

Energy Transfer Partners, L.P.
Form 424B5
May 10, 2011

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CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Offered | Maximum Aggregate Offering Price | Amount of Registration Fee(1) |
|--|---|--|
| 4.65% Senior Notes due 2021 | \$800,000,000 | \$92,880 |
| 6.05% Senior Notes due 2041 | \$700,000,000 | \$81,270 |
| Total | \$1,500,000,000 | \$174,150 |

(1) Calculated in accordance with Rule 457(r) of the Securities Act of 1933, as amended.

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-171697

PROSPECTUS SUPPLEMENT
(To Prospectus dated January 13, 2011)

\$1,500,000,000

Energy Transfer Partners, L.P.

4.65% Senior Notes due 2021

6.05% Senior Notes due 2041

We are offering \$800,000,000 aggregate principal amount of our 4.65% Senior Notes due 2021, or the 2021 notes, and \$700,000,000 aggregate principal amount of our 6.05% Senior Notes due 2041, or the 2041 notes. We refer to the 2021 notes and the 2041 notes, collectively, as the notes.

Interest on each of the 2021 notes and the 2041 notes will accrue from May 12, 2011 and will be payable semiannually on June 1 and December 1 of each year, beginning on December 1, 2011. The 2021 notes will mature on June 1, 2021 and the 2041 notes will mature on June 1, 2041.

We may redeem some or all of the notes at our option at any time and from time to time prior to their maturity at the redemption prices set forth in this prospectus supplement, plus accrued and unpaid interest. See the section entitled Description of Notes Optional Redemption.

The notes are our unsecured senior obligations. If we default, your right to payment under the notes will rank equally with the right to payment of the holders of our other current and future unsecured senior debt and senior in right of payment to all of our future subordinated debt. The notes will not initially be guaranteed by our subsidiaries.

None of the Securities and Exchange Commission, any state securities commission or any other U.S. regulatory authority has approved or disapproved of the securities nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this prospectus

supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

Investing in the notes involves risks. See **Risk Factors** beginning on page S-11 of this prospectus supplement and page 4 of the accompanying prospectus and the other risks identified in the documents incorporated by reference herein for information regarding risks you should consider before investing in the notes.

| | Per 2021 Note | Total 2021 Notes | Per 2041 Note | Total 2041 Notes |
|---|--------------------------|-----------------------------|--------------------------|-----------------------------|
| Price to Public(1) | 99.679% | \$ 797,432,000 | 99.747% | \$ 698,229,000 |
| Underwriting Discount | 0.650% | \$ 5,200,000 | 0.875% | \$ 6,125,000 |
| Proceeds to Energy Transfer Partners, L.P. (Before Expenses) | 99.029% | \$ 792,232,000 | 98.872% | \$ 692,104,000 |

(1) Plus accrued interest from May 12, 2011, if settlement occurs after that date.

The underwriters expect to deliver the notes in book-entry form only through The Depository Trust Company on or about May 12, 2011.

Joint Book-Running Managers

RBS

Credit Suisse

SunTrust Robinson Humphrey

BNP PARIBAS

Deutsche Bank Securities

Co-Managers

DnB NOR Markets

RBC Capital Markets

UBS Investment Bank

Mitsubishi UFJ Securities

US Bancorp

The date of this prospectus supplement is May 9, 2011.

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ABOUT THIS PROSPECTUS SUPPLEMENT

We provide information to you about the notes in two separate documents that offer varying levels of detail:

the accompanying prospectus, which provides general information, some of which may not apply to the notes;
and

this prospectus supplement, which provides a summary of the specific terms of the notes.

Generally, when we refer to this prospectus, we are referring to both documents combined.

You should rely only on the information contained in this prospectus supplement, the accompanying prospectus, any free writing prospectus prepared by us or on our behalf and the documents we have incorporated by reference. We have not authorized anyone else to give you different information. We are not offering the notes in any state where the offer is not permitted. You should not assume that the information in this prospectus supplement or in the accompanying prospectus is accurate as of any date other than the date on the front of those documents. If the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement. You should not assume that any information contained in the documents incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the respective dates of those documents. Our business, financial condition, results of operations and prospects may have changed since those dates.

None of Energy Transfer Partners, L.P., the underwriters or any of their respective representatives is making any representation to you regarding the legality of an investment in the notes by you under applicable laws. You should consult with your own advisors as to the legal, tax, business, financial and related aspects of an investment in the notes.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information included or incorporated by reference in this prospectus supplement. It does not contain all of the information that you should consider before making an investment decision. You should read carefully the entire prospectus supplement, the accompanying prospectus, the documents incorporated by reference and the other documents to which we refer herein for a more complete understanding of this offering.

Unless the context otherwise requires, references to Energy Transfer, ETP, we, us, our and similar terms, as well as references to the Partnership refer to Energy Transfer Partners, L.P. and all of its operating limited partnerships and subsidiaries. With respect to the cover page and in the sections entitled Prospectus Supplement Summary The Offering, Description of Notes and Underwriting, we, our and us refer only to Energy Transfer Partners, L.P. and to any of its operating limited partnerships or subsidiaries.

Energy Transfer Partners, L.P.

Overview

We are a publicly traded limited partnership that owns and operates a diversified portfolio of energy assets. Our natural gas operations include intrastate natural gas gathering and transportation pipelines, two interstate pipelines, natural gas gathering, processing and treating assets located in Texas, New Mexico, Arizona, Louisiana, Arkansas, Mississippi, West Virginia, Colorado and Utah, and three natural gas storage facilities located in Texas. These assets include more than 17,500 miles of pipeline in service and a 50% interest in a joint venture that has approximately 185 miles of interstate pipeline in service. Our intrastate and interstate pipeline systems transport natural gas from several significant natural gas producing areas, including the Barnett Shale in the Fort Worth Basin in north Texas, the Bossier Sands in east Texas, the Permian Basin in west Texas and New Mexico, the Eagle Ford Shale in south and central Texas, the San Juan Basin in New Mexico, the Fayetteville Shale in Arkansas, and the Haynesville Shale in north Louisiana. Our gathering and processing operations are conducted in many of these same producing areas as well as in the Piceance and Uinta Basins in Colorado and Utah. We also hold a 70% interest in a joint venture that owns and operates natural gas liquids storage, fractionation and transportation assets in Texas, Louisiana and Mississippi. We are also one of the three largest retail marketers of propane in the United States, serving more than one million customers across the country.

We have experienced substantial growth over the last several years through a combination of internal growth projects and strategic acquisitions. Our internal growth projects consist primarily of the construction of both intrastate and interstate natural gas transmission pipelines. From September 1, 2003 through March 31, 2011, our growth capital expenditures, excluding capital contributions made in connection with the Midcontinent Express Pipeline and Fayetteville Express Pipeline joint ventures, were approximately \$6.5 billion, approximately \$5.1 billion of which was related to natural gas transmission pipelines. We expect to make growth capital expenditures of \$775 million to \$865 million for the remainder of 2011. These amounts do not include capital contributions that we may make to the Fayetteville Express Pipeline joint venture or the joint venture we formed with Regency Energy Partners LP, or Regency, to acquire the interests in LDH Energy Asset Holdings LLC as described below under Recent Developments. We have increased our cash flow from operating activities from \$162.7 million for the twelve months ended August 31, 2004 to \$1.2 billion for the year ended December 31, 2010 primarily as a result of these internal growth projects and acquisitions. We have also increased our cash distributions from \$0.325 per common unit for the quarter ended November 30, 2003 (\$1.30 per common unit on an annualized basis) to \$0.89375 per common unit for the quarter ended March 31, 2011 (\$3.575 per common unit on an annualized basis), an increase of 175%.

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Our Business

Intrastate Transportation and Storage Operations

We own and operate approximately 7,700 miles of intrastate natural gas transportation pipelines and three natural gas storage facilities. We own the largest intrastate pipeline system in the United States. Our intrastate pipeline system interconnects to many major consumption areas in the United States. Our intrastate transportation and storage segment focuses on the transportation of natural gas from various natural gas producing areas to major natural gas consuming markets through connections with other pipeline systems. Our intrastate natural gas pipeline system has an aggregate throughput capacity of approximately 14.3 billion cubic feet per day, or Bcf/d, of natural gas. For the year ended December 31, 2010, we transported an average of 12.3 Bcf/d of natural gas through our intrastate natural gas pipeline system. We also provide natural gas storage services for third parties for which we charge storage fees as well as injection and withdrawal fees from the use of our three natural gas storage facilities. Our storage facilities have an aggregate working gas capacity of approximately 74.4 Bcf. In addition to our natural gas storage services, we utilize our Bammel gas storage facility to engage in natural gas storage transactions in which we seek to find and profit from pricing differences that occur over time. These transactions typically involve a purchase of physical natural gas that is injected into our storage facilities and a related sale of natural gas pursuant to financial futures contracts at a price sufficient to cover our natural gas purchase price and related carrying costs and provide for a gross profit margin.

Our intrastate transportation and storage operations accounted for approximately 49% and 56% of our total consolidated operating income for the years ended December 31, 2010 and December 31, 2009, respectively.

Based primarily on the increased drilling activities and increased natural gas production in the Barnett Shale in north Texas, the Bossier Sands in east Texas and the Eagle Ford Shale in south Texas, we have pursued a significant expansion of our natural gas pipeline system in order to provide greater transportation capacity from these natural gas supply areas to markets for natural gas. This expansion initiative, which has resulted in the completion of approximately 1,000 miles of large diameter pipeline ranging from 20 inches to 42 inches with approximately 9.7 Bcf/d of natural gas transportation capacity, includes the following pipeline projects:

In April 2008, we completed our approximately 150-mile Southeast Bossier 42-inch natural gas pipeline, which we refer to as the Southeast Bossier pipeline. This pipeline connects our Cleburne to Carthage pipeline and our East Texas pipeline to our Texoma pipeline. The Southeast Bossier pipeline has an initial throughput capacity of 900 million cubic feet per day, or MMcf/d, that can be increased to 1.3 Bcf/d with the addition of compression. The Southeast Bossier pipeline increases our takeaway capacity from the Barnett Shale and Bossier Sands and provides increased market access for natural gas produced in these areas.

In July 2008, we completed our 36-inch Paris Loop natural gas pipeline expansion project in north Texas. This 135-mile pipeline initially provided us with an additional 400 MMcf/d of capacity out of the Barnett Shale, which increased to 900 MMcf/d in May 2009. The Paris Loop originates near Eagle Mountain Lake in northwest Tarrant County, Texas and connects to our Houston Pipe Line system near Paris, Texas.

In August 2008, we completed an expansion of our Cleburne to Carthage pipeline from the Texoma pipeline interconnect to the Carthage Hub through the installation of 32 miles of 42-inch pipeline. This expansion, which we refer to as the Carthage Loop, added 500 MMcf/d of pipeline capacity from Cleburne to the Carthage Hub. In September 2009, we increased the capacity of the Carthage Loop to 1.1 Bcf/d by adding compression to this pipeline.

In August 2008, we completed the first segment of our 36-inch Maypearl to Malone natural gas pipeline expansion project. This 25-mile pipeline extends from Maypearl, Texas to Malone, Texas, and provides an

additional 600 MMcf/d of capacity out of the Fort Worth Basin.

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In January 2009, we completed our Southern Shale natural gas pipeline project, which consists of 31 miles of 36-inch pipeline that originates in southern Tarrant County, Texas and delivers natural gas to our Maypearl to Malone pipeline expansion project. The Southern Shale pipeline provides an additional 700 MMcf/d of takeaway capacity from the Barnett Shale.

In January 2009, we completed our 36-inch Cleburne to Tolar natural gas pipeline expansion project. This 20-mile pipeline extends from Cleburne, Texas to Tolar, Texas and provides an additional 400 MMcf/d of takeaway capacity from the Barnett Shale.

In February 2009, we completed our 56-mile Katy Expansion pipeline project. This 36-inch expansion project increased the capacity of our existing ETC Katy natural gas pipeline in southeast Texas by more than 400 MMcf/d.

In August 2009, we completed our Texas Independence Pipeline, which consists of 143 miles of 42-inch pipeline originating near Maypearl, Texas and ending near Henderson, Texas. This pipeline connects our ET Fuel System and North Texas System with our East Texas pipeline. The Texas Independence Pipeline expands our ET Fuel System's throughput capacity by an incremental 1.1 Bcf/d and, with the addition of compression, the capacity may be expanded to 1.75 Bcf/d.

In December 2010, we completed a 63-mile natural gas pipeline that originates in Shelby County, Texas, and terminates in Nacogdoches County, Texas. This pipeline, which we refer to as the Lumberjack Pipeline, was placed into partial service in August 2010, and full service began in December 2010. This project consists of 20- and 24-inch pipe and has an initial capacity of 645 MMcf/d. The pipeline interconnects with two interstate pipelines in addition to our Houston Pipe Line system.

In December 2010, we completed a 50-mile, 24-inch pipeline that originates in northwest Webb County, Texas and extends to our Houston Pipe Line system in eastern Webb County, Texas. The project, which we refer to as the Dos Hermanas Pipeline, has a capacity of approximately 400 MMcf/d. As part of the project, approximately 6,000 horsepower of compression will be added to the Houston Pipe Line system.

These pipeline projects are supported by principally fee-based contracts for periods ranging from five to 15 years.

Interstate Transportation Operations

We own and operate the Transwestern pipeline, an open-access natural gas interstate pipeline extending from the gas producing regions of west Texas, eastern and northwest New Mexico, and southern Colorado primarily to pipeline interconnects off the east end of its system and to pipeline interconnects at the California border. Including the recently completed projects described below, Transwestern comprises approximately 2,700 miles of pipeline with a capacity of 2.1 Bcf/d. The Transwestern pipeline has access to three significant gas basins: the Permian Basin in west Texas and eastern New Mexico, the San Juan Basin in northwest New Mexico and southern Colorado, and the Anadarko Basin in the Texas and Oklahoma panhandle. Natural gas sources from the San Juan Basin and surrounding producing areas can be delivered eastward to Texas intrastate and mid-continent connecting pipelines and natural gas market hubs as well as westward to markets like Arizona, Nevada and California. Transwestern's customers include local distribution companies, producers, marketers, electric power generators and industrial end-users.

During 2007, we initiated the Phoenix project, consisting of 260 miles of 42-inch and 36-inch pipeline lateral, with a throughput capacity of 500 MMcf/d, connecting the Phoenix area to Transwestern's existing mainline at Ash Fork, Arizona. The Phoenix lateral pipeline was completed in February 2009.

During the third quarter of 2008, we completed the San Juan Loop pipeline, a 26-mile loop that provides an additional 375 MMcf/d of capacity to Transwestern's existing San Juan lateral. This expansion project supports the Phoenix project by providing additional throughput capacity from the San Juan Basin natural gas producing area to Transwestern's primary transmission pipeline to supply natural gas for the Phoenix lateral pipeline.

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In October 2008, we entered into a 50/50 joint venture with Kinder Morgan Energy Partners, L.P., or KMP, for the development of the Fayetteville Express Pipeline, an approximately 185-mile 42-inch pipeline that originates in Conway County, Arkansas, continues eastward through White County, Arkansas and terminates at an interconnect with Trunkline Gas Company in Quitman County, Mississippi. The pipeline, which has an initial capacity of 2.0 Bcf/d, was placed in service in December 2010. The pipeline interconnects with pipelines of Natural Gas Pipeline Company of America, or NGPL, in White County, Arkansas, Texas Gas Transmission in Coahoma County, Mississippi, and ANR Pipeline Company in Quitman County, Mississippi. NGPL is operated and partially owned by Kinder Morgan, Inc., which owns the general partner of KMP. Fayetteville Express Pipeline, LLC, or FEP, the entity formed to own and operate the pipeline, has secured binding 10-year commitments for transportation of gas volumes with energy equivalents totaling 1.8 Bcf/d.

In January 2009, we announced that we had entered into an agreement with a wholly-owned subsidiary of Chesapeake Energy Corporation, or Chesapeake, to construct an approximately 175-mile 42-inch interstate natural gas pipeline, which we refer to as the Tiger Pipeline. The pipeline connects to our dual 42-inch pipeline system near Carthage, Texas, extends through the heart of the Haynesville Shale and ends near Delhi, Louisiana, with interconnects to at least seven interstate pipelines at various points in Louisiana. The Tiger Pipeline has an initial throughput capacity of 2.0 Bcf/d, which capacity may be increased up to 2.4 Bcf/d with added compression. The agreement with Chesapeake provides for a 15-year commitment for firm transportation capacity of approximately 1.0 Bcf/d. We have also entered into agreements with EnCana Marketing (USA), Inc., a subsidiary of EnCana Corporation, and other shippers that provide for 10-year commitments for firm transportation capacity on the Tiger Pipeline equal to the full initial design capacity of 2.0 Bcf/d in the aggregate. In April 2010, the FERC approved our application for authority to construct and operate the pipeline, and construction began on this project in June 2010. The Tiger Pipeline was placed in service in December 2010. Additionally, in February 2010, we announced that we had entered into a 10-year commitment for an additional 400 MMcf/d of capacity, bringing the pipeline's long-term contractual commitments to 2.4 Bcf/d. In February 2011, the FERC approved our application for authority to construct and operate an expansion of the Tiger Pipeline to add 400 MMcf/d of capacity. This expansion is expected to be completed in the second half of 2011.

Our interstate pipeline segment formerly included our 50% interest in Midcontinent Express Pipeline, LLC, or MEP, a 50/50 joint venture with KMP that owns the Midcontinent Express Pipeline. The Midcontinent Express Pipeline is an approximately 500-mile interstate natural gas pipeline that originates near Bennington, Oklahoma, routes through Perryville, Louisiana, and terminates at an interconnect with Transcontinental Gas Pipe Line Corporation's interstate natural gas pipeline in Butler, Alabama. The first zone of the pipeline was placed in service in April 2009 and the second zone of the pipeline was placed in service in August 2009. On May 26, 2010, we transferred to ETE, in exchange for ETP common units owned by ETE, substantially all of our interest in MEP. ETE, in turn, contributed the MEP interest to Regency in exchange for 26.3 million Regency common units. We currently hold a 0.1% interest in MEP.

Our interstate transportation segment accounted for approximately 13% and 12% of our total consolidated operating income for the years ended December 31, 2010 and December 31, 2009, respectively.

Midstream Operations

We own and operate approximately 7,000 miles of in-service natural gas gathering pipelines, three natural gas processing plants, 17 natural gas treating facilities, and ten natural gas conditioning facilities. Our midstream segment focuses on the gathering, compression, treating, blending, processing and marketing of natural gas, and our operations are currently concentrated in major producing basins, including the Barnett Shale in north Texas, the Bossier Sands in east Texas, the Austin Chalk trend and Eagle Ford Shale in south and southeast Texas, the Permian Basin in west Texas, the Piceance and Uinta Basins in Colorado and Utah and the Haynesville Shale in north Louisiana. Many of our midstream assets are integrated with our intrastate transportation and storage assets. Our recent midstream

initiatives in the Eagle Ford Shale include the following projects:

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In October 2010, we announced plans to construct the Chisholm Pipeline, the initial phase of which will consist of approximately 83 miles of 20-inch pipeline, extending from DeWitt County, Texas to our LaGrange Processing Plant in Fayette County, Texas. The Chisholm Pipeline will have an initial capacity of 100 MMcf/d, with an anticipated capacity expansion exceeding 300 MMcf/d. The project will utilize existing processing capacity at our LaGrange Plant. After processing, the residue volumes will be transported on our Oasis Gas Pipeline system. We expect the initial phase of this pipeline to be in service by the second quarter of 2011.

In February 2011, we announced that we had entered into multiple long-term agreements with shippers to provide additional transportation services from the Eagle Ford Shale located in south Texas. To facilitate these agreements, we will construct a natural gas pipeline, which we refer to as the Rich Eagle Ford Mainline pipeline, or REM pipeline, a 120 MMcf/d processing plant and additional facilities. The 160-mile, 30-inch pipeline will have an initial capacity of 400 MMcf/d, with the ability to expand capacity to 800 MMcf/d. This rich gas gathering system, which we expect to be in service by the fourth quarter of 2011, will originate in Dimmitt County, Texas and extend to our soon to be completed Chisholm Pipeline for ultimate deliveries to our existing processing plants and to our new processing plant. In April 2011, we announced that we had entered into long-term fee-based agreements with multiple producers to provide natural gas gathering, processing and liquids services from the Eagle Ford Shale. To facilitate these agreements, we will expand the REM pipeline and construct a new processing facility in Jackson County, Texas. Please see [Recent Developments](#) [Expansion of Eagle Ford Shale Projects](#) below.

Our midstream segment accounted for approximately 21% and 12% of our total consolidated operating income for the years ended December 31, 2010 and December 31, 2009, respectively.

Retail Propane Operations

We are one of the three largest retail propane marketers in the United States, serving more than one million customers across the country. Our propane operations extend from coast to coast with concentrations in the western, upper midwestern, northeastern and southeastern regions of the United States. Our propane business has grown primarily through acquisitions of retail propane operations and, to a lesser extent, through internal growth.

Our retail propane operations accounted for approximately 17% and 20% of our total consolidated operating income for the years ended December 31, 2010 and December 31, 2009, respectively. The retail propane segment is a margin-based business in which gross profits depend on the excess of sales price over propane supply cost. The market price of propane is often subject to volatile changes as a result of supply or other market conditions over which we have no control.

Our propane business is largely seasonal and dependent upon weather conditions in our service areas. Historically, approximately two-thirds of our retail propane volume and substantially all of our propane-related operating income are attributable to sales during the six-month peak-heating season of October through March. This generally results in higher operating revenues and net income in the propane segment during the period from October through March of each year, and lower operating revenues and either net losses or lower net income during the period from April through September of each year. Cash flow from operations is generally greatest during the period from December to May of each year when customers pay for propane purchased during the six-month peak-heating season. Sales to commercial and industrial customers are much less weather sensitive.

Business Strategy

Our business strategy is to increase unitholder distributions and the value of our common units. We believe we have engaged, and will continue to engage, in a well-balanced plan for growth through strategic acquisitions, internally

generated expansion, and measures aimed at increasing the profitability of our existing assets.

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We intend to continue to operate as a diversified, growth-oriented master limited partnership with a focus on increasing the amount of cash available for distribution on each common unit. We believe that by pursuing independent operating and growth strategies for our natural gas operations and retail propane business, we will be best positioned to achieve our objectives.

We expect that acquisitions in natural gas operations will be the primary focus of our acquisition strategy going forward, although we also expect to continue to pursue complementary propane acquisitions. We also anticipate that our natural gas operations will provide internal growth projects of greater scale compared to those available in our propane business as demonstrated by our significant number of completed natural gas pipeline projects as well as our recently announced pipeline projects.

We believe that we are well-positioned to compete in all of the natural gas, NGL and retail propane industries in which we operate, based on the following strengths:

We believe that the size and scope of our operations, our stable asset base and cash flow profile, and our investment grade status will be significant positive factors in our efforts to obtain new debt or equity financing in light of current market conditions.

Our experienced management team has an established reputation as highly-effective, strategic operators within our operating segments. In addition, our management team is motivated to effectively and efficiently manage our business operations through performance-based incentive compensation programs and through ownership of a substantial equity position in Energy Transfer Equity, L.P., the entity that indirectly owns our general partner and therefore benefits from incentive distribution payments we make to our general partner.

Natural Gas Operations Business Strategies

Enhance profitability of existing assets. We intend to increase the profitability of our existing asset base by adding new volumes of natural gas under long-term producer commitments, undertaking additional initiatives to enhance utilization and reducing costs by improving operations.

Engage in construction and expansion opportunities. We intend to leverage our existing infrastructure and customer relationships by constructing and expanding systems to meet new or increased demand for midstream and transportation services.

Increase cash flow from fee-based businesses. We intend to seek to increase the percentage of our midstream business conducted with third parties under fee-based arrangements in order to reduce our exposure to changes in the prices of natural gas and natural gas liquids.

Growth through acquisitions. We intend to continue to make strategic acquisitions of midstream, transportation and storage assets in our current areas of operation that offer the opportunity for operational efficiencies and the potential for increased utilization and expansion of our existing and acquired assets.

Propane Business Strategies

Pursue internal growth opportunities. In addition to pursuing expansion through acquisitions, we have aggressively focused on high return internal growth opportunities at our existing customer service locations. We believe that by concentrating our operations in areas experiencing higher-than-average population growth, we are well positioned to achieve internal growth by adding new customers.

Growth through complementary acquisitions. We believe that our position as one of the three largest propane marketers in the United States provides us a solid foundation to continue our acquisition growth strategy through consolidation.

Maintain low-cost, decentralized operations. We focus on controlling costs, and we attribute our low overhead costs primarily to our decentralized structure.

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Recent Developments

Acquisition of LDH Energy Asset Holdings LLC

On March 22, 2011, we and Regency announced that ETP-Regency Midstream Holdings, LLC, or ETP-Regency LLC, a joint venture owned 70% by us and 30% by Regency, had entered into a purchase agreement with Louis Dreyfus Highbridge Energy LLC, pursuant to which ETP-Regency LLC agreed to acquire all of the membership interests in LDH Energy Asset Holdings LLC for \$1.97 billion in cash. This transaction, which we refer to as the LDH Acquisition, was completed on May 2, 2011. Following the closing of the LDH Acquisition, ETP-Regency LLC was renamed Lone Star NGL LLC, or Lone Star. We and Regency have each made an initial capital contribution to Lone Star in proportion to our respective equity interests to fund the purchase price for the LDH Acquisition. Lone Star will be managed by a two-person board of directors, with us and Regency each having the right to appoint one director. We intend to use the net proceeds of this offering to repay borrowings outstanding under our revolving credit facility, which facility was utilized to fund our pro rata share of the purchase price of LDH, approximately \$1.38 billion, at closing. Please see [Use of Proceeds](#) below.

Lone Star owns and operates a diverse set of midstream energy assets that represent critical infrastructure connecting high-growth production areas to end-markets. The Lone Star assets include NGL and refined products storage facilities located in Mont Belvieu, Texas and Hattiesburg, Mississippi; a 12-inch long-haul intrastate NGL pipeline, which we refer to as the West Texas Pipeline, originating in the Permian Basin in west Texas, passing through the Barnett Shale production area and terminating at Mont Belvieu; NGL fractionation and natural gas processing facilities near Baton Rouge and New Orleans, Louisiana; and a 20% equity interest in the Sea Robin wet gas processing plant near Henry Hub, Louisiana. The Mont Belvieu storage facility has approximately 43 million barrels, or MMBbbls, of capacity in 24 underground salt dome caverns, and 10 brine ponds with combined capacity of approximately 23 MMBbbls. The Hattiesburg facility has 3.9 MMBbbls of usable capacity in three salt dome caverns, with 9.6 MMBbbls of total cavern capacity, and two brine ponds with combined capacity of over 75 thousand barrels, or MBbbls. The intrastate pipeline assets include the 1,066-mile West Texas Pipeline with 144 MBbbls per day, or MBPD, of capacity, 12 pump stations providing 21,500 horsepower of compression, and over 20 injection points. The NGL fractionation and processing facilities consist of one fractionation unit with 25 MBPD of capacity, two cryogenic processing plants with combined capacity of 82 MMcf/d, and an 85-mile gathering system. The Sea Robin wet gas processing plant has 850 MMcf/d of natural gas capacity and 26 MBPD of NGL capacity.

On May 5, 2011, we announced that Lone Star will construct 100 MBPD NGL fractionation facility at Mont Belvieu. We will utilize a substantial amount of this fractionation capacity to handle NGL barrels we will deliver from the new processing facility we plan to build in Jackson County, Texas, a facility supported by multiple 10-year contracts with producers as part of our Eagle Ford Shale projects. See [Expansion of Eagle Ford Shale Projects](#) below. Additionally, Regency plans to provide NGL barrels to this facility for fractionation. As part of this project, Lone Star will also develop additional storage facilities for NGLs and other liquids. The project will also include interconnectivity infrastructure to provide NGL suppliers with significant access to storage, other fractionators, pipelines and multiple markets along the Texas and Louisiana Gulf Coast.

Common Unit Offering

On April 1, 2011, we completed a public offering of 14,202,500 common units, which included 1,852,500 common units issued pursuant to the exercise of the underwriters' overallotment option. We used the net proceeds of approximately \$695.0 million to repay amounts outstanding under our revolving credit facility, to fund capital expenditures related to pipeline construction projects and for general partnership purposes.

Expansion of Eagle Ford Shale Projects

On April 21, 2011, we announced that we had entered into long-term fee-based agreements with multiple producers, including Rosetta Resources Operating LP, SM Energy Company, and a subsidiary of Anadarko

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Petroleum Corporation, to provide natural gas gathering, processing, and liquids services from the Eagle Ford Shale. To facilitate these agreements, which include volume commitments in excess of 540,000 MMBtu per day of natural gas, we will expand the previously announced REM pipeline in south Texas and will construct a new processing facility in Jackson County, Texas. The REM pipeline expansion, which will extend from our Chisholm Pipeline in DeWitt County east into Jackson County, Texas, will add approximately 70 miles of 36- or 42-inch pipe to the initial 160-mile, 30-inch pipeline that was announced in February 2011. When fully constructed, the REM pipeline will consist of approximately 230 miles of large diameter pipe with a capacity of at least 600 MMcf/d. Completion of the initial phase of REM is scheduled for the fourth quarter of 2011 and completion of the REM expansion is scheduled for the first quarter of 2013. The Jackson County gas processing plant will have approximately 600 MMcf/d of capacity and can be expanded to 800 MMcf/d. The plant is scheduled for completion in the first quarter of 2013.

On May 5, 2011, we announced that we are in negotiations with other pipeline operators to secure pipeline capacity that will provide NGL transportation from Jackson County, Texas to Mont Belvieu. In the event we determine that it is more prudent to build a new pipeline rather than secure pipeline capacity through another pipeline operator, we anticipate that we will construct a 130-mile, 20-inch NGL pipeline from the new processing facility we plan to build in Jackson County to Mont Belvieu. This pipeline would provide capacity for NGL barrels from the Eagle Ford Shale or from a potential NGL pipeline from west Texas. The capacity of the proposed 20-inch pipeline is expected to be approximately 340 MBPD.

Crude Oil Pipeline Joint Venture

On April 26, 2011, we announced that we had agreed to form a 50/50 joint venture with Enterprise Products Partners L.P., or Enterprise, to design and construct a crude oil pipeline from Cushing, Oklahoma to Houston, Texas. The project will add approximately 500 MBbls of storage capacity at new facilities to be constructed and owned by the joint venture at Enterprise's new Houston crude oil storage and terminal facility, or the ECHO facility, in southeast Harris County, Texas. Utilizing new and existing pipelines, the 584-mile pipeline will originate at Enterprise's 3.1 MMBbls crude oil storage facility in Cushing. We and Enterprise expect to contribute existing assets to the joint venture, including our 240-mile, 24-inch natural gas pipeline in east Texas, which will comprise approximately 40% of the proposed system. The terminus of the pipeline will be at Enterprise's ECHO facility, which offers access to major Texas Gulf Coast refining centers in Texas City, Pasadena/Deer Park, Baytown and on the Houston Ship Channel. Subject to sufficient commitments from shippers and the required regulatory approvals, the new pipeline is expected to begin service in the fourth quarter of 2012. We and Enterprise will share commercial responsibilities, with an integrated project team responsible for pipeline construction and Enterprise serving as the operator.

Cash Distribution for First Quarter

On April 26, 2011, we declared a cash distribution for the first quarter of 2011 of \$0.89375 per unit, or \$3.575 per unit on an annualized basis. The cash distribution will be paid on May 16, 2011 to unitholders of record as of May 6, 2011.

Our Principal Executive Offices

We are a limited partnership formed under the laws of the State of Delaware. Our executive offices are located at 3738 Oak Lawn Avenue, Dallas, Texas 75219. Our telephone number is (214) 981-0700. We maintain a website at <http://www.energytransfer.com> that provides information about our business and operations. Information contained on this website, however, is not incorporated into or otherwise a part of this prospectus supplement or the accompanying prospectus.

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The Offering

We provide the following summary solely for your convenience. This summary is not a complete description of the notes. You should read the full text of, and more specific details contained elsewhere in, this prospectus supplement and the accompanying prospectus. For a more detailed description of the notes, see the section entitled "Description of Notes" in this prospectus supplement and the section entitled "Description of the Debt Securities" in the accompanying prospectus.

| | |
|------------------------|---|
| Issuer | Energy Transfer Partners, L.P. |
| Notes Offered | We are offering \$1,500,000,000 aggregate principal amount of notes of the following series: \$800,000,000 4.65% Senior Notes due 2021; and \$700,000,000 6.05% Senior Notes due 2041. |
| Maturity | Unless redeemed prior to maturity as described below, the 2021 notes will mature on June 1, 2021 and the 2041 notes will mature on June 1, 2041. |
| Interest Rate | Interest on the 2021 notes will accrue at the per annum rate of 4.65% and interest on the 2041 notes will accrue at the per annum rate of 6.05%. |
| Interest Payment Dates | Interest on each of the 2021 notes and the 2041 notes will accrue from the issue date of the notes and be payable semiannually on June 1 and December 1 of each year, beginning on December 1, 2011. |
| Ranking | The notes will be our unsecured and unsubordinated obligations. The notes will rank equally with all of our other existing and future unsubordinated indebtedness and junior to the indebtedness and other obligations, including trade payables, of our subsidiaries. As of March 31, 2011, the notes would have been effectively subordinated to approximately \$981.8 million of indebtedness of our subsidiaries. See "Description of Notes—Ranking". In addition, FEP, our unconsolidated joint venture with KMP, is a party to a \$1.1 billion senior revolving credit facility. As of March 31, 2011, there were \$962.5 million of outstanding borrowings under the FEP facility. We have guaranteed 50% of the obligations of FEP under this facility. |
| Optional Redemption | We may redeem the notes for cash, in whole or in part at any time and from time to time, at our option at the applicable redemption price set forth under the heading "Description of Notes—Optional Redemption." |
| Certain Covenants | We will issue the notes under a supplement to an indenture with U.S. Bank National Association, as trustee. The covenants in the indenture supplement include a limitation on liens and a restriction on sale-leaseback transactions. Each covenant is subject to a number of important exceptions, limitations and qualifications that are described in "Description of Notes—Certain Covenants." |

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| | |
|-------------------|---|
| Use of Proceeds | <p>We anticipate using the net proceeds of this offering to repay all of the borrowings outstanding under our revolving credit facility, to fund capital expenditures related to pipeline construction projects and for general partnership purposes.</p> <p>See Use of Proceeds.</p> |
| Further Issuances | <p>We may create and issue additional notes ranking equally and ratably with any series of notes offered by this prospectus supplement in all respects, except for the issue price and in some cases, the first interest payment date, so that such additional notes will form a single series with the series of notes offered by this prospectus supplement and will have substantially identical terms as the series of notes offered hereby, including with respect to ranking, redemption and otherwise.</p> |
| Risk Factors | <p>Investing in the notes involves risks. See Risk Factors beginning on page S-11 of this prospectus supplement and the risk factors set forth on page 4 of the accompanying prospectus and on page 26 of our Annual Report on Form 10-K for the year ended December 31, 2010, as well as the other risks identified in the documents incorporated by reference, herein for information regarding risks you should consider before investing in the notes.</p> |

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RISK FACTORS

An investment in the notes involves risks. You should consider carefully the risk factors included below and those set forth beginning on page 4 of the accompanying prospectus and on page 26 of our Annual Report on Form 10-K for the year ended December 31, 2011, together with all of the other information included in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus, when evaluating an investment in the notes.

Risks Related to an Investment in the Notes

We have a holding company structure in which our subsidiaries conduct our operations and own our operating assets.

We are a holding company, and our subsidiaries conduct all of our operations and own all of our operating assets. We do not have significant assets other than the partnership interests and the equity in our subsidiaries. As a result, our ability to make required payments on the notes depends on the performance of our subsidiaries and their ability to distribute funds to us. The ability of our subsidiaries to make distributions to us may be restricted by, among other things, credit facilities and applicable state partnership laws and other laws and regulations. If we are unable to obtain the funds necessary to pay the principal amount at maturity of the notes, we may be required to adopt one or more alternatives, such as a refinancing of the notes. We cannot assure you that we would be able to refinance the notes.

The notes will be effectively subordinated to liabilities and indebtedness of our subsidiaries and subordinated to any of our future secured indebtedness to the extent of the assets securing such indebtedness.

Our subsidiaries own all of our operating assets. However, initially, none of our subsidiaries will guarantee our obligations with respect to the notes. Creditors of our subsidiaries that do not guarantee the notes will have claims, with respect to the assets of those subsidiaries, that rank effectively senior to the notes. In the event of any distribution or payment of assets of such subsidiaries in any dissolution, winding up, liquidation, reorganization or other bankruptcy proceeding, the claims of those creditors must be satisfied prior to making any such distribution or payment to us in respect of our direct or indirect equity interests in such subsidiaries. Accordingly, after satisfaction of the claims of such creditors, there may be little or no amounts left available to make payments in respect of the notes. Also, there are federal and state laws that could invalidate any guarantee of our subsidiary or subsidiaries that guarantee the notes in the future. If that were to occur, the claims of creditors of a guaranteeing subsidiary would also rank effectively senior to the notes, to the extent of the assets of that subsidiary. As of March 31, 2011, the notes would have been effectively subordinated to approximately \$981.8 million of outstanding indebtedness of our subsidiaries. Furthermore, such subsidiaries will not be prohibited under the indenture from incurring additional indebtedness. In addition, FEP, our unconsolidated joint venture with KMP, is a party to a \$1.1 billion senior revolving credit facility. As of March 31, 2011, there were \$962.5 million of outstanding borrowings under the FEP facility.

In addition, holders of any future secured indebtedness of Energy Transfer Partners, L.P. would have claims with respect to the assets constituting collateral for such indebtedness that are prior to the claims of the holders of the notes. Energy Transfer Partners, L.P. (excluding its subsidiaries) does not currently have any secured indebtedness, but may have secured indebtedness in the future. In the event of a default on any secured indebtedness or our bankruptcy, liquidation or reorganization, our assets would be used to satisfy obligations with respect to the indebtedness secured thereby before any payment could be made on the notes. Accordingly, any such secured indebtedness would effectively rank senior to the notes to the extent of the value of the collateral securing the indebtedness. While the

indenture governing the notes will place some limitations on our ability to create liens, there are significant exceptions to these limitations that will allow us to secure certain indebtedness without equally and ratably securing the notes. To the extent the value of the collateral is not sufficient to satisfy the secured indebtedness, the holders of that indebtedness would be entitled to share with the holders of the notes and the holders of other claims against us with respect to our other assets.

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We do not have the same flexibility as other types of organizations to accumulate cash, which may limit cash available to service the notes or to repay them at maturity.

Unlike a corporation, our partnership agreement requires us to distribute, on a quarterly basis, 100% of our available cash to our unitholders of record and our general partner. Available cash is generally all of our cash on hand as of the end of a quarter, adjusted for cash distributions and net changes to reserves. Our general partner will determine the amount and timing of such distributions and has broad discretion to establish and make additions to our reserves or the reserves of our operating subsidiaries in amounts it determines in its reasonable discretion to be necessary or appropriate:

to provide for the proper conduct of our business and the businesses of our operating subsidiaries (including reserves for future capital expenditures and for our anticipated future credit needs);

to provide funds for distributions to our unitholders and our general partner for any one or more of the next four calendar quarters; or

to comply with applicable law or any of our loan or other agreements.

Although our payment obligations to our unitholders are subordinate to our payment obligations to you, the value of our units may decrease with decreases in the amount we distribute per unit. Accordingly, if we experience a liquidity problem in the future, the value of our units may decrease and we may not be able to issue equity to recapitalize.

Your ability to transfer the notes at a time or price you desire may be limited by the absence of an active trading market, which may not develop.

The notes are a new issue of securities for which there is no established public market. Although we have registered the offer and sale of the notes under the Securities Act of 1933, as amended, or the Securities Act, we do not intend to apply for the listing of the notes on any securities exchange or for the quotation of the notes in any automated dealer quotation system. In addition, although the underwriters have informed us that they intend to make a market in the notes, as permitted by applicable laws and regulations, they are not obligated to make a market in the notes, and they may discontinue their market making activities at any time without notice. An active market for the notes may not develop or, if developed, may not continue. In the absence of an active trading market, you may not be able to transfer the notes within the time or at the price you desire.

Table of Contents**USE OF PROCEEDS**

We expect to receive net proceeds of approximately \$1.48 billion from the sale of the notes we are offering, after deducting underwriting discounts and commissions but before deducting other expenses associated with the offering.

We anticipate using the net proceeds of this offering to repay all of the borrowings outstanding under our revolving credit facility, to fund capital expenditures related to pipeline construction projects and for general partnership purposes.

As of May 4, 2011, an aggregate of approximately \$1.30 billion of borrowings were outstanding under our revolving credit facility. In addition, there were \$24.9 million of letters of credit outstanding. The weighted average interest rate on the total amount outstanding at May 4, 2011 was 0.76%. Our revolving credit facility matures on July 20, 2012. We generally use revolving credit loans to fund growth capital expenditures and working capital requirements. A portion of the current indebtedness incurred under our revolving credit facility was used to fund our pro rata share of the purchase price for the LDH Acquisition on May 2, 2011. Please see Prospectus Supplement Summary Recent Developments Acquisition of LDH Energy Asset Holdings LLC .

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our historical consolidated ratio of earnings to fixed charges for the periods indicated therein:

| | Year Ended December 31, 2010 | Three Months Ended March 31, 2011 |
|------------------------------------|---|--|
| Ratio of earnings to fixed charges | 2.31 | 3.24 |

For this ratio earnings is the amount resulting from adding the following items:

pre-tax income from continuing operations, before minority interest and equity in earnings of affiliates;

amortization of capitalized interest;

distributed income of equity investees; and

fixed charges.

The term fixed charges means the sum of the following:

interest expensed;

interest capitalized;

amortized debt issuance costs; and

estimated interest element of rentals.

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The following table sets forth our consolidated cash and cash equivalents and capitalization as of March 31, 2011:

on an actual basis;

on an adjusted basis to give effect to (i) our public offering of 14,202,500 common units in April 2011 and the subsequent repayment of approximately \$553.5 million of borrowings outstanding under our revolving credit facility with a portion of the net proceeds thereof and (ii) the funding of our pro rata share of the purchase price paid by Lone Star in connection with the LDH Acquisition as described above in Prospectus Supplement Summary Recent Developments Acquisition of LDH Energy Asset Holdings LLC, which was funded with borrowings under our revolving credit facility; and

on a pro forma basis to give effect to the public offering of the notes made pursuant to this prospectus supplement as if the offering had occurred on March 31, 2011 and the application of the net proceeds therefrom as set forth under Use of Proceeds.

The actual information in the table is derived from and should be read in conjunction with our historical financial statements, including the accompanying notes, included in our Annual Report on Form 10-K for the year ended December 31, 2010 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, which are incorporated by reference in this prospectus supplement.

| | Actual | March 31, 2011 As Adjusted (in thousands) | Pro Forma |
|--|------------|---|------------|
| Cash and cash equivalents | \$ 60,138 | \$ 60,138 | \$ 304,858 |
| Debt, including current maturities: | | | |
| Debt of Energy Transfer Partners: | | | |
| 5.650% Senior Notes due 2012 | \$ 400,000 | \$ 400,000 | \$ 400,000 |
| 6.000% Senior Notes due 2013 | 350,000 | 350,000 | 350,000 |
| 8.500% Senior Notes due 2014 | 350,000 | 350,000 | 350,000 |
| 5.950% Senior Notes due 2015 | 750,000 | 750,000 | 750,000 |
| 6.125% Senior Notes due 2017 | 400,000 | 400,000 | 400,000 |
| 6.700% Senior Notes due 2018 | 600,000 | 600,000 | 600,000 |
| 9.000% Senior Notes due 2019 | 650,000 | 650,000 | 650,000 |
| 9.700% Senior Notes due 2019 | 600,000 | 600,000 | 600,000 |
| 6.625% Senior Notes due 2036 | 400,000 | 400,000 | 400,000 |
| 7.500% Senior Notes due 2038 | 550,000 | 550,000 | 550,000 |
| ETP revolving credit facility | 553,524 | 1,239,116 | |
| 4.65% Senior Notes due 2021 offered hereby | | | 800,000 |
| 6.05% Senior Notes due 2041 offered hereby | | | 700,000 |
| Unamortized discounts and other | 3,981 | 3,981 | (358) |

Debt of our Subsidiaries:

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| | | | |
|---------------------------|---------------|---------------|---------------|
| HOLP senior secured notes | 103,127 | 103,127 | 103,127 |
| Transwestern senior notes | 870,000 | 870,000 | 870,000 |
| Other long-term debt | 8,719 | 8,719 | 8,719 |
| Total long-term debt | 6,589,351 | 7,274,943 | 7,531,488 |
| Total partners' capital | 4,770,466 | 5,465,462 | 5,465,462 |
| Noncontrolling interest | | 591,681 | 591,681 |
| Total equity | 4,770,466 | 6,057,143 | 6,057,143 |
| Total capitalization | \$ 11,359,817 | \$ 13,332,086 | \$ 13,588,631 |

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As of May 4, 2011, an aggregate of approximately \$1.30 billion of borrowings were outstanding and \$24.9 million of letters of credit were issued under our revolving credit facility.

The table above does not include outstanding indebtedness of FEP, a company in which we and KMP each own a 50% interest. As of May 4, 2011, FEP had \$962.5 million of borrowings outstanding under its \$1.1 billion senior revolving credit facility. We have guaranteed 50% of FEP's obligations under this facility, with the remaining 50% of FEP's obligations guaranteed by KMP.

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DESCRIPTION OF OTHER INDEBTEDNESS

General

Our indebtedness as of March 31, 2011 (not including debt of our subsidiaries) consisted of: \$400.0 million in principal amount of 5.65% Senior Notes due 2012, \$350.0 million in principal amount of 6.00% Senior Notes due 2013, \$350.0 million in principal amount of 8.50% Senior Notes due 2014, \$750.0 million in principal amount of 5.95% Senior Notes due 2015, \$400.0 million in principal amount of 6.125% Senior Notes due 2017, \$600.0 million in principal amount of 6.70% Senior Notes due 2018, \$600.0 million in principal amount of 9.70% Senior Notes due 2019, \$650.0 million in principal amount of 9.00% Senior Notes due 2019, \$400.0 million in principal amount of 6.625% Senior Notes due 2036 and \$550.0 million in principal amount of 7.50% Senior Notes due 2038, which we refer to collectively as our senior notes, as well as a revolving credit facility, which we refer to as the ETP Credit Facility, that allows for borrowings of up to \$2.0 billion (expandable to \$3.0 billion) available through July 20, 2012, unless extended. Our subsidiaries, Heritage Operating L.P., or HOLP, and Transwestern, also have outstanding debt as described below. Failure to comply with the various restrictive and affirmative covenants of the debt agreements could require us, HOLP or Transwestern to repay outstanding debt prior to its maturity and could negatively affect our ability and the ability of our subsidiaries to incur additional debt. We are required to measure certain financial tests and covenants quarterly and, as of March 31, 2011, we were in compliance with all financial requirements, tests, limitations, and covenants related to financial ratios under our existing credit agreements.

ETP Revolving Credit Facility

On July 20, 2007, we entered into a revolving credit facility with Wachovia Bank, National Association, as administrative agent, and Bank of America, N.A., as syndication agent, and certain other agents and lenders. The credit facility provides for \$2.0 billion of revolving credit capacity that is expandable to \$3.0 billion at our option (subject to obtaining the approval of the administrative agent and securing lender commitments for the increased borrowing capacity). The credit facility matures on July 20, 2012, unless we elect the option of one-year extensions (subject to the approval of each such extension by the lenders holding a majority of the aggregate lending commitments under the credit facility). Amounts borrowed under the credit facility bear interest at a rate based on either a Eurodollar rate or a prime rate. The credit facility has a swingline loan option of which borrowings and aggregate principal amounts shall not exceed the lesser of (i) the aggregate commitments (\$2.0 billion unless expanded to \$3.0 billion) less the sum of all outstanding revolving credit loans and the letter of credit obligation and (ii) the swingline commitment. The aggregate amount of swingline loans in any borrowing shall not be subject to a minimum amount or increment. The indebtedness under the credit facility is prepayable at any time at our option without penalty (other than Eurodollar Loan breakage costs, if any). The commitment fee payable on the unused portion of the credit facility varies based on our credit rating, and the fee is 0.11% based on our current rating, with a maximum fee of 0.125%.

The credit agreement relating to the credit facility contains covenants that limit (subject to certain exceptions) our and certain of our subsidiaries ability to, among other things:

incur indebtedness;

grant liens;

enter into mergers;

dispose of assets;

make certain investments;

make distributions during certain defaults and during any event of default;

engage in business substantially different in nature than the business currently conducted by us and our subsidiaries;

engage in transactions with affiliates;

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enter into restrictive agreements; and

enter into speculative hedging contracts.

This credit agreement also contains a financial covenant that provides that on each date we make a distribution, the leverage ratio, as defined in the credit facility, shall not exceed 5.0 to 1, with a permitted increase to 5.5 to 1 during a specified acquisition period, as defined in the credit facility.

As of March 31, 2011, there was a balance of \$553.5 million in revolving credit loans outstanding and \$24.9 million in letters of credit issued. The weighted average interest rate on the total amount outstanding at March 31, 2011 was 0.81%. The total amount available for additional borrowing under the credit facility, as of March 31, 2011, was \$1.42 billion. The indebtedness under the credit facility is unsecured and not guaranteed by any of our subsidiaries. In connection with entering into the credit facility, all guarantees by our subsidiaries, Energy Transfer Company and Titan Energy Partners L.P., and their direct and indirect wholly-owned subsidiaries of the outstanding senior notes were released and discharged. The indebtedness under the credit facility has equal rights to holders of our other current and future unsecured debt. We anticipate using the net proceeds of this offering to repay a portion of amounts outstanding under the credit facility.

ETP Senior Notes

Our senior notes represent our senior unsecured obligations and rank equally with all of our other existing and future unsecured and unsubordinated indebtedness, including the notes offered hereby. The senior notes are not guaranteed by any of our subsidiaries, and therefore, effectively rank junior to all indebtedness and other liabilities of our existing and future subsidiaries. The holders of our 9.70% Senior Notes due 2019 have the right to require us to repurchase all or a portion of the notes on March 15, 2012 at 100% of the principal amount plus any accrued interest as of that date. The senior notes were issued under an indenture containing covenants that restrict our ability to, subject to certain exceptions, incur debt secured by liens, engage in sale and leaseback transactions, merge or consolidate with another entity or sell substantially all of our assets.

HOLP Debt

Our subsidiary HOLP has outstanding several series of notes, which we refer to collectively as the HOLP notes, that are secured by all receivables, contracts, equipment, inventory, general intangibles and cash concentration accounts of HOLP and the equity interests of HOLP in its subsidiaries. As of March 31, 2011, the outstanding principal balance of the HOLP notes was \$103.1 million. The HOLP notes mature at various times through 2016 and bear interest at fixed rates that range from 7.26% to 8.87%. The HOLP notes are subject to make-whole premiums if repaid prior to their stated maturities. The agreements related to the HOLP notes contain customary restrictive covenants applicable to HOLP, including the maintenance of various financial and leverage covenants and limitations on substantial disposition of assets, changes in ownership, the level of additional indebtedness and creation of liens.

Transwestern Debt

As of March 31, 2011, Transwestern had outstanding seven series of unsecured notes, which we refer to collectively as the Transwestern notes, with the following terms:

| Principal Amount | Fixed Interest Rate per Annum | Maturity Date |
|-----------------------------|--|----------------------|
|-----------------------------|--|----------------------|

(in millions)

| | | |
|----------|-------|-------------------|
| \$ 88.0 | 5.39% | November 17, 2014 |
| \$ 125.0 | 5.54% | November 17, 2016 |
| \$ 82.0 | 5.64% | May 24, 2017 |
| \$ 175.0 | 5.36% | December 9, 2020 |
| \$ 150.0 | 5.89% | May 24, 2022 |
| \$ 175.0 | 5.66% | December 9, 2024 |
| \$ 75.0 | 6.16% | May 24, 2037 |

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No principal payments are required with respect to the Transwestern notes (except at maturity); however, Transwestern is required to make an offer to purchase all of the Transwestern notes upon a change of control of Transwestern, as defined in the indentures governing the Transwestern notes. The Transwestern notes are prepayable by Transwestern at any time subject to the payment of specified make-whole premiums. Interest is payable semi-annually on the Transwestern notes. The Transwestern notes rank pari passu with Transwestern's other unsecured debt. The indentures governing the Transwestern notes contain provisions that limit the amount of Transwestern's debt, restrict its sale of assets, restrict its payment of dividends and require it to maintain certain debt to capitalization ratios.

Guarantee of Fayetteville Express Pipeline LLC Credit Facility

On November 13, 2009, FEP, our joint venture with KMP, entered into a credit agreement that initially provided for a \$1.1 billion senior revolving credit facility, which we refer to as the FEP Facility. We have guaranteed 50% of the obligations of FEP under the FEP Facility, with the remaining 50% of FEP Facility obligations guaranteed by KMP. Subject to certain exceptions, our guarantee may be proportionately increased or decreased if our ownership percentage increases or decreases. The FEP Facility is available through May 11, 2012. Amounts borrowed under the FEP Facility bear interest at a rate based on either a Eurodollar rate or a prime rate. The commitment fee payable on the unused portion of the FEP Facility varies based on both our debt rating and that of KMP, with a maximum fee of 1.00%. The FEP Facility also has a swingline loan option with a maximum borrowing of \$50.0 million at a prime rate. The sum of the loans, swingline loans and letters of credit may not exceed the maximum amount of revolving credit available under the FEP Facility. The indebtedness under the FEP Facility is prepayable at any time at the option of FEP without penalty. The FEP Facility contains covenants that limit (subject to certain exceptions) FEP's ability to grant liens, incur indebtedness, engage in transactions with affiliates, enter into restrictive agreements, enter into mergers or dispose of substantially all of its assets. As of March 31, 2011, FEP had \$962.5 million of outstanding borrowings under the FEP Facility. The weighted average interest rate on the total amount outstanding at March 31, 2011 was 3.2%. The total amount available under the FEP Facility was \$137.5 million as of March 31, 2011.

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DESCRIPTION OF NOTES

Energy Transfer will issue the notes under an indenture dated as of January 18, 2005 among itself, the subsidiaries of Energy Transfer named therein and U.S. Bank National Association (as successor-by-merger to Wachovia Bank, National Association), as trustee, as supplemented by a supplemental indenture creating the notes (as so supplemented, the indenture). This description is a summary of the material provisions of the notes and the indenture. This description does not restate those agreements and instruments in their entirety. You should refer to the notes and the indenture, forms of which are available as set forth below under **Where You Can Find More Information**, for a complete description of our obligations and your rights.

You can find the definitions of various terms used in this description under **Certain Definitions** below. In this description, the terms **Energy Transfer**, **we**, **us** and **our** refer only to Energy Transfer Partners, L.P. and not to any of its Subsidiaries.

General

The notes:

will be general unsecured, senior obligations of Energy Transfer, ranking equally with all other existing and future unsecured and unsubordinated indebtedness of Energy Transfer;

will initially be issued in an aggregate principal amount of \$800,000,000 with respect to the 2021 notes and an aggregate principal amount of \$700,000,000 with respect to the 2041 notes;

will mature on June 1, 2021, with respect to the 2021 notes and June 1, 2041, with respect to the 2041 notes;

will be issued in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof;

will bear interest at an annual rate of 4.65% with respect to the 2021 notes and an annual rate of 6.05% with respect to the 2041 notes; and

will be redeemable at any time at our option at the redemption price described below under **Optional Redemption**.

The 2021 notes and the 2041 notes each constitute a separate series of debt securities under the indenture. The indenture does not limit the amount of debt securities we may issue under the indenture from time to time in one or more series. Currently, we have outstanding under the indenture \$400 million aggregate principal amount of our 5.65% Senior Notes due 2012, \$350 million aggregate principal amount of our 6.00% Senior Notes due 2013, \$350 million aggregate principal amount of our 8.50% Senior Notes due 2014, \$750 million aggregate principal amount of our 5.95% Senior Notes due 2015, \$400 million aggregate principal amount of our 6.125% Senior Notes due 2017, \$600 million aggregate principal amount of our 6.70% Senior Notes due 2018, \$600 million aggregate principal amount of our 9.70% Senior Notes due 2019, \$650 million aggregate principal amount of our 9.00% Senior Notes due 2019, \$400 million aggregate principal amount of our 6.625% Senior Notes due 2036 and \$550 million aggregate principal amount of our 7.50% Senior Notes due 2038 (collectively, the existing senior notes). We may in the future issue additional debt securities under the indenture in addition to the notes.

Interest

Interest on the notes will accrue from and including May 12, 2011 or from and including the most recent interest payment date to which interest has been paid or provided for. We will pay interest in cash semiannually in arrears on June 1 and December 1 of each year, beginning December 1, 2011. We will make interest payments to the persons in whose names the notes are registered at the close of business on May 15 or November 15, as applicable, before the next interest payment date. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months. If any interest payment date falls on a day that is not a business day, the payment will be made on the next business day, and no interest will accrue on the amount of interest due on that interest payment date for the period from and after the interest payment date to the date of payment.

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Further Issuances

We may from time to time, without notice to or the consent of the holders of the notes, create and issue additional notes having the same terms as either of the series of notes offered by this prospectus supplement and accompanying prospectus, except for the issue price and in some cases, the first interest payment date. Additional notes issued in this manner will form a single series with the previously issued and outstanding notes of such series.

Optional Redemption

Prior to the date that is three months prior to the maturity of the 2021 notes, and six months prior to the maturity of the 2041 notes, the respective notes will be redeemable, at our option, at any time in whole, or from time to time in part, at a price equal to the greater of:

100% of the principal amount of the notes to be redeemed; or

the sum of the present values of the remaining scheduled payments of principal and interest (at the interest rate in effect on the date of calculation of the redemption price) on the notes to be redeemed that would be due after the related redemption date but for such redemption (exclusive of interest accrued to the redemption date) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Yield plus 25 basis points, with respect to the 2021 notes, and 25 basis points, with respect to the 2041 notes;

plus, in either case, accrued interest to the redemption date.

At any time on or after the date that is three months prior to the maturity of the 2021 notes, and six months prior to the maturity of the 2041 notes, the respective notes will be redeemable in whole or in part, at our option, at a redemption price equal to 100% of the principal amount of the notes to be redeemed plus accrued interest thereon to the redemption date.

The actual redemption price, calculated as provided below, will be calculated and certified to the trustee and us by the Independent Investment Banker.

Notes called for redemption become due on the redemption date. Notices of redemption will be mailed at least 30 but not more than 60 days before the redemption date to each holder of the notes to be redeemed at its registered address. The notice of redemption for the notes will state, among other things, the amount of notes to be redeemed, the redemption date, the method of calculating the redemption price and each place that payment will be made upon presentation and surrender of notes to be redeemed. Unless we default in payment of the redemption price, interest will cease to accrue on any notes that have been called for redemption on the redemption date. If less than all of the notes of a series are redeemed at any time, the trustee will select the notes to be redeemed on a pro rata basis, by lot or by any other method the trustee deems fair and appropriate.

For purposes of determining the redemption price, the following definitions are applicable:

Treasury Yield means, with respect to any redemption date applicable to the notes, (a) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated H.15(519) or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption Treasury Constant Maturities, for the maturity corresponding to the Comparable Treasury Issue; or (b) if the release (or any successor release) is not published during the week preceding

the calculation date or does not contain these yields, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the third business day immediately preceding such redemption date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the applicable Comparable Treasury Price for such redemption date.

Comparable Treasury Issue means the United States Treasury security selected by the Independent Investment Banker as having a maturity comparable to the remaining term of the notes to be redeemed

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that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes to be redeemed; *provided, however*, that if no maturity is within three months before or after the maturity date for such notes, yields for the two published maturities most closely corresponding to such United States Treasury security will be determined and the treasury rate will be interpolated or extrapolated from those yields on a straight line basis rounding to the nearest month.

Comparable Treasury Price means, with respect to any redemption date, (a) the average of the Reference Treasury Dealer Quotations for the redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (b) if the Independent Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all such quotations.

Independent Investment Banker means RBS Securities Inc., Credit Suisse Securities (USA) LLC, SunTrust Robinson Humphrey, Inc., BNP Paribas Securities Corp., and Deutsche Bank Securities, Inc. (and their respective successors) or, if any such firm is not willing and able to select the applicable Comparable Treasury Issue, an independent investment banking institution of national standing appointed by the trustee and reasonably acceptable to Energy Transfer.

Reference Treasury Dealer means (a) each of RBS Securities Inc., Credit Suisse Securities (USA) LLC, BNP Paribas Securities Corp., and Deutsche Bank Securities, Inc. and their respective successors, (b) one primary U.S. government securities dealer in the United States selected by SunTrust Robinson Humphrey, Inc., and its successor, and (c) one other primary U.S. government securities dealer in the United States selected by Energy Transfer (each, a *Primary Treasury Dealer*); *provided, however*, that if any of the foregoing shall resign as a Reference Treasury Dealer or cease to be a U.S. government securities dealer, Energy Transfer will substitute therefor another Primary Treasury Dealer.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date for the notes, an average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue for the notes to be redeemed (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

Subsidiary Guarantees

The notes initially will not be guaranteed by any of our Subsidiaries. However, if at any time following the issuance of the notes, any Subsidiary of Energy Transfer guarantees, becomes a co-obligor with respect to or otherwise provides direct credit support for any obligations of Energy Transfer or any of its other Subsidiaries under the Credit Agreement, then Energy Transfer will cause such Subsidiary to promptly execute and deliver to the trustee a supplemental indenture in a form satisfactory to the trustee pursuant to which such Subsidiary guarantees Energy Transfer's obligations with respect to the notes on the terms provided for in the indenture.

The guarantee of any Subsidiary Guarantor may be released under certain circumstances. If we exercise our legal or covenant defeasance option with respect to the notes as described below under *Defeasance and Discharge*, then any Subsidiary Guarantor will be released. Further, if no default has occurred and is continuing under the indenture, and to the extent not otherwise prohibited by the indenture, a Subsidiary Guarantor will be unconditionally released and discharged from its guarantee:

automatically upon any sale, exchange or transfer, whether by way of merger or otherwise, to any Person that is not our affiliate, of all of our direct or indirect limited partnership or other equity interests in the Subsidiary Guarantor;

automatically upon the merger of the Subsidiary Guarantor into us or any other Subsidiary Guarantor or the liquidation and dissolution of the Subsidiary Guarantor; or

following delivery of a written notice by us to the trustee, upon the release of all guarantees or other obligations of the Subsidiary Guarantor with respect to the obligations of Energy Transfer or any of its Subsidiaries under the Credit Agreement.

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If at any time following any release of a Subsidiary Guarantor from its guarantee of the notes pursuant to the third bullet point in the preceding paragraph, the Subsidiary Guarantor again guarantees, becomes a co-obligor with respect to or otherwise provides direct credit support for any obligations of Energy Transfer or any of its Subsidiaries under the Credit Agreement, then Energy Transfer will cause the Subsidiary Guarantor to again guarantee the notes in accordance with the indenture.

Ranking

The notes will be unsecured, unless we are required to secure them pursuant to the limitations on liens covenant described below under **Certain Covenants** **Limitations on Liens**. The notes will also be the unsubordinated obligations of Energy Transfer and will rank equally with all other existing and future unsubordinated indebtedness of Energy Transfer. Each guarantee, if any, of the notes will be an unsecured and unsubordinated obligation of the Subsidiary Guarantor and will rank equally with all other existing and future unsubordinated indebtedness of the Subsidiary Guarantor. The notes and each guarantee, if any, will effectively rank junior to any future indebtedness of Energy Transfer and any Subsidiary Guarantor that is both secured and unsubordinated to the extent of the value of the assets securing such indebtedness, and the notes will effectively rank junior to all indebtedness and other liabilities of Energy Transfer's existing and future Subsidiaries that are not Subsidiary Guarantors.

As of March 31, 2011, after giving effect to (i) this offering and the use of net proceeds therefrom, (ii) our public offering of 14,202,500 common units in March 2011 and the use of net proceeds therefrom, and (iii) the funding with borrowings under our Credit Agreement of our pro rata share of the purchase price paid by Lone Star NGL LLC in connection with its acquisition of the membership interests in LDH Energy Asset Holdings LLC, Energy Transfer, excluding its Subsidiaries, would have had approximately \$6.5 billion of indebtedness, all of which would have been unsecured, unsubordinated indebtedness consisting entirely of the notes, the existing senior notes and the obligations under the Credit Agreement. Initially, none of Energy Transfer's Subsidiaries will guarantee the notes. Substantially all the assets of HOLP and its Subsidiaries are pledged to secure Indebtedness of HOLP and its Subsidiaries. Additionally, our subsidiary Transwestern has outstanding debt securities. As of March 31, 2011, the notes would have been effectively subordinated to approximately \$981.8 million of indebtedness of our Subsidiaries. In addition, FEP, our unconsolidated joint venture with KMP, is a party to a \$1.1 billion senior revolving credit facility. As of March 31, 2011, there were \$962.5 million of outstanding borrowings. We have guaranteed 50% of the obligations of FEP under this facility.

No Sinking Fund

We are not required to make any mandatory redemption or sinking fund payments with respect to the notes.

Certain Covenants

Except as set forth below, neither Energy Transfer nor any of its Subsidiaries is restricted by the indenture from incurring any type of indebtedness or other obligation, from paying dividends or making distributions on its partnership or other equity interests or from purchasing or redeeming its partnership or other equity interests. The indenture does not require the maintenance of any financial ratios or specified levels of net worth or liquidity. In addition, the indenture does not contain any provisions that would require Energy Transfer to repurchase or redeem or otherwise modify the terms of the notes upon a change in control or other events involving Energy Transfer that could adversely affect the creditworthiness of Energy Transfer.

Limitations on Liens. Energy Transfer will not, nor will it permit any of its Subsidiaries to, create, assume, incur or suffer to exist any mortgage, lien, security interest, pledge, charge or other encumbrance (**liens**) upon any Principal

Property or upon any capital stock of any Restricted Subsidiary, whether owned on the date of the supplemental indenture creating the notes or thereafter acquired, to secure any Indebtedness of Energy Transfer or any other Person (other than the notes), without in any such case making effective provisions whereby all of the outstanding notes are secured equally and ratably with, or prior to, such Indebtedness so long as such Indebtedness is so secured.

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Notwithstanding the foregoing, under the indenture, Energy Transfer may, and may permit any of its Subsidiaries to, create, assume, incur, or suffer to exist without securing the notes (a) any Permitted Lien, (b) any lien upon any Principal Property or capital stock of a Restricted Subsidiary to secure Indebtedness of Energy Transfer or any other Person, *provided* that the aggregate principal amount of all Indebtedness then outstanding secured by such lien and all similar liens under this clause (b), together with all Attributable Indebtedness from Sale-Leaseback Transactions (excluding Sale-Leaseback Transactions permitted by clauses (1) through (4), inclusive, of the first paragraph of the restriction on sale-leasebacks covenant described below), does not exceed 10% of Consolidated Net Tangible Assets or (c) any lien upon (i) any Principal Property that was not owned by Energy Transfer or any of its Subsidiaries on the date of the supplemental indenture creating the notes or (ii) the capital stock of any Restricted Subsidiary that owns no Principal Property that was owned by Energy Transfer or any of its Subsidiaries on the date of the supplemental indenture creating the notes, in each case owned by a Subsidiary of Energy Transfer (an Excluded Subsidiary) that (A) is not, and is not required to be, a Subsidiary Guarantor and (B) has not granted any liens on any of its property securing Indebtedness with recourse to Energy Transfer or any Subsidiary of Energy Transfer other than such Excluded Subsidiary or any other Excluded Subsidiary.

Restriction on Sale-Leasebacks. Energy Transfer will not, and will not permit any Subsidiary to, engage in the sale or transfer by Energy Transfer or any of its Subsidiaries of any Principal Property to a Person (other than Energy Transfer or a Subsidiary) and the taking back by Energy Transfer or its Subsidiary, as the case may be, of a lease of such Principal Property (a Sale-Leaseback Transaction), unless:

- (1) such Sale-Leaseback Transaction occurs within one year from the date of completion of the acquisition of the Principal Property subject thereto or the date of the completion of construction, development or substantial repair or improvement, or commencement of full operations on such Principal Property, whichever is later;
- (2) the Sale-Leaseback Transaction involves a lease for a period, including renewals, of not more than three years;
- (3) Energy Transfer or such Subsidiary would be entitled to incur Indebtedness secured by a lien on the Principal Property subject thereto in a principal amount equal to or exceeding the Attributable Indebtedness from such Sale-Leaseback Transaction without equally and ratably securing the notes; or
- (4) Energy Transfer or such Subsidiary, within a one-year period after such Sale-Leaseback Transaction, applies or causes to be applied an amount not less than the Attributable Indebtedness from such Sale-Leaseback Transaction to (a) the prepayment, repayment, redemption, reduction or retirement of any Indebtedness of Energy Transfer or any of its Subsidiaries that is not subordinated to the notes or any guarantee, or (b) the expenditure or expenditures for Principal Property used or to be used in the ordinary course of business of Energy Transfer or its Subsidiaries.

Notwithstanding the foregoing, Energy Transfer may, and may permit any Subsidiary to, effect any Sale-Leaseback Transaction that is not excepted by clauses (1) through (4), inclusive, of the preceding paragraph *provided* that the Attributable Indebtedness from such Sale-Leaseback Transaction, together with the aggregate principal amount of outstanding Indebtedness (other than the notes) secured by liens other than Permitted Liens upon Principal Properties, does not exceed 10% of Consolidated Net Tangible Assets.

Reports. So long as any notes are outstanding, Energy Transfer will:

for as long as it is required to file information with the SEC pursuant to the Exchange Act, file with the trustee, within 15 days after it is required to file the same with the SEC, copies of the annual reports and of the information, documents and other reports which it is required to file with the SEC pursuant to the Exchange Act;

if it is not required to file reports with the SEC pursuant to the Exchange Act, file with the trustee, within 15 days after it would have been required to file with the SEC, financial statements (and with respect to annual reports, an auditors report by a firm of established national reputation) and a Management s Discussion and Analysis of Financial Condition and Results of Operations, both

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comparable to what it would have been required to file with the SEC had it been subject to the reporting requirements of the Exchange Act; and

if it is required to furnish annual or quarterly reports to its equity holders pursuant to the Exchange Act, file these reports with the trustee.

Merger, Consolidation or Sale of Assets. Energy Transfer shall not consolidate with or merge into any Person or sell, lease, convey, transfer or otherwise dispose of all or substantially all of its assets to any Person unless:

- (1) the Person formed by or resulting from any such consolidation or merger or to which such assets have been transferred (the successor) is Energy Transfer or expressly assumes by supplemental indenture all of Energy Transfer's obligations and liabilities under the indenture and the notes;
- (2) the successor is organized under the laws of the United States, any state or the District of Columbia;
- (3) immediately after giving effect to the transaction no Default or Event of Default has occurred and is continuing; and
- (4) Energy Transfer has delivered to the trustee an officers' certificate and an opinion of counsel, each stating that such consolidation, merger or transfer complies with the indenture.

The successor will be substituted for Energy Transfer in the indenture with the same effect as if it had been an original party to the indenture. Thereafter, the successor may exercise the rights and powers of Energy Transfer under the indenture. If Energy Transfer conveys or transfers all or substantially all of its assets, it will be released from all liabilities and obligations under the indenture and under the notes except that no such release will occur in the case of a lease of all or substantially all of its assets.

Events of Default

Each of the following is an Event of Default under the indenture with respect to the notes of each series:

- (1) a default in any payment of interest on such notes when due that continues for 30 days;
- (2) a default in the payment of principal of or premium, if any, on such notes when due at their stated maturity, upon redemption, upon declaration or otherwise;
- (3) a failure by Energy Transfer or any Subsidiary Guarantor to comply with its other covenants or agreements in the indenture for 60 days after written notice of default given by the trustee or the holders of at least 25% in aggregate principal amount of the outstanding notes;
- (4) certain events of bankruptcy, insolvency or reorganization of Energy Transfer or any Subsidiary Guarantor as more fully described in the indenture (the bankruptcy provisions);
- (5) any guarantee of a Subsidiary Guarantor ceases to be in full force and effect, is declared null and void or is found to be invalid in a judicial proceeding or any Subsidiary Guarantor denies or disaffirms its obligations under the indenture or its guarantee; or
- (6) any Indebtedness of Energy Transfer or any Subsidiary Guarantor is not paid within any applicable grace period after final maturity or is accelerated by the holders thereof because of a default and the total amount of such

Indebtedness unpaid or accelerated exceeds \$25,000,000.

An Event of Default for the notes will not necessarily constitute an Event of Default for any other series of debt securities issued under the indenture, and an Event of Default for any such other series of debt securities will not necessarily constitute an Event of Default for any series of the notes. Further, an event of default under other indebtedness of Energy Transfer or its Subsidiaries will not necessarily constitute a Default or an Event of Default for the notes. If an Event of Default (other than an Event of Default described in clause (4) above) with respect to the notes of any series occurs and is continuing, the trustee by notice to

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Energy Transfer, or the holders of at least 25% in principal amount of the outstanding notes of such series by notice to Energy Transfer and the trustee, may, and the trustee at the request of such holders shall, declare the principal of, premium, if any, and accrued and unpaid interest, if any, on all the notes of such series to be due and payable. Upon such a declaration, such principal, premium and accrued and unpaid interest will be due and payable immediately. The indenture provides that if an Event of Default described in clause (4) above occurs, the principal of, premium, if any, and accrued and unpaid interest on the notes will become and be immediately due and payable without any declaration of acceleration, notice or other act on the part of the trustee or any holders. However, the effect of such provision may be limited by applicable law.

The holders of a majority in principal amount of the outstanding notes of the applicable series may, by written notice to the trustee, rescind any acceleration with respect to the notes of such series and annul its consequences if rescission would not conflict with any judgment or decree of a court of competent jurisdiction and all existing Events of Default with respect to the notes of such series, other than the nonpayment of the principal of, premium, if any, and interest on the notes that have become due solely by such acceleration, have been cured or waived.

Subject to the provisions of the indenture relating to the duties of the trustee if an Event of Default occurs and is continuing, the trustee will be under no obligation to exercise any of the rights or powers under the indenture at the request or direction of any of the holders of notes, unless such holders have offered to the trustee reasonable indemnity or security against any cost, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, or interest when due, no holder of notes may pursue any remedy with respect to the indenture or the notes, unless:

- (1) such holder has previously given the trustee notice that an Event of Default with respect to the notes is continuing;
- (2) holders of at least 25% in principal amount of the outstanding notes of the applicable series have requested in writing that the trustee pursue the remedy;
- (3) such holders have offered the trustee reasonable security or indemnity against any cost, liability or expense;
- (4) the trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and
- (5) the holders of a majority in principal amount of the outstanding notes of the applicable series have not given the trustee a direction that, in the opinion of the trustee, is inconsistent with such request within such 60-day period.

Subject to certain restrictions, the holders of a majority in principal amount of the outstanding notes of the applicable series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or of exercising any trust or power conferred on the trustee with respect to the notes of such series. The trustee, however, may refuse to follow any direction that conflicts with law or the indenture or that the trustee determines is unduly prejudicial to the rights of any other holder of notes or that would involve the trustee in personal liability.

The indenture provides that if a Default (that is, an event that is, or after notice or the passage of time would be, an Event of Default) with respect to the notes occurs and is continuing and is known to the trustee, the trustee must mail to each holder of notes notice of the Default within 90 days after it occurs. Except in the case of a Default in the payment of principal of, and premium, if any, or interest on the notes, the trustee may withhold such notice, but only if and so long as the trustee in good faith determines that withholding notice is in the interests of the holders of notes. In addition, Energy Transfer is required to deliver to the trustee, within 120 days after the end of each fiscal year, an officers' certificate as to compliance with all covenants under the indenture and indicating whether the signers thereof know of any Default or Event of Default that occurred during the previous year. Energy Transfer also is required to

deliver to the trustee, within 30 days after the occurrence thereof, an officers certificate specifying any Default or Event of Default, its status and what action Energy Transfer is taking or proposes to take in respect thereof.

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Amendments and Waivers

Amendments of the indenture may be made by Energy Transfer, the Subsidiary Guarantors, if any, and the trustee with the written consent of the holders of a majority in principal amount of the debt securities of each affected series then outstanding under the indenture (including consents obtained in connection with a tender offer or exchange offer for debt securities). However, without the consent of each holder of an affected note, no amendment may, among other things:

- (1) reduce the percentage in principal amount of notes whose holders must consent to an amendment;
- (2) reduce the rate of or extend the time for payment of interest on any note;
- (3) reduce the principal of or extend the stated maturity of any note;
- (4) reduce the premium payable upon the redemption of any note as described above under Optional Redemption;
- (5) make any notes payable in money other than U.S. dollars;
- (6) impair the right of any holder to receive payment of the principal of and premium, if any, and interest on such holder's note or to institute suit for the enforcement of any payment on or with respect to such holder's note;
- (7) waive a Continuing Default or Event of Default in the payment of principal and premium, if any, and interest with respect to such holder's note;
- (8) make any change in the amendment provisions which require each holder's consent or in the waiver provisions;
- (9) release any security that may have been granted in respect of the notes other than in accordance with the indenture; or
- (10) release the guarantee of any Subsidiary Guarantor other than in accordance with the indenture or modify its guarantee in any manner adverse to the holders.

The holders of a majority in principal amount of the outstanding notes of any series may waive compliance by Energy Transfer with certain restrictive covenants on behalf of all holders of notes of such series, including those described under Certain Covenants Limitations on Liens and Certain Covenants Restriction on Sale-Leasebacks. The holders of a majority in principal amount of the outstanding notes of any series, on behalf of all such holders, may waive any past or existing Default or Event of Default with respect to the notes of such series (including any such waiver obtained in connection with a tender offer or exchange offer for the notes), except a Default or Event of Default in the payment of principal, premium or interest or in respect of a provision that under the indenture cannot be modified or amended without the consent of the holder of each outstanding note affected. A waiver by the holders of notes of any series of compliance with a covenant, a Default or an Event of Default will not constitute a waiver of compliance with such covenant or such Default or Event of Default with respect to any other series of debt securities issued under the indenture to which such covenant, Default or Event of Default applies.

Without the consent of any holder, Energy Transfer, the Subsidiary Guarantors, if any, and the trustee may amend the indenture to:

- (1) cure any ambiguity, omission, defect or inconsistency;

- (2) provide for the assumption by a successor of the obligations of Energy Transfer under the indenture;
- (3) provide for uncertificated notes in addition to or in place of certificated notes;
- (4) provide for the addition of any Subsidiary as a Subsidiary Guarantor, or to reflect the release of any Subsidiary Guarantor, in either case as provided in the indenture;

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- (5) secure the notes or a guarantee;
- (6) add to the covenants of Energy Transfer or any Subsidiary Guarantor for the benefit of the holders or surrender any right or power conferred upon Energy Transfer or any Subsidiary Guarantor;
- (7) add any additional Events of Default;
- (8) make any change that does not adversely affect the rights under the indenture of any holder;
- (9) supplement any of the provisions of the indenture to facilitate the defeasance and discharge of notes pursuant to the terms of the indentures;
- (10) comply with any requirement of the SEC in connection with the qualification of the indenture under the Trust Indenture Act; and
- (11) provide for a successor trustee.

The consent of the holders is not necessary under the indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment. After an amendment with the consent of the holders under the indenture becomes effective, Energy Transfer is required to mail to all holders of notes a notice briefly describing such amendment. However, the failure to give such notice to all such holders, or any defect therein, will not impair or affect the validity of the amendment.

Defeasance and Discharge

Energy Transfer at any time may terminate all its obligations under the indenture as they relate to the notes of any series (legal defeasance), except for certain obligations, including those respecting the defeasance trust and obligations to register the transfer of or exchange the notes, to replace mutilated, destroyed, lost or stolen notes and to maintain a registrar and paying agent in respect of the notes.

Energy Transfer at any time may terminate its obligations under the covenants described under Certain Covenants (other than Merger, Consolidation or Sale of Assets) and the bankruptcy provisions with respect to each Subsidiary Guarantor, the guarantee provision and the cross-acceleration provision described under Events of Default above with respect to the notes of any series (covenant defeasance).

Energy Transfer may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. If Energy Transfer exercises its legal defeasance option, payment of the notes of the applicable series may not be accelerated because of an Event of Default. If Energy Transfer exercises its covenant defeasance option for the notes, payment of the notes of the applicable series may not be accelerated because of an Event of Default specified in clause (3), (4) (with respect only to a Subsidiary Guarantor), (5) or (6) under Events of Default above. If Energy Transfer exercises either its legal defeasance option or its covenant defeasance option, each guarantee will terminate with respect to the notes of the applicable series and any security that may have been granted with respect to the notes of the applicable series will be released.

In order to exercise either defeasance option, Energy Transfer must irrevocably deposit in trust (the defeasance trust) with the trustee money, U.S. Government Obligations (as defined in the indenture) or a combination thereof for the payment of principal, premium, if any, and interest on the notes of the applicable series to redemption or stated maturity, as the case may be, and must comply with certain other conditions, including delivery to the trustee of an opinion of counsel (subject to customary exceptions and exclusions) to the effect that holders of the notes will not

recognize income, gain or loss for federal income tax purposes as a result of such defeasance and will be subject to federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such defeasance had not occurred. In the case of legal defeasance only, such opinion of counsel must be based on a ruling of the Internal Revenue Service or other change in applicable federal income tax law.

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In the event of any legal defeasance, holders of the notes of the applicable series would be entitled to look only to the trust fund for payment of principal of and any premium and interest on their notes until maturity.

Although the amount of money and U.S. Government Obligations on deposit with the trustee would be intended to be sufficient to pay amounts due on the notes at the time of their stated maturity, if Energy Transfer exercises its covenant defeasance option for the notes and the notes are declared due and payable because of the occurrence of an Event of Default, such amount may not be sufficient to pay amounts due on the notes at the time of the acceleration resulting from such Event of Default. Energy Transfer would remain liable for such payments, however.

In addition, Energy Transfer may discharge all its obligations under the indenture with respect to the notes of any series, other than its obligation to register the transfer of and exchange notes, *provided* that either:

it delivers all outstanding notes of such series to the trustee for cancellation; or

all such notes not so delivered for cancellation have either become due and payable or will become due and payable at their stated maturity within one year or are called for redemption within one year, and in the case of this bullet point, it has deposited with the trustee in trust an amount of cash sufficient to pay the entire indebtedness of such notes, including interest to the stated maturity or applicable redemption date.

Book-Entry System

We have obtained the information in this section concerning The Depository Trust Company (DTC) and its book-entry systems and procedures from DTC, but we take no responsibility for the accuracy of this information. In addition, the description in this section reflects our understanding of the rules and procedures of DTC as they are currently in effect. DTC could change its rules and procedures at any time.

The notes will initially be represented by one or more fully registered global notes. Each such global note will be deposited with, or on behalf of, DTC or any successor thereto and registered in the name of Cede & Co. (DTC's nominee). You may hold your interests in the global notes through DTC either as a participant in DTC or indirectly through organizations that are participants in DTC.

So long as DTC or its nominee is the registered owner of the global securities representing the notes, DTC or such nominee will be considered the sole owner and holder of the notes for all purposes of the notes and the indenture. Except as provided below, owners of beneficial interests in the notes will not be entitled to have the notes registered in their names, will not receive or be entitled to receive physical delivery of the notes in definitive form and will not be considered the owners or holders of the notes under the indenture, including for purposes of receiving any reports delivered by us or the trustee pursuant to the indenture. Accordingly, each person owning a beneficial interest in a note must rely on the procedures of DTC or its nominee and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, in order to exercise any rights of a holder of notes.

The Depository Trust Company. DTC will act as securities depository for the notes. The notes will be issued as fully registered notes registered in the name of Cede & Co. DTC has advised us as follows: DTC is

a limited-purpose trust company organized under the New York Banking Law;

a banking organization within the meaning of the New York Banking Law;

a member of the Federal Reserve System;

a clearing corporation within the meaning of the New York Uniform Commercial Code; and

a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934.

DTC holds securities that its direct participants deposit with DTC. DTC facilitates the settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities through

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electronic computerized book-entry changes in direct participants' accounts, thereby eliminating the need for physical movement of securities certificates.

Direct participants of DTC include securities brokers and dealers (including the underwriters), banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its direct participants. Access to the DTC system is also available to securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly.

If you are not a direct participant or an indirect participant and you wish to purchase, sell or otherwise transfer ownership of, or other interests in, notes, you must do so through a direct participant or an indirect participant. DTC agrees with and represents to DTC participants that it will administer its book-entry system in accordance with its rules and by-laws and requirements of law. The SEC has on file a set of the rules applicable to DTC and its direct participants.

Purchases of notes under DTC's system must be made by or through direct participants, who will receive a credit for the notes on DTC's records. The ownership interest of each beneficial owner is in turn to be recorded on the records of direct participants and indirect participants. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct participants or indirect participants through which such beneficial owners entered into the transaction. Transfers of ownership interests in the notes are to be accomplished by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in the notes, except in the event that use of the book-entry system for the notes is discontinued.

To facilitate subsequent transfers, all notes deposited by direct participants with DTC are registered in the name of DTC's nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of notes with DTC and their registration in the name of Cede & Co. do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the notes. DTC's records reflect only the identity of the direct participants to whose accounts such notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Book-Entry Format. Under the book-entry format, the trustee will pay interest or principal payments to Cede & Co., as nominee of DTC. DTC will forward the payment to the direct participants, who will then forward the payment to the indirect participants or to you as the beneficial owner. You may experience some delay in receiving your payments under this system. Neither we, the trustee under the indenture nor any paying agent has any direct responsibility or liability for the payment of principal or interest on the notes to owners of beneficial interests in the notes.

DTC is required to make book-entry transfers on behalf of its direct participants and is required to receive and transmit payments of principal, premium, if any, and interest on the notes. Any direct participant or indirect participant with which you have an account is similarly required to make book-entry transfers and to receive and transmit payments with respect to the notes on your behalf. We, the underwriters and the trustee under the indenture have no responsibility for any aspect of the actions of DTC or any of its direct or indirect participants. We, the underwriters and the trustee under the indenture have no responsibility or liability for any aspect of the records kept by DTC or any of its direct or indirect participants relating to, or payments made on account of, beneficial ownership interests in the notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership

interests. We also do not supervise these systems in any way.

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The trustee will not recognize you as a holder under the indenture, and you can only exercise the rights of a holder indirectly through DTC and its direct participants. DTC has advised us that it will only take action regarding a note if one or more of the direct participants to whom the note is credited directs DTC to take such action and only in respect of the portion of the aggregate principal amount of the notes as to which that participant or participants has or have given that direction. DTC can only act on behalf of its direct participants. Your ability to pledge notes to non-direct participants, and to take other actions, may be limited because you will not possess a physical certificate that represents your notes.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the notes unless authorized by a direct participant in accordance with DTC's procedures. Under its usual procedures, DTC will mail an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the notes are credited on the record date (identified in a listing attached to the omnibus proxy).

DTC has agreed to the foregoing procedures in order to facilitate transfers of the notes among its participants. However, DTC is under no obligation to perform or continue to perform those procedures, and may discontinue those procedures at any time.

Concerning the Trustee

The indenture contains certain limitations on the right of the trustee, should it become our creditor, to obtain payment of claims in certain cases, or to realize for its own account on certain property received in respect of any such claim as security or otherwise. The trustee is permitted to engage in certain other transactions. However, if it acquires any conflicting interest within the meaning of the Trust Indenture Act after a Default has occurred and is continuing, it must eliminate the conflict within 90 days, apply to the SEC for permission to continue as trustee or resign.

If an Event of Default occurs and is not cured or waived, the trustee is required to exercise such of the rights and powers vested in it by the indenture and use the same degree of care and skill in their exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. Subject to such provisions, the trustee will not be under any obligation to exercise any of its rights or powers under the indenture at the request of any of the holders of notes unless they have offered to the trustee reasonable security or indemnity against the costs, expenses and liabilities it may incur.

U.S. Bank National Association is the trustee under the indenture and has been appointed by Energy Transfer as registrar and paying agent with regard to the notes. The trustee's address is 5555 San Felipe, Suite 1150, Houston, Texas 77056. The trustee and its affiliates maintain commercial banking and other relationships with Energy Transfer. See "Plan of Distribution" for more information regarding these relationships.

No Personal Liability of Directors, Officers, Employees, Limited Partners and Shareholders

The directors, officers, employees and limited partners of Energy Transfer and the General Partner will not have any personal liability for our obligations under the indenture or the notes. Each holder of notes, by accepting a note, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the notes.

Governing Law

The indenture and the notes are governed by, and will be construed in accordance with, the laws of the State of New York.

Certain Definitions

Attributable Indebtedness, when used with respect to any Sale-Leaseback Transaction, means, as at the time of determination, the present value (discounted at the rate set forth or implicit in the terms of the lease included in such transaction) of the total obligations of the lessee for rental payments (other than amounts

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required to be paid on account of property taxes, maintenance, repairs, insurance, assessments, utilities, operating and labor costs and other items that do not constitute payments for property rights) during the remaining term of the lease included in such Sale-Leaseback Transaction (including any period for which such lease has been extended). In the case of any lease that is terminable by the lessee upon the payment of a penalty or other termination payment, such amount shall be the lesser of the amount determined assuming termination upon the first date such lease may be terminated (in which case the amount shall also include the amount of the penalty or termination payment, but no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be so terminated) or the amount determined assuming no such termination.

Consolidated Net Tangible Assets means, at any date of determination, the total amount of assets of Energy Transfer and its consolidated Subsidiaries after deducting therefrom:

(1) all current liabilities (excluding (A) any current liabilities that by their terms are extendable or renewable at the option of the obligor thereon to a time more than twelve months after the time as of which the amount thereof is being computed, and (B) current maturities of long-term debt); and

(2) the value (net of any applicable reserves) of all goodwill, trade names, trademarks, patents and other like intangible assets, all as set forth, or on a pro forma basis would be set forth, on the consolidated balance sheet of Energy Transfer and its consolidated Subsidiaries for Energy Transfer's most recently completed fiscal quarter for which financial statements have been filed with the SEC, prepared in accordance with generally accepted accounting principles.

Credit Agreement means the Amended and Restated Credit Agreement, dated as of July 20, 2007, among Energy Transfer, Wachovia Bank, National Association, as Administrative Agent, and the other agents and lenders party thereto, and as further amended, restated, refinanced, replaced or refunded from time to time.

Exchange Act means the Securities Exchange Act of 1934, as amended, and any successor statute.

General Partner means Energy Transfer Partners GP, L.P., a Delaware limited partnership, and its successors as general partner of Energy Transfer.

Indebtedness of any Person at any date means any obligation created or assumed by such Person for the repayment of borrowed money or any guaranty thereof.

Permitted Liens means:

(1) liens upon rights-of-way for pipeline purposes;

(2) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business and encumbrances consisting of zoning restrictions, easements, licenses, restrictions on the use of real property or minor imperfections in title thereto and which do not in the aggregate materially adversely affect the value of the properties encumbered thereby or materially impair their use in the operation of the business of Energy Transfer and its Subsidiaries;

(3) rights reserved to or vested by any provision of law in any municipality or public authority to control or regulate any of the properties of Energy Transfer or any Subsidiary or the use thereof or the rights and interests of Energy Transfer or any Subsidiary therein, in any manner under any and all laws;

(4) rights reserved to the grantors of any properties of Energy Transfer or any Subsidiary, and the restrictions, conditions, restrictive covenants and limitations, in respect thereto, pursuant to the terms, conditions and provisions of any rights-of-way agreements, contracts or other agreements therewith;

(5) any statutory or governmental lien or lien arising by operation of law, or any mechanics , repairmen , materialmen , suppliers , carriers , landlords , warehousemen or similar lien incurred in the ordinary course of business which is not more than sixty (60) days past due or which is being contested in good faith by appropriate proceedings and any undetermined lien which is incidental to construction, development, improvement or repair;

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(6) any right reserved to, or vested in, any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or by any provision of law, to purchase or recapture or to designate a purchaser of, any property;

(7) liens for taxes and assessments which are (a) for the then current year, (b) not at the time delinquent, or (c) delinquent but the validity or amount of which is being contested at the time by Energy Transfer or any of its Subsidiaries in good faith by appropriate proceedings;

(8) liens of, or to secure performance of, leases, other than capital leases;

(9) any lien in favor of Energy Transfer or any Subsidiary;

(10) any lien upon any property or assets of Energy Transfer or any Subsidiary in existence on the date of the initial issuance of the notes;

(11) any lien incurred in the ordinary course of business in connection with workmen's compensation, unemployment insurance, temporary disability, social security, retiree health or similar laws or regulations or to secure obligations imposed by statute or governmental regulations;

(12) liens in favor of any person to secure obligations under provisions of any letters of credit, bank guarantees, bonds or surety obligations required or requested by any governmental authority in connection with any contract or statute, *provided* that such obligations do not constitute Indebtedness; or any lien upon or deposits of any assets to secure performance of bids, trade contracts, leases or statutory obligations, and other obligations of a like nature incurred in the ordinary course of business;

(13) any lien upon any property or assets created at the time of acquisition of such property or assets by Energy Transfer or any of its Subsidiaries or within one year after such time to secure all or a portion of the purchase price for such property or assets or debt incurred to finance such purchase price, whether such debt was incurred prior to, at the time of or within one year after the date of such acquisition;

(14) any lien upon any property or assets to secure all or part of the cost of construction, development, repair or improvements thereon or to secure Indebtedness incurred prior to, at the time of, or within one year after completion of such construction, development, repair or improvements or the commencement of full operations thereof (whichever is later), to provide funds for any such purpose;

(15) any lien upon any property or assets existing thereon at the time of the acquisition thereof by Energy Transfer or any of its Subsidiaries and any lien upon any property or assets of a Person existing thereon at the time such Person becomes a Subsidiary of Energy Transfer by acquisition, merger or otherwise; *provided* that, in each case, such lien only encumbers the property or assets so acquired or owned by such Person at the time such Person becomes a Subsidiary;

(16) liens imposed by law or order as a result of any proceeding before any court or regulatory body that is being contested in good faith, and liens which secure a judgment or other court-ordered award or settlement as to which Energy Transfer or the applicable Subsidiary has not exhausted its appellate rights;

(17) any extension, renewal, refinancing, refunding or replacement (or successive extensions, renewals, refinancing, refunding or replacements) of liens, in whole or in part, referred to in clauses (1) through (16) above; *provided, however*, that any such extension, renewal, refinancing, refunding or replacement lien shall be limited to the property or assets covered by the lien extended, renewed, refinanced, refunded or replaced and that the obligations secured by any such extension, renewal, refinancing, refunding or replacement lien shall be in an amount not greater than the

amount of the obligations secured by the lien extended, renewed, refinanced, refunded or replaced and any expenses of Energy Transfer or its Subsidiaries (including any premium) incurred in connection with such extension, renewal, refinancing, refunding or replacement; or

(18) any lien resulting from the deposit of moneys or evidence of indebtedness in trust for the purpose of defeasing Indebtedness of Energy Transfer or any of its Subsidiaries.

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Person means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

Principal Property means, whether owned or leased on the date of the initial issuance of the notes or thereafter acquired:

(1) any pipeline assets of Energy Transfer or any of its Subsidiaries, including any related facilities employed in the gathering, transportation, distribution, storage or marketing of natural gas, refined petroleum products, natural gas liquids and petrochemicals, that are located in the United States of America or any territory or political subdivision thereof; and

(2) any processing, compression, treating, blending or manufacturing plant or terminal owned or leased by Energy Transfer or any of its Subsidiaries that is located in the United States or any territory or political subdivision thereof, except in the case of either of the preceding clause (1) or this clause (2):

(a) any such assets consisting of inventories, furniture, office fixtures and equipment (including data processing equipment), vehicles and equipment used on, or useful with, vehicles;

(b) any such assets which, in the opinion of the board of directors of the General Partner are not material in relation to the activities of Energy Transfer and its Subsidiaries taken as a whole; and

(c) any assets used primarily in the conduct of the retail propane marketing business conducted by Heritage Operating, L.P. and its Subsidiaries.

Restricted Subsidiary means any Subsidiary owning or leasing, directly or indirectly through ownership in another Subsidiary, any Principal Property.

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

Subsidiary Guarantor means each Subsidiary of Energy Transfer that guarantees the notes pursuant to the terms of the indenture but only so long as such Subsidiary is a guarantor with respect to the notes on the terms provided for in the indenture.

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CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes certain U.S. federal income tax considerations, that may be relevant to the acquisition, ownership and disposition of the notes. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code), applicable Treasury Regulations promulgated and proposed thereunder, judicial authority and administrative interpretations as of the date hereof, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations. We cannot assure you that the Internal Revenue Service will not challenge one or more of the tax consequences described herein, and we have not obtained, nor do we intend to obtain, a ruling from the Internal Revenue Service or an opinion of counsel with respect to the U.S. federal tax consequences of acquiring, holding or disposing of the notes.

This discussion applies only to the holders of the notes who acquire the notes in this offering for cash at a price equal to the issue price of the notes and who hold the notes as capital assets (i.e., generally property held for investment). The issue price of the notes is the first price at which a substantial amount of the notes is sold for cash to the public other than to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. This summary does not address the tax considerations arising under the laws of any foreign, state or local jurisdiction. In addition, this discussion does not address all tax considerations that may be important to a particular holder in light of the holder's circumstances, or to certain categories of holders that may be subject to special rules, such as:

dealers in securities or currencies;

traders in securities that have elected the mark-to-market method of accounting for their securities;

U.S. holders (as defined below) whose functional currency is not the U.S. dollar;

persons holding notes as part of a hedge, straddle, conversion or other synthetic security or integrated transaction;

certain U.S. expatriates;

financial institutions;

insurance companies;

regulated investment companies;

real estate investment trusts;

persons subject to the alternative minimum tax;

entities that are tax-exempt for U.S. federal income tax purposes; and

partnerships and other pass-through entities and holders of interests therein;

If any entity treated as a partnership for U.S. federal income tax purposes holds notes, the tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. If you are a partner of a

partnership acquiring the notes, you are urged to consult your tax advisor about the U.S. federal income tax consequences of acquiring, holding and disposing of the notes.

Investors considering the purchase of notes should consult their own tax advisors regarding the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences of the purchase, ownership or disposition of the notes under U.S. federal estate or gift tax laws, and the applicability and effect of state, local or foreign tax laws and tax treaties.

Certain Additional Payments

In certain circumstances (see Description of Notes Optional Redemption), we may be obligated to pay amounts on the notes that are in excess of stated interest or principal on the notes. These potential payments may implicate the provisions of the Treasury Regulations relating to contingent payment debt

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instruments. We intend to take the position that the notes should not be treated as contingent payment debt instruments because of the possibility of such payments. This position is based on assumptions regarding the likelihood, as of the date of issuance of the notes, that such additional payment will not have to be paid. Assuming such position is respected, a holder generally would not be required to include any income in respect of the foregoing contingencies unless and until any of such contingencies occurred. Our position is binding on a holder unless such holder discloses its contrary position to the Internal Revenue Service in the manner that is required by applicable Treasury Regulations. Our determination, however, is not binding on the Internal Revenue Service, and it is possible that the Internal Revenue Service may take a different position, in which case a holder might be required to accrue interest income at a higher rate than the stated interest rate and to treat as ordinary interest income any gain realized on the taxable disposition of the note.

Consequences to U.S. Holders

The following summary applies to you if you are a U.S. holder of the notes. The term "U.S. holder" means a beneficial owner of a note who or which is for U.S. federal income tax purposes:

an individual who is a citizen or resident of the United States;

a corporation (or an entity that is treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any political subdivision of the United States, including any state thereof or the District of Columbia;

an estate the income of which is subject to United States federal income taxation regardless of the source; or

a trust if a U.S. court is able to exercise primary supervision over the trust's administration and one or more United States persons (within the meaning of the Code) have the authority to control all of the trust's substantial decisions, or the trust has a valid election in effect under applicable Treasury Regulations to be treated as a United States person.

Payments of Interest

You will generally be required to recognize as ordinary income any interest paid or accrued on the notes, in accordance with your regular method of accounting for U.S. federal income tax purposes.

Sale, Exchange or Disposition of Notes

When you sell or otherwise dispose of your notes in a taxable transaction, you generally will recognize taxable gain or loss equal to the difference, if any, between:

the amount realized on the sale or other disposition, less any amount attributable to accrued interest, which will be taxable in the manner described under "Consequences to U.S. Holders" "Payments of Interest" above; and

your adjusted tax basis in the notes.

Your initial tax basis in your notes generally will equal the amount you paid for the notes. Your gain or loss generally will be capital gain or loss. This capital gain or loss will be long-term capital gain or loss if at the time of the sale or other taxable disposition you have held the notes for more than one year. Subject to limited exceptions, your capital losses cannot be used to offset your ordinary income. If you are a non-corporate U.S. holder, your long-term capital gain generally will be taxed at lower rates than your ordinary income under current law.

Information Reporting and Backup Withholding

Information reporting will apply to payments of interest on, and the proceeds of the sale or other disposition (including a retirement or redemption) of, notes held by you unless you are an exempt recipient. Backup withholding may apply unless you provide the appropriate intermediary with a taxpayer identification

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number, certified under penalties of perjury, as well as certain other information or otherwise establish an exemption from backup withholding. Any amount withheld under the backup withholding rules is allowable as a credit against your U.S. federal income tax liability, if any, and a refund may be obtained if the amounts withheld exceed your actual U.S. federal income tax liability and you timely provide the required information or appropriate claim form to the Internal Revenue Service.

Consequences to Non-U.S. Holders

The following summary applies to you if you are a beneficial owner of notes that is an individual, corporation, estate or trust and that is not a U.S. holder (as defined above).

Payments of Interest

Payments of interest on the notes generally will not be subject to United States federal withholding tax under the portfolio interest exemption provided that you properly certify to your foreign status as described below, the interest is not effectively connected with a trade or business conducted by you in the United States and:

you do not directly or indirectly, actually or constructively, own 10% or more of our capital or profits interests;

you are not a controlled foreign corporation for U.S. federal income tax purposes that is related, directly or indirectly, to us through stock ownership (as defined in the Code); and

you are not a bank whose receipt of interest on the notes is in connection with an extension of credit made pursuant to a loan agreement entered into in the ordinary course of your trade or business.

The portfolio interest exemption and several of the special rules for non-U.S. holders described below generally apply only if you appropriately certify as to your foreign status. You can generally meet this certification requirement by providing a properly executed Internal Revenue Service Form W-8BEN or appropriate substitute form to us, or our paying agent (or other applicable withholding agent). If you hold the notes through a financial institution or other agent acting on your behalf, you may be required to provide appropriate certifications to the agent. Your agent will then generally be required to provide appropriate certifications to us or our paying agent (or other applicable withholding agent) either directly or through other intermediaries. Special rules apply to foreign estates and trusts, and in certain circumstances certifications as to foreign status of trust owners or beneficiaries may have to be provided to us or our paying agent. In addition, special rules apply to qualified intermediaries that enter into withholding agreements with the Internal Revenue Service.

If you cannot satisfy the requirements described above, payments of interest made to you will be subject to 30% U.S. federal withholding tax, unless you provide us with a properly executed Internal Revenue Service Form W-8BEN (or successor form) claiming an exemption from (or a reduction of) withholding under the benefit of a tax treaty, or the payments of interest are effectively connected with your conduct of a trade or business in the United States and you meet the certification requirements described below. See **Income or Gain Effectively Connected With a U.S. Trade or Business**.

Sale, Exchange, or Disposition of the Notes

You generally will not be subject to U.S. federal income tax on any gain realized on the sale, exchange, redemption or other disposition of a note unless:

the gain is effectively connected with the conduct by you of a U.S. trade or business (and, if required by an applicable tax treaty, attributable to your permanent establishment or fixed base in the United States);

you are an individual who has been present in the U.S. for 183 days or more in the taxable year of disposition and certain other requirements are met;

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If you are a non-U.S. holder described in the first bullet point above, you will be subject to tax as described below (See **Income or Gain Effectively Connected with a U.S. Trade or Business**). If you are a non-U.S. holder described in the second bullet point above, you generally will be subject to a flat 30% U.S. federal income tax on the gain derived from the sale or other disposition, which may be offset by certain U.S. source capital losses.

Income or Gain Effectively Connected With a U.S. Trade or Business

The preceding discussion of the tax consequences of the purchase, ownership and disposition of notes by you generally assumes that you are not engaged in a U.S. trade or business. If any interest on the notes or gain from the sale, exchange or other disposition of the notes is effectively connected with a U.S. trade or business conducted by you, then the income or gain will be subject to U.S. federal income tax at regular graduated income tax rates, but will not be subject to withholding tax if certain certification requirements are satisfied. You can generally meet the certification requirements by providing a properly executed Internal Revenue Service Form W-8ECI or appropriate substitute form to us, or our paying agent. If you are eligible for the benefits of a tax treaty between the United States and your country of residence, any effectively connected income or gain will generally be subject to U.S. federal income tax only if it is also attributable to a permanent establishment maintained by you in the United States. If you are a corporation, that portion of your earnings and profits that is effectively connected with your U.S. trade or business (and, in the case of an applicable tax treaty, attributable to your permanent establishment in the United States) also may be subject to a branch profits tax at a 30% rate, although an applicable tax treaty may provide for a lower rate.

Information Reporting and Backup Withholding

Payments to non-U.S. holders of interest on a note, and amounts withheld from such payments, if any, generally will be required to be reported to the Internal Revenue Service and to you.

United States backup withholding tax generally will not apply to payments of interest to a non-U.S. holder if the statement described in **Payments of Interest** is duly provided by the holder or the holder otherwise establishes an exemption, provided that we do not have actual knowledge or reason to know that the holder is a United States person.

Payment of the proceeds of a sale or other disposition (including a retirement or redemption) of a note effected by the U.S. office of a United States or foreign broker will be subject to information reporting requirements and backup withholding unless you properly certify under penalties of perjury as to your foreign status and certain other conditions are met or you otherwise establish an exemption. Information reporting requirements and backup withholding generally will not apply to any payment of the proceeds of the sale of a note effected outside the United States by a foreign office of a broker. However, unless such a broker has documentary evidence in its records that you are a non-U.S. holder and certain other conditions are met, or you otherwise establish an exemption, information reporting will apply to a payment of the proceeds of the sale or disposition of a note effected outside the United States by such a broker if it has certain relationships with the United States.

Any amount withheld under the backup withholding rules may be credited against your U.S. federal income tax liability and any excess may be refundable if the proper information is timely provided to the IRS.

The preceding discussion of certain U.S. federal income tax considerations is for general information only and is not tax advice. Each prospective investor should consult its own tax advisor regarding the particular federal, state, local and foreign tax consequences of purchasing, holding, and disposing of our notes, including the consequences of any proposed change in applicable laws.

Table of Contents**UNDERWRITING**

Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement by and among us and the underwriters named below, for whom RBS Securities Inc., Credit Suisse Securities (USA) LLC, SunTrust Robinson Humphrey, Inc., BNP Paribas Securities Corp. and Deutsche Bank Securities Inc. are acting as representatives, we have agreed to sell to each of the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us, the principal amount of the notes indicated in the following table.

| Underwriter | Principal Amount of 2021 Notes | Principal Amount of 2041 Notes |
|---------------------------------------|---|---|
| RBS Securities Inc. | \$ 128,000,000 | \$ 112,000,000 |
| Credit Suisse Securities (USA) LLC | 128,000,000 | 112,000,000 |
| SunTrust Robinson Humphrey, Inc. | 128,000,000 | 112,000,000 |
| BNP Paribas Securities Corp. | 88,000,000 | 77,000,000 |
| Deutsche Bank Securities Inc. | 88,000,000 | 77,000,000 |
| DnB NOR Markets, Inc. | 64,000,000 | 56,000,000 |
| RBC Capital Markets, LLC | 64,000,000 | 56,000,000 |
| UBS Securities LLC | 64,000,000 | 56,000,000 |
| Mitsubishi UFJ Securities (USA), Inc. | 24,000,000 | 21,000,000 |
| U.S. Bancorp Investments, Inc. | 24,000,000 | 21,000,000 |
| Total | \$ 800,000,000 | \$ 700,000,000 |

Under the terms and conditions of the underwriting agreement, if the underwriters take any of the notes, then they are obligated to take and pay for all the notes.

The notes are new issues of securities with no established trading market and will not be listed on any national securities exchange. The underwriters have advised us that they intend to make a market for each series of the notes, but they have no obligation to do so and may discontinue market-making at any time without providing any notice. No assurance can be given as to the liquidity of any trading market for the notes.

Notes sold by the underwriters to the public will initially be offered at the public offering price set forth on the cover page of this prospectus supplement. Any notes sold by the underwriters to securities dealers may be sold at a discount from the public offering price of up to 0.45% of the principal amount of the 2021 notes and 0.625% of the principal amount of the 2041 notes. The underwriters may allow, and any such dealer may reallow, a concession not in excess of 0.20% of the principal amount of the 2021 notes and 0.25% of the principal amount of the 2041 notes to certain other dealers. After the initial offering of the notes to the public, the underwriters may change the offering price and other selling terms.

The following table summarizes the compensation to be paid by us to the underwriters:

| | |
|--------------|--------------|
| Total | Total |
|--------------|--------------|

| | Per Note due 2021 | | Per Note due 2041 | |
|----------------------------------|------------------------------|--------------|------------------------------|--------------|
| Underwriting discount paid by us | 0.650% | \$ 5,200,000 | 0.875% | \$ 6,125,000 |

We estimate that the total expenses of this offering to be paid by us, excluding underwriting discounts, will be approximately \$0.5 million.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the underwriters may be required to make in respect of any such liabilities.

In connection with the offering, the underwriters may purchase and sell notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of notes than it is required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market prices of the notes while the offering is in progress. These

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activities by the underwriters may stabilize, maintain or otherwise affect the market prices of the notes. As a result, the prices of the notes may be higher than the prices that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected in the over-the-counter market or otherwise.

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. Other than the prospectus in electronic format, the information on any underwriter's or selling group member's website and any information contained in any other website maintained by any underwriter or selling group member is not part of the prospectus or the registration statement of which this prospectus supplement forms a part, has not been approved and/or endorsed by us or any underwriter or selling group member in its capacity as underwriter or selling group member and should not be relied upon by investors.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Affiliates of all of the underwriters are lenders and agents under certain of our credit facilities for which they receive interest and fees as provided in the credit agreements related to these facilities. We will use net proceeds from this offering to repay outstanding loans and accrued interest under our revolving credit facility.

In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and instruments of the company or its subsidiaries. The underwriters and their respective affiliates may also make investment recommendations or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long or short positions in such securities and instruments.

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LEGAL MATTERS

The validity of the notes offered in this prospectus supplement will be passed upon for us by Latham & Watkins LLP, Houston, Texas. Certain legal matters will be passed upon for the underwriters by Andrews Kurth LLP, Houston, Texas.

EXPERTS

The audited consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting of Energy Transfer Partners, L.P. incorporated by reference in this prospectus supplement have been so incorporated by reference in reliance upon the reports of Grant Thornton LLP, independent registered public accountants, upon the authority of said firm as experts in giving said reports.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and other reports and other information with the Securities and Exchange Commission, or the SEC. You may read and copy any document we file at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-732-0330 for further information on the operation of the SEC's public reference room. Our SEC filings are available on the SEC's web site at <http://www.sec.gov>. We also make available free of charge on our website, at <http://www.energytransfer.com>, all materials that we file electronically with the SEC, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 reports and amendments to these reports as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the SEC. Additionally, you can obtain information about us through the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which our common units are listed.

The SEC allows us to incorporate by reference the information we have filed with the SEC. This means that we can disclose important information to you without actually including the specific information in this prospectus supplement by referring you to other documents filed separately with the SEC. These other documents contain important information about us, our financial condition and results of operations. The information incorporated by reference is an important part of this prospectus supplement and the accompanying prospectus. Information that we file later with the SEC will automatically update and may replace information in this prospectus supplement and information previously filed with the SEC.

We incorporate by reference in this prospectus supplement the documents listed below:

our annual report on Form 10-K for the year ended December 31, 2010;

our quarterly report on Form 10-Q for the quarter ended March 31, 2011;

our current reports on Form 8-K filed January 27, 2011, March 23, 2011, March 31, 2011, April 15, 2011 and May 2, 2011 and our Form 8-K/A filed March 25, 2011 (excluding any information furnished pursuant to Item 2.02 or Item 7.01 of any such current reports on Form 8-K); and

all documents filed by us under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 between the date of this prospectus supplement and the termination of this offering.

You may obtain any of the documents incorporated by reference in this prospectus supplement or the accompanying prospectus from the SEC through the SEC's website at the address provided above. You also may request a copy of any document incorporated by reference in this prospectus supplement and the accompanying prospectus (including exhibits to those documents specifically incorporated by reference in this document), at no cost, by visiting our internet website at www.energytransfer.com, or by writing or calling us at the address set forth below. Information on our website is not incorporated into this prospectus supplement,

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the accompanying prospectus or our other securities filings and is not a part of this prospectus supplement or the accompanying prospectus.

Energy Transfer Partners, L.P.
3738 Oak Lawn Avenue
Dallas, TX 75219
Attention: Thomas P. Mason
Telephone: (214) 981-0700

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Prospectus

ENERGY TRANSFER PARTNERS, L.P.

**Common Units
Debt Securities**

We may offer and sell the common units representing limited partner interests and debt securities of Energy Transfer Partners, L.P. as described in this prospectus from time to time in one or more classes or series and in amounts, at prices and on terms to be determined by market conditions at the time of our offerings.

We may offer and sell these securities to or through one or more underwriters, dealers and agents, or directly to purchasers, on a continuous or delayed basis. This prospectus describes the general terms of these common units and debt securities and the general manner in which we will offer the common units and debt securities. The specific terms of any common units and debt securities we offer will be included in a supplement to this prospectus. The prospectus supplement will also describe the specific manner in which we will offer the common units and debt securities.

Investing in our common units and debt securities involves risks. Limited partnerships are inherently different from corporations. You should carefully consider the risk factors described under Risk Factors beginning on page 4 of this prospectus before you make an investment in our securities.

Our common units are traded on the New York Stock Exchange, or the NYSE, under the symbol ETP. We will provide information in the prospectus supplement for the trading market, if any, for any debt securities we may offer.

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

The date of this prospectus is January 13, 2011.

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In making your investment decision, you should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with any other information. If anyone provides you with different or inconsistent information, you should not rely on it.

You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front cover of this prospectus. You should not assume that the information contained in the documents incorporated by reference in this prospectus is accurate as of any date other than the respective dates of those documents. Our business, financial condition, results of operations and prospects may have changed since those dates.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission, or the SEC, using a shelf registration process. Under this shelf registration process, we may, over time, offer and sell any combination of the securities described in this prospectus in one or more offerings. This prospectus generally describes Energy Transfer Partners, L.P. and the securities. Each time we sell securities with this prospectus, we will provide you with a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add to, update or change information in this prospectus. Before you invest in our securities, you should carefully read this prospectus and any prospectus supplement and the additional information described under the heading **Where You Can Find More Information**. To the extent information in this prospectus is inconsistent with information contained in a prospectus supplement, you should rely on the information in the prospectus supplement. You should read both this prospectus and any prospectus supplement, together with additional information described under the heading **Where You Can Find More Information**, and any additional information you may need to make your investment decision. All references in this prospectus to **we**, **us**, **ETP**, the **Partnership** and refer to Energy Transfer Partners, L.P.

ENERGY TRANSFER PARTNERS, L.P.

We are a publicly traded limited partnership that owns and operates a diversified portfolio of energy assets. Our natural gas operations include intrastate natural gas gathering and transportation pipelines, two interstate pipelines, natural gas gathering, processing and treating assets located in Texas, New Mexico, Arizona, Louisiana, Arkansas, Mississippi, West Virginia, Colorado and Utah, and three natural gas storage facilities located in Texas. These assets include more than 17,500 miles of pipeline in service and a 50% interest in a joint venture that has approximately 185 miles of interstate pipeline in service. Our intrastate and interstate pipeline systems transport natural gas from several significant natural gas producing areas, including the Barnett Shale in the Fort Worth Basin in north Texas, the Bossier Sands in east Texas, the Permian Basin in west Texas and New Mexico, the San Juan Basin in New Mexico, the Fayetteville Shale in Arkansas, the Haynesville Shale in north Louisiana, the Eagle Ford Shale in south and central Texas, and other producing areas in Texas and Louisiana. Our gathering and processing operations are conducted in many of these same producing areas as well as in the Piceance and Uinta Basins in Colorado and Utah. We are also one of the three largest retail marketers of propane in the United States, serving more than one million customers across the country.

Our principal executive offices are located at 3738 Oak Lawn Avenue, Dallas, Texas 75219, and our telephone number at that location is (214) 981-0700.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This prospectus contains various forward-looking statements and information that are based on our beliefs and those of our general partner, as well as assumptions made by and information currently available to us. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. When used in this prospectus, words such as anticipate, project, expect, plan, goal, forecast, intend, could, may, and similar expressions and statements regarding our plans and objectives for future operations, are intended to identify forward-looking statements. Although we and our general partner believe that the expectations on which such forward-looking statements are based are reasonable, neither we nor our general partner can give assurances that such expectations will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. Among the key risk factors that may have a direct bearing on our results of operations and financial condition are:

the amount of natural gas transported on our pipelines and gathering systems;

the level of throughput in our natural gas processing and treating facilities;

the fees we charge and the margins we realize for our gathering, treating, processing, storage and transportation services;

the prices and market demand for, and the relationship between, natural gas and natural gas liquids, or NGLs;

energy prices generally;

the prices of natural gas and propane compared to the price of alternative and competing fuels;

the general level of petroleum product demand and the availability and price of propane supplies;

the level of domestic oil, propane and natural gas production;

the availability of imported oil and natural gas;

the ability to obtain adequate supplies of propane for retail sale in the event of an interruption in supply or transportation and the availability of capacity to transport propane to market areas;

actions taken by foreign oil and gas producing nations;

the political and economic stability of petroleum producing nations;

the effect of weather conditions on demand for oil, natural gas and propane;

availability of local, intrastate and interstate transportation systems;

the continued ability to find and contract for new sources of natural gas supply;

availability and marketing of competitive fuels;

the impact of energy conservation efforts;

energy efficiencies and technological trends;

governmental regulation and taxation;

changes to, and the application of, regulation of tariff rates and operational requirements related to our interstate and intrastate pipelines;

hazards or operating risks incidental to the gathering, treating, processing and transporting of natural gas and NGLs or to the transporting, storing and distributing of propane that may not be fully covered by insurance;

the maturity of the propane industry and competition from other propane distributors;

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competition from other midstream companies, interstate pipeline companies and propane distribution companies;

loss of key personnel;

loss of key natural gas producers or the providers of fractionation services;

reductions in the capacity or allocations of third-party pipelines that connect with our pipelines and facilities;

the effectiveness of risk-management policies and procedures and the ability of our liquids marketing counterparties to satisfy their financial commitments;

the nonpayment or nonperformance by our customers;

regulatory, environmental, political and legal uncertainties that may affect the timing and cost of our internal growth projects, such as our construction of additional pipeline systems;

risks associated with the construction of new pipelines and treating and processing facilities or additions to our existing pipelines and facilities, including difficulties in obtaining permits and rights-of-way or other regulatory approvals and the performance by third-party contractors;

the availability and cost of capital and our ability to access certain capital sources;

a deterioration of the credit and capital markets;

the ability to successfully identify and consummate strategic acquisitions at purchase prices that are accretive to our financial results and to successfully integrate acquired businesses;

changes in laws and regulations to which we are subject, including tax, environmental, transportation and employment regulations or new interpretations by regulatory agencies concerning such laws and regulations; and

the costs and effects of legal and administrative proceedings.

You should not put undue reliance on any forward-looking statements. When considering forward-looking statements, please review the risk factors described under **Risk Factors** in this prospectus.

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RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider the following risk factors, together with all of the other information included in, or incorporated by reference into, this prospectus in evaluating an investment in our securities. If any of these risks were to occur, our business, financial condition or results of operations could be adversely affected. In that case, the trading price of our common units or debt securities could decline and you could lose all or part of your investment. When we offer and sell any securities pursuant to a prospectus supplement, we may include additional risk factors relevant to such securities in the prospectus supplement.

Risks Inherent in an Investment in Us

Cash distributions are not guaranteed and may fluctuate with our performance and other external factors.

The amount of cash we can distribute to holders of our common units or other partnership securities depends upon the amount of cash we generate from our operations. The amount of cash we generate from our operations will fluctuate from quarter to quarter and will depend upon, among other things:

the amount of natural gas transported in our pipelines and gathering systems;

the level of throughput in our processing and treating operations;

the fees we charge and the margins we realize for our gathering, treating, processing, storage and transportation services;

the price of natural gas;

the relationship between natural gas and NGL prices;

the weather in our operating areas;

the cost to us of the propane we buy for resale and the prices we receive for our propane;

the level of competition from other midstream companies, interstate pipeline companies, propane companies and other energy providers;

the level of our operating costs;

prevailing economic conditions; and

the level of our derivative activities.

In addition, the actual amount of cash we will have available for distribution will also depend on other factors, such as:

the level of capital expenditures we make;

the level of costs related to litigation and regulatory compliance matters;

the cost of acquisitions, if any;

the levels of any margin calls that result from changes in commodity prices;

our debt service requirements;

fluctuations in our working capital needs;

our ability to make working capital borrowings under our credit facilities to make distributions;

our ability to access capital markets;

restrictions on distributions contained in our debt agreements; and

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the amount, if any, of cash reserves established by our general partner in its discretion for the proper conduct of our business.

Because of all these factors, we cannot guarantee that we will have sufficient available cash to pay a specific level of cash distributions to our unitholders.

Furthermore, unitholders should be aware that the amount of cash we have available for distribution depends primarily upon our cash flow, including cash flow from financial reserves and working capital borrowings, and is not solely a function of profitability, which will be affected by non-cash items. As a result, we may make cash distributions during periods when we record net losses and may not make cash distributions during periods when we record net income.

We may sell additional limited partner interests, diluting existing interests of unitholders.

Our partnership agreement allows us to issue an unlimited number of additional limited partner interests, including securities senior to the common units, without the approval of our unitholders. The issuance of additional common units or other equity securities will have the following effects:

the current proportionate ownership interest of our unitholders in us will decrease;

the amount of cash available for distribution on each common unit or partnership security may decrease;

the relative voting strength of each previously outstanding common unit may be diminished; and

the market price of the common units or partnership securities may decline.

Future sales of our units or other limited partner interests in the public market could reduce the market price of unitholders' limited partner interests.

As of December 31, 2010, Energy Transfer Equity, L.P., or ETE, owned 50,226,967 ETP common units. ETE also owns our general partner. If ETE were to sell and/or distribute its common units to the holders of its equity interests in the future, those holders may dispose of some or all of these units. The sale or disposition of a substantial portion of these units in the public markets could reduce the market price of our outstanding common units.

In August 2009, we filed a registration statement to register 12,000,000 ETP common units held by ETE, which allows ETE to offer and sell these ETP common units from time to time in one or more public offerings, direct placements or by other means.

Our debt level and debt agreements may limit our ability to make distributions to unitholders and may limit our future financial and operating flexibility.

As of September 30, 2010, we had approximately \$6.0 billion of consolidated debt, excluding the credit facilities of our joint ventures and of Midcontinent Express Pipeline, LLC, which we guarantee in part. Our level of indebtedness affects our operations in several ways, including, among other things:

a significant portion of our cash flow from operations will be dedicated to the payment of principal and interest on outstanding debt and will not be available for other purposes, including payment of distributions;

covenants contained in our existing debt agreements require us to meet financial tests that may adversely affect our flexibility in planning for and reacting to changes in our business;

our ability to obtain additional financing for working capital, capital expenditures, acquisitions and general partnership purposes may be limited;

we may be at a competitive disadvantage relative to similar companies that have less debt;

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we may be more vulnerable to adverse economic and industry conditions as a result of our significant debt level; and

failure to comply with the various restrictive covenants of our debt agreements could negatively impact our ability and the ability of our subsidiaries to incur additional debt, including our ability to utilize the available capacity under our revolving credit facilities, and our ability to pay our distributions.

Construction of new pipeline projects will require significant amounts of debt and equity financing which may not be available to us on acceptable terms, or at all.

We plan to fund our growth capital expenditures, including any new pipeline construction projects we may undertake, with proceeds from sales of our debt and equity securities and borrowings under our revolving credit facility; however, we cannot be certain that we will be able to issue our debt and equity securities on terms satisfactory to us, or at all. If we are unable to finance our expansion projects as expected, we could be required to seek alternative financing, the terms of which may not be attractive to us, or to revise or cancel our expansion plans.

As of September 30, 2010, we had approximately \$6.0 billion of total debt. A significant increase in our indebtedness that is proportionately greater than our issuances of equity could negatively impact our credit ratings or our ability to remain in compliance with the financial covenants under our revolving credit agreement, which could have a material adverse effect on our financial condition, results of operations and cash flows.

Increases in interest rates could adversely affect our business, results of operations, cash flows and financial condition.

In addition to our exposure to commodity prices, we have exposure to increases in interest rates. As of September 30, 2010, we had no variable rate debt outstanding. However, we had fixed-to-floating interest rate swaps outstanding as of September 30, 2010 with total notional amounts of \$400.0 million that are not designated as hedges for accounting purposes. To the extent that we have variable rate debt or interest rate swaps outstanding, our results of operations, cash flows and financial condition could be adversely affected by increases in interest rates.

An increase in interest rates may also cause a corresponding decline in demand for equity investments, in general, and in particular for yield-based equity investments such as our common units. Any such reduction in demand for our common units resulting from other more attractive investment opportunities may cause the trading price of our common units to decline.

The credit and risk profile of our general partner and its owners could adversely affect our credit ratings and profile.

The credit and business risk profiles of our general partner, and of ETE as the indirect owner of our general partner, may be factors in credit evaluations of us as a publicly traded limited partnership due to the significant influence of our general partner and ETE over our business activities, including our cash distributions, acquisition strategy and business risk profile. Another factor that may be considered is the financial condition of our general partner and its owners, including the degree of their financial leverage and their dependence on cash flow from us to service their indebtedness.

ETE has significant indebtedness outstanding and is dependent principally on the cash distributions from its general and limited partner equity interests in us and in Regency Energy Partners LP, or Regency, to service such indebtedness. Any distributions by us to ETE will be made only after satisfying our then current obligations to our

creditors. Although we have taken certain steps in our organizational structure, financial reporting and contractual relationships to reflect the separateness of us, Energy Transfer Partners GP, L.P., or ETP GP, and Energy Transfer Partners, L.L.C., or ETP LLC, from the entities that control ETP GP (ETE and its general partner), our credit ratings and business risk profile could be adversely affected if the ratings and risk profiles of such entities were viewed as substantially lower or riskier than ours.

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The general partner is not elected by the unitholders and cannot be removed without its consent.

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business, and therefore limited ability to influence management's decisions regarding our business. Unitholders did not elect our general partner and will have no right to elect our general partner on an annual or other continuing basis. Although our general partner has a fiduciary duty to manage us in a manner beneficial to our unitholders, the directors of our general partner and its general partner have a fiduciary duty to manage the general partner and its general partner in a manner beneficial to the owners of those entities.

Furthermore, if the unitholders are dissatisfied with the performance of our general partner, they will have little ability to remove our general partner. The general partner generally may not be removed except upon the vote of the holders of 662/3% of the outstanding units voting together as a single class, including units owned by the general partner and its affiliates. As of December 31, 2010, ETE and its affiliates held approximately 26% of our outstanding units, with an additional approximate 1% of our outstanding units held by our officers and directors. Consequently, it could be difficult to remove our general partner without the consent of the general partner and our related parties.

Furthermore, unitholders' voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than the general partner and its affiliates, cannot be voted on any matter.

The control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its general partner interest to a third party without the consent of the unitholders. Furthermore, the general partner of our general partner may transfer its general partner interest in our general partner to a third party without the consent of the unitholders. Any new owner of the general partner or the general partner of the general partner would be in a position to replace the officers of the general partner with its own choices and to control the decisions taken by such officers.

Unitholders may be required to sell their units to the general partner at an undesirable time or price.

If at any time less than 20% of the outstanding units of any class 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 those units at a price no less than their then-current market price. As a consequence, a unitholder may be required to sell his common units at an undesirable time or price. The general partner may assign this purchase right to any of its affiliates or to us.

The interruption of distributions to us from our operating subsidiaries and equity investees may affect our ability to satisfy our obligations and to make distributions to our partners.

We are a holding company with no business operations other than that of our operating subsidiaries. Our only significant assets are the equity interests we own in our operating subsidiaries and equity investees. As a result, we depend upon the earnings and cash flow of our operating subsidiaries and equity investees and the distribution of that cash to us in order to meet our obligations and to allow us to make distributions to our partners.

Cost reimbursements due to our general partner may be substantial and may reduce our ability to pay the distributions to unitholders.

Prior to making any distributions to our unitholders, we will reimburse our general partner for all expenses it has incurred on our behalf. In addition, our general partner and its affiliates may provide us with services for which we will be charged reasonable fees as determined by the general partner. The reimbursement of these expenses and the

payment of these fees could adversely affect our ability to make distributions to the unitholders. Our general partner has sole discretion to determine the amount of these expenses and fees.

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Unitholders may have liability to repay distributions.

Under certain circumstances, unitholders may have to repay us amounts wrongfully distributed to them. Under Delaware law, we may not make a distribution to unitholders if the distribution causes our liabilities to exceed the fair value of our assets. Liabilities to partners on account of their partnership interests and non-recourse liabilities are not counted for purposes of determining whether a distribution is permitted. Delaware law provides that a limited partner who receives such a distribution and knew at the time of the distribution that the distribution violated Delaware law, will be liable to the limited partnership for the distribution amount for three years from the distribution date. Under Delaware law, an assignee who becomes a substituted limited partner of a limited partnership is liable for the obligations of the assignor to make contributions to the partnership. However, such an assignee is not obligated for liabilities unknown to him at the time he or she became a limited partner if the liabilities could not be determined from the partnership agreement.

Risks Related to Conflicts of Interest

Our partnership agreement limits our general partner's fiduciary duties to our unitholders and restricts the remedies available to unitholders for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

Our partnership agreement contains provisions that waive or consent to conduct by our general partner and its affiliates and which reduce the obligations to which our general partner would otherwise be held by state-law fiduciary duty standards. The following is a summary of the material restrictions contained in our partnership agreement on the fiduciary duties owed by our general partner to the limited partners. Our partnership agreement:

permits our general partner to make a number of decisions in its sole discretion. This entitles our general partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner;

provides that our general partner is entitled to make other decisions in its reasonable discretion;

generally provides that affiliated transactions and resolutions of conflicts of interest not involving a required vote of unitholders must be fair and reasonable to us and that, in determining whether a transaction or resolution is fair and reasonable, our general partner may consider the interests of all parties involved, including its own. Unless our general partner has acted in bad faith, the action taken by our general partner shall not constitute a breach of its fiduciary duty; and

provides that our general partner and its officers and directors will not be liable for monetary damages to us, our limited partners or assignees for errors of judgment or for any acts or omissions if our general partner and those other persons acted in good faith.

In order to become a limited partner of our partnership, a unitholder is required to agree to be bound by the provisions in the partnership agreement, including the provisions discussed above.

Some of our executive officers and directors face potential conflicts of interest in managing our business.

Certain of our executive officers and directors are also officers and/or directors of ETE. These relationships may create conflicts of interest regarding corporate opportunities and other matters. The resolution of any such conflicts may not always be in our or our unitholders' best interests. In addition, these overlapping executive officers and directors allocate their time among us and ETE. These officers and directors face potential conflicts regarding the

allocation of their time, which may adversely affect our business, results of operations and financial condition.

The general partner's absolute discretion in determining the level of cash reserves may adversely affect our ability to make cash distributions to our unitholders.

Our partnership agreement requires the general partner to deduct from operating surplus cash reserves that in its reasonable discretion are necessary to fund our future operating expenditures. In addition, the

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partnership agreement permits the general partner to reduce available cash by establishing cash reserves for the proper conduct of our business, to comply with applicable law or agreements to which we are a party or to provide funds for future distributions to partners. These cash reserves will affect the amount of cash available for distribution to unitholders.

Our general partner has conflicts of interest and limited fiduciary responsibilities that may permit our general partner to favor its own interests to the detriment of unitholders.

ETE owns our general partner and as a result controls us. ETE also owns the general partner of Regency, a publicly traded partnership with which we compete in the natural gas gathering, processing and transportation business. The directors and officers of our general partner and its affiliates have fiduciary duties to manage our general partner in a manner that is beneficial to ETE, the sole owner of our general partner. At the same time, our general partner has fiduciary duties to manage us in a manner that is beneficial to our unitholders. Therefore, our general partner's duties to us may conflict with the duties of its officers and directors to ETE as its sole owner. As a result of these conflicts of interest, our general partner may favor its own interest or those of ETE, Regency or their owners or affiliates over the interest of our unitholders.

Such conflicts may arise from, among others, the following:

Our partnership agreement limits the liability and reduces the fiduciary duties of our general partner while also restricting the remedies available to our unitholders for actions that, without these limitations, might constitute breaches of fiduciary duty. Unitholders are deemed to have consented to some actions and conflicts of interest that might otherwise be deemed a breach of fiduciary or other duties under applicable state law.

Our general partner is allowed to take into account the interests of parties in addition to us, including ETE, Regency and their affiliates, in resolving conflicts of interest, thereby limiting its fiduciary duties to us.

Our general partner's affiliates, including ETE, Regency and their affiliates, are not prohibited from engaging in other businesses or activities, including those in direct competition with us.

Our general partner determines the amount and timing of our asset purchases and sales, capital expenditures, borrowings, repayments of debt, issuances of equity and debt securities and cash reserves, each of which can affect the amount of cash that is distributed to unitholders and to ETE.

Neither our partnership agreement nor any other agreement requires ETE or its affiliates, including Regency, to pursue a business strategy that favors us. The directors and officers of the general partners of ETE and Regency have a fiduciary duty to make decisions in the best interest of their members, limited partners and unitholders, which may be contrary to our best interests.

Some of the directors and officers of ETE who provide advice to us also may devote significant time to the businesses of ETE, Regency and their affiliates and will be compensated by them for their services.

Our general partner determines which costs, including allocated overhead costs, are reimbursable by us.

Our general partner is allowed to resolve any conflicts of interest involving us and our general partner and its affiliates, and any resolution of a conflict of interest by our general partner that is fair and reasonable to us will be deemed approved by all partners and will not constitute a breach of the partnership agreement.

Our general partner controls the enforcement of obligations owed to us by it.

Our general partner decides whether to retain separate counsel, accountants or others to perform services for us.

Our general partner is not restricted from causing us to pay it or its affiliates for any services rendered on terms that are fair and reasonable to us or entering into additional contractual arrangements with any of these entities on our behalf.

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Our general partner intends to limit its liability regarding our contractual and other obligations and, in some circumstances, may be entitled to be indemnified by us.

In some instances, our general partner may cause us to borrow funds in order to permit the payment of distributions, even if the purpose or effect of the borrowing is to make incentive distributions.

In addition, certain conflicts may arise as a result of our pursuing acquisitions or development opportunities that may also be advantageous to Regency. If we are limited in our ability to pursue such opportunities, we may not realize any or all of the commercial value of such opportunities. In addition, if Regency is allowed access to our information concerning any such opportunity and Regency uses this information to pursue the opportunity to our detriment, we may not realize any of the commercial value of this opportunity. In either of these situations, our business, results of operations and the amount of our distributions to our unitholders may be adversely affected. Although we, ETE and Regency have adopted a policy to address these conflicts and to limit the commercially sensitive information that we furnish to ETE, Regency and their affiliates, we cannot assure you that such conflicts will not occur or that this policy will be effective in all circumstances to protect our commercially sensitive information or to realize the commercial value of our business opportunities.

Affiliates of our general partner may compete with us.

Except as provided in our partnership agreement, affiliates and related parties of our general partner are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us. On May 26, 2010, our general partner acquired all of the general partner interests in Regency, which competes with us with respect to our natural gas operations. Additionally, two directors of Regency GP LLC currently serve as directors of LE GP, LLC, the general partner of ETE.

Risks Related to Our Business

We are exposed to the credit risk of our customers, and an increase in the nonpayment and nonperformance by our customers could reduce our ability to make distributions to our unitholders.

The risks of nonpayment and nonperformance by our customers are a major concern in our business. Participants in the energy industry have been subjected to heightened scrutiny from the financial markets in light of past collapses and failures of other energy companies. We are subject to risks of loss resulting from nonpayment or nonperformance by our customers. The current tightening of credit in the financial markets may make it more difficult for customers to obtain financing and, depending on the degree to which this occurs, there may be a material increase in the nonpayment and nonperformance by our customers. Any substantial increase in the nonpayment and nonperformance by our customers could have a material adverse effect on our results of operations and operating cash flows.

The profitability of certain activities in our midstream and intrastate transportation and storage operations are largely dependent upon natural gas commodity prices, price spreads between two or more physical locations and market demand for natural gas and NGLs, which are factors beyond our control and have been volatile.

Income from our midstream and intrastate transportation and storage operations is exposed to risks due to fluctuations in commodity prices. For a portion of the natural gas gathered at the North Texas System, Southeast Texas System and HPL System, we purchase natural gas from producers at the wellhead and then gather and deliver the natural gas to pipelines where we typically resell the natural gas under various arrangements, including sales at index prices. Generally, the gross margins we realize under these arrangements decrease in periods of low natural gas prices.

For a portion of the natural gas gathered and processed at the North Texas System and Southeast Texas System, we enter into percentage-of-proceeds arrangements, keep-whole arrangements, and processing fee agreements pursuant to which we agree to gather and process natural gas received from the producers. Under percentage-of-proceeds arrangements, we generally sell the residue gas and NGLs at market prices and remit

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to the producers an agreed upon percentage of the proceeds based on an index price. In other cases, instead of remitting cash payments to the producer, we deliver an agreed upon percentage of the residue gas and NGL volumes to the producer and sell the volumes we keep to third parties at market prices. Under these arrangements, our revenues and gross margins decline when natural gas prices and NGL prices decrease. Accordingly, a decrease in the price of natural gas or NGLs could have an adverse effect on our results of operations. Under keep-whole arrangements, we generally sell the NGLs produced from our gathering and processing operations to third parties at market prices. Because the extraction of the NGLs from the natural gas during processing reduces the Btu content of the natural gas, we must either purchase natural gas at market prices for return to producers or make a cash payment to producers equal to the value of this natural gas. Under these arrangements, our revenues and gross margins decrease when the price of natural gas increases relative to the price of NGLs if we are not able to bypass our processing plants and sell the unprocessed natural gas. Under processing fee agreements, we process the gas for a fee. If recoveries are less than those guaranteed the producer, we may suffer a loss by having to supply liquids or its cash equivalent to keep the producer whole with regard to contractual recoveries.

In the past, the prices of natural gas and NGLs have been extremely volatile, and we expect this volatility to continue. For example, during our year ended December 31, 2009, the NYMEX settlement price for the prompt month contract ranged from a high of \$6.14 per MMBtu to a low of \$2.84 per MMBtu. A composite of the Mt. Belvieu average NGLs price based upon our average NGLs composition during our year ended December 31, 2009 ranged from a high of approximately \$1.17 per gallon to a low of approximately \$0.57 per gallon.

Our Oasis pipeline, East Texas pipeline, ET Fuel System and HPL System receive fees for transporting natural gas for our customers. Although a significant amount of the pipeline capacity of the East Texas pipeline and various pipeline segments of the ET Fuel System is committed under long-term fee-based contracts, the remaining capacity of our transportation pipelines is subject to fluctuation in demand based on the markets and prices for natural gas, which factors may result in decisions by natural gas producers to reduce production of natural gas during periods of lower prices for natural gas or may result in decisions by end-users of natural gas to reduce consumption of these fuels during periods of higher prices for these fuels. Our fuel retention fees are also directly impacted by changes in natural gas prices. Increases in natural gas prices tend to increase our fuel retention fees, and decreases in natural gas prices tend to decrease our fuel retention fees.

The markets and prices for natural gas and NGLs depend upon factors beyond our control. These factors include demand for oil, natural gas and NGLs, which fluctuate with changes in market and economic conditions, and other factors, including:

- the impact of weather on the demand for oil and natural gas;
- the level of domestic oil and natural gas production;
- the availability of imported oil and natural gas;
- actions taken by foreign oil and gas producing nations;
- the availability of local, intrastate and interstate transportation systems;
- the price, availability and marketing of competitive fuels;
- the demand for electricity;
- the impact of energy conservation efforts; and

the extent of governmental regulation and taxation.

The use of derivative financial instruments could result in material financial losses by us.

From time to time, we have sought to limit a portion of the adverse effects resulting from changes in natural gas and other commodity prices and interest rates by using derivative financial instruments and other

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risk management mechanisms and by our marketing and/or system optimization activities. To the extent that we hedge our commodity price and interest rate exposures, we forego the benefits we would otherwise experience if commodity prices or interest rates were to change in our favor. In addition, even though monitored by management, our derivatives activities can result in losses. Such losses could occur under various circumstances, including if a counterparty does not perform its obligations under the derivative arrangement, the hedge is imperfect, commodity prices move unfavorably related to our physical or financial positions or hedging policies and procedures are not followed.

Our success depends upon our ability to continually contract for new sources of natural gas supply and natural gas transportation services.

In order to maintain or increase throughput levels on our gathering and transportation pipeline systems and asset utilization rates at our treating and processing plants, we must continually contract for new natural gas supplies and natural gas transportation services. We may not be able to obtain additional contracts for natural gas supplies for our natural gas gathering systems, and we may be unable to maintain or increase the levels of natural gas throughput on our transportation pipelines. The primary factors affecting our ability to connect new supplies of natural gas to our gathering systems include our success in contracting for existing natural gas supplies that are not committed to other systems and the level of drilling activity and production of natural gas near our gathering systems or in areas that provide access to our transportation pipelines or markets to which our systems connect. The primary factors affecting our ability to attract customers to our transportation pipelines consist of our access to other natural gas pipelines, natural gas markets, natural gas-fired power plants and other industrial end-users and the level of drilling and production of natural gas in areas connected to these pipelines and systems.

Fluctuations in energy prices can greatly affect production rates and investments by third parties in the development of new oil and natural gas reserves. Drilling activity and production generally decrease as oil and natural gas prices decrease. We have no control over the level of drilling activity in our areas of operation, the amount of reserves underlying the wells and the rate at which production from a well will decline, sometimes referred to as the decline rate. In addition, we have no control over producers or their production decisions, which are affected by, among other things, prevailing and projected energy prices, demand for hydrocarbons, the level of reserves, geological considerations, governmental regulation and the availability and cost of capital.

A substantial portion of our assets, including our gathering systems and our processing and treating plants, are connected to natural gas reserves and wells for which the production will naturally decline over time. Accordingly, our cash flows will also decline unless we are able to access new supplies of natural gas by connecting additional production to these systems.

Our transportation pipelines are also dependent upon natural gas production in areas served by our pipelines or in areas served by other gathering systems or transportation pipelines that connect with our transportation pipelines. A material decrease in natural gas production in our areas of operation or in other areas that are connected to our areas of operation by third party gathering systems or pipelines, as a result of depressed commodity prices or otherwise, would result in a decline in the volume of natural gas we handle, which would reduce our revenues and operating income. In addition, our future growth will depend, in part, upon whether we can contract for additional supplies at a greater rate than the rate of natural decline in our currently connected supplies.

Our subsidiary, Transwestern Pipeline Company, LLC, or Transwestern, derives a significant portion of its revenue from charging its customers for reservation of capacity, which revenues Transwestern receives regardless of whether these customers actually use the reserved capacity. Transwestern also generates revenue from transportation of natural gas for customers without reserved capacity. If the reserves available through the supply basins connected to Transwestern's systems decline, a decrease in development or production activity could cause a decrease in the volume

of natural gas available for transmission or a decrease in demand for natural gas transportation on the Transwestern system over the long run.

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The volumes of natural gas we transport on our intrastate transportation pipelines may be reduced in the event that the prices at which natural gas is purchased and sold at the Waha Hub, the Katy Hub, the Carthage Hub and the Houston Ship Channel Hub, the four major natural gas trading hubs served by our pipelines, become unfavorable in relation to prices for natural gas at other natural gas trading hubs or in other markets as customers may elect to transport their natural gas to these other hubs or markets using pipelines other than those we operate.

We may not be able to fully execute our growth strategy if we encounter increased competition for qualified assets.

Our strategy contemplates growth through the development and acquisition of a wide range of midstream, transportation, storage, propane and other energy infrastructure assets while maintaining a strong balance sheet. This strategy includes constructing and acquiring additional assets and businesses to enhance our ability to compete effectively and diversify our asset portfolio, thereby providing more stable cash flow. We regularly consider and enter into discussions regarding, and are currently contemplating, the acquisition of additional assets and businesses, stand alone development projects or other transactions that we believe will present opportunities to realize synergies and increase our cash flow.

Consistent with our acquisition strategy, we are continuously engaged in discussions with potential sellers regarding the possible acquisition of additional assets or businesses. Such acquisition efforts may involve our participation in processes that involve a number of potential buyers, commonly referred to as auction processes, as well as situations in which we believe we are the only party or one of a very limited number of potential buyers in negotiations with the potential seller. We cannot give assurance that our current or future acquisition efforts will be successful or that any such acquisition will be completed on terms considered favorable to us.

In addition, we are experiencing increased competition for the assets we purchase or contemplate purchasing. Increased competition for a limited pool of assets could result in us losing to other bidders more often or acquiring assets at higher prices, both of which would limit our ability to fully execute our growth strategy. Inability to execute our growth strategy may materially adversely impact our results of operations.

An impairment of goodwill and intangible assets could reduce our earnings.

At September 30, 2010, our consolidated balance sheet reflected \$772.8 million of goodwill and \$261.4 million of intangible assets. Goodwill is recorded when the purchase price of a business exceeds the fair value of the tangible and separately measurable intangible net assets. Accounting principles generally accepted in the United States require us to test goodwill for impairment on an annual basis or when events or circumstances occur, indicating that goodwill might be impaired. Long-lived assets such as intangible assets with finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If we determine that any of our goodwill or intangible assets were impaired, we would be required to take an immediate charge to earnings with a correlative effect on partners' capital and balance sheet leverage as measured by debt to total capitalization.

As of December 31, 2010, our goodwill impairment tests are not yet completed for certain reporting units with an aggregate goodwill balance of approximately \$100 million.

If we do not make acquisitions on economically acceptable terms, our future growth could be limited.

Our results of operations and our ability to grow and to increase distributions to unitholders will depend in part on our ability to make acquisitions that are accretive to our distributable cash flow per unit.

We may be unable to make accretive acquisitions for any of the following reasons, among others:

because we are unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts with them;

because we are unable to raise financing for such acquisitions on economically acceptable terms; or

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because we are outbid by competitors, some of which are substantially larger than us and have greater financial resources and lower costs of capital than we do.

Furthermore, even if we consummate acquisitions that we believe will be accretive, those acquisitions may in fact adversely affect our results of operations or result in a decrease in distributable cash flow per unit. Any acquisition involves potential risks, including the risk that we may:

fail to realize anticipated benefits, such as new customer relationships, cost-savings or cash flow enhancements;

decrease our liquidity by using a significant portion of our available cash or borrowing capacity to finance acquisitions;

significantly increase our interest expense or financial leverage if we incur additional debt to finance acquisitions;

encounter difficulties operating in new geographic areas or new lines of business;

incur or assume unanticipated liabilities, losses or costs associated with the business or assets acquired for which we are not indemnified or for which the indemnity is inadequate;

be unable to hire, train or retrain qualified personnel to manage and operate our growing business and assets;

less effectively manage our historical assets, due to the diversion of management's attention from other business concerns; or

incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges.

If we consummate future acquisitions, our capitalization and results of operations may change significantly. As we determine the application of our funds and other resources, unitholders will not have an opportunity to evaluate the economics, financial and other relevant information that we will consider.

If we do not continue to construct new pipelines, our future growth could be limited.

During the past several years, we have constructed several new pipelines, and are currently involved in constructing several new pipelines. Our results of operations and ability to grow and to increase distributable cash flow per unit will depend, in part, on our ability to construct pipelines that are accretive to our distributable cash flow. We may be unable to construct pipelines that are accretive to distributable cash flow for any of the following reasons, among others:

we are unable to identify pipeline construction opportunities with favorable projected financial returns;

we are unable to raise financing for its identified pipeline construction opportunities; or

we are unable to secure sufficient natural gas transportation commitments from potential customers due to competition from other pipeline construction projects or for other reasons.

Furthermore, even if we construct a pipeline that we believe will be accretive, the pipeline may in fact adversely affect our results of operations or results from those projected prior to commencement of construction and other factors.

Expanding our business by constructing new pipelines and treating and processing facilities subjects us to risks.

One of the ways that we have grown our business is through the construction of additions to our existing gathering, compression, treating, processing and transportation systems. The construction of a new pipeline or the expansion of an existing pipeline, by adding additional compression capabilities or by adding a second pipeline along an existing pipeline, and the construction of new processing or treating facilities, involve numerous regulatory, environmental, political and legal uncertainties beyond our control and require the

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expenditure of significant amounts of capital that we will be required to finance through borrowings, the issuance of additional equity or from operating cash flow. If we undertake these projects, they may not be completed on schedule, at all, or at the budgeted cost. We currently have several expansion and new build projects planned or underway. A variety of factors outside our control, such as weather, natural disasters and difficulties in obtaining permits and rights-of-way or other regulatory approvals, as well as the performance by third party contractors has resulted in, and may continue to result in, increased costs or delays in construction. Cost overruns or delays in completing a project could have a material adverse effect on our results of operations and cash flows. Moreover, our revenues may not increase immediately following the completion of a particular project. For instance, if we build a new pipeline, the construction will occur over an extended period of time, but we may not materially increase our revenues until long after the project's completion. In addition, the success of a pipeline construction project will likely depend upon the level of natural gas exploration and development drilling activity and the demand for pipeline transportation in the areas proposed to be serviced by the project as well as our ability to obtain commitments from producers in this area to utilize the newly constructed pipelines. In this regard, we may construct facilities to capture anticipated future growth in natural gas production in a region in which such growth does not materialize. As a result, new facilities may be unable to attract enough throughput or contracted capacity reservation commitments to achieve our expected investment return, which could adversely affect our results of operations and financial condition.

We depend on certain key producers for our supply of natural gas on the Southeast Texas System and North Texas System, and the loss of any of these key producers could adversely affect our financial results.

For our year ended December 31, 2009, EnCana Oil and Gas (USA), Inc., XTO Energy Inc., or XTO, SandRidge Energy Inc., and EnerVest Operating, LLC, supplied us with approximately 70% of the Southeast Texas System's natural gas supply. In June 2010, Exxon Mobil Corporation, or ExxonMobil, completed its acquisition of XTO. For our year ended December 31, 2009, Chesapeake Energy Marketing, Inc., XTO, EOG Resources, Inc., and EnCana Oil and Gas (USA), Inc., supplied us with approximately 84% of the North Texas System's natural gas supply. We are not the only option available to these producers for disposition of the natural gas they produce. To the extent that these and other producers may reduce the volumes of natural gas that they supply us, we would be adversely affected unless we were able to acquire comparable supplies of natural gas from other producers.

We depend on key customers to transport natural gas through our pipelines.

We have nine- and ten-year fee-based transportation contracts with XTO that terminate in 2013 and 2017, respectively, pursuant to which XTO has committed to transport certain minimum volumes of natural gas on pipelines in our ET Fuel System. The acquisition of XTO by ExxonMobil has not resulted in any changes to these commitments. We also have an eight-year fee-based transportation contract with TXU Portfolio Management Company, L.P., a subsidiary of TXU Corp., or TXU Shipper, to transport natural gas on the ET Fuel System to TXU's electric generating power plants. We have also entered into two eight-year natural gas storage contracts that terminate in 2012 with TXU Shipper to store natural gas at the two natural gas storage facilities that are part of the ET Fuel System. Each of the contracts with TXU Shipper may be extended by TXU Shipper for two additional five-year terms. The failure of XTO Energy or TXU Shipper to fulfill their contractual obligations under these contracts could have a material adverse effect on our cash flow and results of operations if we were not able to replace these customers under arrangements that provide similar economic benefits as these existing contracts.

The major shippers on our intrastate transportation pipelines include XTO, EOG Resources, Inc., Chesapeake Energy Marketing, Inc., EnCana Marketing (USA), Inc. and Quicksilver Resources, Inc. These shippers have long-term contracts that have remaining terms ranging from 1 to 10 years.

Transwestern generates the majority of its revenues from long-term and short-term firm transportation contracts with natural gas producers, local distribution companies and end-users. During 2009, ConocoPhillips, Salt River Project

and BP Energy Company collectively accounted for 32% of Transwestern's total revenues.

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The failure of the major shippers on our intrastate and interstate transportation pipelines to fulfill their contractual obligations could have a material adverse effect on our cash flow and results of operations if we were not able to replace these customers under arrangements that provide similar economic benefits as these existing contracts.

With respect to our interstate transportation operations, Fayetteville Express Pipeline LLC, an entity in which we own a 50% interest, has secured binding 10-year commitments from a small number of major shippers for approximately 1.85 Bcf/d of firm transportation service on the 2.0 Bcf/d Fayetteville Express pipeline. In connection with our Tiger pipeline, we have an agreement with Chesapeake Energy Marketing, Inc. that provides for a 15-year commitment for firm transportation capacity of approximately 1.0 Bcf/d. We also have agreements with EnCana Marketing (USA), Inc. and other shippers that provide for 10-year commitments for firm transportation capacity on the Tiger pipeline, bringing the initial design capacity to 2.0 Bcf/d in the aggregate. In February 2010, we announced that we had entered into a 10-year commitment for an additional 400 MMcf/d.

The failure of any of our key shippers to fulfill their contractual obligations could have a material adverse effect on our cash flow and results of operations if we were not able to replace these customers under arrangements that provide similar economic benefits as our existing contracts.

Federal, state or local regulatory measures could adversely affect the business and operations of our midstream and intrastate assets.

Our midstream and intrastate transportation and storage operations are generally exempt from regulation by the Federal Energy Regulatory Commission, or the FERC, under the Natural Gas Act, or the NGA, but FERC regulation still significantly affects our business and the market for our products. The rates, terms and conditions of some of the transportation and storage services we provide on the HPL System, the East Texas pipeline, the Oasis pipeline and the ET Fuel System are subject to FERC regulation under Section 311 of the Natural Gas Policy Act, or the NGPA. Under Section 311, rates charged for transportation and storage must be fair and equitable amounts. Amounts collected in excess of fair and equitable rates are subject to refund with interest, and the terms and conditions of service, set forth in the pipeline's statement of operating conditions, are subject to FERC review and approval. Should the FERC determine not to authorize rates equal to or greater than our currently approved rates, we may suffer a loss of revenue. Failure to observe the service limitations applicable to storage and transportation service under Section 311, and failure to comply with the rates approved by the FERC for Section 311 service, and failure to comply with the terms and conditions of service established in the pipeline's FERC-approved statement of operating conditions could result in an alteration of jurisdictional status and/or the imposition of administrative, civil and criminal penalties.

FERC has adopted new market-monitoring and annual and quarterly reporting regulations, which regulations are applicable to many intrastate pipelines as well as other entities that are otherwise not subject to FERC's NGA jurisdiction, such as natural gas marketers. These regulations are intended to increase the transparency of wholesale energy markets, to protect the integrity of such markets, and to improve FERC's ability to assess market forces and detect market manipulation. These regulations may result in administrative burdens and additional compliance costs for us.

We hold transportation contracts with interstate pipelines that are subject to FERC regulation. As a shipper on an interstate pipeline, we are subject to FERC requirements related to use of the interstate capacity. Any failure on our part to comply with the FERC's regulations or orders could result in the imposition of administrative, civil and criminal penalties.

Our intrastate transportation and storage operations are subject to state regulation in Texas, New Mexico, Arizona, Louisiana, Utah and Colorado, the states in which we operate these types of natural gas facilities. Our intrastate transportation operations located in Texas are subject to regulation as common purchasers and as gas utilities by the

Texas Railroad Commission, or the TRRC. The TRRC's jurisdiction extends to both rates and pipeline safety. The rates we charge for transportation and storage services are deemed just and reasonable under Texas law unless challenged in a complaint. Should a complaint be filed or should regulation become more active, our business may be adversely affected.

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Our midstream and intrastate transportation operations are also subject to ratable take and common purchaser statutes in Texas, New Mexico, Arizona, Louisiana, Utah and Colorado. Ratable take statutes generally require gatherers to take, without undue discrimination, natural gas production that may be tendered to the gatherer for handling.

Similarly, common purchaser statutes generally require gatherers to purchase without undue discrimination as to source of supply or producer. These statutes have the effect of restricting our right as an owner of gathering facilities to decide with whom we contract to purchase or transport natural gas. Federal law leaves any economic regulation of natural gas gathering to the states, and some of the states in which we operate have adopted complaint-based or other limited economic regulation of natural gas gathering activities. States in which we operate that have adopted some form of complaint-based regulation, like Texas, generally allow natural gas producers and shippers to file complaints with state regulators in an effort to resolve grievances relating to natural gas gathering rates and access. Other state and local regulations also affect our business.

Our storage facilities are also subject to the jurisdiction of the TRRC. Generally, the TRRC has jurisdiction over all underground storage of natural gas in Texas, unless the facility is part of an interstate gas pipeline facility. Because the natural gas storage facilities of the ET Fuel System and HPL System are only connected to intrastate gas pipelines, they fall within the TRRC's jurisdiction and must be operated pursuant to TRRC permit. Certain changes in ownership or operation of TRRC-jurisdictional storage facilities, such as facility expansions and increases in the maximum operating pressure, must be approved by the TRRC through an amendment to the facility's existing permit. In addition, the TRRC must approve transfers of the permits. Texas laws and regulations also require all natural gas storage facilities to be operated to prevent waste, the uncontrolled escape of gas, pollution and danger to life or property. Accordingly, the TRRC requires natural gas storage facilities to implement certain safety, monitoring, reporting and record-keeping measures.

Violations of the terms and provisions of a TRRC permit or a TRRC order or regulation can result in the modification, cancellation or suspension of an operating permit and/or civil penalties, injunctive relief, or both.

The states in which we conduct operations administer federal pipeline safety standards under the Pipeline Safety Act of 1968, which requires certain pipeline companies to comply with safety standards in constructing and operating the pipelines, and subjects pipelines to regular inspections. Some of our gathering facilities are exempt from the requirements of this Act. In respect to recent pipeline accidents in other parts of the country, Congress and the U.S. Department of Transportation, or the DOT, have passed or are considering heightened pipeline safety requirements.

Failure to comply with applicable laws and regulations could result in the imposition of administrative, civil and criminal remedies.

Our interstate pipelines are subject to laws, regulations and policies governing the rates they are allowed to charge for their services.

Laws, regulations and policies governing interstate natural gas pipeline rates could affect the ability of our interstate pipelines to establish rates, to charge rates that would cover future increases in its costs, or to continue to collect rates that cover current costs. NGA-jurisdictional natural gas companies must charge rates that are deemed just and reasonable by the FERC. The rates charged by natural gas companies are generally required to be on file with the FERC in FERC-approved tariffs. Pursuant to the NGA, existing tariff rates may be challenged by complaint and rate increases proposed by the natural gas company may be challenged by protest. We also may be limited by the terms of negotiated rate agreements from seeking future rate increases, or constrained by competitive factors from charging our FERC-approved maximum just and reasonable tariff rates. Further, rates must, for the most part, be cost-based and the FERC has the ability, on a prospective basis, to order refunds of amounts collected under rates that have been found by the FERC to be in excess of a just and reasonable level.

Transwestern made a general rate case filing under Section 4 of the NGA in September 2006. The rates in this proceeding were settled and are final and no longer subject to refund. Transwestern is not required to file a new general rate case until October 2011. However, shippers (other than shippers that have agreed, as parties to the Stipulation and Agreement, not to challenge Transwestern's tariff rates through the remaining term of the settlement) have the statutory ability to challenge the lawfulness of tariff rates that have become final and effective. The FERC may also investigate such rates absent shipper complaint.

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Most of the rates to be paid by the initial shippers on our newly constructed interstate pipelines are established pursuant to long-term, negotiated rate transportation agreements. Other prospective shippers on our newly constructed interstate pipelines that elect not to pay a negotiated rate for service may opt instead to pay a cost-based recourse rate established by the FERC as part of our newly constructed interstate pipelines' certificates of public convenience and necessity. Negotiated rate agreements generally provide a degree of certainty to the pipeline and shipper as to a fixed rate during the term of the relevant transportation agreement, but such agreements can limit the pipeline's future ability to collect costs associated with construction and operation of the pipeline that might be higher than anticipated at the time the negotiated rate agreement was entered. On December 17, 2009, the FERC issued an order granting authorization to construct, own and operate the Fayetteville Express pipeline, and on April 7, 2010, the FERC issued an order granting authorization to construct, own and operate the Tiger pipeline. On June 17, 2010, we filed an application for authorization to construct, own and operate the Tiger pipeline expansion project to add 400 MMcf/d of capacity to the Tiger pipeline. The FERC has not yet determined whether the Tiger pipeline expansion project should be granted the requested authority. We cannot predict if, or when and with what conditions, FERC authorization for the Tiger pipeline expansion project will be granted.

Any successful challenge to the rates of our interstate natural gas companies, whether brought by complaint, protest or investigation, could reduce our revenues associated with providing transportation services on a prospective basis. We cannot guarantee that our interstate pipelines will be able to recover all of their costs through existing or future rates.

The ability of interstate pipelines held in tax-pass-through entities, like us, to include an allowance for income taxes in their regulated rates has been subject to extensive litigation before the FERC and the courts, and the FERC's current policy is subject to future refinement or change.

The ability of interstate pipelines held in tax-pass-through entities, like us, to include an allowance for income taxes as a cost-of-service element in their regulated rates has been subject to extensive litigation before the FERC and the courts for a number of years. It is currently the FERC's policy to permit pipelines to include in cost-of-service a tax allowance to reflect actual or potential income tax liability on their public utility income attributable to all partnership or limited liability company interests, if the ultimate owner of the interest has an actual or potential income tax liability on such income. Whether a pipeline's owners have such actual or potential income tax liability will be reviewed by the FERC on a case-by-case basis. Under the FERC's policy, we thus remain eligible to include an income tax allowance in the tariff rates we charge for interstate natural gas transportation. The application of that policy remains subject to future refinement or change by the FERC. With regard to rates charged and collected by Transwestern, the allowance for income taxes as a cost-of-service element in our tariff rates is generally not subject to challenge prior to the expiration of our settlement agreement in 2011.

The interstate pipelines are subject to laws, regulations and policies governing terms and conditions of service, which could adversely affect their business and operations.

In addition to rate oversight, the FERC's regulatory authority extends to many other aspects of the business and operations of our interstate pipelines, including:

terms and conditions of service;

the types of services interstate pipelines may offer their customers;

construction of new facilities;

acquisition, extension or abandonment of services or facilities;

reporting and information posting requirements;

accounts and records; and

relationships with affiliated companies involved in all aspects of the natural gas and energy businesses.

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Compliance with these requirements can be costly and burdensome. Future changes to laws, regulations and policies in these areas may impair the ability of our interstate pipelines to compete for business, may impair their ability to recover costs or may increase the cost and burden of operation.

We must on occasion rely upon rulings by the FERC or other governmental authorities to carry out certain of our business plans. For example, in order to carry out our plan to construct the Fayetteville Express and Tiger pipelines we were required to, among other things, file and support before the FERC NGA Section 7(c) applications for certificates of public convenience and necessity to build, own and operate such facilities. Although the FERC has authorized the construction and operation of the Fayetteville Express and Tiger pipelines, the FERC has not yet ruled upon the Tiger pipeline expansion project application, and we cannot guarantee that FERC will authorize construction and operation of that project or any future interstate natural gas transportation project we might propose. Moreover, there is no guarantee that, if granted, certificate authority for the Tiger expansion project, or any future interstate projects, will be granted in a timely manner or will be free from potentially burdensome conditions.

Failure to comply with all applicable FERC-administered statutes, rules, regulations and orders, could bring substantial penalties and fines. Under the Energy Policy Act of 2005, the FERC has civil penalty authority under the NGA to impose penalties for current violations of up to \$1.0 million per day for each violation. The FERC possesses similar authority under the NGPA.

Finally, we cannot give any assurance regarding the likely future regulations under which we will operate our interstate pipelines or the effect such regulation could have on our business, financial condition and results of operations.

Our business involves hazardous substances and may be adversely affected by environmental regulation.

Our natural gas and propane operations are subject to stringent federal, state, and local laws and regulations that seek to protect human health and the environment, including those governing the emission or discharge of materials into the environment. These laws and regulations may require the acquisition of permits for our operations, result in capital expenditures to manage, limit or prevent emissions, discharges or releases of various materials from our pipelines, plants and facilities and impose substantial liabilities for pollution resulting from our operations. Several governmental authorities, such as the U.S. Environmental Protection Agency, or the EPA, have the power to enforce compliance with these laws and regulations and the permits issued under them and frequently mandate difficult and costly remediation measures and other actions. Failure to comply with these laws, regulations and permits may result in the assessment of significant administrative, civil and criminal penalties, the imposition of remedial obligations, and the issuance of injunctive relief.

We may incur substantial environmental costs and liabilities because of the underlying risk inherent to our operations. Certain environmental laws and regulations can provide for joint and several strict liabilities for cleanup to address discharges or releases of petroleum hydrocarbons or other materials or wastes at sites to which we may have sent wastes or on, under or from our properties and facilities, many of which have been used for industrial activities for a number of years, even if such discharges were caused by our predecessors. Private parties, including the owners of properties through which our gathering systems pass or facilities where our petroleum hydrocarbons or wastes are taken for reclamation or disposal may also have the right to pursue legal actions to enforce compliance as well as to seek damages for non-compliance with environmental laws and regulations, personal injury or property damage. The total accrued future estimated cost of remediation activities relating to our Transwestern pipeline operations expected to continue through 2018 was \$8.3 million as of September 30, 2010.

Changes in environmental laws and regulations occur frequently, and any such changes that result in more stringent and costly waste handling, emission standards, or storage, transport, disposal or remediation requirements could have a material adverse effect on our operations or financial position. For example, the EPA in 2008 lowered the federal ozone standard from 0.08 parts per million to 0.075 parts per million, requiring the environmental agencies in states with areas that do not currently meet this standard to adopt new rules between to further reduce NO_x and other ozone precursor emissions. The EPA recently proposed to lower the standard even further, to somewhere between 0.060 and 0.070 ppm. We have previously been able to

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satisfy the more stringent NOx emission reduction requirements that affect our compressor units in ozone non-attainment areas at reasonable cost, but there is no guarantee that the changes we may have to make in the future to meet the new ozone standard or other evolving standards will not require us to incur costs that could be material to our operations.

Climate change legislation or regulations restricting emissions of greenhouse gases could result in increased operating costs and reduced demand for the natural gas and other hydrocarbon products that we transport, store or otherwise handle in connection with our transportation, storage, and midstream services.

On December 15, 2009, the EPA published its findings that emissions of carbon dioxide, methane and other greenhouse gases present an endangerment to public health and the environment because emissions of such gases are, according to the EPA, contributing to warming of the earth's atmosphere and other climatic changes. These findings allow the EPA to adopt and implement regulations that would restrict emissions of greenhouse gases under existing provisions of the federal Clean Air Act. Accordingly, the EPA recently adopted two sets of regulations addressing greenhouse gas emissions under the Clean Air Act. The first limits emissions of greenhouse gases from motor vehicles beginning with the 2012 model year. The EPA has asserted that these final motor vehicle greenhouse gas emission standards trigger Clean Air Act construction and operating permit requirements for stationary sources, commencing when the motor vehicle standards took effect on January 2, 2011. On June 3, 2010, the EPA published its final rule to address the permitting of greenhouse gas emissions from stationary sources under the Prevention of Significant Deterioration, or PSD, and Title V permitting programs. This rule tailors these permitting programs to apply to certain stationary sources of greenhouse gas emissions in a multi-step process, with the largest sources first subject to permitting. It is widely expected that facilities required to obtain PSD permits for their greenhouse gas emissions will be required to also reduce those emissions according to best available control technology standards for greenhouse gases that have yet to be developed. Any regulatory or permitting obligation that limits emissions of greenhouse gases could require us to incur costs to reduce emissions of greenhouse gases associated with our operations and also could adversely affect demand for the natural gas and other hydrocarbon products that we transport, store, process, or otherwise handle in connection with our services.

In addition, on October 30, 2009, the EPA published a final rule requiring the reporting of greenhouse gas emissions from specified large greenhouse gas sources in the United States on an annual basis, beginning in 2011 for emissions occurring after January 1, 2010. On November 8, 2010, the EPA revised its greenhouse gas reporting rule to expressly include onshore oil and natural gas production, processing, transmission, storage, and distribution facilities. Reporting of greenhouse gas emissions from such facilities, including many of our facilities, will be required on an annual basis, with reporting beginning in 2012 for emissions occurring in 2011.

In June 2009, the United States House of Representatives passed the American Clean Energy and Security Act of 2009, or ACESA, which would establish an economy-wide cap on emissions of greenhouse gases in the United States and would require most sources of greenhouse gas emissions to obtain and hold allowances corresponding to their annual emissions of greenhouse gases. By steadily reducing the number of available allowances over time, ACESA would require a 17 percent reduction in greenhouse gas emissions from 2005 levels by 2020 and just over an 80 percent reduction of such emissions by 2050. Legislation to reduce emissions of greenhouse gases by comparable amounts is currently pending in the United States Senate, and more than one-third of the states have already taken legal measures to reduce emissions of greenhouse gases, primarily through the planned development of greenhouse gas emission inventories and/or regional greenhouse gas cap and trade programs. The passage of legislation that limits emissions of greenhouse gases from our equipment and operations could require us to incur costs to reduce the greenhouse gas emissions from our own operations, and it could also adversely affect demand for our transportation, storage, and midstream services.

Some have suggested that one consequence of climate change could be increased severity of extreme weather, such as increased hurricanes and floods. If such effects were to occur, our operations could be adversely affected in various ways, including damages to our facilities from powerful winds or rising waters,

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or increased costs for insurance. Another possible consequence of climate change is increased volatility in seasonal temperatures. The market for our propane and natural gas is generally improved by periods of colder weather and impaired by periods of warmer weather, so any changes in climate could affect the market for the fuels that we produce. Despite the use of the term "global warming" as a shorthand for climate change, some studies indicate that climate change could cause some areas to experience temperatures substantially colder than their historical averages. As a result, it is difficult to predict how the market for our fuels could be affected by increased temperature volatility, although if there is an overall trend of warmer temperatures, it would be expected to have an adverse effect on our business.

Any reduction in the capacity of, or the allocations to, our shippers in interconnecting third-party pipelines could cause a reduction of volumes transported in our pipelines, which would adversely affect our revenues and cash flow.

Users of our pipelines are dependent upon connections to and from third-party pipelines to receive and deliver natural gas and NGLs. Any reduction in the capacities of these interconnecting pipelines due to testing, line repair, reduced operating pressures, or other causes could result in reduced volumes being transported in our pipelines. Similarly, if additional shippers begin transporting volumes of natural gas and NGLs over interconnecting pipelines, the allocations to existing shippers in these pipelines would be reduced, which could also reduce volumes transported in our pipelines. Any reduction in volumes transported in our pipelines would adversely affect our revenues and cash flow.

The recent adoption of derivatives legislation by the United States Congress could have an adverse effect on our ability to use derivative instruments to reduce the effect of commodity price, interest rate and other risks associated with our business.

The United States Congress recently adopted the Dodd-Frank Wall Street Reform and Consumer Protection Act (HR 4173), which, among other provisions, establishes federal oversight and regulation of the over-the-counter derivatives market and entities that participate in that market. The new legislation was signed into law by the President on July 21, 2010 and requires the Commodities Futures Trading Commission, or the CFTC, and the SEC to promulgate rules and regulations implementing the new legislation within 360 days from the date of enactment. The CFTC has also proposed regulations to set position limits for certain futures and option contracts in the major energy markets, although it is not possible at this time to predict whether or when the CFTC will adopt those rules or include comparable provisions in its rulemaking under the new legislation. The financial reform legislation may also require us to comply with margin requirements and with certain clearing and trade-execution requirements in connection with our derivative activities, although the application of those provisions to us is uncertain at this time. The financial reform legislation may also require the counterparties to our derivative instruments to spin off some of their derivatives activities to a separate entity, which may not be as creditworthy as the current counterparty. The new legislation and any new regulations could significantly increase the cost of derivative contracts (including through requirements to post collateral, which could adversely affect our available liquidity), materially alter the terms of derivative contracts, reduce the availability of derivatives to protect against risks we encounter, reduce our ability to monetize or restructure its existing derivative contracts, and increase our exposure to less creditworthy counterparties. If we reduce our use of derivatives as a result of the legislation and regulations, our results of operations may become more volatile and our cash flows may be less predictable.

We may be impacted by competition from other midstream, transportation and storage companies and propane companies.

We experience competition in all of our markets. Our principal areas of competition include obtaining natural gas supplies for the Southeast Texas System, North Texas System and HPL System and natural gas transportation customers for our transportation pipeline systems. Our competitors include major integrated oil companies, interstate

and intrastate pipelines and companies that gather, compress, treat, process, transport, store and market natural gas. The Southeast Texas System competes with natural gas gathering and processing systems owned by DCP Midstream, LLC. The North Texas System competes with Crosstex North Texas

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Gathering, LP and Devon Gas Services, LP for gathering and processing. The East Texas pipeline competes with other natural gas transportation pipelines that serve the Bossier Sands area in east Texas and the Barnett Shale region in north Texas. The ET Fuel System and the Oasis pipeline compete with a number of other natural gas pipelines, including interstate and intrastate pipelines that link the Waha Hub. The ET Fuel System competes with other natural gas transportation pipelines serving the Dallas/Ft. Worth area and other pipelines that serve the east central Texas and south Texas markets. Pipelines that we compete with in these areas include those owned by Atmos Energy Corporation, Enterprise Products Partners, L.P. and Enbridge, Inc. Some of our competitors may have greater financial resources and access to larger natural gas supplies than we do.

The acquisitions of the HPL System and the Transwestern pipeline increased the number of interstate pipelines and natural gas markets to which we have access and expanded our principal areas of competition to areas such as southeast Texas and the Texas Gulf Coast. As a result of our expanded market presence and diversification, we face additional competitors, such as major integrated oil companies, interstate and intrastate pipelines and companies that gather, compress, treat, process, transport, store and market natural gas, that may have greater financial resources and access to larger natural gas supplies than we do.

The Transwestern pipeline and the Fayetteville Express and Tiger pipelines compete with other interstate and intrastate pipeline companies in the transportation and storage of natural gas. The principal elements of competition among pipelines are rates, terms of service, access to sources of supply and the flexibility and reliability of service. Natural gas competes with other forms of energy available to our customers and end-users, including for example, electricity, coal and fuel oils. The primary competitive factor is price. Changes in the availability or price of natural gas and other forms of energy, the level of business activity, conservation, legislation and governmental regulations, the capability to convert to alternate fuels and other factors, including weather and natural gas storage levels, affect the levels of natural gas transportation volumes in the areas served by our pipelines.

Our propane business competes with a number of large national and regional propane companies and several thousand small independent propane companies. Because of the relatively low barriers to entry into the retail propane market, there is potential for small independent propane retailers, as well as other companies that may not currently be engaged in retail propane distribution, to compete with our retail outlets. As a result, we are always subject to the risk of additional competition in the future. Generally, warmer-than-normal weather further intensifies competition. Most of our propane retail branch locations compete with several other marketers or distributors in their service areas. The principal factors influencing competition with other retail propane 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
- the lack of growth in the industry.

The inability to continue to access tribal lands could adversely affect Transwestern's ability to operate its pipeline system and the inability to recover the cost of right-of-way grants on tribal lands could adversely affect its financial

results.

Transwestern's ability to operate its pipeline system on certain lands held in trust by the United States for the benefit of a Native American Tribe, which we refer to as tribal lands, will depend on its success in maintaining existing rights-of-way and obtaining new rights-of-way on those tribal lands. Securing extensions of existing and any additional rights-of-way is also critical to Transwestern's ability to pursue expansion

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projects. We cannot provide any assurance that Transwestern will be able to acquire new rights-of-way on tribal lands or maintain access to existing rights-of-way upon the expiration of the current grants. Our financial position could be adversely affected if the costs of new or extended right-of-way grants cannot be recovered in rates. Transwestern's existing right-of-way agreements with the Navajo Nation, Southern Ute, Pueblo of Laguna and Fort Mojave tribes extend through November 2029, September 2020, December 2022 and April 2019, respectively.

We may be unable to bypass the processing plants, which could expose us to the risk of unfavorable processing margins.

Because of our ownership of the Oasis pipeline and ET Fuel System, we can generally elect to bypass our processing plants when processing margins are unfavorable and instead deliver pipeline-quality gas by blending rich gas from the gathering systems with lean gas transported on the Oasis pipeline and ET Fuel System. In some circumstances, such as when we do not have a sufficient amount of lean gas to blend with the volume of rich gas that we receive at the processing plant, we may have to process the rich gas. If we have to process when processing margins are unfavorable, our results of operations will be adversely affected.

We may be unable to retain existing customers or secure new customers, which would reduce our revenues and limit our future profitability.

The renewal or replacement of existing contracts with our customers at rates sufficient to maintain current revenues and cash flows depends on a number of factors beyond our control, including competition from other pipelines, and the price of, and demand for, natural gas in the markets we serve.

For the year ended December 31, 2009, approximately 26% of our sales of natural gas was to industrial end-users and utilities. As a consequence of the increase in competition in the industry and volatility of natural gas prices, end-users and utilities are increasingly reluctant to enter into long-term purchase contracts. Many end-users purchase natural gas from more than one natural gas company and have the ability to change providers at any time. Some of these end-users also have the ability to switch between gas and alternate fuels in response to relative price fluctuations in the market. Because there are many companies of greatly varying size and financial capacity that compete with us in the marketing of natural gas, we often compete in the end-user and utilities markets primarily on the basis of price. The inability of our management to renew or replace our current contracts as they expire and to respond appropriately to changing market conditions could have a negative effect on our profitability.

Our storage business may depend on neighboring pipelines to transport natural gas.

To obtain natural gas, our storage business depends on the pipelines to which they have access. Many of these pipelines are owned by parties not affiliated with us. Any interruption of service on those pipelines or adverse change in their terms and conditions of service could have a material adverse effect on our ability, and the ability of our customers, to transport natural gas to and from our facilities and a corresponding material adverse effect on our storage revenues. In addition, the rates charged by those interconnected pipelines for transportation to and from our facilities affect the utilization and value of our storage services. Significant changes in the rates charged by those pipelines or the rates charged by other pipelines with which the interconnected pipelines compete could also have a material adverse effect on our storage revenues.

Our pipeline integrity program may cause us to incur significant costs and liabilities.

Our pipeline operations are subject to regulation by the DOT under the Pipeline and Hazardous Materials Safety Administration, or PHMSA, pursuant to which the PHMSA has established requirements relating to the design, installation, testing, construction, operation, replacement and management of pipeline facilities. Moreover, the

PHMSA, through the Office of Pipeline Safety, has promulgated a rule requiring pipeline operators to develop integrity management programs to comprehensively evaluate their pipelines, and take measures to protect pipeline segments located in what the rule refers to as high consequence areas. Activities under these integrity management programs involve the performance of internal pipeline inspections,

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pressure testing or other effective means to assess the integrity of these regulated pipeline segments, and the regulations require prompt action to address integrity issues raised by the assessment and analysis. Based on the results of our current pipeline integrity testing programs, we estimate that compliance with these federal regulations and analogous state pipeline integrity requirements will result in capital costs of \$16.8 million and operating and maintenance costs of \$15.0 million over the course of the next year. For the year ended December 31, 2010, capital costs of approximately \$13.8 million and operating and maintenance costs of approximately \$15.9 million were incurred for pipeline integrity testing, based on actual costs incurred through September 30, 2010 and estimated costs for the remainder of 2010. For the years ended December 31, 2009 and 2008, \$31.4 million and \$23.3 million, respectively, of capital costs and \$18.5 million and \$13.1 million, respectively, of operating and maintenance costs have been incurred for pipeline integrity testing. Integrity testing and assessment of all of these assets will continue, and the potential exists that results of such testing and assessment could cause us to incur even greater capital and operating expenditures for repairs or upgrades deemed necessary to ensure the continued safe and reliable operation of our pipelines.

Changes in other forms of health and safety regulations are also being considered. New pipeline safety legislation requiring more stringent spill reporting and disclosure obligations has been introduced in the U.S. Congress and was passed by the U.S. House of Representatives in 2010, but was not voted on in the U.S. Senate. Similar legislation is likely to be considered in the next session of Congress. The DOT has also recently proposed legislation providing for more stringent oversight of pipelines and increased penalties for violations of safety rules, which is in addition to the PHMSA's announced intention to strengthen its rules. Such legislative and regulatory changes could have a material effect on our operations through more stringent and comprehensive safety regulations and higher penalties for the violation of those regulations.

Since weather conditions may adversely affect demand for propane, our financial conditions may be vulnerable to warm winters.

Weather conditions have a significant impact on the demand for propane for heating purposes because the majority of our customers rely heavily on propane as a heating fuel. Typically, we sell approximately two-thirds of our retail propane volume during the peak-heating season of October through March. Our results of operations can be adversely affected by warmer winter weather, which results in lower sales volumes. In addition, to the extent that warm weather or other factors adversely affect our operating and financial results, our access to capital and our acquisition activities may be limited. Variations in weather in one or more of the regions where we operate can significantly affect the total volume of propane that we sell and the profits realized on these sales. Agricultural demand for propane may also be affected by weather, including unseasonably cold or hot periods or dry weather conditions that impact agricultural operations.

A natural disaster, catastrophe or other event could result in severe personal injury, property damage and environmental damage, which could curtail our operations and otherwise materially adversely affect our cash flow and, accordingly, affect the market price of our common units.

Some of our operations involve risks of personal injury, property damage and environmental damage, which could curtail our operations and otherwise materially adversely affect our cash flow. For example, natural gas facilities operate at high pressures, sometimes in excess of 1,100 pounds per square inch. Virtually all of our operations are exposed to potential natural disasters, including hurricanes, tornadoes, storms, floods and/or earthquakes.

If one or more facilities that are owned by us, or that deliver natural gas or other products to us, are damaged by severe weather or any other disaster, accident, catastrophe or event, our operations could be significantly interrupted. Similar interruptions could result from damage to production or other facilities that supply our facilities or other stoppages arising from factors beyond our control. These interruptions might involve significant damage to people,

property or the environment, and repairs might take from a week or less for a minor incident to six months or more for a major interruption. Any event that interrupts the revenues generated by our operations, or which causes us to make significant expenditures not covered by insurance, could reduce our cash available for paying distributions to our unitholders and, accordingly, adversely affect the market price of our common units.

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As a result of market conditions, premiums and deductibles for certain insurance policies can increase substantially, and in some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. As a result, we may not be able to renew existing insurance policies or procure other desirable insurance on commercially reasonable terms, if at all. If we were to incur a significant liability for which we were not fully insured, it could have a material adverse effect on our financial position and results of operations. In addition, the proceeds of any such insurance may not be paid in a timely manner and may be insufficient if such an event were to occur.

Terrorist attacks aimed at our facilities could adversely affect our business, results of operations, cash flows and financial condition.

Since the September 11, 2001 terrorist attacks on the United States, the United States government has issued warnings that energy assets, including our nation's pipeline infrastructure, may be the future target of terrorist organizations. Any terrorist attack on our facilities or pipelines or those of our customers could have a material adverse effect on our business.

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 is sensitive to changes in energy prices, and in particular, changes in wholesale prices of propane. When there are sudden and sharp increases in the wholesale cost of propane, we may be unable 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 over which we have no control. 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 their propane usage or convert to alternative energy sources.

Our results of operations could be negatively impacted by price and inventory risk related to our propane business and management of these risks.

We generally attempt to minimize our cost and inventory risk related to our propane business by purchasing propane on a short-term basis under supply contracts that typically have a one-year term and at a cost that fluctuates based on the prevailing market prices at major delivery points. In order to help ensure adequate supply sources are available during periods of high demand, we may purchase large volumes of propane during periods of low demand or low price, which generally occur during the summer months, for storage in our facilities, at major storage facilities owned by third parties or for future delivery. This strategy may not be effective in limiting our cost and inventory risks if, for example, market, weather or other conditions prevent or allocate the delivery of physical product during periods of peak demand. If the market price falls below the cost at which we made such purchases, it could adversely affect our profits.

Some of our propane sales are pursuant to commitments at fixed prices. To mitigate the price risk related to our anticipated sales volumes under the commitments, we may purchase and store physical product and/or enter into fixed price over-the-counter energy commodity forward contracts and options. Generally, over-the-counter energy commodity forward contracts have terms of less than one year. We enter into such contracts and exercise such options at volume levels that we believe are necessary to manage these commitments. The risk management of our inventory and contracts for the future purchase of product could impair our profitability if the customers do not fulfill their obligations.

We also engage in other trading activities, and may enter into other types of over-the-counter energy commodity forward contracts and options. These trading activities are based on our management's estimates of future events and prices and are intended to generate a profit. However, if those estimates are incorrect or other market events outside of our control occur, such activities could generate a loss in future periods and potentially impair our profitability.

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We are dependent on our principal propane suppliers, which increases the risk of an interruption in supply.

During 2009, we purchased approximately 50.3%, 14.3% and 15.1% of our propane from Enterprise Products Operating L.P., Targa Liquids Marketing and Trade and M.P. Oils, Ltd., respectively. Titan purchases the majority of its propane from Enterprise pursuant to an agreement that was extended until March 2015 and contains an option to renew for an additional year. If supplies from these sources were interrupted, the cost of procuring replacement supplies and transporting those supplies from alternative locations might be materially higher and, at least on a short-term basis, margins could be adversely affected. Supply from Canada is subject to the additional risk of disruption associated with foreign trade such as trade restrictions, shipping delays and political, regulatory and economic instability.

Historically, a substantial portion of the propane that we purchase has originated from one of the industry's major markets located in Mt. Belvieu, Texas and has been shipped to us through major common carrier pipelines. Any significant interruption in the service at Mt. Belvieu or other major market points, or on the common carrier pipelines we use, would adversely affect our ability to obtain propane.

Competition from alternative energy sources may cause us to lose propane customers, thereby reducing our revenues.

Competition in our propane business from alternative energy sources has been increasing as a result of reduced regulation of many utilities. 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 the availability of natural gas in many areas that previously depended upon propane could cause us to lose customers, thereby reducing our revenues. Fuel oil also competes with propane and is generally less expensive than propane. In addition, the successful development and increasing usage of alternative energy sources could adversely affect our operations.

Energy efficiency and technological advances may affect the demand for propane and adversely affect our operating results.

The national trend toward increased conservation and technological advances, including installation of improved insulation and the development of more efficient furnaces and other heating devices, has decreased the demand for propane by retail customers. Stricter conservation measures in the future or technological advances in heating, conservation, energy generation or other devices could adversely affect our operations.

Tax Risks to Common Unitholders

In addition to reading the following risk factors, please read [Material Federal Income Tax Considerations](#) for a more complete discussion of the expected material federal income tax consequences of owning and disposing of common units.

Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to a material amount of entity-level taxation by individual states. If the IRS were to treat us as a corporation for federal income tax purposes or if we become subject to a material amount of entity-level taxation for state tax purposes, it would substantially reduce the amount of cash available for distribution to unitholders.

The anticipated after-tax economic benefit of an investment in our common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS, with respect to our classification as a partnership for federal income tax purposes.

Despite the fact that we are a limited partnership under Delaware law, it is possible in certain circumstances for a partnership such as ours to be treated as a corporation for federal income tax purposes. If we are so treated, we would pay federal income tax on our taxable income at the corporate tax rate, which is

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currently a maximum of 35%, and we would likely pay additional state income taxes as well. Distributions to unitholders would generally be taxed again as corporate distributions, and none of our income, gains, losses or deductions would flow through to unitholders. Because a tax would then be imposed upon us as a corporation, our cash available for distribution to unitholders would be substantially reduced. Therefore, treatment of us as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to the unitholders, likely causing a substantial reduction in the value of our common units.

Current law may change, causing us to be treated as a corporation for federal income tax purposes or otherwise subjecting us to entity-level taxation. For example, members of Congress have recently considered substantive changes to the existing federal income tax laws that would have affected certain publicly traded partnerships. Specifically, federal income tax legislation has been considered that would have eliminated partnership tax treatment for certain publicly traded partnerships and recharacterize certain types of income received from partnerships. Several states currently impose entity-level taxes on partnerships, including us. Further, because of widespread state budget deficits and other reasons, several additional states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. If any additional states were to impose a tax upon us as an entity, our cash available for distribution would be reduced. We are unable to predict whether any of these changes, or other proposals, will be reintroduced or will ultimately be enacted. Any such changes could negatively impact the value of an investment in our common units.

Our partnership agreement provides that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to additional entity-level taxation for federal, state or local income tax purposes, the minimum quarterly distribution amount and the target distribution amounts may be adjusted to reflect the impact of that law on us.

If the IRS contests the federal income tax positions we take, the market for our common units may be adversely affected and the costs of any such contest will reduce cash available for distributions to our unitholders.

We have not requested a ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes. The IRS may adopt positions that differ from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain some or all of the positions we take. A court may not agree with some or all of the positions we take. Any contest with the IRS may materially and adversely impact the market for our common units and the prices at which they trade. In addition, the costs of any contest with the IRS will be borne by us reducing the cash available for distribution to our unitholders.

Unitholders may be required to pay taxes on their share of our income even if they do not receive any cash distributions from us.

Because our unitholders will be treated as partners to whom we will allocate taxable income which could be different in amount than the cash we distribute, unitholders will be required to pay any federal income taxes and, in some cases, state and local income taxes on their share of our taxable income even if they receive no cash distributions from us. Unitholders may not receive cash distributions from us equal to their share of our taxable income or even equal to the actual tax liability that results from the taxation of their share of our taxable income.

Tax gain or loss on disposition of our common units could be more or less than expected.

If unitholders sell their common units, they will recognize a gain or loss equal to the difference between the amount realized and the tax basis in those common units. Because distributions in excess of the unitholder's allocable share of our net taxable income decrease the unitholder's tax basis in their common units, the amount, if any, of such prior excess distributions with respect to the units sold will, in effect, become taxable income to the unitholder if they sell

such units at a price greater than their tax basis in those units, even if the price received is less than their original cost. Furthermore, a substantial portion of the amount realized, whether or not representing gain, may be taxed as ordinary income due to potential recapture

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items, including depreciation recapture. In addition, because the amount realized includes a unitholder's share of our nonrecourse liabilities, if a unitholder sells units, the unitholder may incur a tax liability in excess of the amount of cash received from the sale.

Tax-exempt entities and non-U.S. persons face unique tax issues from owning common units that may result in adverse tax consequences to them.

Investment in common units by tax-exempt entities, including employee benefit plans and individual retirement accounts (known as IRAs) and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to unitholders who are organizations exempt from federal income tax, may be taxable to them as unrelated business taxable income. Distributions to non-U.S. persons will be reduced by withholding taxes, generally at the highest applicable effective tax rate, and non-U.S. persons will be required to file United States federal and state income tax returns and generally pay United States federal and state income tax on their share of our taxable income.

We treat each purchaser of common units as having the same tax benefits without regard to the actual common units purchased. The IRS may challenge this treatment, which could result in a unitholder owing more tax and may adversely affect the value of the common units.

The IRS may challenge the manner in which we calculate our unitholder's basis adjustment under Section 743(b) of the Internal Revenue Code. If so, because neither we nor a unitholder can identify the units to which this issue relates once the initial holder has traded them, the IRS may assert adjustments to all unitholders selling units within the period under audit as if all unitholders owned such units.

Any position we take that is inconsistent with applicable Treasury Regulations may have to be disclosed on our federal income tax return. This disclosure increases the likelihood that the IRS will challenge our positions and propose adjustments to some or all of our unitholders.

A successful IRS challenge to this position or other positions we may take could adversely affect the amount of taxable income or loss allocated to our unitholders. It also could affect the gain from a unitholder's sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to our unitholders' tax returns without the benefit of additional deductions. Moreover, because one of our subsidiaries that is organized as a C corporation for federal income tax purposes owns units in us, a successful IRS challenge could result in this subsidiary having more tax liability than we anticipate and, therefore, reduce the cash available for distribution to our partnership and, in turn, to our unitholders.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The IRS may challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among our unitholders.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The use of this proration method may not be permitted under existing Treasury Regulations. Recently, however, the Department of the Treasury and the IRS issued proposed Treasury Regulations that provide a safe harbor pursuant to which a publicly traded partnership may use a similar monthly simplifying convention to allocate tax items among transferor and transferee unitholders. Although publicly traded partnerships are entitled to rely on these proposed Treasury Regulations, they are not binding on the IRS and are subject to change until final Treasury Regulations are issued.

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A unitholder whose units are loaned to a short seller to cover a short sale of units may be considered as having disposed of those units. If so, the unitholder would no longer be treated for tax purposes as a partner with respect to those units during the period of the loan and may recognize gain or loss from the disposition.

Because a unitholder whose units are loaned to a short seller to cover a short sale of units may be considered as having disposed of the loaned units, the unitholder may no longer be treated for tax purposes as a partner with respect to those units during the period of the loan to the short seller and the unitholder may recognize gain or loss from such disposition. Moreover, during the period of the loan to the short seller, any of our income, gain, loss or deduction with respect to those units may not be reportable by the unitholder and any cash distributions received by the unitholder as to those units could be fully taxable as ordinary income. Unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller are urged to modify any applicable brokerage account agreements to prohibit their brokers from borrowing their units.

We have adopted certain valuation methodologies that may result in a shift of income, gain, loss and deduction between us and our public unitholders. The IRS may challenge this treatment, which could adversely affect the value of our common units.

When we issue additional units or engage in certain other transactions, we determine the fair market value of our assets and allocate any unrealized gain or loss attributable to such assets to the capital accounts of our unitholders and our general partner. Although we may from time to time consult with professional appraisers regarding valuation matters, including the valuation of our assets, we make many of the fair market value estimates of our assets ourselves using a methodology based on the market value of our common units as a means to measure the fair market value of our assets. Our methodology may be viewed as understating the value of our assets. In that case, there may be a shift of income, gain, loss and deduction between certain unitholders and our general partner, which may be unfavorable to such unitholders. Moreover, under our current valuation methods, subsequent purchasers of our common units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to our tangible assets and a lesser portion allocated to our intangible assets. The IRS may challenge our valuation methods, or our allocation of Section 743(b) adjustment attributable to our tangible and intangible assets, and allocations of income, gain, loss and deduction between our general partner and certain of our unitholders.

A successful IRS challenge to these methods or allocations could adversely affect the amount of taxable income or loss being allocated to our unitholders. It also could affect the amount of gain on the sale of common units by our unitholders and could have a negative impact on the value of our common units or result in audit adjustments to the tax returns of our unitholders without the benefit of additional deductions.

The sale or exchange of 50% or more of our capital and profit interests during any twelve month period will result in the termination of our partnership for federal income tax purposes.

We will be considered technically terminated for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a twelve-month period. For purposes of determining whether the 50% threshold has been met, multiple sales of the same unit will be counted only once. Our technical termination would, among other things, result in the closing of our taxable year for all unitholders which would require us to file two tax returns (and our unitholders could receive two Schedules K-1 if relief was not available, as described below) for one fiscal year, and could result in a deferral of depreciation deductions allowable in computing our taxable income. In the case of a unitholder reporting on a taxable year other than a calendar year, the closing of our taxable year may also result in more than twelve months of our taxable income or loss being includable in such unitholder's taxable income for the year of termination. Our termination currently would not affect our classification as a partnership for federal income tax purposes. We would be treated as a new partnership for tax purposes, and would be required to make new tax elections and could be subject to penalties if we were unable to determine in a timely

manner that a termination occurred. The IRS has recently announced a publicly traded partnership technical termination relief program whereby, if a publicly traded partnership that technically terminated requests publicly traded partnership technical termination relief and

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such relief is granted by the IRS, among other things, the partnership will only have to provide one Schedule K-1 to unitholders for the year notwithstanding two partnership tax years. Please read **Material Federal Income Tax Considerations** **Disposition of Common Units** **Constructive Termination** for a discussion of the consequences of our termination for federal income tax purposes.

In November 2010, Enterprise GP Holdings L.P., which held approximately 17.6% of the outstanding common units of ETE and an approximate 40.6% interest in ETE's general partner, merged into Enterprise Products Partners L.P. For federal income tax purposes, this transaction will be treated as a change of ownership of the interests in ETE and its general partner formerly owned by Enterprise GP Holdings L.P. The completion of this merger increased the likelihood that a termination of our partnership for federal income tax purposes may have occurred at that time or may occur at any time during the twelve-month period following the consummation of the transaction, resulting in a closing of our taxable year, as discussed above.

Unitholders will likely be subject to state and local taxes and return filing requirements in states where they do not live as a result of investing in our common units.

In addition to federal income taxes, the unitholders may be subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we conduct business or own property now or in the future, even if they do not live in any of those jurisdictions. Unitholders may be required to file state and local income tax returns and pay state and local income taxes in some or all of the jurisdictions. We currently own property or conduct business in more than 40 states. Most of these states impose an income tax on individuals, corporations and other entities. As we make acquisitions or expand our business, we may control assets or conduct business in additional states that impose a personal or corporate income tax. Further, unitholders may be subject to penalties for failure to comply with those requirements. It is the responsibility of each unitholder to file all federal, state and local tax returns. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in our common units.

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USE OF PROCEEDS

Except as otherwise provided in the applicable prospectus supplement, we will use the net proceeds we receive from the sale of the securities for general partnership purposes, which may include repayment of indebtedness, the acquisition of businesses and other capital expenditures and additions to working capital.

Any allocation of the net proceeds of an offering of securities to a specific purpose will be determined at the time of the offering and will be described in a prospectus supplement.

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The following table sets forth our historical consolidated ratio of earnings to fixed charges for the periods indicated therein:

| | Year Ended August 31, | | Four Months Ended December 31, | | Year Ended December 31, | | Nine Months Ended September 30, | |
|------------------------------------|------------------------------|-------------|---------------------------------------|----------------|--------------------------------|-------------|--|--|
| | 2005 | 2006 | 2007 | 2007(1) | 2008 | 2009 | 2010 | |
| Ratio of earnings to fixed charges | 3.02 | 5.14 | 4.28 | 4.31 | 3.95 | 2.95 | 2.28 | |

- (1) In November 2007, we changed our fiscal year end from a year ending August 31 to a year ending December 31. Accordingly, the four months ended December 31, 2007 is treated as a transition period.

For these ratios earnings is the amount resulting from adding the following items:

- pre-tax income from continuing operations, before minority interest and equity in earnings of affiliates;
- amortization of capitalized interest;
- distributed income of equity investees; and
- fixed charges.

The term fixed charges means the sum of the following:

- interest expensed;
- interest capitalized;
- amortized debt issuance costs; and
- estimated interest element of rentals.

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DESCRIPTION OF UNITS

As of December 31, 2010, there were approximately 265,000 separate common unitholders, which includes common units held in street name. Our common units represent limited partner interests in us that entitle the holders to the rights and privileges specified in our Second Amended and Restated Agreement of Limited Partnership.

Common Units, Class E Units and General Partner Interest

As of December 31, 2010, we had 193,212,590 common units outstanding, of which 142,985,623 were held by the public, including approximately 575,000 common units held by our officers and directors, and 50,226,967 common units held by ETE. Our common units are listed for trading on the NYSE under the symbol ETP. The common units are entitled to distributions of available cash as described below under Cash Distribution Policy.

There are currently 8,853,832 Class E units outstanding, all of which were issued in conjunction with our purchase of the capital stock of Heritage Holdings Inc., or Heritage Holdings, in January 2004, and are currently owned by our subsidiary Heritage Holdings. The Class E units generally do not have any voting rights. These Class E units are entitled to aggregate cash distributions equal to 11.1% of the total amount of cash distributed to all unitholders, including the Class E unitholders, up to \$1.41 per unit per year. Management plans to continue its ownership of the Class E units by Heritage Holdings as long as such units remain outstanding.

As of December 31, 2010, our general partner owned an approximate 1.8% general partner interest in us and the holders of common units and Class E units collectively owned an approximate 98.2% limited partner interest in us.

Issuance of Additional Securities

Our partnership agreement authorizes us to issue an unlimited number of additional partnership securities and rights to buy partnership securities for the consideration and on the terms and conditions established by our general partner in its sole discretion, without the approval of the unitholders. Any such additional partnership securities may be senior to the common units.

It is possible that we will fund acquisitions through the issuance of additional common units or other equity securities. Holders of any additional common units we issue will be entitled to share equally with the then-existing holders of common units in our distributions of available cash. In addition, the issuance of additional partnership interests may dilute the value of the interests of the then-existing holders of common units in our net assets.

In accordance with Delaware law and the provisions of our partnership agreement, we may also issue additional partnership securities that, in the sole discretion of the general partner, have special voting rights to which the common units are not entitled.

Upon issuance of additional partnership securities, our general partner has the right to make additional capital contributions to the extent necessary to maintain its then-existing general partner interest in us. In the event that our general partner does not make its proportionate share of capital contributions to us based on its then-current general partner interest percentage, its general partner percentage will be proportionately reduced. Moreover, our 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 or other equity securities whenever, and on the same terms that, we issue those securities to persons other than the general partner and its affiliates, to the extent necessary to maintain its percentage interest, including its interest represented by common units, that existed immediately prior to each issuance. The holders of

common units will not have preemptive rights to acquire additional common units or other partnership securities.

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Unitholder Approval

The following matters require the approval of the majority of the outstanding common units, including the common units owned by the general partner and its affiliates:

a merger of our partnership;

a sale or exchange of all or substantially all of our assets;

dissolution or reconstitution of our partnership upon dissolution;

certain amendments to the partnership agreement; and

the transfer to another person of the incentive distribution rights at any time, except for transfers to affiliates of the general partner or transfers in connection with the general partner's merger or consolidation with or into, or sale of all or substantially all of its assets to, another person.

The removal of our general partner requires the approval of not less than 66 $\frac{2}{3}$ % of all outstanding units, including units held by our general partner and its affiliates. Any removal is subject to the election of a successor general partner by the holders of a majority of the outstanding common units, including units held by our general partner and its affiliates.

Our general partner manages and directs all of our activities. The activities of our general partner are managed and directed by its general partner, ETP LLC. Our officers and directors are officers and directors of ETP LLC. ETE, as the sole member of ETP LLC, is entitled under the limited liability company agreement of ETP LLC to appoint all of the directors of ETP LLC. Our unitholders do not have the ability to nominate directors or vote in the election of the directors of ETP LLC.

Amendments to Our Partnership Agreement

Amendments to our partnership agreement may be proposed only by or with the consent of our general partner. Certain amendments require the approval of a majority of the outstanding common units, including common units owned by the general partner and its affiliates. Any amendment that materially and adversely affects the rights or preferences of any class of partnership interests in relation to other classes of partnership interests will require the approval of at least a majority of the class of partnership interests so affected. Our general partner may make amendments to the partnership agreement without unitholder approval to reflect:

a change in our name, the location of our principal place of business or our registered agent or office;

the admission, substitution, withdrawal or removal of partners;

a change to qualify or continue our qualification as a limited partnership or a partnership in which the limited partners have limited liability or to ensure that neither we nor our operating partnership will be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes;

a change that does not adversely affect our unitholders in any material respect;

a change (i) that is necessary or advisable to (A) 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, or (B) facilitate the trading of common units or comply with any rule, regulation, guideline or requirement of any national securities exchange on which the common units are or will be listed for trading, (ii) that is necessary or advisable in connection with action taken by our general partner with respect to subdivision and combination of our securities or (iii) that is required to effect the intent expressed in our partnership agreement;

a change in our fiscal year or taxable year and any changes that are necessary or advisable as a result of a change in our fiscal year or taxable year;

an amendment that is necessary to prevent us, or our general partner or its directors, officers, trustees or agents from 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;

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an amendment that is necessary or advisable in connection with the authorization or issuance of any class or series of our securities;

any amendment expressly permitted in our partnership agreement to be made by our general partner acting alone;

an amendment effected, necessitated or contemplated by a merger agreement approved in accordance with our partnership agreement;

an amendment that is necessary or advisable to reflect, account for and deal with appropriately our formation of, or investment in, any corporation, partnership, joint venture, limited liability company or other entity other than our operating partnership, in connection with our conduct of activities permitted by our partnership agreement;

a merger or conveyance to effect a change in our legal form; or

any other amendment substantially similar to the foregoing.

Withdrawal or Removal of Our General Partner

Our general partner may withdraw as general partner by giving 90 days written notice to the unitholders, and that withdrawal will not constitute a violation of our partnership agreement. Upon the voluntary withdrawal of our general partner, the holders of a majority of our outstanding common units, excluding the common units held by the withdrawing general partner and its affiliates, may elect a successor to the withdrawing general partner. If a successor is not elected, or is elected but an opinion of counsel regarding limited liability and tax matters cannot be obtained, we will be dissolved, wound up and liquidated, unless within 90 days after that withdrawal, the holders of a majority of our outstanding units, excluding the common units held by the withdrawing general partner and its affiliates, agree to continue our business and to appoint a successor general partner.

Our general partner may not be removed unless that removal is approved by the vote of the holders of not less than 662/3% of our outstanding units, including units held by our general partner and its affiliates, and we receive an opinion of counsel regarding limited liability and tax matters. In addition, if our general partner is removed as our general partner under circumstances where cause does not exist, our general partner will have the right to receive cash in exchange for its partnership interest as a general partner in us, its partnership interest as the general partner of any member of the Energy Transfer partnership group and its incentive distribution rights. Cause is narrowly defined to mean that 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 our general partner. Any removal of this kind is also subject to the approval of a successor general partner by the vote of the holders of the majority of our outstanding common units, including those held by our general partner and its affiliates.

While our partnership agreement limits the ability of our general partner to withdraw, it allows the general partner interest to be transferred if, among other things, the transferee assumes the rights and duties of our general partner, furnishes an opinion of counsel regarding limited liability and tax matters and agrees to purchase all (or the appropriate portion thereof, if applicable) of our general partner's general partner interest in us and any of our subsidiaries. In addition, our partnership agreement expressly permits the sale, in whole or in part, of the ownership of our general partner. Our general partner may also transfer, in whole or in part, any common units it owns.

Transfer of General Partner Interest

Our general partner may transfer its general partner interest to a third party without the consent of the unitholders. Furthermore, the general partner of our general partner may transfer its general partner interest in our general partner to a third party without the consent of the unitholders. Any new owner of the general partner or the general partner of the general partner would be in a position to replace the officers of the general partner with its own choices and to control the decisions taken by such officers.

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Liquidation and Distribution of Proceeds

Upon our dissolution, unless we are reconstituted and continue as a new limited partnership, the person authorized to wind up our affairs (the liquidator) will, acting with all the powers of our general partner that the liquidator deems necessary or desirable in its good faith judgment, liquidate our assets. The proceeds of the liquidation will be applied as follows:

first, towards the payment of all of our creditors and the creation of a reserve for contingent liabilities; and

then, to all partners in accordance with the positive balance in their respective capital accounts.

Under some circumstances and subject to some limitations, the liquidator may defer liquidation or distribution of our assets for a reasonable period of time. If the liquidator determines that a sale would be impractical or would cause a loss to our partners, our general partner may distribute assets in kind to our partners.

Limited Call Right

If at any time less than 20% of the total limited partner interests of any class are held by persons other than our general partner and its affiliates, our general partner will have the right to acquire all, but not less than all, of those common units at a price no less than their then-current market price. As a consequence, a unitholder may be required to sell his common units at an undesirable time or price. Our general partner may assign this purchase right to any of its affiliates or us.

Indemnification

Under our partnership agreement, in most circumstances, we will indemnify our general partner, its affiliates and their officers and directors to the fullest extent permitted by law, from and against all losses, claims or damages any of them may suffer by reason of their status as general partner, officer or director, as long as the person seeking indemnity acted in good faith and in a manner believed to be in or not opposed to our best interest and, with respect to any criminal proceeding, had no reasonable cause to believe the conduct was unlawful. Any indemnification under these provisions will only be out of our assets. Our general partner shall not be personally liable for, or have any obligation to contribute or loan funds or assets to us to effectuate any indemnification. We are authorized to purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under our partnership agreement.

Listing

Our outstanding common units are listed on the NYSE under the symbol ETP. Any additional common units we issue also will be listed on the NYSE.

Transfer Agent and Registrar

The transfer agent and registrar for the common units is American Stock Transfer & Trust Company.

Transfer of Common Units

Each purchaser of common units offered by this prospectus must execute a transfer application. By executing and delivering a transfer application, the purchaser of common units:

becomes the record holder of the common units and is an assignee until admitted into our partnership as a substituted limited partner;

automatically requests admission as a substituted limited partner in our partnership;

agrees to be bound by the terms and conditions of, and executes, our partnership agreement;

represents that such person has the capacity, power and authority to enter into the partnership agreement;

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grants to our general partner the power of attorney to execute and file documents required for our existence and qualification as a limited partnership, the amendment of the partnership agreement, our dissolution and liquidation, the admission, withdrawal, removal or substitution of partners, the issuance of additional partnership securities and any merger or consolidation of the partnership; and

makes the consents and waivers contained in the partnership agreement, including the waiver of the fiduciary duties of the general partner to unitholders as described in Risk Factors Risks Related to Conflicts of Interests Our partnership agreement limits our general partner's fiduciary duties to our unitholders and restricts the remedies available to unitholders for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

An assignee will become a substituted limited partner of our partnership for the transferred common units upon the consent of our general partner and the recording of the name of the assignee on our books and records. Although the general partner has no current intention of doing so, it may withhold its consent in its sole discretion. An assignee who is not admitted as a limited partner will remain an assignee. An assignee is entitled to an interest equivalent to that of a limited partner for the right to share in allocations and distributions from us, including liquidating distributions. Furthermore, our general partner will vote and exercise other powers attributable to common units owned by an assignee at the written direction of the assignee.

Transfer applications may be completed, executed and delivered by a purchaser's broker, agent or nominee. We are entitled to treat the nominee holder of a common unit as the absolute owner. In that case, the beneficial holders' rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Common units are securities and are transferable according to the laws governing transfer of securities. In addition to other rights acquired, the purchaser has the right to request admission as a substituted limited partner in our partnership for the purchased common units. A purchaser of common units who does not execute and deliver a transfer application obtains only:

the right to assign the common unit to a purchaser or transferee; and

the right to transfer the right to seek admission as a substituted limited partner in our partnership for the purchased common units.

Thus, a purchaser of common units who does not execute and deliver a transfer application:

will not receive cash distributions or federal income tax allocations, 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; and

may not receive some federal income tax information or reports furnished to record holders of common units.

Until a common unit has been transferred on our books, we and the transfer agent, notwithstanding any notice to the contrary, may treat the record holder of the common unit as the absolute owner for all purposes, except as otherwise required by law or NYSE regulations.

Status as Limited Partner or Assignee

Except as described under Limited Liability, the common units will be fully paid, and the unitholders will not be required to make additional capital contributions to us.

Limited Liability

Assuming that a limited partner does not participate in the control of our business within the meaning of the Delaware Revised Uniform Limited Partnership Act, or the Delaware Act, and that he otherwise acts in conformity with the provisions of our partnership agreement, his liability under the Delaware Act will be limited, subject to possible exceptions, to the amount of capital he is obligated to contribute to us for his common units plus his share of any undistributed profits and assets. If it were determined, however, that the right or exercise of the right by the limited partners as a group to remove or replace the general partner, to approve some amendments to our partnership agreement, or to take other action under our partnership

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agreement, constituted participation in the control of our business for the purposes of the Delaware Act, then the limited partners could be held personally liable for our obligations under Delaware law, to the same extent as the general partner. This liability would extend to persons who transact business with us and who reasonably believe that the limited partner is a general partner. Neither our partnership agreement nor the Delaware Act specifically provides for legal recourse against our general partner if a limited partner were to lose limited liability through any fault of the general partner. While this does not mean that a limited partner could not seek legal recourse, we have found no precedent for this type of a claim in Delaware case law.

Under the Delaware Act, a limited partnership may not make a distribution to a partner if after the distribution all liabilities of the limited partnership, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of our partnership, 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 liability for which recourse of creditors is limited shall be included in the assets of the limited partnership only to the extent that the fair value of that property exceeds the nonrecourse liability. The Delaware Act provides that a limited partner who receives 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. 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 our 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 our partnership agreement.

Our subsidiaries currently conduct business in 45 states: Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Missouri, Minnesota, Mississippi, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Wisconsin, Washington, West Virginia and Wyoming. To maintain the limited liability for Energy Transfer Partners, L.P., as the holder of a 100% limited partner interest in Heritage Operating, L.P., we may be required to comply with legal requirements in the jurisdictions in which Heritage Operating, L.P. conducts business, including qualifying our subsidiaries to do business there. 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 we were, by virtue of our limited partner interest in Heritage Operating, L.P. or otherwise, conducting business in any state without compliance with the applicable limited partnership statute, or that our right or the exercise of our right to remove or replace Heritage Operating, L.P.'s general partner, to approve some amendments to Heritage Operating, L.P.'s partnership agreement, or to take other action under Heritage Operating, L.P.'s partnership agreement constituted participation in the control of Heritage Operating, L.P.'s business for purposes of the statutes of any relevant jurisdiction, then we could be held personally liable for Heritage Operating, L.P.'s obligations under the law of that jurisdiction to the same extent as our general partner under the circumstances. We will operate in a manner as our general partner considers reasonable and necessary or appropriate to preserve our limited liability.

Meetings; Voting

Except as described below regarding a person or group owning 20% or more of any class of units then outstanding, unitholders or assignees who are record holders of units on the record date will be entitled to notice of, and to vote at, meetings of our limited partners and to act upon matters for which approvals may be solicited. Common units that are owned by an assignee who is a record holder, but who has not yet been admitted as a limited partner, shall be voted by our general partner at the written direction of the record holder. Absent direction of this kind, the common units will not be voted, except that, in the case of common units held by our general partner on behalf of non-citizen assignees, our general partner shall distribute the votes on those common units in the same ratios as the votes of limited partners

on other units are cast.

Our general partner does not anticipate that any meeting of unitholders will be called in the foreseeable future. If authorized by our general partner, any action that is required or permitted to be taken by the unitholders may be taken either at a meeting of the unitholders or without a meeting if consents in writing

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describing the action so taken are signed by holders of the number of units as would be necessary to authorize or take that action at a meeting. Meetings of the unitholders may be called by our general partner or by unitholders owning at least 20% of the outstanding units of the class for which a meeting is proposed. Unitholders may vote either in person or by proxy at meetings. The holders of a majority 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 unless any action by the unitholders requires approval by holders of a greater percentage of the units, in which case the quorum shall be the greater percentage.

Each record holder of a unit has a vote according to his percentage interest in us, although additional limited partner interests having special voting rights could be issued. However, if at any time any person or group, other than our general partner and its affiliates, owns, in the aggregate, beneficial ownership of 20% or more of the common units then outstanding, the person or group will lose voting rights on all of its common units and its common units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes, determining the presence of a quorum or for other similar purposes. Common units held in nominee or street name account will be voted by the broker or other nominee in accordance with the instruction of the beneficial owner unless the arrangement between the beneficial owner and his nominee provides otherwise.

Any notice, demand, request, report or proxy material required or permitted to be given or made to record holders of common units under our partnership agreement will be delivered to the record holder by us or by the transfer agent.

Books and Reports

Our general partner is required to keep appropriate books of our business at our principal offices. The books will be maintained for both tax and financial reporting purposes on an accrual basis. Reporting for tax purposes is done on a calendar year basis.

We will furnish or make available to record holders of common units, within 120 days after the close of each fiscal year, an annual report containing audited financial statements and a report on those financial statements by our independent public accountants. Except for our fourth quarter, we will also furnish or make available summary financial information within 90 days after the close of each quarter.

We will furnish each record holder of a unit with information reasonably required for tax reporting purposes within 90 days after the close of each calendar year. This information is expected to be furnished in summary form so that some complex calculations normally required of partners can be avoided. Our ability to furnish this summary information to unitholders will depend on the cooperation of unitholders in supplying us with specific information. Every unitholder will receive information to assist him in determining his federal and state tax liability and filing his federal and state income tax returns, regardless of whether he supplies us with information.

Our partnership agreement provides that a limited partner can, for a purpose reasonably related to his interest as a limited partner, upon reasonable demand and at his own expense, have furnished to him:

- a current list of the name and last known address of each partner;

- a copy of our tax returns;

- 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;

copies of our partnership agreement, the certificate of limited partnership of the partnership, related amendments and powers of attorney under which they have been executed;

information regarding the status of our business and financial condition; and

any other information regarding our affairs as is just and reasonable.

Our general partner may, and intends to, keep confidential from the limited partners trade secrets or other information the disclosure of which our general partner believes in good faith is not in our best interests or that we are required by law or by agreements with third parties to keep confidential.

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CASH DISTRIBUTION POLICY

Following is a description of the relative rights and preferences of holders of our common units in and to cash distributions. Upon the issuance of any additional common units, the general partner may make, but is not obligated to make, capital contributions to maintain its then current general partner interest. In the event the general partner elects not to make such capital contribution, its general partner interest will be diluted accordingly. As of December 31, 2010, our general partner owned an approximate 1.8% general partner interest in us.

Distributions of Available Cash

General. We will distribute all of our available cash to our unitholders and our general partner within 45 days following the end of each fiscal quarter.

Definition of Available Cash. Available cash is defined in our partnership agreement and generally means, with respect to any calendar quarter, all cash on hand at the end of such quarter:

less the amount of cash reserves that are necessary or appropriate in the reasonable discretion of the general partner to:

provide for the proper conduct of our business;

comply with applicable law or any debt instrument or other agreement (including reserves for future capital expenditures and for our future credit needs); or

provide funds for distributions to unitholders and our general partner in respect of any one or more of the next four quarters;

plus all cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter. Working capital borrowings are generally borrowings that are made under our credit facilities and in all cases are used solely for working capital purposes or to pay distributions to partners.

Operating Surplus and Capital Surplus

General. All cash distributed to unitholders will be characterized as either operating surplus or capital surplus. We distribute available cash from operating surplus differently than available cash from capital surplus.

Definition of Operating Surplus. Operating surplus for any period generally means:

our cash balance on the closing date of our initial public offering; plus

\$10.0 million (as described below); plus

all of our cash receipts since the closing of our initial public offering, excluding cash from interim capital transactions such as borrowings that are not working capital borrowings, sales of equity and debt securities and sales or other dispositions of assets outside the ordinary course of business; plus

our working capital borrowings made after the end of a quarter but before the date of determination of operating surplus for the quarter; less

all of our operating expenditures after the closing of our initial public offering, including the repayment of working capital borrowings, but not the repayment of other borrowings, and including maintenance capital expenditures; less

the amount of cash reserves that the general partner deems necessary or advisable to provide funds for future operating expenditures.

Definition of Capital Surplus. Generally, capital surplus will be generated only by:

borrowings other than working capital borrowings;

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sales of debt and equity securities; and

sales or other disposition of assets for cash, other than inventory, accounts receivable and other current assets sold in the ordinary course of business or as part of normal retirements or replacements of assets.

Characterization of Cash Distributions. We will treat all available cash distributed as coming from operating surplus until the sum of all available cash distributed since we began operations equals the operating surplus as of the most recent date of determination of available cash. We will treat any amount distributed in excess of operating surplus, regardless of its source, as capital surplus. As reflected above, operating surplus includes \$10.0 million in addition to our cash balance on the closing date of our initial public offering, cash receipts from our operations and cash from working capital borrowings. This amount does not reflect actual cash on hand that is available for distribution to our unitholders. Rather, it is a provision that enables us, if we choose, to distribute as operating surplus up to \$10.0 million of cash we receive in the future from non-operating sources, such as asset sales, issuances of securities, and long-term borrowings, that would otherwise be distributed as capital surplus. We have not made, and we anticipate that we will not make, any distributions from capital surplus.

Incentive Distribution Rights

Incentive distribution rights represent the contractual right to receive an increasing percentage of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution has been paid. Please read *Distributions of Available Cash from Operating Surplus* below. The general partner owns all of the incentive distribution rights.

Distributions of Available Cash from Operating Surplus

The terms of our partnership agreement require that we make cash distributions with respect to each calendar quarter within 45 days following the end of each calendar quarter. We are required to make distributions of available cash from operating surplus for any quarter in the following manner:

First, 100% to all common and Class E unitholders and the general partner, in accordance with their percentage interests, until each common unit has received \$0.25 per unit for such quarter (the minimum quarterly distribution);

Second, 100% to all common and Class E unitholders and the general partner, in accordance with their respective percentage interests, until each common unit has received \$0.275 per unit for such quarter (the first target distribution);

Third, 87% to all common and Class E unitholders and the general partner, in accordance with their respective percentage interests, and 13% to the holders of incentive distribution rights, pro rata, until each common unit has received \$0.3175 per unit for such quarter (the second target distribution);

Fourth, 77% to all common and Class E unitholders and the general partner, in accordance with their respective percentage interests, and 23% to the holders of incentive distribution rights, pro rata, until each common unit has received \$0.4125 per unit for such quarter (the third target distribution); and

Fifth, thereafter, 52% to all common and Class E unitholders and the general partner, in accordance with their respective percentage interests, and 48% to the holders of incentive distribution rights, pro rata.

Notwithstanding the foregoing, the distributions on each Class E unit may not exceed \$1.41 per year.

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Distributions of Available Cash from Capital Surplus

The terms of our partnership agreement require that we make cash distributions with respect to each calendar quarter within 45 days following the end of each calendar quarter. We will make distributions of available cash from capital surplus, if any, in the following manner:

First, 100% to all unitholders and the general partner, in accordance with their respective percentage interests, until we distribute for each common unit an amount of available cash from capital surplus equal to the initial public offering price;

Thereafter, we will make all distributions of available cash from capital surplus as if they were from operating surplus.

Our partnership agreement treats a distribution of capital surplus as the repayment of the initial unit price from the initial public offering, which is a return of capital. The initial public offering price per common unit less any distributions of capital surplus per unit is referred to as the unrecovered capital .

If we combine our units into fewer units or subdivide our units into a greater number of units, we will proportionately adjust our minimum quarterly distribution, our target cash distribution levels, and our unrecovered capital.

For example, if a two-for-one split of our common units should occur, our unrecovered capital would be reduced to 50% of our initial level. We will not make any adjustment by reason of our issuance of additional units for cash or property.

On January 14, 2005, our general partner announced a two-for-one split of our common units that was effected on March 15, 2005. As a result, our minimum quarterly distribution and the target cash distribution levels were reduced to 50% of their initial levels. Our adjusted minimum quarterly distribution and the adjusted target cash distribution levels are reflected in the discussion above under the caption Distributions of Available Cash from Operating Surplus.

In addition, if legislation is enacted or if existing law is modified or interpreted in a manner that causes us to become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes, we will reduce our minimum quarterly distribution and the target cash distribution levels by multiplying the same by one minus the sum of the highest marginal federal corporate income tax rate that could apply and any increase in the effective overall state and local income tax rates.

Distributions of Cash Upon Liquidation

General. If we dissolve in accordance with our partnership agreement, we will sell or otherwise dispose of our assets in a process called liquidation. We will first apply the proceeds of liquidation to the payment of our creditors. We will distribute any remaining proceeds to the unitholders and the general partner, in accordance with their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of our assets in liquidation.

Any further net gain recognized upon liquidation will be allocated in a manner that takes into account the incentive distribution rights of the general partner.

Manner of Adjustments for Gain. The manner of the adjustment for gain is set forth in our partnership agreement in the following manner:

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First, to the general partner and the holders of units who have negative balances in their capital accounts to the extent of and in proportion to those negative balances;

Second, 100% to the common unitholders and the general partner, in accordance with their respective percentage interests, until the capital account for each common unit is equal to the sum of:

the unrecovered capital; and

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the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs;

Third, 100% to all unitholders and the general partner, in accordance with their respective percentage interests, until we allocate under this paragraph an amount per unit equal to:

the sum of the excess of the first target distribution per unit over the minimum quarterly distribution per unit for each quarter of our existence; less

the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the minimum quarterly distribution per unit that we distributed 100% to the unitholders and the general partner, in accordance with their percentage interests, for each quarter of our existence;

Fourth, 87% to all unitholders and the general partner, in accordance with their respective percentage interests, and 13% to the holders of the incentive distribution rights, pro rata, until we allocate under this paragraph an amount per unit equal to:

the sum of the excess of the second target distribution per unit over the first target distribution per unit for each quarter of our existence; less

the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the first target distribution per unit that we distributed 87% to the unitholders and the general partner, in accordance with their percentage interests, and 13% to the holders of the incentive distribution rights, pro rata, for each quarter of our existence;

Fifth, 77% to all unitholders and the general partner, in accordance with their respective percentage interests, and 23% to the holders of the incentive distribution rights, pro rata, until we allocate under this paragraph an amount per unit equal to:

the sum of the excess of the third target distribution per unit over the second target distribution per unit for each quarter of our existence; less

the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the second target distribution per unit that we distributed 77% to the unitholders and the general partner, in accordance with their respective percentage interests, and 23% to the holders of the incentive distribution rights, pro rata, for each quarter of our existence; and

Sixth, thereafter, 52% to all unitholders and the general partner, in accordance with their respective percentage interests, and 48% to the holders of the incentive distribution rights, pro rata.

Manner of Adjustment for Losses. Upon our liquidation, we will generally allocate any loss to the general partner and the unitholders in the following manner:

First, 100% to the holders of common units and the general partner in proportion to the positive balances in the common unitholders' capital accounts and the general partner's percentage interest, respectively, until the capital accounts of the common unitholders have been reduced to zero; and

Second, thereafter, 100% to the general partner.

Adjustments to Capital Accounts upon the Issuance of Additional Units. We will make adjustments to capital accounts upon the issuance of additional units. In doing so, we will allocate any unrealized and, for tax purposes, unrecognized gain or loss resulting from the adjustments to the unitholders and the general partner in the same manner as we allocate gain or loss upon liquidation. In the event that we make positive adjustments to the capital accounts upon the issuance of additional units, we will allocate any later negative adjustments to the capital accounts resulting from the issuance of additional units or upon our liquidation in a manner which results, to the extent possible, in the general partner's capital account balances equaling the amount which they would have been if no earlier positive adjustments to the capital accounts had been made.

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DESCRIPTION OF THE DEBT SECURITIES

Energy Transfer Partners, L.P. may issue senior debt securities on a senior unsecured basis under the indenture, dated January 18, 2005, among Energy Transfer Partners, L.P., as issuer, the subsidiary guarantors party thereto and U.S. Bank National Association (as successor to Wachovia Bank, National Association), as trustee. The debt securities will be governed by the provisions of the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended, or the Trust Indenture Act.

We have summarized material provisions of the indenture and the debt securities below. This summary is not complete. We have filed the indenture with the SEC as an exhibit to the registration statement, and you should read the indenture for provisions that may be important to you.

References in this Description of the Debt Securities to we, us and our mean Energy Transfer Partners, L.P.

Provisions Applicable to the Indenture

General. Any series of debt securities will be our general obligations.

The indenture does not limit the amount of debt securities that may be issued under the indenture, and does not limit the amount of other unsecured debt or securities that we may issue. We may issue debt securities under the indenture from time to time in one or more series, each in an amount authorized prior to issuance.

The indenture does not contain any covenants or other provisions designed to protect holders of the debt securities in the event we participate in a highly leveraged transaction or upon a change of control. The indenture also does not contain provisions that give holders the right to require us to repurchase their securities in the event of a decline in our credit ratings for any reason, including as a result of a takeover, recapitalization or similar restructuring or otherwise.

Terms. We will prepare a prospectus supplement and either a supplemental indenture, or authorizing resolutions of the board of directors of our general partner's general partner, accompanied by an officers' certificate, relating to any series of debt securities that we offer, which will include specific terms relating to some or all of the following:

the form and title of the debt securities of that series;

the total principal amount of the debt securities of that series;

whether the debt securities will be issued in individual certificates to each holder or in the form of temporary or permanent global securities held by a depositary on behalf of holders;

the date or dates on which the principal of and any premium on the debt securities of that series will be payable;

any interest rate which the debt securities of that series will bear, the date from which interest will accrue, interest payment dates and record dates for interest payments;

any right to extend or defer the interest payment periods and the duration of the extension;

whether and under what circumstances any additional amounts with respect to the debt securities will be payable;

whether debt securities are entitled to the benefits of any guarantee of any Subsidiary Guarantor;

the place or places where payments on the debt securities of that series will be payable;

any provisions for optional redemption or early repayment;

any provisions that would require the redemption, purchase or repayment of debt securities;

the denominations in which the debt securities will be issued;

whether payments on the debt securities will be payable in foreign currency or currency units or another form and whether payments will be payable by reference to any index or formula;

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the portion of the principal amount of debt securities that will be payable if the maturity is accelerated, if other than the entire principal amount;

any additional means of defeasance of the debt securities, any additional conditions or limitations to defeasance of the debt securities or any changes to those conditions or limitations;

any changes or additions to the events of default or covenants described in this prospectus;

any restrictions or other provisions relating to the transfer or exchange of debt securities;

any terms for the conversion or exchange of the debt securities for our other securities or securities of any other entity; and

any other terms of the debt securities of that series.

This description of debt securities will be deemed modified, amended or supplemented by any description of any series of debt securities set forth in a prospectus supplement related to that series.

We may sell the debt securities at a discount, which may be substantial, below their stated principal amount. These debt securities may bear no interest or interest at a rate that at the time of issuance is below market rates. If we sell these debt securities, we will describe in the prospectus supplement any material United States federal income tax consequences and other special considerations.

If we sell any of the debt securities for any foreign currency or currency unit or if payments on the debt securities are payable in any foreign currency or currency unit, we will describe in the prospectus supplement the restrictions, elections, tax consequences, specific terms and other information relating to those debt securities and the foreign currency or currency unit.

The Subsidiary Guarantees. Certain of our subsidiaries, which we refer to collectively as Subsidiary Guarantors, may fully, irrevocably and unconditionally guarantee on an unsecured basis all series of our debt securities and will execute a notation of guarantee as further evidence of their guarantee. The applicable prospectus supplement will describe the terms of any guarantee by the Subsidiary Guarantors.

If a series of debt securities is so guaranteed, the Subsidiary Guarantors' guarantee of the debt securities will be the Subsidiary Guarantors' unsecured and unsubordinated general obligation, and will rank on a parity with all of the Subsidiary Guarantors' other unsecured and unsubordinated indebtedness. The obligations of each Subsidiary Guarantor under its guarantee of the debt securities will be limited to the maximum amount that will not result in the obligations of the Subsidiary Guarantor under the guarantee constituting a fraudulent conveyance or fraudulent transfer under federal or state law, after giving effect to:

all other contingent and fixed liabilities of the Subsidiary Guarantor; and

any collections from or payments made by or on behalf of any other Subsidiary Guarantors in respect of the obligations of the Subsidiary Guarantor under its guarantee.

The guarantee of any Subsidiary Guarantor may be released under certain circumstances. If we exercise our legal or covenant defeasance option with respect to debt securities of a particular series as described below in Defeasance, then the guarantee of any Subsidiary Guarantor will be released with respect to that series. Further, if no default has

occurred and is continuing under the indenture, and to the extent not otherwise prohibited by the indenture, the guarantee of a Subsidiary Guarantor will be unconditionally released and discharged:

automatically upon any sale, exchange or transfer, whether by way of merger or otherwise, to any person that is not our affiliate, of all of our direct or indirect limited partnership or other equity interests in the Subsidiary Guarantor;

automatically upon the merger of the Subsidiary Guarantor into us or any other Subsidiary Guarantor or the liquidation and dissolution of the Subsidiary Guarantor; or

following delivery of a written notice by us to the trustee, upon the release of all guarantees by the Subsidiary Guarantor of any debt of ours for borrowed money for a purchase money obligation or for a guarantee of either, except for any series of debt securities.

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Events of Default. Unless we inform you otherwise in the applicable prospectus supplement, the following are events of default with respect to a series of debt securities:

failure to pay interest on that series of debt securities for 30 days when due;

default in the payment of principal of or premium, if any, on any debt securities of that series when due at its stated maturity, upon redemption, upon required repurchase or otherwise;

default in the payment of any sinking fund payment on any debt securities of that series when due;

failure by us or, if the series of debt securities is guaranteed by any Subsidiary Guarantors, by such Subsidiary Guarantors, to comply with the other agreements contained in the indenture, any supplement to the indenture or any board resolution authorizing the issuance of that series for 60 days after written notice by the trustee or by the holders of at least 25% in principal amount of the outstanding debt securities issued under the indenture that are affected by that failure;

certain events of bankruptcy, insolvency or reorganization of us or, if the series of debt securities is guaranteed by any Subsidiary Guarantor, of any such Subsidiary Guarantor;

if the series of debt securities is guaranteed by any Subsidiary Guarantor:

any of the guarantees ceases to be in full force and effect, except as otherwise provided in the indenture;

any of the guarantees is declared null and void in a judicial proceeding; or

any Subsidiary Guarantor denies or disaffirms its obligations under the indenture or its guarantee; and

any other event of default provided for with respect to that series of debt securities.

A default under one series of debt securities will not necessarily be a default under another series. The trustee may withhold notice to the holders of the debt securities of any default or event of default (except in any payment on the debt securities) if the trustee considers it in the interest of the holders of the debt securities to do so.

If an event of default for any series of debt securities occurs and is continuing, the trustee or the holders of at least 25% in principal amount of the outstanding debt securities of the series affected by the default (or, in the case of the fourth bullet point appearing above under the heading *Events of Default*, at least 25% in principal amount of all debt securities issued under the indenture that are affected, voting as one class) may declare the principal of and all accrued and unpaid interest on those debt securities to be due and payable. If an event of default relating to certain events of bankruptcy, insolvency or reorganization occurs, the principal of and interest on all the debt securities issued under the indenture will become immediately due and payable without any action on the part of the trustee or any holder. The holders of a majority in principal amount of the outstanding debt securities of the series affected by the default may in some cases rescind this accelerated payment requirement (other than acceleration for nonpayment of principal of or premium or interest on or any additional amounts with respect to the debt securities).

A holder of a debt security of any series issued under the indenture may pursue any remedy
1,392 \$77 \$22 \$- \$1,491
Accruing loans delinquent 90 days or more

- - - - -

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

The following tables set forth information regarding the activity in the allowance for loan losses for the dates as indicated (dollars in thousands):

| | Three Months Ended September 30, 2012 | | | | | | |
|--|--|------------------------------|--------------|----------------|----------|------------|------------|
| | 1-4 Family Real Estate | Commercial Real Estate | Construction | Home Equity | Consumer | Commercial | Total |
| Allowance for credit losses: | | | | | | | |
| Beginning balance, June 30, 2012 | \$ 403 | \$ 772 | \$ 10 | \$ 156 | \$ 78 | \$ 206 | \$ 1,625 |
| Charge-offs | (55) | - | - | - | (8) | (1) | (64) |
| Recoveries | - | - | - | - | 4 | - | 4 |
| Provision | 40 | 90 | 1 | 61 | 10 | 33 | 235 |
| Ending balance, September 30, 2012 | \$ 388 | \$ 862 | \$ 11 | \$ 217 | \$ 84 | \$ 238 | \$ 1,800 |
| Ending balance allocated to loans individually evaluated for impairment | \$ - | \$ 9 | \$ - | \$ 147 | \$ 1 | \$ 15 | \$ 172 |
| Ending balance allocated to loans collectively evaluated for impairment | \$ 388 | \$ 853 | \$ 11 | \$ 70 | \$ 83 | \$ 223 | \$ 1,628 |
| Loans receivable: | | | | | | | |
| Ending balance September 30, 2012 | \$ 56,600 | \$ 65,110 | \$ 1,363 | \$ 23,316 | \$ 8,328 | \$ 14,408 | \$ 169,125 |
| Ending balance of loans individually evaluated for impairment September 30, 2012 | \$ 728 | \$ 782 | \$ - | \$ 446 | \$ 74 | \$ 997 | \$ 3,027 |
| Ending balance of loans collectively evaluated for impairment | | | | | | | |

| | | | | | | | |
|--------------------|-----------|-----------|----------|-----------|----------|-----------|------------|
| September 30, 2012 | \$ 55,872 | \$ 64,328 | \$ 1,363 | \$ 22,870 | \$ 8,254 | \$ 13,411 | \$ 166,098 |
|--------------------|-----------|-----------|----------|-----------|----------|-----------|------------|

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three Months Ended
September 30, 2011

| | 1-4 Family Real Estate | Commercial Real Estate | Construction | Home Equity | Consumer | Commercial | Total |
|--|---------------------------------|------------------------------|--------------|----------------|----------|------------|------------|
| Allowance for credit losses: | | | | | | | |
| Beginning balance, June 30, 2011 | \$ 369 | \$ 652 | \$ 18 | \$ 481 | \$ 57 | \$ 223 | \$ 1,800 |
| Charge-offs | (125) | (36) | - | (335) | (14) | - | (510) |
| Recoveries | - | - | - | - | 2 | - | 2 |
| Provision | 72 | 110 | 5 | 29 | 13 | 29 | 258 |
| Ending balance, September 30, 2011 | \$ 316 | \$ 726 | \$ 23 | \$ 175 | \$ 58 | \$ 252 | \$ 1,550 |
| Ending balance allocated to loans individually evaluated for impairment | \$ - | \$ 224 | \$ - | \$ 44 | \$ 1 | \$ 182 | \$ 451 |
| Ending balance allocated to loans collectively evaluated for impairment | \$ 316 | \$ 502 | \$ 23 | \$ 131 | \$ 57 | \$ 70 | \$ 1,099 |
| Loans receivable: | | | | | | | |
| Ending balance September 30, 2011 | \$ 68,680 | \$ 65,893 | \$ 4,277 | \$ 27,694 | \$ 9,057 | \$ 12,343 | \$ 187,944 |
| Ending balance of loans individually evaluated for impairment September 30, 2011 | \$ 1,261 | \$ 965 | \$ 721 | \$ 274 | \$ 128 | \$ 2,029 | \$ 5,378 |
| Ending balance of loans collectively evaluated for impairment September 30, 2011 | \$ 67,419 | \$ 64,928 | \$ 3,556 | \$ 27,420 | \$ 8,929 | \$ 10,314 | \$ 182,566 |

The Company utilizes a 5 point internal loan rating system, largely based on regulatory classifications, for 1-4 family real estate, commercial real estate, construction, home equity and commercial loans as follows:

Loans rated Pass: these are loans that are considered to be protected by the current net worth and paying capacity of the obligor, or by the value of the asset or the underlying collateral.

Loans rated Special Mention: these loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset at some future date.

Loans rated Substandard: these loans are inadequately protected by the current net worth and paying capacity of the obligor of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Loans rated Doubtful: these loans have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans rated Loss: these loans are considered uncollectible and of such little value that their continuance as assets without establishment of a specific reserve is not warranted. This classification does not mean that an asset has absolutely no recovery or salvage value, but, rather, that it is not practical or desirable to defer writing off a basically worthless asset even though practical recovery may be effected in the future.

On an annual basis, or more often if needed, the Company formally reviews the ratings of all commercial real estate, construction, and commercial business loans that have a principal balance of \$500,000 or more. Quarterly, the Company reviews the rating of any consumer loan, broadly defined, that is delinquent 90 days or more. Likewise, quarterly, the Company reviews the rating of any commercial loan, broadly defined, that is delinquent 60 days or more. Annually, the Company engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

The following tables set forth information regarding the internal classification of the loan portfolio as of the dates indicated (dollars in thousands):

| Grade: | September 30, 2012 | | | | | | |
|-----------------|---------------------------|---------------------------|--------------|----------------|----------|------------|-----------|
| | 1-4 Family Real Estate | Commercial Real Estate | Construction | Home Equity | Consumer | Commercial | Total |
| Pass | \$55,872 | \$64,328 | \$ 1,363 | \$22,870 | \$8,254 | \$ 13,411 | \$166,098 |
| Special mention | - | - | - | - | - | 146 | 146 |
| Substandard | 728 | 773 | - | 257 | 73 | 836 | 2,667 |
| Doubtful | - | - | - | 42 | - | - | 42 |
| Loss | - | 9 | - | 147 | 1 | 15 | 172 |
| Total | \$56,600 | \$65,110 | \$ 1,363 | \$23,316 | \$8,328 | \$ 14,408 | \$169,125 |

Credit Risk Profile Based on Payment Activity

| | | | | | | | |
|-----------------------|----------|----------|----------|----------|---------|-----------|-----------|
| Performing | \$56,183 | \$64,218 | \$ 1,363 | \$23,073 | \$8,316 | \$ 13,678 | \$166,831 |
| Restructured loans | - | 88 | - | - | - | 715 | 803 |
| Nonperforming | 417 | 804 | - | 243 | 12 | 15 | 1,491 |
| Total | \$56,600 | \$65,110 | \$ 1,363 | \$23,316 | \$8,328 | \$ 14,408 | \$169,125 |

| Grade: | June 30, 2012 | | | | | | |
|-----------------|---------------------------|---------------------------|--------------|----------------|----------|------------|-----------|
| | 1-4 Family Real Estate | Commercial Real Estate | Construction | Home Equity | Consumer | Commercial | Total |
| Pass | \$60,748 | \$63,839 | \$ 1,455 | \$23,319 | \$8,685 | \$ 13,846 | \$171,892 |
| Special mention | - | 51 | - | - | - | 5 | 56 |
| Substandard | 923 | 782 | - | 242 | 76 | 1,492 | 3,515 |
| Doubtful | - | - | - | 148 | 15 | - | 163 |
| Loss | - | - | - | - | 2 | - | 2 |
| Total | \$61,671 | \$64,672 | \$ 1,455 | \$23,709 | \$8,778 | \$ 15,343 | \$175,628 |

Credit Risk Profile Based on Payment Activity

| | | | | | | | |
|-----------------------|----------|----------|----------|----------|---------|-----------|-----------|
| Performing | \$61,011 | \$63,749 | \$ 1,455 | \$23,444 | \$8,742 | \$ 14,009 | \$172,410 |
| Restructured loans | - | 90 | - | - | - | 1,314 | 1,404 |
| Nonperforming | 660 | 833 | - | 265 | 36 | 20 | 1,814 |
| Total | \$61,671 | \$64,672 | \$ 1,455 | \$23,709 | \$8,778 | \$ 15,343 | \$175,628 |

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

The following tables set forth information regarding the delinquencies within the loan portfolio as indicated (dollars in thousands):

| | September 30, 2012 | | | | | Recorded Investment >90 Days and Still Accruing |
|------------------------|--------------------|----------|----------|------------|------------|--|
| | 90 Days | | Total | Current | Total | |
| | 30-89 Days | and | | | | |
| | Past Due | Greater | Past Due | Current | Loans | |
| 1-4 Family real estate | \$ 324 | \$ 418 | \$ 742 | \$ 55,858 | \$ 56,600 | \$- |
| Commercial real estate | 96 | 803 | 899 | 64,211 | 65,110 | - |
| Construction | - | - | - | 1,363 | 1,363 | - |
| Home equity | 59 | 86 | 145 | 23,171 | 23,316 | - |
| Consumer | 111 | 12 | 123 | 8,205 | 8,328 | - |
| Commercial | 100 | - | 100 | 14,308 | 14,408 | - |
| Total | \$ 690 | \$ 1,319 | \$ 2,009 | \$ 167,116 | \$ 169,125 | \$- |

| | June 30, 2012 | | | | | Recorded Investment >90 Days and Still Accruing |
|------------------------|---------------|----------|----------|------------|------------|--|
| | 90 Days | | Total | Current | Total | |
| | 30-89 Days | and | | | | |
| | Past Due | Greater | Past Due | Current | Loans | |
| 1-4 Family real estate | \$ 613 | \$ 501 | \$ 1,114 | \$ 60,557 | \$ 61,671 | \$- |
| Commercial real estate | - | 91 | 91 | 64,581 | 64,672 | - |
| Construction | - | - | - | 1,455 | 1,455 | - |
| Home equity | 362 | 227 | 589 | 23,120 | 23,709 | - |
| Consumer | 221 | 37 | 258 | 8,520 | 8,778 | - |
| Commercial | 171 | 747 | 918 | 14,425 | 15,343 | - |
| Total | \$ 1,367 | \$ 1,603 | \$ 2,970 | \$ 172,658 | \$ 175,628 | \$- |

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

The following tables set forth information regarding impaired loans as indicated (dollars in thousands):

| | September 30, 2012 | | | | |
|----------------------------|------------------------|--------------------------------|----------------------|----------------------------------|-----------------------------------|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Interest Income Recognized | Average Recorded Investment |
| With no related allowance: | | | | | |
| 1-4 Family | \$- | \$- | \$- | \$- | \$- |
| Commercial real estate | - | - | - | - | - |
| Construction | - | - | - | - | - |
| Home equity | - | - | - | - | - |
| Consumer | - | - | - | - | - |
| Commercial | - | - | - | - | - |
| With a related allowance: | | | | | |
| 1-4 Family | - | - | - | - | - |
| Commercial real estate | 41 | 62 | 9 | - | 21 |
| Construction | - | - | - | - | - |
| Home equity | 147 | 147 | 147 | - | 74 |
| Consumer | 1 | 1 | 1 | - | 2 |
| Commercial | 15 | 15 | 15 | - | 8 |
| Total: | | | | | |
| 1-4 Family | - | - | - | - | - |
| Commercial real estate | 41 | 62 | 9 | - | 21 |
| Construction | - | - | - | - | - |
| Home equity | 147 | 147 | 147 | - | 74 |
| Consumer | 1 | 1 | 1 | - | 2 |
| Commercial | 15 | 15 | 15 | - | 8 |
| Total | \$204 | \$225 | \$172 | \$- | \$105 |

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3. LOANS RECEIVABLE - continued

| | June 30, 2012 | | | | |
|----------------------------|------------------------|--------------------------------|----------------------|----------------------------------|-----------------------------------|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Interest Income Recognized | Average Recorded Investment |
| With no related allowance: | | | | | |
| 1-4 Family | \$- | \$- | \$- | \$- | \$- |
| Commercial real estate | - | - | - | - | - |
| Construction | - | - | - | - | - |
| Home equity | - | - | - | - | - |
| Consumer | - | - | - | - | - |
| Commerical | - | - | - | - | - |
| With a related allowance: | | | | | |
| 1-4 Family | - | - | - | - | - |
| Commercial real estate | - | - | - | - | - |
| Construction | - | - | - | - | - |
| Home equity | - | - | - | - | - |
| Consumer | 2 | 2 | 2 | - | 2 |
| Commerical | - | - | - | - | - |
| Total: | | | | | |
| 1-4 Family | - | - | - | - | - |
| Commercial real estate | - | - | - | - | - |
| Construction | - | - | - | - | - |
| Home equity | - | - | - | - | - |
| Consumer | 2 | 2 | 2 | - | 2 |
| Commerical | - | - | - | - | - |
| Total | \$2 | \$2 | \$2 | \$- | \$2 |

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4. TROUBLE DEBT RESTRUCTURINGS

The Company adopted the amendments in Accounting Standards Update No. 2011-02 during the quarter ended September 30, 2011. As required, the Company reassessed all restructurings that occurred on or after the beginning of the current fiscal year (July 1, 2011) for identification as troubled debt restructurings. The Company identified as troubled debt restructurings certain receivables for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology (ASC 450-20). Upon identifying the reassessed receivables as troubled debt restructurings, the Company also identified them as impaired under the guidance in ASC 310-10-35. The amendments in Accounting Standards Update No. 2011-02 require prospective application of the impairment measurement guidance in Section 310-10-35 for those receivables newly identified as impaired. As of September 30, 2012, the recorded investment in receivables for which the allowance for credit losses was previously measured under a general allowance for credit losses methodology and are now impaired under Section 310-10-35 was \$803,000 (310-40-65-1(b)), and the allowance for credit losses associated with those receivables, on the basis of a current evaluation of loss, was \$62,000 (310-40-65-1(b)).

Modification Categories

The Company offers a variety of modifications to borrowers. The modification categories offered can generally be described in the following categories:

Rate Modification – A modification in which the interest rate is changed.

Term Modification – A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Interest Only Modification – A modification in which the loan is converted to interest only payments for a period of time.

Payment Modification – A modification in which the dollar amount of the payment is changed, other than an interest only modification described above.

Combination Modification – Any other type of modification, including the use of multiple categories above.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4. TROUBLE DEBT RESTRUCTURINGS - continued

The following tables present troubled debt restructurings as of September 30, 2012 and June 30, 2011:

| | September 30, 2012 | | |
|-----------------------------------|--------------------|--------------------|--------------------|
| | Accrual Status | Non-Accrual Status | Total Modification |
| Residential Mortgage (1-4 family) | - | - | - |
| Commercial Real Estate | 88 | - | 88 |
| Real estate construction | - | - | - |
| Home equity | - | - | - |
| Consumer | - | - | - |
| Commercial | - | 715 | 715 |
| Total | \$ 88 | \$ 715 | \$ 803 |

| | June 30, 2012 | | |
|-----------------------------------|----------------|--------------------|--------------------|
| | Accrual Status | Non-Accrual Status | Total Modification |
| Residential Mortgage (1-4 family) | - | - | - |
| Commercial Real Estate | 90 | - | 90 |
| Real estate construction | - | - | - |
| Home equity | - | - | - |
| Consumer | - | - | - |
| Commercial | - | 1,314 | 1,314 |
| Total | \$ 90 | \$ 1,314 | \$ 1,404 |

The Bank's policy is that loans placed on non-accrual will typically remain on non-accrual status until all principal and interest payments are brought current and the prospect for future payment in accordance with the loan agreement appears relatively certain. The Bank's policy generally refers to six months of payment performance as sufficient to warrant a return to accrual status.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4. TROUBLE DEBT RESTRUCTURINGS - continued

The following tables present newly restructured loans that occurred during the three months ended September 30, 2012:

| | Rate Modification | Term Modification | Three Months Ended September 30, 2012 | | | |
|-----------------------------------|----------------------|----------------------|--|-------------------------|-----------------------------|-----------------------|
| | | | Interest Only Modification | Payment Modification | Combination Modification | Total Modification |
| Pre-modification Outstanding | | | | | | |
| Recorded Investment: | | | | | | |
| Residential Mortgage (1-4 family) | \$- | \$- | \$- | \$- | \$- | \$ - |
| Commercial Real Estate | - | - | 97 | - | - | 97 |
| Real estate construction | - | - | - | - | - | - |
| Home equity | - | - | - | - | - | - |
| Consumer | - | - | - | - | - | - |
| Commercial | - | - | - | - | 1,385 | 1,385 |
| Total | \$- | \$- | \$97 | \$- | \$1,385 | \$ 1,482 |

| | Rate Modification | Term Modification | Three Months ended September 30, 2012 | | | |
|-----------------------------------|----------------------|----------------------|--|-------------------------|-----------------------------|-----------------------|
| | | | Interest Only Modification | Payment Modification | Combination Modification | Total Modification |
| Post-modification Outstanding | | | | | | |
| Recorded Investment: | | | | | | |
| Residential Mortgage (1-4 family) | \$- | \$- | \$- | \$- | \$- | \$ - |
| Commercial Real Estate | - | - | 88 | - | - | 88 |
| Real estate construction | - | - | - | - | - | - |
| Home equity | - | - | - | - | - | - |
| Consumer | - | - | - | - | - | - |
| Commercial | - | - | - | - | 715 | 715 |
| Total | \$- | \$- | \$88 | \$- | \$715 | \$ 803 |

There were no loans modified as a troubled debt restructured loan within the previous 3 months and for which there was a payment default during the three months ended September 30, 2012. A default for purposes of this disclosure is a troubled debt restructured loan in which the borrower is 90 days past due or results in the foreclosure and repossession of the applicable collateral. As of September 30, 2012 and June 30, 2012, the Company had no commitments to lend additional funds to loan customers whose terms had been modified in trouble debt restructures.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 5. DEPOSITS

Deposits are summarized as follows (dollars in thousands):

| | September 30, 2012 (Unaudited) | June 30, 2012 (Audited) |
|------------------------------|---|-------------------------------|
| Noninterest checking | \$26,031 | \$23,425 |
| Interest-bearing checking | 44,693 | 46,125 |
| Savings | 41,043 | 40,591 |
| Money market | 28,087 | 28,489 |
| Time certificates of deposit | 81,047 | 81,359 |
| Total | \$220,901 | \$219,989 |

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 6. EARNINGS PER SHARE

Basic earnings per share for the three months ended September 30, 2012 was computed using 3,724,789 weighted average shares outstanding. Basic earnings per share for the three months ended September 30, 2011 was computed using 3,739,610 weighted average shares outstanding. Diluted earnings per share was computed using the treasury stock method by adjusting the number of shares outstanding by the shares purchased. The weighted average shares outstanding for the diluted earnings per share calculations was 3,928,945 for the three months ended September 30, 2012 and 3,912,626 for the three months ended September 30, 2011.

NOTE 7. DIVIDENDS AND STOCK REPURCHASE PROGRAM

For the fiscal year July 1, 2011 through June 30, 2012, Eagle has paid dividends of \$0.07125 per share each quarter. A dividend of \$0.07125 per share was declared on October 18, 2012, payable November 27, 2012 to stockholders of record on November 6, 2012.

On April 26, 2011, the Company announced that its Board of Directors authorized a common stock repurchase program for 204,156 shares of common stock, effective April 27, 2011. The program was intended to be implemented through purchases made from time to time in the open market or through private transactions. The program terminated on December 27, 2011 with its final purchase of shares within the program.

On April 21, 2011, the Company entered into a pre-arranged Rule 10b5-1 written trading plan (“the Trading Plan”) with a broker to facilitate the repurchase of its shares of common stock, in conformity with the provisions of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. A broker selected by the Company had the authority under the terms and limitations specified in the Trading Plan to repurchase shares on the Company’s behalf in accordance with the terms of the Trading Plan. The Trading Plan facilitated the Company’s share repurchase program, went into effect on April 27, 2011 and was completed on December 27, 2011. The Trading Plan enabled the Company to continue to repurchase shares without suspension for self-imposed trading blackout periods. The shares repurchased under the Trading Plan were in accordance with and subject to the limitations of the stock repurchase program.

After the expiration of the current Trading Plan, the Company may from time to time enter into subsequent trading plans under Rule 10b5-1 to facilitate the repurchase of its common stock pursuant to its share repurchase program. Information regarding share repurchases will be available in the Company’s periodic reports on Form 10-Q and 10-K filed with the Securities and Exchange Commission as required by the applicable rules of the Exchange Act.

NOTE 8. DERIVATIVES AND HEDGING ACTIVITIES

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instruments is interest rate risk. The Company entered into an interest rate swap agreement on August 27, 2010 with a third party to manage interest rate risk associated with a fixed-rate loan. The interest rate swap agreement effectively converted the loan’s fixed rate into a variable rate. The derivatives and hedging accounting guidance (FASB ASC 815-10) requires that the Company recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. In accordance with this guidance, the Company designates the interest rate swap on this fixed-rate loan as a fair value hedge.

The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to this agreement. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail their obligations. The Company deals only with primary dealers.

If certain hedging criteria specified in derivatives and hedging accounting guidance are met, including testing for hedge effectiveness, hedge accounting may be applied. The hedge effectiveness assessment methodologies for similar hedges are performed in a similar manner and are used consistently throughout the hedging relationships.

The hedge documentation specifies the terms of the hedged item and the interest rate swap. The documentation also indicates that the derivative is hedging a fixed-rate item, that the hedge exposure is to the changes in the fair value of the hedged item, and that the strategy is to eliminate fair value variability by converting fixed-rate interest payments to variable-rate interest payments.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 8. DERIVATIVES AND HEDGING ACTIVITIES - continued

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. The Company includes the gain or loss on the hedged items in the same line item—noninterest income—as the offsetting loss or gain on the related interest rate swap.

The hedged fixed rate loan has an original maturity of 20 years and is not callable. This loan is hedged with a “pay fixed rate, receive variable rate” swap with a similar notional amount, maturity, and fixed rate coupons. The swap is not callable. At September 30, 2012, and June 30, 2012, the loan had an outstanding principal balance of \$11,451,000, and \$11,536,000 and the interest rate swap had a notional value of \$11,451,000, and \$11,536,000, respectively.

Effect of Derivative Instruments on Statement of Financial Condition
Fair Value of Derivative Instruments

| (In Thousands) | Asset Derivatives | | | | Liabilities Derivatives | | | |
|---|------------------------|------------|------------------------|------------|-------------------------|------------|------------------------|------------|
| | September 30, 2012 | | June 30, 2012 | | September 30, 2012 | | June 30, 2012 | |
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Derivatives designated as hedging instruments under ASC 815 | | | | | Other | | Other | |
| Interest rate contracts | n/a | \$ - | n/a | \$ - | Liabilities | \$ 1,061 | Liabilities | \$ 1,054 |
| Change in fair value of financial instrument being hedged under ASC 815 | | | | | | | | |
| Interest rate contracts | Loans | \$ 880 | Loans | \$ 836 | n/a | \$ - | n/a | \$ - |

Effect of Derivative Instruments on Statement of Income
For the Three Months Ended September 30, 2012 and 2011

| (In Thousands) | Derivatives Designated | Location of Gain or (Loss) | Amount of Gain or (Loss) Recognized in |
|----------------|------------------------|----------------------------|--|
| | | | |

| as Hedging Instruments | Recognized in Income on Derivative | Income on Derivative | |
|----------------------------|--|-------------------------|-----------|
| Under ASC 815 | Derivative | 2012 | 2011 |
| Interest rate contracts | Noninterest income | \$ 37 | \$ (330) |

NOTE 9:

FAIR VALUE DISCLOSURES

FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and, (iv) willing to transact.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9: FAIR VALUE DISCLOSURES - continued

FASB ASC 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, FASB ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date, or convert to cash in the short term.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs - Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Available for Sale Securities – Securities classified as available for sale are reported at fair value utilizing Level 1 and Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash

flows, the U. S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans – Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on internally customized discounting criteria.

Loans Held for Sale – These loans are reported at the lower of cost or fair value. Fair value is determined based on expected proceeds based on sales contracts and commitments and are considered Level 2 inputs.

Repossessed Assets – Fair values are valued at the time the loan is foreclosed upon and the asset is transferred from loans. The value is based upon primary third party appraisals, less costs to sell. The appraisals are generally discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Such discounts are typically significant and result in Level 3 classification of the inputs for determining fair value. Repossessed assets are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on same or similar factors above.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9: FAIR VALUE DISCLOSURES - continued

Loan Subject to Fair Value Hedge – The Company has one loan that is carried at fair value subject to a fair value hedge. Fair value is determined utilizing valuation models that consider the scheduled cash flows through anticipated maturity and is considered a Level 3 input.

Derivative financial instruments – Fair values for interest rate swap agreements are based upon the amounts required to settle the contracts. These instruments are valued using Level 3 inputs utilizing valuation models that consider: (a) time value, (b) volatility factors and (c) current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Although the Company utilizes counterparties' valuations to assess the reasonableness of its prices and valuation techniques, there is not sufficient corroborating market evidence to support classifying these assets and liabilities as Level 2.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2012 and June 30, 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

| | September 30, 2012 | | | Total Fair Value |
|----------------------------------|--------------------|-------------------|-------------------|------------------|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | |
| Financial Assets: | | | | |
| Available for sale securities | | | | |
| U.S. Government and agency | \$ - | \$ 20,634 | \$ - | \$ 20,634 |
| Municipal obligations | - | 47,998 | - | 47,998 |
| Corporate obligations | - | 4,068 | - | 4,068 |
| Mortgage backed securities | | | | |
| government backed | - | 10,275 | - | 10,275 |
| Private lable CMOs | - | 174 | - | 174 |
| CMOs - government backed | - | 15,104 | - | 15,104 |
| Loan subject to fair value hedge | - | - | 12,331 | 12,331 |
| Loans held-for-sale | - | 9,160 | - | 9,160 |
| Financial Liability: | | | | |
| Derivative financial instruments | - | - | 1,061 | 1,061 |
| | | June 30, 2012 | | |
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
| Financial Assets: | | | | |
| Available for sale securities | | | | |
| U.S. Government and agency | \$ - | 21,055 | \$ - | \$ 21,055 |
| Municipal obligations | - | 42,060 | - | 42,060 |
| Corporate obligations | - | 3,945 | - | 3,945 |
| Mortgage-backed securities | | | | |
| government backed | - | 6,847 | - | 6,847 |

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| | | | | |
|----------------------------------|---|--------|--------|--------|
| Private lable CMOs | - | 169 | - | 169 |
| CMOs - government backed | - | 15,201 | - | 15,201 |
| Loan subject to fair value hedge | - | - | 12,372 | 12,372 |
| Loans held-for-sale | - | 10,613 | - | 10,613 |
| Derivative financial instruments | - | - | 1,054 | 1,054 |

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9: FAIR VALUE DISCLOSURES - continued

The following tables presents, for the three months ended September 30, 2012 and 2011, the changes in Level 3 assets and liabilities that are measured at fair value on a recurring basis.

| | Balance as of July 1, 2012 | Total Realized/ Unrealized Gains (Losses) Included in Noninterest Income (In thousands) | Purchases, Sales, Issuances, and Settlements, net | Balance as of September 30, 2012 |
|-------------------------------------|----------------------------------|--|--|---|
| Financial Assets (Liability): | | | | |
| Loan subject to fair value hedge | \$ 12,372 | \$ 44 | \$ (85) | \$ 12,331 |
| Derivative financial instruments | (1,054) | (7) | - | (1,061) |
| Financial Assets (Liability): | | | | |
| Loan subject to fair value hedge | \$ 11,405 | \$ 1,035 | \$ (77) | \$ 12,363 |
| Derivative financial instruments | 650 | (1,365) | - | (715) |

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

The following table summarizes financial assets and financial liabilities measured at fair value on a nonrecurring basis as of September 30, 2012 and June 30, 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

| September 30, 2012 | | | | |
|--------------------|-------------------|-------------------|-------------------|---------------------|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
| Impaired loans | \$ - | \$ - | \$ 32 | \$ 32 |
| Reposessed assets | - | 1,937 | - | 1,937 |
| June 30, 2012 | | | | |
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
| Impaired loans | \$ - | \$ - | \$ - | \$ - |
| Reposessed assets | - | 2,361 | - | 2,361 |

During the quarter ended September 30, 2012, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. Impaired loans with a carrying value of \$204,000 were reduced by specific valuation allowance allocations totaling \$172,000 to a total reported fair value of \$32,000 based on collateral valuations utilizing Level 3 valuation inputs.

Those financial instruments subject to FASB ASC Topic 825 are required to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the statement of financial position, for which it is practicable to estimate fair value. Below is a table that summarizes the fair market values of all financial instruments of the Company at September 30, 2012 and

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9: FAIR VALUE DISCLOSURES - continued

June 30, 2012, followed by methods and assumptions that were used by the Company in estimating the fair value of the classes of financial instruments.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9: FAIR VALUE DISCLOSURES – continued

(Dollars in Thousands)

| | September 30, 2012 | | | | |
|---|--------------------|---------|---------|------------|----------|
| | Level 1 | Level 2 | Level 3 | Total | Carrying |
| | Inputs | Inputs | Inputs | Estimated | Amount |
| | | | | Fair Value | |
| Financial Assets: | | | | | |
| Cash and cash equivalents | \$11,740 | \$- | \$- | \$11,740 | \$11,740 |
| FHLB stock | - | - | 1,985 | 1,985 | 1,985 |
| Loans receivable, net | - | - | 174,325 | 174,325 | 167,186 |
| Accrued interest on dividends receivable | 1,352 | - | - | 1,352 | 1,352 |
| Mortgage servicing rights | - | - | 2,527 | 2,527 | 2,350 |
| Cash surrender value of life insurance | - | - | 9,247 | 9,247 | 9,247 |
| Financial Liabilities: | | | | | |
| Deposits | 139,854 | - | - | 139,854 | 139,854 |
| Time certificates of deposit | - | - | 81,874 | 81,874 | 81,047 |
| Accrued expenses and other liabilities | 6,356 | - | - | 6,356 | 6,356 |
| Advances from the FHLB & other borrowings | - | - | 35,000 | 35,000 | 33,646 |
| Subordinated debentures | - | - | 3,879 | 3,879 | 5,155 |
| Off-balance-sheet instruments | | | | | |
| Forward loan sales commitments | - | - | - | - | - |
| Commitments to extend credit | - | - | - | - | - |
| Rate lock commitments | - | - | - | - | - |
| June 30, 2012 | | | | | |
| Financial Assets: | | | | | |
| Cash and cash equivalents | \$19,814 | \$- | \$- | \$19,814 | \$19,814 |
| FHLB stock | - | - | 2,003 | 2,003 | 2,003 |
| Loans receivable, net | - | - | 183,830 | 183,830 | 173,839 |
| Accrued interest on dividends receivable | 1,371 | - | - | 1,371 | 1,371 |
| Mortgage servicing rights | - | - | 2,424 | 2,424 | 2,218 |
| Cash surrender value of life insurance | - | - | 9,172 | 9,172 | 9,172 |
| Financial Liabilities: | | | | | |
| Deposits | 138,630 | - | - | 138,630 | 138,630 |
| Time certificates of deposit | - | - | 82,613 | 82,613 | 81,359 |
| Accrued expenses and other liabilities | 5,809 | - | - | 5,809 | 5,809 |
| Advances from the FHLB & other borrowings | - | - | 44,310 | 44,310 | 42,696 |
| Subordinated debentures | - | - | 4,196 | 4,196 | 5,155 |
| Off-balance-sheet instruments | | | | | |
| Forward loan sales commitments | - | - | - | - | - |
| Commitments to extend credit | - | - | - | - | - |
| Rate lock commitments | - | - | - | - | - |

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9: FAIR VALUE DISCLOSURES - continued

The following methods and assumptions were used by the Company in estimating the fair value of the following classes of financial instruments. However, the 2012 Form 10-K provides additional description of valuation methodologies used in estimating fair value of these financial instruments.

Cash, interest-bearing accounts, accrued interest and dividend receivable, and accrued expenses and other liabilities – The carrying amounts approximate fair value due to the relatively short period of time between the origination of these instruments and their expected realization.

Stock in the FHLB – The fair value of stock in the FHLB approximates redemption value.

Loans receivable – Fair values are estimated by stratifying the loan portfolio into groups of loans with similar financial characteristics. Loans are segregated by type such as real estate, commercial, and consumer, with each category further segmented into fixed and adjustable rate interest terms. For mortgage loans, the Company uses the secondary market rates in effect for loans that have similar characteristics. The fair value of other fixed rate loans is calculated by discounting scheduled cash flows through the anticipated maturities adjusted for prepayment estimates. Adjustable interest rate loans are assumed to approximate fair value because they generally reprice within the short term.

Fair values are adjusted for credit risk based on assessment of risk identified with specific loans, and risk adjustments on the remaining portfolio based on credit loss experience.

Assumptions regarding credit risk are judgmentally determined using specific borrower information, internal credit quality analysis, and historical information on segmented loan categories for non-specific borrowers.

Cash surrender value of life insurance – The carrying amount for cash surrender value of life insurance approximates fair value as policies are recorded at redemption value.

Mortgage servicing rights – The fair value of servicing rights was determined using discount rates ranging from 9.0% to 20.0%, prepayment speeds ranging from 140% to 324% PSA, depending on stratification of the specific right. The fair value was also adjusted for the effect of potential past dues and foreclosures.

Deposits and time certificates of deposit – The fair value of deposits with no stated maturity, such as checking, passbook, and money market, is equal to the amount payable on demand. The fair value of time certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar maturities.

Advances from the FHLB & Subordinated Debentures – The fair value of the Company's advances and debentures are estimated using discounted cash flow analysis based on the interest rate that would be effective September 30, 2012 and June 30, 2012, respectively if the borrowings repriced according to their stated terms.

Off-balance-sheet instruments - Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair values of these financial instruments are considered

insignificant. Additionally, those financial instruments have no carrying value.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10: Business Combination

On June 29, 2012, the Company and Sterling Savings Bank, a Washington state-chartered bank (“Sterling”) entered into a Purchase and Assumption Agreement (the “Agreement”) pursuant to which Eagle agreed to purchase Sterling’s banking operations in the state of Montana, including seven branch locations, certain deposit liabilities, loans and other assets and liabilities associated with such branch locations. The actual amount of deposits, loans and value of other assets and liabilities transferred to Eagle and the actual price paid will be determined at the time of the closing of the transaction, in accordance with the terms and conditions of the Agreement. The closing of the transaction is subject to the terms and conditions set forth in the Agreement. It is currently expected to be completed by the end of the second quarter of fiscal 2013. As of September 30, 2012 the purchase price would have approximated \$7.3 million and would have exceeded the estimated fair value of tangible net assets acquired by approximately \$6.6 million, which will be recorded as goodwill.

Cash flow information relative to the asset purchase agreement is as follows (in thousands):

| | |
|-----------------------------------|------------|
| Fair value of net assets acquired | \$ 195,634 |
| Cash paid for deposit premium | (7,269) |
| Liabilities assumed | \$ 188,365 |

The primary purpose of the acquisition is to expand the Company’s market share in southern Montana provide existing customers with added convenience and service and to provide our new customers with the opportunity to enjoy the outstanding personalized service and commitment of a Montana-based community bank. Factors that contributed to a purchase price resulting in goodwill include the strategically important locations of Sterling’s branches, a historical record of earnings, capable employees and the Company’s ability to expand in the southern Montana market, which will complement with the Company’s existing growth strategy. Fair value adjustments and related goodwill will be recorded in the statement of financial condition of the Company.

Direct costs related to the Sterling acquisition will be expensed as incurred in the year ended June 30, 2013. These acquisition and integration expenses will include salaries and benefits, technology and communications, occupancy and equipment, professional services and other noninterest expenses. For the quarter ended September 30, 2012, \$477,000 of acquisition costs were incurred and expensed. An unaudited pro forma balance sheet of the Company as if the acquisition of the Sterling branches had occurred on June 30, 2012 (in thousands) is included in the Company’s 10-K. Please see that report for more information.

NOTE 11. RECENTLY ISSUED PRONOUNCEMENTS

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment (ASU 2011-08), to allow entities to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. ASU 2011-08 is effective for us in fiscal 2013 and earlier adoption is permitted. The Company currently has no goodwill. However upon the successful completion of the pending acquisition of Sterling Bank’s Montana branches, management expects goodwill to be recorded, and as such

the Company's financials will likely be effected by this pronouncement.

In December 2011, the FASB issued ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11"). The update requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (i) offset in accordance with current literature or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with current literature. ASU 2011-11 is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The Company does not anticipate that the adoption of this guidance will have a material impact on the consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. The amendments in this update defer those changes in ASU 2011-05 that relate to the presentation of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. All other requirements in ASU 2011-05 are not affected by this update. The amendments are effective during interim and annual periods beginning after December 15, 2011. The Company does not anticipate that the adoption of this guidance will have a material impact on the consolidated financial statements.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Note Regarding Forward-Looking Statements

This report includes "forward-looking statements" within the meaning and protections of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as "may," "will," "anticipate," "assume," "should," "indicate," "would," "believe," "contemplate," "expect," "estimate," "continue," "could," "intend," "target" and other similar words and expressions of the future. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
 - general economic conditions, either nationally or in our market areas, that are worse than expected;
 - competition among depository and other financial institutions;
 - changes in the prices, values and sales volume of residential and commercial real estate in Montana;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
 - changes in the securities markets;
- our ability to enter new markets successfully and capitalize on growth opportunities;
 - our ability to successfully integrate acquired entities, if any;
 - changes in consumer spending, borrowing and savings habits;
- our ability to continue to increase and manage our commercial and residential real estate, multi-family, and commercial business loans;
- possible impairments of securities held by us, including those issued by government entities and government sponsored enterprises;
 - the level of future deposit premium assessments;
- the impact of the current economic conditions on our loan portfolio (including cash flow and collateral values), investment portfolio, customers and capital market activities;
-

the impact of recently enacted legislation to restructure the U.S. financial and regulatory system, including proposals to reform the housing markets and government-sponsored enterprises serving such markets;

- the failure of assumptions underlying the establishment of allowance for possible loan losses and other estimates;
- changes in the financial performance and/or condition of our borrowers and their ability to repay their loans when due; and
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Item 1A, “Risk Factors” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections contained elsewhere in this report, as well as our Annual Report on Form 10-K for the fiscal year ended June 30, 2012, any subsequent Reports on Form 10-Q and Form 8-K, and other filings with the SEC. We do not undertake any obligation to publicly update or correct any forward-looking statements to reflect events or circumstances that subsequently occur, or of which we hereafter become aware.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Overview

The Company's primary activity is its ownership of its wholly owned subsidiary, American Federal Savings Bank (the "Bank"). The Bank is a federally chartered savings bank, engaging in typical banking activities: acquiring deposits from local markets and originating loans and investing in securities. Recent federal legislation mandated that the consolidated regulatory functions of The Office of Thrift Supervision ("OTS") over the Bank and the Company be transferred to two federal agencies and that the OTS be merged into the Office of the Comptroller of the Currency (the "OCC"). Thus, as a result of the enactment in July of 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Federal Reserve Board (the "FRB") became, as of July 21, 2011, the principal federal bank regulatory agency for the Company and the OCC the principal federal regulator for the Bank. The Bank's charter was not affected and the Bank continues to operate as a federal stock savings bank. Its deposits remain insured by the Federal Deposit Insurance Corporation. Because the Dodd-Frank Act did not eliminate the thrift charter under which the Bank has historically operated, the Bank's traditional lending and investment activities should not be affected. Further, to ensure regulatory continuity, the Dodd-Frank Act requires that the OCC designate a new Deputy Comptroller who will be responsible for the supervision and examination of federal savings associations.

The Bank's primary component of earnings is its net interest margin (also called spread or margin), the difference between interest income and interest expense. The net interest margin is managed by management (through the pricing of its products and by the types of products offered and kept in portfolio), and is affected by moves in interest rates. Noninterest income in the form of fee income and gain on sale of loans adds to the Bank's income.

The Bank has a strong mortgage lending focus, with the majority of its loans represented by single-family residential mortgages. The Bank has also successfully marketed home equity loans to its customers, as well as a wide range of shorter term consumer loans for various personal needs (automobiles, recreational vehicles, etc.). In recent years the Bank has focused on adding commercial loans to its portfolio, both real estate and non-real estate. The purpose of this diversification is to mitigate the Bank's dependence on the residential mortgage market, as well as to improve its ability to manage its spread. The Bank's management recognizes the need for sources of fee income to complement its margin, and the Bank now maintains a significant loan servicing portfolio which generates income. The gain on sale of loans also provides significant fee income in periods of high mortgage loan origination volumes. Fee income is also supplemented with fees generated from the Bank's deposit accounts. The Bank has a high percentage of non-maturity deposits, such as checking accounts and savings accounts, which allows management flexibility in managing its spread. Non-maturity deposits do not automatically reprice as interest rates rise, as do certificates of deposit.

For the past several years, management's focus has been on improving the Bank's core earnings. Core earnings can be described as income before taxes, with the exclusion of gain on sale of loans and adjustments to the market value of the Bank's loan servicing portfolio. Management believes that the Bank will need to continue to focus on increasing net interest margin, other areas of fee income, and control of operating expenses to achieve earnings growth going forward. Management's strategy of growing the bank's loan portfolio and deposit base is expected to help achieve these goals as follows: loans typically earn higher rates of return than investments; a larger deposit base should yield higher fee income; increasing the asset base will reduce the relative impact of fixed operating costs. The biggest challenge to the strategy is funding the growth of the Bank's balance sheet in an efficient manner. Deposit growth will be difficult to maintain due to significant competition for deposits and it is likely that wholesale funding (which is usually more expensive than retail deposits) will be needed to supplement it.

The level and movement of interest rates impacts the Bank's earnings as well. The Federal Reserve's Federal Open Market Committee ("FOMC") did not change the federal funds target rate which remained at 0.25% during the three months ended September 30, 2012.

From time to time the Bank has considered growth through mergers or acquisition as an alternative to its strategy of organic growth. In this connection, on June 29, 2012, the Bank entered into a definitive agreement to acquire all of the Montana retail banking operations of Sterling Savings Bank of Spokane Washington. As a result of this acquisition, American Federal will acquire approximately \$188.4 million in additional assets, principally in the form of cash and loans and assume \$188.4 million in new deposits. The transaction which will increase the Bank's retail branch structure from 6 to 13 locations and is expected to close on November 30, 2012.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Financial Condition

Comparisons of financial condition in this section are between September 30, 2012 and June 30, 2012.

Total assets at September 30, 2012 were \$320.04 million, a decrease of \$7.26 million, or 2.22%, from \$327.30 million at June 30, 2012. This decrease in assets was primarily attributable to decreases in loans and cash and cash equivalents offset by increases in securities available-for-sale.

Loans receivable decreased by \$6.65 million, or 3.83%, to \$167.19 million at September 30, 2012, from \$173.84 million at June 30, 2012. The decline occurred across most loan types, though commercial real estate loans increased by \$438,000. Home equity, consumer loans, and construction loans decreased moderately. Residential mortgages decreased by the largest amount, \$5.07 million. Total loan originations were \$49.20 million for the three months ended September 30, 2012, with single family mortgages accounting for \$40.52 million of the total. Home equity and construction loan originations totaled \$2.18 million and \$1.76 million, respectively, for the same period. Commercial real estate and land loan originations totaled \$1.61 million. Consumer and commercial loans originated totaled \$2.20 million and \$930,000, respectively. Loans held-for-sale decreased to \$9.16 million at September 30, 2012 from \$10.61 million at June 30, 2012.

Total cash and cash equivalents decreased by \$8.07 million, and securities available-for-sale increased \$8.98 million.

Deposits increased \$912,000, or .41%, to \$220.9 million at September 30, 2012 from \$219.99 million at June 30, 2012. Growth occurred in noninterest checking and savings, while interest-bearing checking, money markets and certificates of deposits decreased. Management attributes the overall increase in deposits to increased marketing of checking accounts as well as customers' preference for placing funds in secure, federally insured accounts.

The ability of the Bank to continue to grow its retail deposit base during the period along with a reduction in cash and cash equivalents enabled wholesale funding to decrease during the quarter. Advances from the Federal Home Loan Bank and other borrowings decreased \$9.05 million, or 21.20%, to \$33.65 million from \$42.70 million.

Total shareholders' equity increased \$329,000 or 0.61%, to \$53.98 million at September 30, 2012 from \$53.65 million at June 30, 2012. This was a result of net income for the period of \$422,000 in addition to an increase in accumulated other comprehensive income of \$141,000 (mainly due to an increase in net unrealized gains on securities available-for-sale). The increase was also partially offset by dividends paid for the period.

Results of Operations for the Three Months Ended September 30, 2012 and 2011

Net Income. The quarter's results were characterized by a significant increase in gain on sale of loans driven by renewed and robust refinancing activity largely offset by acquisition costs associated with the pending purchase of the seven Sterling Savings Bank branches located in Montana. Eagle's net income for the quarter decreased to \$422,000 versus \$428,000 for the three months ended September 30, 2011. The net income decrease of \$6,000, or 1.40%, was due principally to an increase in noninterest expense of \$980,000 offset by an increase in noninterest income of \$1.01 million caused by an increase in home mortgage refinancing activity, resulting in increased gain on sale of loans. The provision for loan losses decreased \$23,000 from the prior period. Eagle's tax provision was \$45,000 lower in the current quarter. Basic earnings per share were \$0.11 for the current period, the same as the prior comparable period.

Net Interest Income. Net interest income decreased to \$2.66 million for the quarter ended September 30, 2012, from \$2.76 million for the previous year's quarter. This decrease of \$100,000 was the result of a decrease in interest and dividend income of \$428,000 partially offset by a decrease in interest expense of \$328,000.

Interest and Dividend Income. Total interest and dividend income was \$3.23 million for the quarter ended September 30, 2012, compared to \$3.65 million for the quarter ended September 30, 2011, a decrease of \$428,000, or 11.72%. Interest and fees on loans decreased to \$2.55 million for the three months ended September 30, 2012 from \$2.78 million for the same period ended September 30, 2011. This decrease of \$224,000, or 8.07%, was due to both the decrease in the average yield on loans and average balances of loans for the quarter ended September 30, 2012. The average interest rate earned on loans receivable decreased by 28 basis points, from 5.92% to 5.64%. Average balances for loans receivable, net, including loans held for sale, for the quarter ended September 30, 2012 were \$180.78 million, compared to \$187.64 million for the prior year period. This represents a decrease of \$6.86 million, or 3.66%. Interest and dividends on investment securities available-for-sale (AFS) decreased by \$203,000 for the quarter ended September 30, 2012 from \$872,000 for the same quarter last year. Average balances on investments decreased to \$91.56 million for

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Results of Operations for the Three Months Ended September 30, 2012 and 2011 - continued

the quarter ended September 30, 2012, from \$102.89 million for the quarter ended September 30, 2011. The average interest rate earned on investments decreased to 2.92% from 3.39%. Interest on deposits with banks decreased to \$5,000 from \$6,000, due to a decrease in the average rates. Average balances on deposits with banks increased to \$11.93 million for the quarter ended September 30, 2012, compared to \$8.96 million for the quarter ended September 30, 2011 and the average rates on such deposits with banks decreased from 0.27% at September 30, 2011 to 0.17% at September 30, 2012.

Interest Expense. Total interest expense declined significantly in the quarter to \$566,000 from \$894,000 for the quarter ended September 30, 2011, a decrease of \$328,000, or 36.69%. The decrease was attributable to decreases in interest on deposits and borrowings offset by growth in average deposit balances as the Bank's customers appeared to continue to opt for the safety of federally insured deposits, notwithstanding historically low rates on such deposits, over the risks and uncertainty of the capital markets. Decreases in rates on deposits caused a decline in deposit interest expense of \$41,000, or 14.19% over the quarter ended September 30, 2011. The decrease was attributable to a decrease in average rates paid on most deposit products. Money market accounts, however, increased 2 basis points. Interest bearing checking account rates declined from 0.06% to 0.05%, savings account rates remained at 0.10%, and certificates of deposit rates decreased from 1.27% to 1.10%. The declines, however, were offset by increases in average balances during the period to \$219.52 million for the quarter ended September 30, 2012, compared to \$212.14 million for the same quarter in the previous year. Because of the increase in retail funding due to deposit growth average balances in borrowings decreased significantly to \$40.92 million for the quarter ended September 30, 2012, compared to \$65.53 million for the same quarter in the previous year. The average rate paid, along with the decrease in average borrowing balances resulted in a decrease in interest paid on borrowings to \$294,000 for the quarter ended September 30, 2012 versus \$583,000 paid in the previous year's quarter. The average rate paid on borrowings decreased from 3.69% last year to 3.11% for the quarter ended September 30, 2012. The average rate paid on all interest-bearing liabilities decreased 43 basis points from the quarter ended September 30, 2011 to the quarter ended September 30, 2012.

Provision for Loan Losses. Provisions for loan losses are charged to earnings to maintain the total allowance for loan losses at a level considered adequate by management of the Bank, to provide for probable loan losses based on prior loss experience, volume and type of lending conducted by the Bank, national and local economic conditions, and past due loans in portfolio. The Bank's policies require a review of assets on a quarterly basis. The Bank classifies loans as well as other assets if warranted. While the Bank believes it uses the best information available to make a determination with respect to the allowance for loan losses, it recognizes that future adjustments may be necessary. The Bank recorded \$235,000 in provision for loan losses for the quarter ended September 30, 2012 and \$258,000 in the quarter ended September 30, 2011. This decrease from 2011 was based on an analysis of a variety of factors including delinquencies within the loan portfolio. Total nonperforming loans, including restructured loans, net decreased from \$5.21 million at September 30, 2011 to \$2.29 million at September 30, 2012. The Bank currently has \$2.30 million in foreclosed real estate property and other repossessed property with a net book value of \$1.93 million.

Noninterest Income. Due to declines in long term interest rates, the Bank again experienced significant refinancing activity in residential real estate. As long-term rates continued to push to historically low levels, refinance activity in the current quarter grew and exceeded the level reached in the prior year's period. This increased activity had a significant effect on the amount of non-interest income with total noninterest income increasing to \$1.58 million for

the quarter ended September 30, 2012, from \$569,000 for the quarter ended September 30, 2011, an increase of \$1.01 million or 176.80%. Of this amount, net gain on sale of loans increased to \$812,000 for the quarter ended September 30, 2012 from \$236,000 for the quarter ended September 30, 2011. During this period, \$40.52 million 1-4 family mortgage loans were originated compared to \$17.05 million in the quarter ended September 30, 2011. In addition, \$42.67 million of mortgage loans were sold during the period compared to \$12.64 million sold in the quarter ended September 30, 2011, an increase of \$30.03 million. The gain on fair value hedge-FASB ASC 815 also contributed to the increase in noninterest income. Gain on fair value hedge-FASB ASC 815 increased to \$37,000 from the prior period's loss amount of \$330,000.

Noninterest Expense. Noninterest expense was \$3.44 million for the quarter ended September 30, 2012, and \$2.46 million for the quarter ended September 30, 2011. Though most items were fairly similar, provision for valuation loss on OREO increased to \$68,000 from zero for the comparable period last year. This increase was due to decline in values in some of the Company's foreclosed properties. Amortization of mortgage servicing rights increased from \$93,000 to \$187,000, an increase of \$94,000. The largest change occurred due to the new item of acquisition costs. These costs of \$477,000, as noted earlier, are related to the pending purchase of the seven branches from Sterling Savings Bank. Other expense categories showed relatively minor changes.

Income Tax Expense. Our income tax expense was \$142,000 for the quarter ended September 30, 2012, compared to \$187,000 for the quarter ended September 30, 2011. The effective tax rate for the quarter ended September 30, 2012 was 25.17% and was 30.41% for the quarter ended September 30, 2011.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Results of Operations for the Three Months Ended September 30, 2012 and 2011 - continued

Liquidity, Interest Rate Sensitivity and Capital Resources

The Bank is required to maintain minimum levels of liquid assets as defined by the Office of the Comptroller of the Currency ("OCC") regulations. The OCC has eliminated the statutory requirement based upon a percentage of deposits and short-term borrowings. The OCC states that the liquidity requirement is retained for safety and soundness purposes, and that appropriate levels of liquidity will depend upon the types of activities in which the company engages. For internal reporting purposes, the Bank uses policy minimums of 1.0%, and 8.0% for "basic surplus" and "basic surplus with FHLB" as internally defined. In general, the "basic surplus" is a calculation of the ratio of unencumbered short-term assets reduced by estimated percentages of CD maturities and other deposits that may leave the Bank in the next 90 days divided by total assets. "Basic surplus with FHLB" adds to "basic surplus" the additional borrowing capacity the Bank has with the FHLB of Seattle. The Bank exceeded those minimum ratios as of both September 30, 2012 and September 30, 2011.

The Bank's primary sources of funds are deposits, repayment of loans and mortgage-backed and collateralized mortgage obligation securities, maturities of investments, funds provided from operations, and advances from the Federal Home Loan Bank of Seattle and other borrowings. Scheduled repayments of loans and mortgage-backed and collateralized mortgage obligation securities and maturities of investment securities are generally predictable. However, other sources of funds, such as deposit flows and loan prepayments, can be greatly influenced by the general level of interest rates, economic conditions and competition. The Bank uses liquidity resources principally to fund existing and future loan commitments. It also uses them to fund maturing certificates of deposit, demand deposit withdrawals and to invest in other loans and investments, maintain liquidity, and meet operating expenses.

Liquidity may be adversely affected by unexpected deposit outflows, higher interest rates paid by competitors, and similar matters. Management monitors projected liquidity needs and determines the level desirable, based in part on commitments to make loans and management's assessment of the Bank's ability to generate funds.

At August 31, 2012 (the most recent report available), the Bank's measure, as internally determined, of sensitivity to interest rate movements, as measured by a 200 basis point rise in interest rates scenario, decreased the economic value of equity ("EVE") by 2.1%. The Bank is well within the guidelines set forth by the Board of Directors for interest rate risk sensitivity. The Bank's tier I core capital ratio, as measured under OCC rules, increased from 13.08% as of September 30, 2011 to 13.86% as of September 30, 2012. The Bank's strong capital position helps to mitigate its interest rate risk exposure.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

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

Liquidity, Interest Rate Sensitivity and Capital Resources - continued

As of September 30, 2012, the Bank's regulatory capital was in excess of all applicable regulatory requirements. At September 30, 2012, the Bank's tangible, core, and risk-based capital ratios amounted to 13.86%, 13.86%, and 22.59%, respectively, compared to regulatory requirements of 1.50%, 3.0%, and 8.0%, respectively. See the following table (amounts in thousands):

| | At September 30, 2012 (Unaudited) | |
|---------------------|--------------------------------------|----------------|
| | Dollar Amount | % of Assets |
| Tangible capital: | | |
| Capital level | \$41,977 | 13.86 |
| Requirement | 4,543 | 1.50 |
| Excess | 37,434 | 12.36 |
| Core capital: | | |
| Capital level | 41,977 | 13.86 |
| Requirement | 9,086 | 3.00 |
| Excess | 32,891 | 10.86 |
| Risk-based capital: | | |
| Capital level | 43,777 | 22.59 |
| Requirement | 15,504 | 8.00 |
| Excess | 28,273 | 14.59 |

Impact of Inflation and Changing Prices

Our financial statements and the accompanying notes have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of our operations. Interest rates have a greater impact on our performance than do the general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Item 3. Quantitative and Qualitative Disclosures About Market Risk

This item has been omitted based on Eagle's status as a smaller reporting company.

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EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

CONTROLS AND PROCEDURES

Item 4. Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation under the supervision and with the participation of our management including our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”) of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms, including to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure. Based on that evaluation, our CEO and CFO concluded that as of September 30, 2012, our disclosure controls and procedures were effective. During the last fiscal quarter, there were no changes in the Company’s internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that have materially affected, or were reasonably likely to materially affect, the Company’s internal control over financial reporting.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

Part II - OTHER INFORMATION

Item 1. Legal Proceedings.

Neither the Company nor the Bank is involved in any pending legal proceeding other than non-material legal proceedings occurring in the ordinary course of business.

Item 1A. Risk Factors.

There have not been any material changes in the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On April 26, 2011, the Company announced that its Board of Directors authorized a common stock repurchase program for 204,156 shares of common stock, effective April 27, 2011. The program was intended to be implemented through purchases made from time to time in the open market or through private transactions. The program was scheduled to terminate on April 19, 2012. All of the 204,156 were purchased by December 27, 2011.

EAGLE BANCORP MONTANA, INC. AND SUBSIDIARY

Part II - OTHER INFORMATION (CONTINUED)

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information.

None.

Item 6. Exhibits.

31.1 Certification by Peter J. Johnson, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 (a) of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Clint J. Morrison, Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 (a) of the Sarbanes-Oxley Act of 2002.

32.1 Certification by Peter J. Johnson, Chief Executive Officer, and Clint J. Morrison, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document

101.SCH
XBRL Taxonomy Extension Schema Document

101.CAL
XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF
XBRL Taxonomy Extension Definition Linkbase Document

101.LAB
XBRL Taxonomy Extension Label Linkbase Document

101.PRE
XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

EAGLE BANCORP MONTANA, INC.

Date: November 13, 2012

By: /s/ Peter J. Johnson
Peter J. Johnson
President/CEO

Date: November 13, 2012

By: /s/ Clint J. Morrison
Clint J. Morrison
Senior Vice President/CFO