. For the nine months ended June 30, 2005, we delivered approximately 325.9 million wholesale gallons of propane to independent dealers, multistate marketers, petrochemical companies, refineries, gas processors and a number of other NGL marketing and distribution companies. In addition, the presence of our fleet of trucks serving our wholesale customers allows us to take advantage of various pricing and distribution inefficiencies that exist in the market from time to time. We believe our wholesale business enables us to obtain valuable market intelligence and awareness of potential acquisition opportunities.

Flexible Financial Structure. We believe a major competitive strength is our ability to access the capital markets and maintain a low cost of capital. Since our initial public offering in 2001, we have consistently communicated to the financial community our intention to achieve a strong credit profile. Including our initial public offering in July 2001, we have accessed the equity markets seven times, raising approximately \$443 million of net proceeds. In addition, we have funded two acquisitions directly with equity. In December 2004, we entered into new five-year revolving acquisition and working capital facilities which provide us with additional liquidity, while also completing the issuance and sale of \$425 million of senior notes.

Proven Acquisition Expertise. Our executive officers and key employees, who average more than 15 years experience in the propane and midstream sectors, have developed business relationships with retail propane businesses, propane business owners and midstream infrastructure owners and operators throughout the United States. These significant industry contacts have enabled us to negotiate most of our acquisitions on an exclusive basis. We believe this acquisition expertise should allow us to continue to grow through strategic and accretive acquisitions.

Table of Contents

Partnership Structure and Management

Our operations are conducted through, and our operating assets are owned by, our subsidiaries. We own our interests in our subsidiaries through our 100% ownership interest in Inergy Propane, LLC and through our 100% ownership interest in Inergy Acquisition Company, LLC. Following the completion of this offering, our partnership structure and management will be as follows:

We will continue to own a 100% membership interest in Inergy Propane, LLC. Our membership interest in Inergy Propane, LLC carries all of the economic and voting rights.

We will continue to own a 100% membership interest in Inergy Acquisition Company, LLC. Our membership interest in Inergy Acquisition Company, LLC carries all of the economic and voting rights.

Inergy Finance Corp., our wholly-owned subsidiary, was incorporated under the laws of the State of Delaware in September 2004 and has no material assets or liabilities other than as a co-issuer of our debt securities. Its activities are limited to co-issuing our debt securities and engaging in other activities incidental thereto.

Inergy GP, LLC, our managing general partner, has sole responsibility for conducting our business and managing our operations. Our managing general partner's only interest in us is its management rights. Inergy GP, LLC has no economic interest in our partnership and does not receive a management fee, but it is reimbursed for expenses incurred on our behalf.

Inergy Partners, LLC, our non-managing general partner, will continue to own an approximate 1.2% general partner interest in us. The approximate 1.2% general partner interest is entitled to its proportionate share of allocations and distributions in our partnership. Our non-managing general partner has no operational or managerial responsibilities under our partnership agreement.

New Inergy Propane, LLC, will continue to own 875,320 common units, 986,588 senior subordinated units and 975,126 junior subordinated units, which will represent an aggregate limited partner interest in us of approximately 7.3%.

Holdings and its affiliates will continue to own 100% of our managing general partner, our non-managing general partner, and New Inergy Propane, LLC. Holdings also will continue to own all of the incentive distribution rights in us, which entitles it to receive increasing percentages, up to 48%, of any cash we distribute in excess of \$0.33 per unit in any quarter. In addition to the common units, senior subordinated units, and junior subordinated units owned by New Inergy Propane, LLC, Holdings also directly or indirectly will continue to own 842,231 common units, 107,277 senior subordinated units and 798 junior subordinated units, which will represent an aggregate limited partner interest in us of approximately 2.4%, and 769,941 Special Units.

Our principal executive offices are located at 2 Brush Creek Boulevard, Suite 200, Kansas City, Missouri 64112, and our phone number is (816) 842-8181.

Table of Contents

This chart depicts our organizational and ownership structure after giving effect to this offering.

S-6

Table of Contents

The Offering

Common units offered by Inergy, L.P. 5,500,000 common units; 6,325,000 common units if the underwriters exercise their option to purchase an additional 825,000 common units.

Units outstanding after this offering 33,411,329 common units if the underwriters do not exercise their option to purchase an additional 825,000 common units; 3,821,884 senior subordinated units; 1,145,084 junior subordinated units; and 769,941 Special Units.

Use of proceeds We will use the net proceeds from this offering to repay outstanding indebtedness under our 5-Year Credit Facility incurred to finance a portion of the purchase price for the Stagecoach Acquisition.

We will use the net proceeds from any exercise of the underwriters' option to purchase additional common units, for the repayment of additional indebtedness under the 5-Year Credit Facility and for general partnership purposes.

Cash distributions Under our partnership agreement, we must distribute all of our cash on hand at the end of each quarter, less reserves established by our managing general partner. We refer to this cash as available cash, and we define its meaning in our partnership agreement. The amount of available cash may be greater than or less than the minimum quarterly distribution.

Common units are entitled to receive distributions of available cash of \$0.30 per quarter, or \$1.20 on an annualized basis, before any distributions are paid on our subordinated units.

On August 12, 2005, we paid a quarterly cash distribution for the third quarter of fiscal 2005 of \$0.510 per common, senior subordinated and junior subordinated unit, or \$2.04 on an annualized basis.

In general, during the subordination period we will pay any cash distributions we make each quarter in the following manner:

first, approximately 99% to the common units and 1% to the non-managing general partner, until each common unit has received a minimum quarterly distribution of \$0.30 plus any arrearages from earlier quarters;

second, approximately 99% to the senior subordinated units and 1% to the non-managing general partner, until each senior subordinated unit has received a minimum quarterly distribution of \$0.30;

third, approximately 99% to the junior subordinated units and 1% to the non-managing general partner, until each junior subordinated unit has received a minimum quarterly distribution of \$0.30; and

fourth, approximately 99% to all units, pro rata, and 1% to the non-managing general partner, until each unit has received a distribution of \$0.33 per quarter.

S-7

Table of Contents

If cash distributions exceed \$0.33 per unit in any quarter, Holdings will receive increasing percentages, up to 48%, of the cash we distribute in excess of that amount. We refer to Holdings' right to receive these higher amounts of cash as incentive distribution rights. Because our quarterly cash distributions currently exceed \$0.33 per unit, Holdings is currently receiving its incentive distribution rights.

| | |
|-----------------------|--|
| Subordination periods | The subordination period will end once we meet the financial tests in the partnership agreement, but it generally cannot end before June 30, 2006 with respect to the senior subordinated units and June 30, 2008 with respect to the junior subordinated units. |
|-----------------------|--|

When the applicable subordination period ends, all remaining senior subordinated units or junior subordinated units, as applicable, will convert into common units on a one-for-one basis. Once all subordinated units have been converted into common units, the common units sold in this offering will no longer be entitled to arrearages.

| | |
|--|--|
| Early conversion of subordinated units | On August 13, 2004, after meeting the financial tests provided for in our partnership agreement, we completed the conversion of 1,656,684 of our senior subordinated units into common units. In addition, on August 12, 2005, after meeting the financial tests provided for in our partnership agreement, we completed the conversion of an additional 1,656,684 senior subordinated units into common units. If we meet these tests for any consecutive four quarter period ending on or after June 30, 2006, the remaining senior subordinated units will convert into common units. The conversion of additional senior subordinated units may not occur until at least one year after the prior conversion of senior subordinated units. |
|--|--|

If we meet the applicable financial tests in the partnership agreement for any quarter ending on or after June 30, 2006, 286,272 of the junior subordinated units will convert into common units. If we meet these tests for any quarter ending on or after June 30, 2007, an additional 286,272 of the junior subordinated units will convert into common units. The early conversion of the second 286,272 of the junior subordinated units may not occur until at least one year after the early conversion of the first 286,272 of the junior subordinated units.

Notwithstanding the foregoing, all outstanding junior subordinated units may convert into common units on a one-for-one basis on or after June 30, 2006, if we have paid a distribution of at least \$1.40 on each outstanding unit for each of the three preceding non-overlapping four-quarter periods, all of the senior subordinated units have been converted into common units, and we have met other applicable financial tests in the partnership agreement.

Table of Contents

Estimated ratio of taxable income to distributions

We estimate that if you own the common units you purchase in this offering through the record date for the distribution for the fourth calendar quarter of 2008, you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be less than 20% of the cash distributed to you with respect to that period. Please read Tax Considerations in the prospectus supplement for the basis of this estimate.

Nasdaq National Market symbol

NRGY.

S-9

Table of Contents

RISK FACTORS

An investment in our common units involves risk. You should carefully read the risk factors set forth below and the risk factors included under the caption "Risk Factors" beginning on page 2 of the accompanying prospectus.

Risks Inherent in Our Business

Since weather conditions may adversely affect the demand for propane, our financial condition and results of operations are vulnerable to, and will be adversely affected by, warm winters.

Weather conditions have a significant impact on the demand for propane because our customers depend on propane principally for heating purposes. As a result, warm weather conditions will adversely impact our operating results and financial condition. Actual weather conditions can substantially change from one year to the next. Furthermore, warmer than normal temperatures in one or more regions in which we operate can significantly decrease the total volume of propane we sell. Consequently, our operating results may vary significantly due to actual changes in temperature. During the fiscal years ended September 30, 1999, 2000, 2002 and 2004, temperatures were significantly warmer than normal in our areas of operation. We believe that our results of operations during these periods were adversely affected as a result of this warm weather.

We may be unable to successfully integrate the Star Gas Propane Acquisition or the Stagecoach Acquisition, or any of our other acquisitions with our operations or realize all of the anticipated benefits of these acquisitions.

Integration of the Star Gas Propane business and operations with our existing business and operations is a complex, time-consuming and costly process, particularly given that the acquisition approximately doubled our size and significantly diversified the geographic areas in which we operate. Failure to successfully integrate the Star Gas Propane business and operations with our existing business and operations in a timely manner may have a material adverse effect on our business, financial condition, results of operations and cash flows. Similarly, our other recent acquisitions, including the Stagecoach Acquisition, and ongoing acquisition program expose us to integration risks as well. The difficulties of combining the acquired operations include, among other things:

operating a significantly larger combined organization and integrating additional retail and wholesale distribution operations to our existing supply, marketing and distribution operations;

coordinating geographically disparate organizations, systems and facilities;

integrating personnel from diverse business backgrounds and organizational cultures;

consolidating corporate, technological and administrative functions;

integrating internal controls, compliance under the Sarbanes-Oxley Act of 2002 and other corporate governance matters;

the diversion of management's attention from other business concerns;

customer or key employee loss from the acquired businesses;

a significant increase in our indebtedness; and

potential environmental or regulatory liabilities and title problems.

In addition, we may not realize all of the anticipated benefits from the Star Gas Propane Acquisition, the Stagecoach Acquisition and our other acquisitions, such as cost savings and revenue enhancements, for various reasons, including difficulties integrating operations and personnel, higher costs, unknown liabilities and fluctuations in markets. In addition, the Stagecoach entities have realized significant operating losses in each of the last three years. Please see our Current Report on Form 8-K/A which we filed August 17, 2005 and which is incorporated by reference into this prospectus. Furthermore, the Phase II Expansion will require governmental and regulatory approvals that may affect when commercial operations begin and may result in additional costs not currently contemplated.

S-10

Table of Contents

Our Star Gas Propane Acquisition and the Stagecoach Acquisition expose us to potential significant liabilities.

In the Star Gas Propane Acquisition and the Stagecoach Acquisition, we purchased the equity interests of Star Gas Propane and the entities that owned the Stagecoach Facility rather than just their assets. As a result, we purchased the liabilities of Star Gas Propane and these entities as well, including unknown and contingent liabilities. We have performed a certain level of due diligence in connection with the Star Gas Propane Acquisition and the Stagecoach Acquisition, but there may be pending, threatened, contemplated or contingent claims against Star Gas Propane or the entities that owned the Stagecoach Facility related to environmental, title, regulatory, litigation or other matters of which we are unaware. Although Star Gas Partners, L.P., the former parent company of Star Gas Propane, and the entities that owned the Stagecoach Facility, respectively, have agreed to indemnify us against some of these liabilities, there is a risk that we could ultimately be liable for some or all of these indemnified risks.

If Star Gas Partners, L.P. is unable to meet its obligations to its creditors and the creditors successfully challenge the Star Gas Propane Acquisition under federal or state bankruptcy or fraudulent transfer laws, which would require the creditors to prove that (1) Star Gas Partners, L.P. received inadequate consideration for the Star Gas Propane Acquisition and that Star Gas Partners, L.P. was insolvent or was rendered insolvent by reason of the acquisition, or (2) that such acquisition was made with the intent of defrauding Star Gas Partners, L.P.'s creditors, we could be subject to material losses. While we believe that a successful fraudulent conveyance claim is unlikely, we cannot assure you that such a claim will not be made. Moreover, any such claim, if resolved adversely to us, may have a material adverse effect on us.

If we do not continue to make acquisitions on economically acceptable terms, our future financial performance will be limited.

The propane industry is not a growth industry because of increased competition from alternative energy sources. In addition, as a result of long-standing customer relationships that are typical in the retail home propane industry, the inconvenience of switching tanks and suppliers and propane's higher cost as compared to other energy sources, we may have difficulty in increasing our retail customer base other than through acquisitions. Therefore, while our business strategy includes internal growth, our ability to grow will depend principally on acquisitions. Our future financial performance depends on our ability to continue to make acquisitions at attractive prices. We cannot assure you that we will be able to continue to identify attractive acquisition candidates in the future or that we will be able to acquire businesses on economically acceptable terms. In particular, competition for acquisitions in the propane business has intensified and become more costly. We may not be able to grow as rapidly as we expect through our acquisition of additional businesses for various reasons. For example, we will use our cash from operations primarily for distributions to our unitholders and reinvestment in our business. Consequently, the extent to which we are unable to use cash or access capital to pay for additional acquisitions may limit our growth and impair our operating results. Further, we are subject to certain debt incurrence covenants under our bank credit facility and our indenture for our senior notes that may restrict our ability to incur additional debt to finance acquisitions. In addition, any new debt we incur to finance acquisitions may adversely affect our ability to make distributions to our unitholders.

We will use our cash from operations primarily for distributions to unitholders and reinvestment in our business. Consequently, the extent to which we are unable to use cash or access capital to pay for additional acquisitions may limit our growth and impair our operating results. Further, we are subject to certain debt incurrence covenants under our bank credit facility and our indenture for the notes that may restrict our ability to incur additional debt to finance acquisitions.

Although we intend to use our securities as acquisition currency, some prospective sellers may not be willing to accept our securities as consideration.

Our growth strategy includes acquiring entities with lines of business that are distinct and separate from our existing operations which could subject us to additional business and operating risks.

Consistent with our announced growth strategy and our recent Stagecoach Acquisition, we may acquire assets that have operations in new and distinct lines of business from our existing operations, including midstream assets. Integration of new business segments is a complex, costly and time-consuming process and

S-11

Table of Contents

will likely involve assets in which we have limited operating experience. Failure to timely and successfully integrate acquired entities' new lines of business with our existing operations may have a material adverse effect on our business, financial condition or results of operations. The difficulties of integrating new business segments with existing operations include, among other things:

operating distinct business segments that require different operating strategies and different managerial expertise;

the necessity of coordinating organizations, systems and facilities in different locations;

integrating personnel with diverse business backgrounds and organizational cultures; and

consolidating corporate and administrative functions.

In addition, the diversion of our attention and any delays or difficulties encountered in connection with the integration of the new business segments, such as unanticipated liabilities or costs, could harm our existing business, results of operations, financial condition or prospects. Furthermore, new lines of business will subject us to additional business and operating risks which could have a material adverse effect on our financial condition or results of operations.

Sudden and sharp propane price increases that cannot be passed on to customers may adversely affect our profit margins.

The propane industry is a margin-based business in which gross profits depend on the excess of sales prices over supply costs. As a result, our profitability will be sensitive to changes in wholesale prices of propane caused by changes in supply or other market conditions. When there are sudden and sharp increases in the wholesale cost of propane, such as those experienced recently, we may not be able to pass on these increases to our customers through retail or wholesale prices. Propane is a commodity and the price we pay for it can fluctuate significantly in response to changes in supply or other market conditions. We have no control over supply or market conditions. In addition, the timing of cost pass-throughs can significantly affect margins. Sudden and extended wholesale price increases could reduce our gross profits and could, if continued over an extended period of time, reduce demand by encouraging our retail customers to conserve or convert to alternative energy sources.

Our indebtedness may limit our ability to borrow additional funds or capitalize on acquisition or other business opportunities, in addition to impairing our ability to make distributions to unitholders.

As of June 30, 2005, on a pro forma basis after giving effect to the common units offered hereby, the Stagecoach Acquisition and the Special Unit Purchase, we would have had approximately \$573.0 million of total outstanding indebtedness, including approximately \$137.3 million of secured indebtedness under our credit facility and approximately \$435.7 million of other indebtedness. Please see Capitalization. Our leverage, various limitations in our credit facility, other restrictions governing our indebtedness and the indenture governing the notes may reduce our ability to incur additional indebtedness, to engage in some transactions and to capitalize on acquisition or other business opportunities.

Our indebtedness and other financial obligations could have important consequences to you. For example, they could:

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reduce our ability to make distributions on our units;

impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general partnership purposes or other purposes;

result in higher interest expense in the event of increases in interest rates since some of our debt is, and will continue to be, at variable rates of interest;

have a material adverse effect on us if we fail to comply with financial and restrictive covenants in our debt agreements and an event of default occurs as a result of that failure that is not cured or waived;

S-12

Table of Contents

require us to dedicate a substantial portion of our cash flow to payments of our indebtedness and other financial obligations, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general partnership requirements;

limit our flexibility in planning for, or reacting to, changes in our business and the propane industry; and

place us at a competitive disadvantage compared to our competitors that have proportionately less debt.

If we are unable to meet our debt service obligations and other financial obligations, we could be forced to restructure or refinance our indebtedness and other financial transactions, seek additional equity capital or sell our assets. We may then be unable to obtain such financing or capital or sell our assets on satisfactory terms, if at all.

Restrictive covenants in the agreements governing our indebtedness may reduce our operating flexibility.

The agreements governing our credit facility, the indenture governing both the outstanding and exchange notes and other future indebtedness contain or will contain various covenants limiting our ability and the ability of specified subsidiaries of ours to, among other things:

pay distributions on, redeem or repurchase our equity interests or redeem or repurchase our subordinated debt;

make investments;

incur or guarantee additional indebtedness or issue preferred securities;

create or incur certain liens;

enter into agreements that restrict distributions or other payments from our restricted subsidiaries to us;

consolidate, merge or transfer all or substantially all of our assets;

engage in transactions with affiliates;

create unrestricted subsidiaries;

create non-guarantor subsidiaries;

enter into sale and leaseback transactions; and

engage in any material business other than a permitted business.

These restrictions could limit our ability and the ability of our subsidiaries to obtain future financings, make needed capital expenditures, withstand a future downturn in our business or the economy in general, conduct operations or otherwise take advantage of business opportunities that may arise. Our credit facility contains covenants requiring us to maintain specified financial ratios and satisfy other financial conditions. We may be unable to meet those ratios and conditions. Any future breach of these covenants and our failure to meet any of those ratios and conditions could result in a default under the terms of our credit facility, which could result in the acceleration of our debt and other financial obligations. If we were unable to repay these amounts, the lenders could initiate a bankruptcy proceeding or liquidation proceeding or proceed against the collateral.

The highly competitive nature of the retail propane business could cause us to lose customers or affect our ability to acquire new customers, thereby reducing our revenues and our ability to make distributions to unitholders.

We have competitors and potential competitors who are larger and have substantially greater financial resources than we do, which may provide them with some advantages. Also, because of relatively low barriers to entry into the retail propane business, numerous small retail propane distributors, as well as companies not engaged in retail propane distribution, may enter our markets and compete with us. Most of our propane retail

Table of Contents

branch locations compete with several marketers or distributors. The principal factors influencing competition with other retail marketers are:

price,

reliability and quality of service,

responsiveness to customer needs,

safety concerns,

long-standing customer relationships,

the inconvenience of switching tanks and suppliers, and

lack of growth in the industry.

We can make no assurances that we will be able to compete successfully on the basis of these factors. If a competitor attempts to increase market share by reducing prices, we may lose customers, which would reduce our revenues.

If we are not able to purchase propane from our principal suppliers, our results of operations would be adversely affected.

Most of our total volume purchases are made under supply contracts that have a term of one year, are subject to annual renewal, and provide various pricing formulas. Three of our suppliers, Sunoco, Inc. (18%), Dominion Transmission Inc. (12%) and ExxonMobil Oil Corp. (11%), accounted for approximately 41% of propane purchases during the fiscal year ended September 30, 2004. Similarly, Star Gas Propane purchases a significant amount of its propane from certain suppliers, several of whom are also suppliers to us. In the event that we are unable to purchase propane from our significant suppliers, our failure to obtain alternate sources of supply at competitive prices and on a timely basis would hurt our ability to satisfy customer demand, reduce our revenues and adversely affect our results of operations. The interruption in the production of refined petroleum products in the Gulf Coast region caused by Hurricane Katrina could limit the supply of propane and increase the costs of propane. We are currently unable to fully assess the longer term effects of the hurricane on the propane market.

Competition from alternative energy sources may cause us to lose customers, thereby reducing our revenues and our ability to make distributions to unitholders.

Competition from alternative energy sources, including natural gas and electricity, has been increasing as a result of reduced regulation of many utilities, including natural gas and electricity. Propane is generally not competitive with natural gas in areas where natural gas pipelines already exist because natural gas is a less expensive source of energy than propane. The gradual expansion of natural gas distribution systems and availability of natural gas in many areas that previously depended upon propane could cause us to lose customers, thereby reducing our

revenues.

Our business would be adversely affected if service at our principal storage facilities or on the common carrier pipelines we use is interrupted.

Historically, a substantial portion of the propane we purchase to support our operations has originated at Conway, Kansas, Hattiesburg, Mississippi and Mont Belvieu, Texas and is shipped to us through major common carrier pipelines. Any significant interruption in the service at these storage facilities or on the common carrier pipelines we use would adversely affect our ability to obtain propane.

If we are not able to sell propane that we have purchased through wholesale supply agreements to either our own retail propane customers or to other retailers and wholesalers, the results of our operations would be adversely affected.

We currently are party to propane supply contracts and expect to enter into additional propane supply contracts which require us to purchase substantially all the propane production from certain refineries. Our

S-14

Table of Contents

inability to sell the propane supply in our own propane distribution business, to other retail propane distributors, or to other propane wholesalers would have a substantial adverse impact on our operating results and could adversely impact our capital liquidity.

We are subject to operating and litigation risks that could adversely affect our operating results to the extent not covered by insurance.

Our operations are subject to all operating hazards and risks incident to handling, storing, transporting and providing customers with natural gas, propane, and other combustible material gas liquids and gases. As a result, we have been, and likely will be, a defendant in legal proceedings and litigation arising in the ordinary course of business. We maintain insurance policies with insurers in such amounts and with such coverages and deductibles as we believe are reasonable and prudent. However, our insurance may not be adequate to protect us from all material expenses related to potential future claims for personal injury and property damage. In addition, the occurrence of a serious accident, whether or not we are involved, may have an adverse effect on the public's desire to use our products.

Our operations are subject to compliance with environmental laws and regulations that can adversely affect our results of operations and financial condition.

Our operations are subject to the environmental laws and regulations of federal, state, and local authorities. Such environmental laws and regulations impose restrictions on the generation, handling, treatment, storage, disposal, and transportation of certain materials and wastes. Failure to comply with such environmental laws and regulations can result in the assessment of substantial administrative, civil, and criminal penalties and even the issuance of injunctions restricting or prohibiting our activities. Certain environmental laws impose strict, joint and several liability for costs required to clean up and restore sites where hazardous substances have been disposed or otherwise released. Many of the properties owned or leased by us were previously operated by third parties whose management, disposal, or release of materials and wastes was not under our control. Accordingly, we may be liable for the costs of cleaning up or remediating contamination caused by releases of hazardous substances at properties that we own or operate or will own or operate or at properties to which hazardous substances were transported from these properties. It is also possible that implementation of stricter environmental laws and regulations in the future could result in additional costs or liabilities to us as well as the industry in general.

Energy efficiency and new technology may reduce the demand for propane and adversely affect our operating results.

Increased conservation and technological advances, including installation of improved insulation and the development of more efficient furnaces and other heating devices, have adversely affected the demand for propane by retail customers. Future conservation measures or technological advances in heating, conservation, energy generation or other devices might reduce demand for propane and adversely affect our operating results.

Due to our lack of asset diversification, adverse developments in our propane business would adversely affect our operating results.

Despite our recent acquisition of the membership interests of the entities that own the Stagecoach natural gas storage facility, we currently rely almost exclusively on the revenues generated from our propane business. Due to our lack of asset diversification, an adverse development in this business would have a significantly greater impact on our financial condition and results of operations than if we maintained more diverse assets.

Table of Contents

Federal, state or local regulatory measures could adversely affect our business.

Our operations are subject to federal, state and local regulatory authorities. Specifically, our recently acquired Stagecoach natural gas storage facility and related assets are subject to the regulation of the Federal Energy Regulatory Commission, or FERC. This federal and state regulation extends to such matters as:

rate structures;